UNITIL CORP
Form 424B5
December 12, 2008
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-152823

PROSPECTUS SUPPLEMENT

(To Prospectus dated December 10, 2008)

2,000,000 Shares

Common Stock

Unitil Corporation is offering 2,000,000 shares of its common stock.

Our common stock is listed on the New York Stock Exchange under the symbol UTL. The last reported sale price of our common stock on December 10, 2008 was $20.35 per share.

Investing in our common stock involves risks that are described in the section entitled Risk Factors beginning on page S-15 of this prospectus supplement and on page 2 of the accompanying prospectus.

PRICE $20.00 PER SHARE

	Per Share	Total
Public offering price	$ 20.00	$ 40,000,000
Underwriting discount	$ 1.05	$ 2,100,000
Proceeds, before expenses, to Unitil Corporation	$ 18.95	$ 37,900,000

The underwriters may also purchase up to an additional 300,000 shares from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of common stock will be ready for delivery on or about December 15, 2008.

RBC CAPITAL MARKETS

JANNEY MONTGOMERY SCOTT LLC	**OPPENHEIMER & CO.**
BREAN MURRAY, CARRET & CO.	**EDWARD JONES**

December 10, 2008

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Map of Service Territory[(1)]

(1) This map is presented to illustrate the effects of Unitil Corporation s acquisition of all of the outstanding capital stock of Northern Utilities, Inc. and Granite State Gas Transmission, Inc., as discussed in the prospectus supplement. For the purposes of this map, Overlapping Service Territory illustrates service territories served by Unitil Corporation prior to the consummation of the acquisition and Northern Utilities, Inc.

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We provide information to you about this offering of shares of our common stock in two separate documents that are bound together: (i) this prospectus supplement, which described the specific details regarding this offering; and (ii) the accompanying prospectus, which provides general information, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both documents combined. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are offering to sell the shares and seeking offers to buy the shares only in jurisdictions where offers and sales are permitted. You should not assume that the information we have included in this prospectus supplement and the accompanying prospectus is accurate as of any date other than the respective dates shown or that the information we have incorporated by reference to another document is accurate as of any date other than the date of such document. Our business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

In this prospectus, the company, Unitil, we, us, and our refer to Unitil Corporation and its subsidiaries, excluding Northern Utilities Inc. and Granite State Gas Transmission, Inc., unless the context otherwise requires.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read the following summary together with the more detailed information regarding our company, our common stock and the financial statements and notes to those statements included in this prospectus or incorporated by reference in this prospectus by reference to our other filings with the Securities and Exchange Commission (the SEC). We urge you to read the entire prospectus carefully, especially the risks of investing in our common stock, which are discussed in the section entitled *Risk Factors* in this prospectus supplement, before making an investment decision.

Who We Are

The following is a description of our company as it existed prior to the consummation of our purchase of (i) all of the outstanding capital stock of Northern Utilities, Inc. (Northern Utilities) and (ii) all of the outstanding capital stock of Granite State Gas Transmission, Inc. (Granite State), which we closed on December 1, 2008. As such, the description generally excludes information about Northern Utilities and Granite State. For a description of Northern Utilities and Granite State, please see the sections entitled (i) Prospectus Summary The Acquisitions, (ii) The Acquisitions, (iii) Northern Utilities and (iv) Granite State.

We are a public utility holding company headquartered in Hampton, New Hampshire. We are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (the FERC) under the Energy Policy Act of 2005.

Our principal business is the retail distribution of electricity in the southeastern seacoast and state capital regions of New Hampshire and the retail distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts. We have two distribution utility subsidiaries, Unitil Energy Systems, Inc. (UES), which operates in New Hampshire, and Fitchburg Gas and Electric Light Company (FG&E), which operates in Massachusetts. UES, through its predecessors Concord Electric Company and Exeter & Hampton Electric Company, was incorporated in 1901. FG&E was incorporated in 1852. UES and FG&E are collectively referred to as our retail distribution utilities.

Our retail distribution utilities serve approximately 100,000 electric customers and 15,100 natural gas customers in their service territory. Our retail distribution utilities are local pipes and wires utility distribution companies with a combined investment in Net Utility Plant of $256.0 million at September 30, 2008. We do not own or operate electric generating facilities or major transmission facilities and substantially all of our utility assets are dedicated to the local delivery of electricity and natural gas to our customers. Our total revenue was $262.9 million in 2007 and $200.4 million for the nine months ended September 30, 2008, which includes revenue to recover the cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, our earnings are not affected by changes in the cost of purchased electricity and natural gas. Earnings applicable to common shareholders for 2007 were $8.6 million and for the nine months ended September 30, 2008 were $6.4 million. Substantially all of our earnings are derived from the return on investment in our retail distribution utilities.

Our business strategy is to be a leader in the reliable and cost effective management of a growing level of local electric and natural gas distribution assets. Our growth initiatives include evaluation of organic growth opportunities as well as strategic acquisitions. As part of our growth strategy, on December 1, 2008, we purchased (i) all of the outstanding capital stock of Northern Utilities, a retail natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite State, an interstate gas pipeline company primarily serving the needs of Northern Utilities, from NiSource Inc. (NiSource) pursuant to the Stock Purchase Agreement dated as of February 15, 2008 by and among NiSource, Bay State and us (the Stock Purchase Agreement). Bay State is a wholly owned subsidiary of NiSource. We refer to these transactions as the Acquisitions. Please see the sections entitled (i) *Prospectus Summary The Acquisitions*, (ii) *Risk Factors Risks Relating to the Acquisitions* in this prospectus supplement, (iii) *Prospectus Summary Summary Unaudited Pro Forma Combined Financial Data* and (iv) *The Acquisitions.*

The Acquisitions

Purchase Price

The aggregate purchase price for the Acquisitions was $160 million in cash, plus an additional $41.6 million in cash as a working capital adjustment, including approximately $33.9 million of natural gas storage inventory.

Financing the Acquisitions

We financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility, as described below, coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract. We closed the Acquisitions on December 1, 2008.

As of December 1, 2008, we had $165 million outstanding under the bridge credit facility, which provides for a loan for up to eleven months. We subsequently repaid approximately $79.3 million of the amount outstanding under the bridge credit facility using the net proceeds from the sale and issuance by Northern Utilities of $80.0 million aggregate principal amount of long-term unsecured notes, which closed on December 3, 2008.

As of December 10, 2008, we had approximately $85.7 million outstanding under the bridge credit facility. We expect to repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million, as soon as practicable using the net proceeds from:

(i) the offering of our common stock, as described in this prospectus; and

(ii) the anticipated sale and issuance by Granite State to institutional investors in a private placement of $10.0 million aggregate principal amount of long-term unsecured notes on December 15, 2008.

We expect to repay the estimated $38.9 million balance outstanding under the bridge credit facility prior to its maturity date of November 1, 2009 by issuing additional equity or debt or by using borrowings under a revolving credit facility.

We expect to guarantee the payment of principal, interest and other amounts payable on the Granite State notes. This guarantee will terminate if Granite State reorganizes and merges with and into Northern Utilities.

The foregoing is not intended to, and does not, constitute an offering of the notes described above. The sale and issuance of the Granite State notes (i) is subject to the execution of a definitive note purchase agreement by Granite State and the prospective purchasers of the notes and satisfaction of closing conditions and (ii) will not be, and has not been, registered under the Securities Act of 1933 (the Securities Act) and the notes may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements.

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Please see the sections entitled (i) *Prospectus Summary   Recent Developments* and (ii) *Management   s Discussion and Analysis of Financial Condition and Results of Operations   Liquidity, Commitments and Capital Requirements*.

Regulatory Requirements and Approvals and Closing

We closed the Acquisitions on December 1, 2008.

The Acquisitions were subject to certain regulatory requirements and approvals and customary closing conditions. In connection with the closing of the Acquisitions, we obtained the following regulatory approvals and clearances:

(i) approval by the Massachusetts Department of Public Utilities (the MDPU);

(ii) approval by the Maine Public Utilities Commission (the MPUC);

(iii) approval by the State of New Hampshire Public Utilities Commission (the NHPUC);

(iv) early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and

(v) approval by the Federal Communications Commission of certain license transfers.

All applicable appeal periods on the above approval orders have expired.

Please see the sections entitled (i) *Prospectus Summary   Recent Developments*, (ii) *The Acquisitions   Description of the Acquisitions* and (iii) *Northern Utilities   Business and Financial Information   Management   s Discussion and Analysis of Financial Condition and Results of Operations*.

Descriptions of Northern Utilities and Granite State

Northern Utilities

Northern Utilities is a retail natural gas distribution utility serving customers in Maine and New Hampshire. Northern Utilities provides natural gas distribution services to approximately 52,000 customers in 44 New Hampshire and southern Maine communities, stretching from Plaistow, New Hampshire in the south to Lewiston-Auburn, Maine in the north.

Northern Utilities was incorporated under the laws of New Hampshire in 1979. It is a wholly owned subsidiary of Unitil Corporation. As of September 30, 2008, it had 76 full-time employees. Northern Utilities   customers include residences, businesses and organizations.

Northern Utilities had an investment in Net Utility Plant of $163.5 million at December 31, 2007 and $169.4 million at September 30, 2008, and net revenues of $44.2 million for 2007 and $31.0 million for the nine months ended September 30, 2008. Northern Utilities derives its revenues and earnings from its regulated utility operations. Northern Utilities recovers the cost of purchased natural gas in rates on a fully reconciling basis and, therefore, Northern Utilities   earnings are not affected by changes in the cost of purchased gas. Prior to the closing of the Acquisitions, Northern Utilities received centralized administrative, management, and support services from NiSource and its affiliates, the cost of which amounted to $8.6 million in 2007 and $6.8 million for the nine months ended September 30, 2008.

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Granite State

Granite State is 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 State provides Northern Utilities with interconnection to three major natural gas pipelines and access to pipeline supplies.

Granite State was incorporated under the laws of New Hampshire in 1955. It is a wholly owned subsidiary of Unitil Corporation. As of September 30, 2008, it had five full-time employees.

Granite State had an investment in Net Utility Plant of $16.5 million at December 31, 2007 and $16.1 million at September 30, 2008, and net operating revenue of $3.4 million for 2007 and $2.1 million for the nine months ended September 30, 2008. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers. Prior to the closing of the Acquisitions, Granite State received centralized administrative, management, and support services from NiSource and its affiliates, the cost of which amounted to $0.6 million in 2007 and $0.5 million for the nine months ended September 30, 2008.

Reasons for Engaging in, and Estimated Potential Synergy Savings Attributable to, the Acquisitions

We believe that the Acquisitions and related transactions will result in the following significant benefits to us:

Attractive Local Growth Opportunity Consistent with our Strategy. Northern Utilities and Granite State provide us with an attractive opportunity to grow our operations within coastal northern New England. Northern Utilities brings approximately 52,000 additional natural gas distribution customers, which has increased our customer base to approximately 167,000 customers in our service territory in the New England region. Given the lower penetration of gas distribution customers among the population in Northern Utilities service territory, we believe that there are significant opportunities for Northern Utilities to expand its operations, particularly in light of our customer-driven expertise in serving rural and small metropolitan areas such as Northern Utilities service territory. Additionally, Northern Utilities provides further diversification to our operations with respect to geography (into Maine) and utility business mix (between our gas and electric divisions).

Reduced Operating Expenses and Cash Flow Savings. We project that the Acquisitions will produce annual system-wide synergy savings of approximately $5.6 million, of which approximately $2.4 million is expected to be directly realized by Northern Utilities and Granite State. We expect to begin realizing these synergy savings within the first year after integration. These projected savings are primarily due to operating efficiencies obtained from economies of scale, efficient use of our personnel, infrastructure and information systems, achievement of efficiencies associated with the provision of shared utility services and adoption of best practices associated with these shared utility services. Our expected achievement of these system-wide synergy savings should allow Northern Utilities and our other retail distribution utilities to improve their respective earnings and to stabilize the rates charged to their respective customers.

Pursuant to the MPUC s and NHPUC s orders authorizing our acquisition of Northern Utilities, we will retain these system-wide synergy savings until the time of the next rate case for Northern Utilities. In this way, these synergy savings will help to extend the period between rate cases and stabilize rates for our retail distribution utilities and Northern Utilities by reducing their costs of service and improving operating results. At the time of the next base rate case, these synergy savings will be reflected in the cost of service used to determine Northern Utilities revenue requirements for ratemaking purposes.

Opportunity for Improved Regulated Utility Operating Earnings through the Execution of Our Regulatory Plan. We believe there is an opportunity to stabilize and improve the operating earnings of Northern Utilities and Granite State by executing a consistent and well-structured regulatory plan that provides Northern Utilities and Granite State with an opportunity to earn a reasonable rate of return. Northern Utilities has not sought base rate relief since 1983 in Maine or since 2002 in New Hampshire. Our regulatory plan will seek to maximize the benefits of the expected synergy savings discussed above for Northern Utilities and Granite State and provide Northern Utilities and Granite State with an opportunity to earn a reasonable rate of return on their utility rate base.

Pursuant to the MPUC s and NHPUC s orders authorizing our acquisition of Northern Utilities, we cannot seek base rate relief in Maine or New Hampshire until November 1, 2010, subject to certain exceptions. At such time, the system-wide synergy savings discussed above will be reflected in the cost of service used to determine Northern Utilities revenue requirements for ratemaking purposes.

Increased Market Capitalization and Liquidity. We expect that the Acquisitions and this offering will increase our market capitalization by approximately 34.6% and increase our shareholders liquidity. As a result, we and our shareholders should benefit from the long-term financial stability of a larger, more liquid company.

We also believe that the Acquisitions and related transactions will result in the following significant benefits to our other stakeholders:

Increased Commitment to Local Communities. We expect the Acquisitions to demonstrate our increased commitment to local communities in New Hampshire and Maine through the creation of employment opportunities and the expansion of our local presence. We anticipate retaining all of Northern Utilities employees and estimate that we will add approximately 65 new positions, while still achieving the expected synergy savings discussed above. The new positions will be primarily in the areas of gas operations and customer service, which are necessary to provide shared utility services previously provided by NiSource and included in the Northern Utilities and Granite State operating expenses.

Improved Customer Convenience and Service. We anticipate that the overlap between portions of our electric service territory in southeastern New Hampshire and portions of Northern Utilities natural gas service territory will increase the convenience for many of Northern Utilities customers who are now doing business with a single gas and electric distribution utility as a result of the Acquisitions. Additionally, we estimate that we will add several new positions to our customer service department.

Our Strengths

We believe our strengths have enabled us to grow our business profitably and create shareholder value. These strengths include:

Growing Service Territory. Prior to the closing of the Acquisitions, our operations were located in the southeastern seacoast and state capital regions of New Hampshire, as well as in the greater Fitchburg area of north central Massachusetts. This service territory provides a diverse and growing customer base. With the addition of Northern Utilities and Granite State, we have added approximately 52,000 natural gas customers in the local region and extended our operations into Maine.

Regulated Asset Base. Our core assets consist of retail distribution facilities necessary for the delivery of our customers electric and natural gas supply needs within our service territory and regulatory assets related to our regulated utility operations. Our electric and natural gas distribution assets and regulatory assets, from which we derive substantially all of our operating income, provide stable earnings and cash flow. We expect the Acquisitions to increase our assets by approximately 52%, contributing to significant growth of our retail distribution facilities.

Diversified Customer Base. Our customers are a diversified mix of residential and commercial and industrial (C&I) customers, with no single customer representing more than 5% of our total revenues. Our sales to large C&I customers are not concentrated in one industry segment but vary from government facilities to large retail outlets, colleges and hospitals and a broad range of industrial companies that reflect the diverse nature of the communities that we serve. The Acquisitions have increased our customer base by approximately 52,000 natural gas customers and have provided further diversification to our operations with respect to geography (into Maine) and utility business mix (between our gas and electric divisions).

Efficient and Flexible Operating Structure. We believe that due in part to our size and the proximity of our utility operations, we are able (i) to expeditiously and effectively respond to changing regulatory and public policy initiatives, (ii) to leverage new technology solutions that significantly improve productivity and customer service, and (iii) to implement organizational changes that improve our performance. We have a proven track record of successfully transitioning our company to meet the business and operational challenges affecting our industry. The Acquisitions bring together similarly sized local utilities that will continue to provide a high level of service to their communities.

Historic Dividend Stability. Since our incorporation in 1984, we have continuously paid quarterly dividends and we have never reduced our dividend rate, while still increasing our investment in our utility distribution facilities. We expect to maintain our current dividend policy while providing for future growth of earnings available to shareholders.

Experienced Management Team. Our senior management team is highly experienced in the utility industry. Our Chairman and Chief Executive Officer, Robert Schoenberger, has 30 years of industry experience. Our senior management team as a whole averages approximately 24 years experience in the industry and 16 years experience with us. Our management team is well-equipped and prepared to lead the integration of Northern Utilities and Granite State.

* * *

Our principal executive office is located at 6 Liberty Lane West, Hampton, New Hampshire 03842-1720 and our telephone number is (603) 772-0775.

Recent Developments

The Acquisitions

On December 1, 2008, we closed our acquisition of (i) all of the outstanding capital stock of Northern Utilities and (ii) all of the outstanding capital stock of Granite State.

Regulatory Proceedings

Our acquisition of Northern Utilities was subject to the approval of the MPUC, NHPUC, and MDPU.

MPUC. On March 31, 2008, we, along with Northern Utilities, filed a joint petition and supporting testimony with the MPUC requesting approval of our acquisition of Northern Utilities. On May 30, 2008, we, along with Northern Utilities, filed a joint petition with the MPUC requesting authority for Northern

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Utilities to issue unsecured long-term debt to assist in financing our acquisition of Northern Utilities. On August 22, 2008, we, along with Northern Utilities and the active parties to the proceedings, filed with the MPUC an unopposed settlement agreement resolving all outstanding issues and recommending approval of our acquisition of Northern Utilities and the financing petition.

On October 7, 2008, the MPUC issued an order approving the financing petition. The financing order is final, as the appeal period has expired.

On October 22, 2008, the MPUC issued a written decision approving the settlement agreement and authorizing our acquisition of Northern Utilities, subject to several conditions. On October 28, 2008, we filed a joint petition with Northern Utilities for reconsideration of the order on narrow grounds requesting clarification and/or modification of a condition of approval contained in the order that purported to change the parties agreed-upon sharing of risk under the Stock Purchase Agreement. On November 5, 2008, the MPUC issued an Order on Reconsideration Modifying Conditions, which is final, as the appeal period has expired.

NHPUC. On March 31, 2008, we, along with Northern Utilities, filed a joint petition and supporting testimony with the NHPUC requesting approval of our acquisition of Northern Utilities. On May 30, 2008, we, along with Northern Utilities, filed a joint petition with the NHPUC requesting authority for Northern Utilities to issue unsecured long-term debt to assist in financing our acquisition of Northern Utilities. On August 15, 2008, we, along with Northern Utilities and the active parties to the proceedings, filed with the NHPUC an unopposed settlement agreement resolving all outstanding issues and recommending approval of our acquisition of Northern Utilities and the financing petition. On October 10, 2008, the NHPUC issued orders approving the settlement agreement and the financing petition and authorizing our acquisition of Northern Utilities. The orders are final, as the appeal period has expired.

MDPU. On August 13, 2008, we, along with Bay State, filed a joint petition with the MDPU requesting an advisory ruling that Massachusetts law is not applicable to our acquisition of Northern Utilities, or, in the alternative, that the MDPU approve the acquisition as consistent with the public interest. The Massachusetts Attorney General asserted that Massachusetts law grants the MDPU jurisdiction to review the transaction and argued that Bay State s customers will be harmed by the sale. We, along with Bay State, disputed the Attorney General s assertions. On October 1, 2008, the MDPU held a hearing on the joint petition, and on October 10, 2008 and October 17, 2008, Unitil and Bay State and the Attorney General filed their initial and reply briefs, respectively. On November 18, 2008, the MDPU issued an order approving our acquisition of Northern Utilities. The order is final, as the appeal period has expired.

Issuance of Notes by Northern Utilities and Granite State

On September 12, 2008, we priced the sale and issuance of $80.0 million aggregate principal amount of senior unsecured notes by Northern Utilities to institutional investors pursuant to a private placement and the anticipated sale and issuance of $10.0 million aggregate principal amount of senior unsecured notes by Granite State to institutional investors pursuant to a private placement, subject to the conditions discussed below. The notes consist of:

(i) $30.0 million aggregate principal amount of 6.95% senior unsecured notes of Northern Utilities, which are due in 2018;

(ii) $50.0 million aggregate principal amount of 7.72% senior unsecured notes of Northern Utilities, which are due in 2038; and

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(iii) $10.0 million aggregate principal amount of 7.15% senior unsecured notes of Granite State, which are due in 2018.

We agreed to guarantee the payment of principal, interest and other amounts payable on the Granite State notes. This guarantee will terminate if Granite State is reorganized and merges with and into Northern Utilities.

As discussed elsewhere in this prospectus, we financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract. We expect to repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million, as soon as practicable using the net proceeds from the offering of our common stock, as described in this prospectus, and the sale and issuance of the Granite State notes. We expect to repay the estimated $38.9 million balance outstanding under the bridge credit facility prior to its maturity date of November 1, 2009 by issuing additional equity or debt or using borrowings under a revolving credit facility.

We closed the sale and issuance of the Northern Utilities notes on December 3, 2008 and we expect to close the sale and issuance of the Granite State notes on December 15, 2008.

The foregoing is not intended to, and does not, constitute an offering of the notes described above. The sale and issuance of the Granite State notes (i) is subject to the execution of a definitive note purchase agreement by Granite State and the prospective purchasers of the notes and satisfaction of closing conditions and (ii) will not be, and has not been, registered under the Securities Act and the notes may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. We have received the required regulatory approvals from the NHPUC and the MPUC for the sale and issuance of the notes.

Gas Storage Management Agreement

Northern Utilities has entered into a gas storage management agreement pursuant to which (i) Northern Utilities released certain pipeline and storage capacity to an asset manager from November 1, 2008 through March 31, 2009 or April 30, 2009 and (ii) the asset manager financed inventories associated with the released storage capacity from Northern Utilities contemporaneously with the closing of the Acquisitions. The agreement also requires Northern Utilities to repurchase quantities of natural gas over the 2008/2009 winter heating season at a specified price and any remaining balance of the gas inventories on April 30, 2009 at the same price initially paid by the asset manager. The agreement provides for us to issue a guarantee of payment of $15 million for the term of the agreement.

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Summary Historical Consolidated Financial Information

The following table contains summary historical consolidated financial information, including per share information, for each of the periods indicated, which periods precede the closing of the Acquisitions. The summary historical consolidated financial information as of and for each of the years in the three-year period ended December 31, 2007 was derived from our consolidated financial statements as filed with the SEC in our December 31, 2007 Form 10-K, which were audited by Vitale, Caturano & Company, Ltd and which statements are incorporated by reference in this prospectus. The summary historical consolidated financial information as of and for the nine months ended September 30, 2008 and 2007 was derived from our unaudited consolidated financial statements as filed with the SEC in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, which statements are incorporated by reference in this prospectus. See the section entitled *Where You Can Find More Information* in this prospectus supplement.

The summary historical consolidated financial information should be read in conjunction with our audited financial statements, our unaudited interim financial statements and the related notes and the section entitled *Management s Discussion and Analysis of Financial Condition and Results of Operations*. Our financial results for the nine months ended September 30, 2008 and 2007 are not necessarily indicative of the results that may be expected for an entire year.

Sales of natural gas and the related results of operations can be significantly affected by seasonal weather conditions. Annual revenues are substantially realized during the heating season as a result of higher sales of natural gas due to cold weather. Accordingly, our operating results historically are most favorable in the first and fourth calendar quarters. Therefore, fluctuations in seasonal weather conditions between years may have a significant effect on our results of operations and cash flows.

Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by weather conditions in both the winter and summer seasons.

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	(unaudited) For the Nine Months Ended September 30,		For the Year Ended December 31,				
	2008	2007	2007	2006	2005	2004	2003
(millions except shares and per share data)							
Consolidated Statements of Earnings:							
Operating Revenue	$ 200.4	$ 198.6	$ 262.9	$ 260.9	$ 232.1	$ 214.1	$ 220.7
Operating Income	$ 14.1	$ 12.9	$ 18.5	$ 15.8	$ 15.5	$ 15.2	$ 15.4
Non-operating Expense (Income)	0.3	0.1	0.2		0.1	0.2	
Income Before Interest Expense, net	13.8	12.8	18.3	15.8	15.4	15.0	15.4
Interest Expense, net	7.3	6.8	9.6	7.8	6.8	6.8	7.5
Net Income	6.5	6.0	8.7	8.0	8.6	8.2	7.9
Dividends on Preferred Stock	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Earnings Applicable to Common Shareholders	$ 6.4	$ 5.9	$ 8.6	$ 7.9	$ 8.4	$ 8.0	$ 7.7
Earnings Per Common Share Data:							
Earnings Per Average Common Share Diluted	$ 1.12	$ 1.04	$ 1.52	$ 1.41	$ 1.51	$ 1.45	$ 1.58
Common Stock Data:							
Shares of Common Stock (000 s)	5,738	5,659	5,672	5,612	5,568	5,525	4,896
Dividends Declared Per Share	$ 1.38	$ 1.38	$ 1.38	$ 1.38	$ 1.38	$ 1.38	$ 1.38
Book Value Per Share (Period-End)	$ 17.27	$ 16.99	$ 17.50	$ 17.30	$ 17.21	$ 17.00	$ 16.87

	(unaudited) As of September 30,		As of December 31,				
	2008	2007	2007	2006	2005	2004	2003
(millions except shares and per share data)							
Consolidated Balance Sheet Data:							
Utility Plant (Original Cost)	$ 385.0	$ 376.0	$ 380.5	$ 353.0	$ 325.0	$ 308.1	$ 288.7
Total Assets	$ 467.5	$ 474.5	$ 474.6	$ 483.4	$ 450.1	$ 457.0	$ 483.9
Capitalization:							
Common Stock	$ 99.9	$ 97.4	$ 100.4	$ 97.8	$ 96.3	$ 94.3	$ 92.8
Preferred Stock	2.0	2.0	2.1	2.1	2.3	2.3	3.3
Long-Term Debt, less Current Portion	159.4	159.8	159.6	140.0	125.4	110.7	110.9
Total Capitalization	$ 261.3	$ 259.2	$ 262.1	$ 239.9	$ 224.0	$ 207.3	$ 207.0
Current Portion of Long-Term Debt	$ 0.4	$ 0.4	$ 0.4	$ 0.3	$ 0.3	$ 0.3	$ 3.3
Short-Term Debt	$ 21.7	$ 13.0	$ 18.8	$ 26.0	$ 18.7	$ 25.7	$ 22.4

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Summary Unaudited Pro Forma Combined Financial Data

The following summary unaudited pro forma combined financial data (the Summary Pro Forma Financial Data) and the unaudited pro forma combined financial statements and explanatory notes beginning on page F-1 (the Pro Forma Financial Statements) have been prepared to give effect to the Acquisitions as if the businesses had actually been combined as of December 31, 2007 and September 30, 2008 (with respect to the balance sheet information using currently available fair value information) and as of January 1, 2007 (with respect to statements of earnings information).

The Summary Pro Forma Financial Data and the Pro Forma Financial Statements include adjustments for the Acquisitions pursuant to the purchase method of accounting for business combinations (pursuant to which the assets and liabilities of Northern Utilities and Granite State were recorded, as of the closing of the Acquisitions, at their fair values and added to our assets and liabilities) and the replacement of the predecessor owner s equity and debt amounts with the new equity and debt capitalization, as described below. The Summary Pro Forma Financial Data and the Pro Forma Financial Statements include adjustments to give effect to:

(i) the receipt of the estimated net proceeds of approximately $42.4 million from the issuance of 2,000,000 shares of common stock in this offering at an assumed public offering price of $22.95 per share, which was the closing price of our common stock on November 17, 2008, and the application of the estimated net proceeds from this offering;

(ii) the sale and issuance by Northern Utilities of $80.0 million aggregate principal amount of long-term unsecured notes, which closed on December 3, 2008;

(iii) the anticipated sale and issuance by Granite State of $10.0 million aggregate principal amount of long-term unsecured notes;

(iv) the receipt of proceeds from the financing by Northern Utilities of its natural gas storage inventory of $30.5 million as of September 30, 2008 and $13.4 million as of December 31, 2007;

(v) the anticipated utilization of a bridge credit facility to fund the residual portion of the Acquisitions of $34.2 million as of September 30, 2008 and $57.3 million as of December 31, 2007;

(vi) certain other adjustments related to assets and liabilities retained by NiSource; and

(vii) to record Northern Utilities financing obligation for natural gas in storage.

The Summary Pro Forma Financial Data and the Pro Forma Financial Statements exclude adjustments to recognize:

(i) estimated operating expense savings of $5.6 million annually due to the achievement of efficiencies associated with the provision of shared utility services and the adoption of best practices associated with these shared utility services;

(ii) a reduction in operating expenses of $1.7 million, after tax, related to compliance violation penalties incurred by Northern Utilities in 2007 and $2.0 million, after tax, related to compliance violation penalties incurred by Northern Utilities in the first nine months of 2008;

(iii) a reduction in Purchased Gas costs of $0.5 million and a resulting increase in gross operating margin for 2007 to reflect an error in a prior regulatory filing for which Northern Utilities has been granted recovery; and

(iv) adjustments to recognize the enhancements to revenue of Northern Utilities and Granite State that may occur from the execution of our regulatory plan.

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The Summary Pro Forma Financial Data and the Pro Forma Financial Statements (i) reflect that we financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract and (ii) assume that we will use the net proceeds from the sale and issuance of our common stock, as described in this prospectus, and the sale and issuance of the above-referenced long-term unsecured notes to promptly repay amounts outstanding under the bridge credit facility, except for an estimated $34.2 million as of September 30, 2008 and $57.3 million as of December 31, 2007. Please see the section entitled *Risk Factors Risks Relating to the Acquisitions* in this prospectus supplement.

The Summary Pro Forma Financial Data and the Pro Forma Financial Statements are presented for illustrative purposes only and do not indicate the financial results of the combined companies had the companies actually been combined and had the impact of possible revenue enhancements and expense efficiencies, among other factors, been considered, and is not intended to be a projection of future results. The Summary Pro Forma Financial Data and the Pro Forma Financial Statements have been derived from and should be read together with our historical consolidated financial statements and the related notes, which are incorporated by reference herein, and the historical financial statements and the related notes of both Northern Utilities and Granite State, which are included in this prospectus. In addition, as explained in more detail in the accompanying notes to the Pro Forma Financial Statements, the allocation of the purchase price reflected in the Summary Pro Forma Financial Data and the Pro Forma Financial Statements is subject to adjustment and may vary from the actual purchase price allocation that was recorded upon the effective completion of the Acquisitions.

Sales of natural gas and the related results of operations can be significantly affected by seasonal weather conditions. Annual revenues are substantially realized during the heating season as a result of higher sales of natural gas due to cold weather. Accordingly, our operating results historically are most favorable in the first and fourth calendar quarters. Therefore, fluctuations in seasonal weather conditions between years may have a significant effect on our results of operations and cash flows.

Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by weather conditions in both the winter and summer seasons.

(millions except shares and per share data)	**(unaudited) For the Nine Months Ended September 30, 2008**	**(unaudited) For the Year Ended December 31, 2007**
Combined Statements of Earnings:		
Operating Revenue	$ 288.1	$ 396.2
Operating Income	$ 18.6	$ 28.8
Non-operating Expense (Income)	0.3	0.3
Income Before Interest Expense, net	18.3	28.5
Interest Expense, net	13.5	18.2
Net Income	4.8	10.3
Dividends on Preferred Stock	0.1	0.1
Earnings Applicable to Common Shareholders	$ 4.7	$ 10.2

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(millions except shares and per share data)	(unaudited) For the Nine Months Ended September 30, 2008	(unaudited) For the Year Ended December 31, 2007
Earnings Per Common Share Data:		
Earnings Per Average Common Share Diluted	$ 0.61	$ 1.33
Common Stock Data:		
Shares of Common Stock (000 s)	7,738	7,672
Dividends Declared Per Share	$ 1.035	$ 1.38

(millions)	(unaudited) As of September 30, 2008	(unaudited) As of December 31, 2007
Combined Balance Sheet Data:		
Utility Plant	$ 623.5	$ 615.4
Total Assets	$ 711.8	$ 715.0
Capitalization:		
Common Stock Equity	$ 142.3	$ 142.8
Preferred Stock	2.0	2.1
Long-Term Debt, less current portion	249.4	249.6
Total Capitalization	$ 393.7	$ 394.5
Current Portion of Long-Term Debt	$ 0.4	$ 0.4
Short-Term Debt	$ 55.9	$ 76.1

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The Offering

Common stock offered by us	2,000,000 shares (2,300,000 shares if the underwriters exercise their over-allotment option).
Common stock outstanding after this offering	7,788,440 shares (8,088,440 shares if the underwriters exercise their over-allotment option).
Use of proceeds	We intend to use the net proceeds from this offering (including the proceeds from any exercise by the underwriters of their over-allotment option) and the anticipated sale and issuance of long-term unsecured notes by Granite State (i) to repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million, that we used to partially finance the Acquisitions and the related costs and expenses and (ii) for other general corporate purposes. Please see the section entitled *The Acquisitions*.

See the section entitled *Use of Proceeds* in this prospectus supplement and *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements.*

Current annual dividend	$1.38 per share. Since our incorporation in 1984, we have continuously paid quarterly dividends and we have never reduced our dividend rate. We expect to maintain our current dividend policy.
Risk factors	An investment in our common stock involves risk. Please see the section entitled *Risk Factors* in this prospectus supplement, as well as the risk factors identified in our Annual Report on Form 10-K for the year ended December 31, 2007 and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, which are specifically incorporated by reference into this prospectus.
Stock exchange symbol	Our common stock is listed on the New York Stock Exchange under the symbol UTL.

The number of shares of our common stock shown above to be outstanding after this offering is based on the number of shares outstanding as of December 10, 2008, and excludes (i) 169,200 shares of common stock issuable upon exercise of outstanding stock options and (ii) 106,365 shares of common stock reserved for issuance under our stock incentive plans, in each case as of December 10, 2008.

Unless we indicate otherwise, the share information in this prospectus assumes that the underwriters option to cover over-allotments is not exercised. See the section entitled *Underwriting*.

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RISK FACTORS

Before making an investment in shares of our common stock, you should carefully consider the risks described below, as well as the information included or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have identified a number of these factors in our Annual Report on Form 10-K for the year ended December 31, 2007 and our Quarterly Report on Form 10-Q for the three months ended September 30, 2008, each of which is specifically incorporated by reference into this prospectus. See the section entitled *Where You Can Find More Information* in this prospectus supplement. In addition, you should carefully consider the risks and uncertainties referred to below or listed under the section entitled *Cautionary Statement about Forward-Looking Statements* in this prospectus supplement.

Risks Relating to Our Business

Risks related to the regulation of our business could impact the rates we are able to charge, our costs and our profitability. We are subject to comprehensive regulation by federal and state regulatory authorities, which significantly influences our operating environment and our ability to recover costs from our customers. In particular, we are regulated by the FERC and state regulatory authorities with jurisdiction over public utilities, including the NHPUC, the MDPU and, with respect to Northern Utilities operations in Maine, the MPUC. These authorities regulate many aspects of our operations, including, but not limited to, construction and maintenance of facilities, operations, safety, issuance of securities, accounting matters, transactions between affiliates, the rates that we can charge customers and the rate of return that we are allowed to realize. Our ability to obtain rate adjustments to maintain our current rate of return depends upon regulatory action under applicable statutes, rules and regulations, and we cannot assure you that we will be able to obtain rate adjustments or continue receiving our current authorized rates of return. These regulatory authorities are also empowered to impose financial penalties and other sanctions on us if we are found to have violated statutes and regulations governing our utility operations.

We are unable to predict the impact on our operating results from the regulatory activities of any of these agencies. Although we have attempted to actively manage the rate making process and have had recent success in obtaining rate adjustments, we can offer no assurances as to future success in the rate making process. Despite our requests, these regulatory commissions have authority under applicable statutes, rules and regulations to leave our rates unchanged, grant increases or order decreases in such rates. They have similar authority with respect to the recovery of our electricity and natural gas supply costs incurred by UES, FG&E, and Northern Utilities. In the event that we are unable to recover these costs or recovery of these costs were to be significantly delayed, our operating results could be materially adversely affected. Changes in regulations or the imposition of additional regulations could also have an adverse effect on our operating results.

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

Our power supply portfolio related stranded costs due to the electric industry restructuring in New Hampshire and Massachusetts for which regulatory approval has been obtained for recovery were approximately $42.0 million for FG&E and $30.7 million for UES as of December 31, 2007. Additionally, our other restructuring-related regulatory assets for which regulatory approval has been obtained for recovery were approximately $32.1 million in the aggregate as of December 31, 2007.

Substantially all of FG&E s stranded costs relate to owned generation assets and power purchase agreements divested by FG&E under a long-term contract buy-out agreement. UES stranded costs are attributable to the long-term power purchase agreements divested by Unitil Power Corp. (Unitil Power) under long-term contract buyout agreements. Because FG&E and Unitil Power remain ultimately responsible for purchase power payments underlying these long-term buyout agreements, FG&E and Unitil Power could incur additional stranded costs were they required to resell such divested entitlements prior to the end of their term for amounts less than the amounts agreed to under the existing long-term buyout agreements. We expect that any such additional stranded costs would be recovered from our customers, although such recovery would require approval from the MDPU or NHPUC, the receipt of which cannot be assured.

Our electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may negatively impact our customers and correspondingly our operating results and financial condition. Our business is influenced by the economic activity of our service territory. The level of economic growth in our electric and natural gas distribution service territory directly affects our potential for future growth in our business. As a result, adverse changes in the economy, including the significant adverse changes in the economy in 2008, may have negative effects on our revenues, operating results and financial condition. Similarly, Northern Utilities and Granite State s businesses are influenced by the economic activity in their service territory, and adverse changes in the economy, including the significant adverse changes in the economy in 2008, may negatively affect their revenues, operating results and financial condition.

We may not be able to obtain debt financing, obtain debt financing on acceptable terms, or obtain debt financing under our current credit facilities because of the deterioration of the credit and capital markets, which could have an adverse affect on our operating results and financial condition. We, along with Northern Utilities and Granite State, require capital to fund utility plant additions, working capital and other utility expenditures. While the capital necessary to meet these requirements is derived primarily from internally-generated funds, we initially supplement internally generated funds through short-term debt financings, as needed, and periodically replace portions of our short-term debt with long-term debt. General economic conditions, including recent distress in the financial markets, have had an adverse impact on the availability of credit resources generally, which could negatively affect our ability to obtain short- and long-term debt financings and the terms of such financings. In addition, we may be unable to obtain debt financing under our current credit facilities because our lending counterparties may be unwilling or unable to meet their funding obligations. In each case, this could hinder or prevent us from meeting our future capital needs, which could correspondingly have an adverse affect on our operating results and financial condition. In addition, the material terms of our existing indebtedness will also restrict our ability to incur any material amount of additional indebtedness, which could negatively impact our operating results and financial condition. Please see the section entitled *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements***.**

Declines in the valuation of capital markets could require us to make substantial cash contributions to cover our pension obligations, which could negatively impact our financial condition. On August 17, 2006, the Pension Protection Act of 2006 (the PPA) was signed into law. Included in the PPA are new minimum funding rules which came into effect for plan years beginning in 2008. The funding target will be 100% of a plan s liability with any shortfall amortized over seven years, with lower (92% 100%) funding targets available to well-funded plans during the transition period provided pursuant to the PPA.

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We made cash contributions of $2.8 million, $2.5 million and $2.5 million to our pension plan in 2007, 2006 and 2005, respectively, which exceeded minimum funding requirements. Recent and future declines in the valuation of capital markets could require us to make cash contributions to our pension plans substantially in excess of our cash contributions in prior years, which could adversely affect our financial condition.

In September 2006, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158), which requires companies to record on their balance sheets the funded status of their retirement benefit obligations (RBO). We have recognized a liability for the projected RBO of our plans and a corresponding regulatory asset, to recognize the future collection of these obligations in electric and gas retail rates. In the event that we are unable to recover these costs or recovery of these costs were to be significantly delayed, our operating results could be materially adversely affected. Please see Note 8 to our financial statements and supplementary data contained in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Increases in interest rates could have a negative impact on our financial condition. Our utility subsidiaries have ongoing capital expenditure and cash funding requirements which they frequently fund by issuing short and long-term debt. Changes in interest rates do not affect interest expense associated with presently outstanding fixed rate long-term debt securities. However, changes in interest rates may affect the interest rate and corresponding interest expense on any new long-term debt securities that are issued. In addition, short-term debt borrowings are typically at variable rates of interest. As a result, changes in short-term interest rates will increase or decrease our interest expense associated with short-term borrowings. Increases in interest rates generally will increase our borrowing costs and could adversely affect our financial condition or results of operations.

Weather conditions may cause our sales to vary from year to year. Sales by our retail distribution utilities and by Northern Utilities vary from year to year, depending on weather conditions. We estimate that approximately 75% of our annual natural gas sales were temperature sensitive prior to the closing of the Acquisitions. As a result, mild winter temperatures can cause a decrease in the amount of gas we sell in any year, particularly during the winter heating season. The Acquisitions will likely cause this seasonality to become more pronounced. Our electric sales are generally less sensitive to weather than our gas sales, but may also be affected by weather conditions in both the winter and summer seasons.

We are a holding company and have no operating income of our own. Our ability to pay dividends on our common stock is dependent on dividends received from our subsidiaries and on factors directly affecting us, the parent corporation. We cannot assure you that our current annual dividend will be paid in the future. We are a public utility holding company and we do not have any operating income of our own. Consequently, our ability to pay dividends on our common stock is dependent on dividends and other payments received from our subsidiaries, principally UES, FG&E, Northern Utilities and Granite State. The ability of our subsidiaries to pay dividends or make distributions to us will depend on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of our subsidiaries;

- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes (including the long-term notes to be issued by Northern Utilities and Granite State) and other debt issued by our subsidiaries;

- the restrictions on the payment of dividends contained in the existing loan agreements of UES and FG&E and that may be contained in future debt agreements of our subsidiaries, if any (including the agreements under which the long-term notes of Northern Utilities and Granite State are to be issued); and

limitations that may be imposed by New Hampshire, Massachusetts and Maine state regulatory agencies.

In addition, we may incur indebtedness in the future. Before we can pay dividends on our common stock, we have to satisfy our debt obligations, including the bridge credit facility that we used to partially finance the Acquisitions and the long-term notes issued by Northern Utilities and to be issued by Granite State, and comply with any statutory or contractual limitations.

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

Transporting and storing natural gas and supplemental gas supplies, as well as electricity, involves numerous risks that may result in accidents and other operating risks and costs. Inherent in our electric and gas distribution activities, including those of Northern Utilities and Granite State, are a variety of hazards and operating risks, such as leaks, explosions, electrocutions and mechanical problems that could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental pollution, and impairment of our operations and substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The location of pipelines, storage facilities and electric distribution equipment near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect our financial position and results of operations.

Our business is subject to environmental regulation in all jurisdictions in which we operate and our costs of compliance are significant. Any changes in existing environmental regulation and the incurrence of environmental liabilities could negatively affect our results of operations and financial condition. Our utility operations, including those of Northern Utilities, are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources, and the health and safety of our employees. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties; imposition of remedial requirements; and even issuance of injunctions to ensure future compliance. Liability under certain environmental laws is strict, joint and several in nature. Although we believe we are in general compliance with all applicable environmental and safety laws and regulations, there can be no assurance that significant costs and liabilities will not be incurred in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, could result in increased environmental compliance costs.

Catastrophic events could have a material adverse effect on our financial condition or results of operations. The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could have a material adverse effect on us, including Northern Utilities and Granite State, since they could inhibit our ability to continue providing electric and/or gas distribution services to our customers for an extended period, which is the principal source of our operating income.

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Our business could be adversely affected if we are unable to retain our existing customers or attract new customers. The success of our business depends, in part, on our ability to maintain and increase our customer base. Our failure to maintain or attract customers could have a material adverse effect on our business, financial condition and operating results. Similarly, the success of Northern Utilities and Granite State s businesses depends, in part, on their ability to maintain and increase their customer base. Their failure to maintain or attract customers could have a material adverse effect on our business, financial condition and operating results.

Risks Relating to the Acquisitions

If we are not successful in effectively integrating Northern Utilities and Granite State, we may not be able to operate cost-efficiently. Achieving the benefits of the Acquisitions will depend in part on the successful integration of Northern Utilities and Granite State s operations, services, and personnel with our operations, services, and personnel in a timely and efficient manner. Integration involves the integration of systems, applications, policies, procedures, business processes, and other operations and requires coordination of administrative staff (e.g., human resources, customer service, regulatory services, information technology, accounting and finance, accounts receivable, and accounts payable) and development and engineering teams. Integration may be difficult, unpredictable, and subject to delay because of possible cultural conflicts and differing opinions. Additionally, integration could divert management s attention away from our operations, which could harm our business, financial condition and operating results. If we cannot successfully integrate the operations, services, and personnel of Northern Utilities and Granite State, we will not realize the expected benefits of the Acquisitions, including reduced operating expenses and cash flow savings, and may not be able to operate cost-efficiently.

We expect to incur significant costs integrating Northern Utilities and Granite State, which may adversely affect our results of operations and financial condition. We expect to incur significant costs integrating Northern Utilities and Granite State s operations, services, and personnel with our operations, services, and personnel. These costs may include costs for:

- additional staff s salaries and benefits;
- converting information systems;
- combining gas operations; and
- purchasing additional equipment.

We do not know whether we will be successful in these integration efforts and cannot assure our shareholders that we will realize the expected benefits of the Acquisitions.

Our ability to execute a reasonable regulatory plan for Northern Utilities and Granite State depends upon regulatory action under applicable statutes, rules, and regulations. We believe there is an opportunity to stabilize and improve the operating earnings of Northern Utilities and Granite State by executing a consistent and well-structured regulatory plan that will provide Northern Utilities and Granite State with an opportunity to earn a reasonable rate of return. If we are unable to obtain approval of a reasonable regulatory plan, or are delayed in obtaining approval of a reasonable regulatory plan, we may not be able to improve the operating earnings of Northern Utilities and Granite State. Also, pursuant to the MPUC s and NHPUC s orders authorizing our acquisition of Northern Utilities, we cannot seek base rate relief in Maine or New Hampshire until November 1, 2010, subject to certain exceptions.

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The trading price of our common stock may be affected by factors different from those that affected the trading price of our common stock prior to the closing the Acquisitions. The Acquisitions increased our assets by approximately 52%, increased our customer base by approximately 52,000 natural gas customers to 167,000 total natural gas and electric customers, and further diversified our operations with respect to geography (into Maine) and utility mix (between our gas and electric divisions). Therefore, our results of operations, as well as the trading price of our common stock, may be affected by factors different from those that affected the results of operations and the trading price of our common stock prior to the closing of the Acquisitions.

Increases in interest rates could have a negative effect on our cost to finance a portion of the Acquisitions with borrowings under a bridge credit facility. We financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract.

As of December 10, 2009, we had approximately $85.7 million outstanding under the bridge credit facility, which provides for a loan for up to eleven months. We expect to repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million, as soon as practicable using the net proceeds from (i) the offering of our common stock, as described in this prospectus and (ii) the anticipated sale and issuance by Granite State of $10.0 million aggregate principal amount of long-term unsecured notes. We expect to repay the estimated $38.9 million balance outstanding under the bridge credit facility prior to its maturity date of November 1, 2009 by issuing additional equity or debt or using borrowings under a revolving credit facility.

We expect to guarantee the payment of principal, interest and other amounts payable on the Granite State notes. This guarantee will terminate if Granite State reorganizes and merges into Northern Utilities.

There is no assurance that the sale and issuance of the long-term unsecured notes as described above, will close in a timely manner or at all. Changes in interest rates will affect the interest rate and corresponding interest expense associated with amounts outstanding under the bridge credit facility. We will be required to repay amounts outstanding under the bridge credit facility on or before its maturity date of November 1, 2009. If we repay all or any portion of the amounts that may be outstanding under the bridge credit facility using borrowings under a revolving credit facility, changes in interest rates will affect the interest expense associated with amounts outstanding under the revolving credit facility. In each case, increases in interest rates generally will increase our financing costs associated with the Acquisitions and could adversely affect our financial condition and results of operations.

Please see the section entitled *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements.*

Amounts outstanding under the bridge credit facility or a revolving credit facility could adversely affect our cash flow. We financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract.

As of December 10, 2008, we had approximately $85.7 million outstanding under the bridge credit facility, which provides for a loan for up to eleven months. We expect to repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million, as soon as practicable using the net proceeds from (i) the offering of our common stock, as described in this prospectus and (ii) the anticipated sale and issuance by Granite State of $10.0 million aggregate principal amount of long-term unsecured notes. We expect to repay any balance outstanding under the bridge credit facility prior to its maturity date of November 1, 2009 by issuing additional equity or debt or using borrowings under a revolving credit facility. However, there is no assurance that we will be able to do so in a timely manner. Therefore, we may need to

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use a significant portion of our cash flow to repay the balance outstanding under the bridge credit facility, which would limit the amount of cash we have available for working capital, capital expenditures and other general corporate purposes and could negatively affect our liquidity, financial condition and results of operations. Also, if we repay all or any portion of the amounts that may be outstanding under the bridge credit facility using borrowings under a revolving credit facility, we may need to use a significant portion of our cash flow to pay interest on the revolving credit facility and to repay the principal amount outstanding under the revolving credit facility when required, which would limit the amount of cash we have available for working capital, capital expenditures and other general corporate purposes and could negatively affect our liquidity, financial condition and results of operations.

Please see the section entitled *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements.*

Amounts outstanding under the bridge credit facility and the sale and issuance of long-term unsecured notes by Northern Utilities and Granite State could restrict our business operations and adversely affect our cash flow.

We may be restricted from engaging in certain business operations because of financial covenants associated with the above-referenced bridge credit facility, which could negatively affect our financial condition and results of operations. These financial covenants include, without limitation, restrictions relating to paying dividends, incurring indebtedness and liens, merging or consolidating with another entity or selling, leasing or otherwise disposing of all or substantially all of our assets.

We repaid a portion of the above-referenced bridge credit facility using the net proceeds from the sale and issuance of long-term unsecured notes by Northern Utilities and expect to repay an additional portion using the net proceeds from the anticipated sale and issuance of long-term unsecured notes by Granite State. We may be restricted from engaging in certain business operations because of financial covenants associated with these notes, which could negatively affect our financial condition and results of operations. These financial covenants include, without limitation, restrictions relating to paying dividends, incurring indebtedness and liens, merging or consolidating with another entity or selling, leasing or otherwise disposing of all or substantially all of our assets.

In addition, we may need to use a significant portion of our cash flow to pay interest on amounts outstanding under the bridge credit facility and the notes and to repay the amount outstanding under the bridge credit facility and the principal amount of the notes when required, which would limit the amount of cash we have available for working capital, capital expenditures and other general corporate purposes and could negatively affect our liquidity, financial condition and results of operations.

Please see the section entitled *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements.*

The Acquisitions will result in significant costs to us, which will result in a reduction in our income and cash flows. We will be required to pay our costs relating to the Acquisitions and such costs will be significant. Incurring these costs will cause a reduction in our income and cash flows.

We could be exposed to unknown liabilities of Northern Utilities and Granite State, which could cause us to incur substantial financial obligations and harm our business. If Northern Utilities and Granite State have liabilities of which we are not aware, we have assumed those liabilities and may have limited recourse against NiSource and Bay State. If such unknown liabilities exist and we are not fully indemnified for any loss that we incur as a result thereof, we could incur substantial financial obligations, which could adversely affect our financial condition and harm our business. Please see the section entitled *The Acquisitions Description of the Acquisitions*.

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Risks Relating to this Offering

Our stock price may decline when our results decline or when events occur that are adverse to us or our industry. You can expect the market price of our common stock to decline when our results decline or at any time when events actually or potentially adverse to us or the electricity and gas industry occur. Our common stock price may decline to a price below the price you paid to purchase your shares of common stock in this offering.

Substantial sales of our common stock could cause our stock price to decline. If we or our existing shareholders sell a large number of shares of our common stock or the public market perceives that we or our existing shareholders might sell shares of our common stock, the market price of our common stock could significantly decline. All of the shares offered by this prospectus supplement will be freely tradable without restriction or further registration under the federal securities laws unless purchased by an affiliate, as that term is defined in Rule 144 under the Securities Act. The outstanding shares subject to lock-up agreements between each of our directors and our senior executive officers and the underwriters may be sold 90 days after the date of this prospectus, except as noted in the section entitled *Underwriting*.

The proposed sale and issuance of common stock will reduce the proportionate share of the holdings of our current shareholders. As of December 10, 2008, we had 5,788,440 shares of common stock outstanding. If the proposed sale and issuance of common stock is consummated, we will have approximately 7,788,440 shares of common stock outstanding (8,088,440 shares if the underwriters exercise their over-allotment option). As a result, our shareholders proportionate holding in us would be reduced by approximately 25.7% (28.4% if the underwriters exercise their over-allotment option).

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This prospectus and the documents we incorporate by reference into this prospectus contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Securities and 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 prospectus, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for our future operations, are forward-looking statements.

These statements include declarations regarding our or our management s beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, continue or the 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 the section entitled *Risk Factors* in this prospectus supplement and the following:

- our ability to integrate the business, operations, and personnel of Northern Utilities and Granite State and to achieve the estimated potential synergy savings attributable to the Acquisitions;
- our, Northern Utilities , and Granite State s ability to retain existing customers and gain new customers;
- variations in weather;
- changes in the regulatory environment;
- customers preferences on energy sources;
- interest rate fluctuation and credit market concerns;
- general economic conditions including recent distress in the financial markets that has had 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; and
- increased competition.

Many of these risks are beyond our control. Any forward-looking statements speak only as of the date of this prospectus, and we undertake 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 us to predict all of these factors, nor can we assess the impact of any such factor on our 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.

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USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $36.8 million (approximately $42.5 million if the underwriters over-allotment option is exercised in full), after deducting the underwriting discounts and our estimated offering expenses, based on an offering price of $20.00 per share.

We intend to use the net proceeds from this offering (including the proceeds from any exercise by the underwriters of their over-allotment option) and the anticipated sale and issuance of long-term unsecured notes by Granite State (i) to repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million, that we used to partially finance the Acquisitions and the related costs and expenses and (ii) for other general corporate purposes. Please see the sections entitled (i) *The Acquisitions* and (ii) *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements*.

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CAPITALIZATION

The table below shows our capitalization as of September 30, 2008:

- on an actual consolidated basis; and

- on a pro forma basis to give effect to:

  (i) the receipt of the estimated net proceeds of approximately $36.8 million from the issuance of 2,000,000 shares of common stock in this offering at a public offering price of $20.00 per share and the application of the estimated net proceeds from this offering (see the section entitled *Use of Proceeds* in this prospectus supplement);

  (ii) the sale and issuance by Northern Utilities of $80.0 million aggregate principal amount of long-term unsecured notes, which closed on December 3, 2008;

  (iii) the anticipated sale and issuance by Granite State of $10.0 million aggregate principal amount of long-term unsecured notes, which is not contingent on this offering; and

  (iv) the anticipated utilization of a bridge credit facility to fund the residual portion of the Acquisitions of $38.9 million as of September 30, 2008 (please see the section entitled *Prospectus Summary The Acquisitions*).

The table below (i) reflects that we financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract and (ii) assumes that we will use the net proceeds from the sale and issuance of our common stock, as described in this prospectus, and the sale and issuance of the above-referenced long-term unsecured notes to promptly repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million. Please see the section entitled *Risk Factors Risks Relating to the Acquisitions* in this prospectus supplement.

You should read this table in conjunction with our consolidated financial statements and the related notes incorporated by reference in this prospectus.

	(unaudited) As of September 30, 2008			
(in millions)	Actual	Adjustments for Issuances of Notes and Short-Term Debt	Adjustments for this Offering	Pro forma
Common stock equity	$ 99.9	$	$ 36.8	$ 136.7
Preferred stock, non-redeemable, non-cumulative	0.2			0.2
Preferred stock, redeemable, cumulative	1.8			1.8
Long-Term debt, less current portion	159.4	90.0		249.4
Short-Term debt(1)	22.1	38.9		61.0
Total capitalization, including short-term debt	$ 283.4	$ 128.9	$ 36.8	$ 449.1

(1) Includes $0.4 million for the Current Portion of Long-Term Debt.

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PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our common stock is listed on the New York Stock Exchange under the symbol UTL.

As of December 10, 2008, there were 1,661 shareholders of record.

The following table sets forth the range of high and low intra-day market prices per share of our common stock and the dividends paid per share for the periods indicated. The closing price of our common stock was $20.35 on December 10, 2008. Past performance is not necessarily indicative of future price performance. You should obtain current market quotations for shares of our common stock.

	Price Range		Dividends Per Share
	High	Low	
2005:			
First Quarter	$ 28.70	$ 25.40	$ 0.345
Second Quarter	28.75	25.35	0.345
Third Quarter	28.90	27.00	0.345
Fourth Quarter	28.17	24.15	0.345
2006:			
First Quarter	$ 26.11	$ 24.22	$ 0.345
Second Quarter	26.08	23.63	0.345
Third Quarter	25.00	23.80	0.345
Fourth Quarter	26.35	23.81	0.345
2007:			
First Quarter	$ 27.35	$ 25.08	$ 0.345
Second Quarter	28.40	26.55	0.345
Third Quarter	34.60	27.00	0.345
Fourth Quarter	30.17	25.50	0.345
2008:			
First Quarter	$ 29.00	$ 25.55	$ 0.345
Second Quarter	28.80	26.12	0.345
Third Quarter	28.05	25.40	0.345
Fourth Quarter (through December 10, 2008)	27.00	19.90	n/a

On September 25, 2008, our Board of Directors declared a dividend in the amount of $0.345 per common share, which was paid on October 31, 2008 to common shareholders of record on October 17, 2008.

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations, which generally relates to periods preceding the Acquisitions, should be read in conjunction with our historical financial statements and notes, which are incorporated by reference in this prospectus. For an overview of our business and a discussion of the uncertainties relating to our operations, refer to the sections entitled (i) *Risk Factors Risks Relating to Our Business*, (ii) *Cautionary Statement about Forward-Looking Statements* and (iii) *Our Company* in this prospectus supplement.

Three and Nine Months Ended September 30, 2008 and 2007

Results of Operations

Our Earnings Applicable to Common Shareholders (Net Income) were $1.5 million for the third quarter of 2008, compared to $1.6 million for the third quarter of 2007. Earnings per common share (EPS) were $0.27 for the three months ended September 30, 2008 compared with $0.28 in the third quarter of 2007. Earnings for the third quarter of 2008 reflect higher operating expenses and interest expense in the quarter offset by higher electric and gas utility sales margins. For the nine months ended September 30, EPS were $1.12 for 2008 compared to $1.04 for 2007, an increase of $0.08 per share, or 8%.

The following table presents the significant items (discussed below) contributing to the change in EPS in the three and nine month periods ended September 30, 2008:

	Three Months Ended September 30,	Nine Months Ended September 30,
2007	**$ 0.28**	**$ 1.04**
Electric Sales Margin	0.01	(0.03)
Gas Sales Margin	0.03	0.15
Usource Sales Margin	0.01	0.01
Operation and Maintenance Expense	(0.05)	0.12
Depreciation, Amortization, and Other		(0.12)
Interest Expense, Net	(0.01)	(0.05)
2008	**$ 0.27**	**$ 1.12**

Our total electric kilowatt-hour (kWh) sales decreased 2.0% and 2.1% in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. Natural gas sales in the three month period ended September 30, 2008 increased 5.7% compared to the same period in 2007 and decreased 0.5% in the nine month period ended September 30, 2008 compared to the same period in 2007. The lower kWh sales in 2008 compared to 2007 reflect milder summer weather in 2008 and lower average usage by our customers reflecting a slowing economy and energy conservation. The increased natural gas sales in the three month period reflect increased consumption by C&I customers for production operations. The lower natural gas sales in the nine month period reflect a milder winter heating season earlier this year and lower average usage by our customers reflecting a slowing economy and energy conservation.

Electric sales margin increased $0.1 million in the three month period ended September 30, 2008 compared to the same period in 2007, reflecting higher electric base rates partially offset by lower sales volumes. For the nine month period ended September 30, 2008, electric sales margin decreased $0.3 million compared to the same period in 2007. The decrease in electric sales margin in the nine month period primarily reflects lower sales volumes, partially offset by higher electric base rates, which were implemented in March 2008.

Gas sales margin increased $0.2 million and $1.3 million in the three and nine months ended September 30, 2008, respectively, compared to the same periods in 2007. The increase in the three month period reflects gas base rates implemented in November 2007 and higher natural gas sales to C&I customers. The increased sales margin in the nine month period reflects higher rates, partially offset by lower sales.

Revenues of Usource, Inc. and Usource LLC (collectively, Usource) increased by $0.1 million and $0.1 million in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007 reflecting higher revenues from energy brokering.

Operation & Maintenance (O&M) expenses increased $0.5 million for the three month period ended September 30, 2008 compared to the same period in 2007. The increase in the three month period reflects higher salary and benefit costs of $0.3 million, higher bad debt expenses of $0.2 million and higher utility operating costs of $0.2 million, partially offset by lower professional fees of $0.2 million. For the nine month period ended September 30, 2008, O&M expenses decreased $1.1 million compared to the same period in 2007, including a reduction of $2.8 million from the proceeds of an insurance settlement, lower utility operating costs of $0.1 million and lower professional fees of $0.1 million, partially offset by increases in salary and benefit costs of $1.5 million and higher bad debt expenses of $0.4 million.

Depreciation, Amortization & Other expenses decreased $0.1 million in the three month period ended September 30, 2008, reflecting lower amortization of information systems related costs and lower income tax expense in the current quarter compared to the same period in 2007, partially offset by higher depreciation on normal utility plant additions. For the nine month period ended September 30, 2008, Depreciation, Amortization & Other expenses increased $1.2 million, primarily reflecting the amortization, in the first quarter of 2008, of $0.7 million of natural gas inventory carrying costs deferred under a previous regulatory ruling and higher depreciation on normal utility plant additions.

Interest Expense, Net increased $0.1 million and $0.5 million for the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007, reflecting higher overall debt outstanding.

Also in the third quarter, our Board of Directors declared the regular quarterly dividend on our common stock of $0.345 per share. This quarterly dividend results in a current effective annual dividend rate of $1.38 per share representing an unbroken record of quarterly dividend payments since trading began in our common stock.

A more detailed discussion of our results of operations for the three and nine months ended September 30, 2008 and a period-to-period comparison of changes in financial position are presented below.

Balance Sheet

Our investment in Net Utility Plant increased by $9.4 million as of September 30, 2008 compared to September 30, 2007. This increase was due to capital expenditures related to UES and FG&E s electric and gas distribution systems, including expenditures of approximately $0.5 million for our Advanced Metering Infrastructure (AMI) project, which was substantially completed in the first quarter of 2008.

Regulatory Assets decreased by $30.5 million as of September 30, 2008 compared to September 30, 2007, primarily reflecting current year cost recoveries. A significant portion of this decrease is matched by a corresponding decrease of $20.0 million in Power Supply Contract Obligations. The remaining decrease primarily reflects lower levels of Regulatory Assets associated with RBO as well as recoveries of deferred charges. Please see the section entitled *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Regulatory Accounting*.

Other Noncurrent Assets increased by $6.8 million as of September 30, 2008 compared to September 30, 2007, including the deferral of $3.9 million of transaction costs and $0.6 million of financing costs in connection with our pending acquisition of Northern Utilities and Granite State, discussed above, $1.6 million of pre-acquisition information system development costs and $0.7 million of other items unrelated to the acquisition.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales. Our total electric kWh sales decreased 2.0% and 2.1% in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. Electric kWh sales to residential customers in the three and nine month periods ended September 30, 2008 decreased 1.9% and 1.8%, respectively, compared to the same periods in 2007 while sales to C&I customers decreased 2.0% and 2.3%, respectively, compared to the same periods in 2007. The lower electric kWh sales in 2008 compared to 2007 were driven by lower average usage per customer reflecting milder summer temperatures, a slowing economy and energy conservation.

The following table details total electric kWh sales for the three and nine months ended September 30, 2008 and 2007 by major customer class:

	Three Months Ended September 30,				Nine Months Ended September 30,			
kWh Sales (millions)	**2008**	**2007**	**Change**	**% Change**	**2008**	**2007**	**Change**	**% Change**
Residential	176.3	179.7	(3.4)	(1.9%)	506.2	515.6	(9.4)	(1.8%)
Commercial / Industrial	279.4	285.1	(5.7)	(2.0%)	794.5	813.2	(18.7)	(2.3%)
Total	455.7	464.8	(9.1)	(2.0%)	1,300.7	1,328.8	(28.1)	(2.1%)

Electric Operating Revenues and Sales Margin. The following table details Total Electric Operating Revenues and Sales Margin for the three and nine month periods ended September 30, 2008 and 2007:

	Three Months Ended September 30,				Nine Months Ended September 30,			
Electric Operating Revenues and Sales Margin (millions)	**2008**	**2007**	**$ Change**	**% Change(1)**	**2008**	**2007**	**$ Change**	**% Change(1)**
Electric Operating Revenues:								
Residential	$ 30.9	$ 28.6	$ 2.3	4.0%	$ 87.0	$ 87.2	$ (0.2)	(0.1%)
Commercial / Industrial	32.7	28.3	04.4	7.8%	85.2	84.1	1.1	0.6%
Total Electric Operating Revenues	$ 63.6	$ 56.9	$ 6.7	11.8%	$ 172.2	$ 171.3	$ 0.9	0.5%
Cost of Electric Sales:								
Purchased Electricity	$ 48.7	$ 41.9	$ 6.8	12.0%	$ 128.4	$ 126.4	$ 2.0	1.2%
Conservation and Load Management	0.6	0.8	(0.2)	(0.4%)	2.0	2.8	(0.8)	(0.5%)
Electric Sales Margin	$ 14.3	$ 14.2	$ 0.1	0.2%	$ 41.8	$ 42.1	$ (0.3)	(0.2%)

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

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Total Electric Operating Revenues, increased by $6.7 million, or 11.8%, and $0.9 million, or 0.5%, in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. Total Electric Operating Revenues include the recovery of costs of electric sales, which are recorded as Purchased Electricity and Conservation and Land Management (C&LM) in Operating Expenses. The net increase in Total Electric Operating Revenues in the three month period reflects higher Purchased Electricity costs of $6.8 million and higher sales margin of $0.1 million, partially offset by lower C&LM revenues of $0.2 million. The net increase in Total Electric Operating Revenues in the nine month period reflects higher Purchased Electricity costs of $2.0 million, lower C&LM revenues of $0.8 million and lower sales margin of $0.3 million.

Purchased Electricity and C&LM revenues increased a net $6.6 million, or 11.6%, and $1.2 million, or 0.7%, of Total Electric Operating Revenues in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. The increase in the three month period primarily reflects higher electric commodity prices, partially offset by lower sales volumes. The increase in the nine month period reflects higher electric commodity prices, largely offset by lower sales volumes and lower spending on energy efficiency and conservation programs. Purchased Electricity revenues include the recovery of the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. We recover the cost of Purchased Electricity and C&LM in our rates at cost on a pass through basis.

Electric sales margin increased $0.1 million in the three month period ended September 30, 2008 compared to the same period in 2007, reflecting higher electric base rates partially offset by lower sales volumes. For the nine month period ended September 30, 2008, electric sales margin decreased $0.3 million compared to the same period in 2007. The decrease in electric sales margin in the nine month period primarily reflects lower sales volumes, partially offset by higher electric base rates, which were implemented in March 2008. Total electric kWh sales decreased 2.0% and 2.1% in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007, driven by milder weather and lower average usage per customer reflecting a slowing economy and energy conservation.

Gas Sales, Revenues and Margin

Therm Sales. Our total therm sales of natural gas increased 5.7% in the three month period ended September 30, 2008 compared to the same period in 2007. Gas sales to residential customers in the three month period ended September 30, 2008 were flat compared to the same period in 2007 while sales to C&I customers increased 7.1% in that period compared to the same period in 2007. The increase in gas sales to C&I customers in the three month period reflects increased usage of natural gas in their production operations.

Total therm sales of natural gas in the nine month period ended September 30, 2008 decreased 0.5% compared to the same period in 2007. Gas sales to residential customers in the nine month period ended September 30, 2008 decreased 2.5% compared to the same period in 2007 while sales to C&I customers increased 0.7% in that period compared to the same period in 2007. The lower sales to residential customers in 2008 reflects a milder winter heating season earlier this year and lower average usage by our customers reflecting a slowing economy and energy conservation. The increase in gas sales to C&I customers in the nine month period reflects increased usage of natural gas in those customers production operations.

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The following table details total therm sales for the three and nine months ended September 30, 2008 and 2007 by major customer class:

Therm Sales (millions)	Three Months Ended September 30, 2008	2007	Change	% Change	Nine Months Ended September 30, 2008	2007	Change	% Change
Residential	0.7	0.7			7.7	7.9	(0.2)	(2.5%)
Commercial / Industrial	3.0	2.8	0.2	7.1%	13.9	13.8	0.1	0.7%
Total	3.7	3.5	0.2	5.7%	21.6	21.7	(0.1)	(0.5%)

Gas Operating Revenues and Sales Margin. The following table details Total Gas Operating Revenues and Sales Margin for the three and nine months ended September 30, 2008 and 2007:

Gas Operating Revenues and Sales Margin (millions)	Three Months Ended September 30, 2008	2007	$ Change	% Change(1)	Nine Months Ended September 30, 2008	2007	$ Change	% Change(1)
Gas Operating Revenues:								
Residential	$ 2.1	$ 1.8	$ 0.3	7.7%	$ 13.7	$ 13.6	$ 0.1	0.4%
Commercial / Industrial	2.3	2.1	0.2	5.1%	11.6	10.9	0.7	2.9%
Total Gas Operating Revenues	$ 4.4	$ 3.9	$ 0.5	12.8%	$ 25.3	$ 24.5	$ 0.8	3.3%
Cost of Gas Sales:								
Purchased Gas	$ 2.4	$ 2.1	$ 0.3	7.7%	$ 15.3	$ 15.8	$ (0.5)	(2.0%)
Conservation and Load Management					0.1	0.1		
Gas Sales Margin	$ 2.0	$ 1.8	$ 0.2	5.1%	$ 9.9	$ 8.6	$ 1.3	5.3%

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

Total Gas Operating Revenues increased $0.5 million, or 12.8%, and $0.8 million, or 3.3%, in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. Total Gas Operating Revenues include the recovery of the cost of gas sales, which are recorded as Purchased Gas and C&LM in Operating Expenses. The net increase in Total Gas Operating Revenues in the three month period reflects higher Purchased Gas costs of $0.3 million and higher gas sales margin of $0.2 million. The net increase in Total Gas Operating Revenues in the nine month period reflects higher gas sales margin of $1.3 million, partially offset by lower Purchased Gas costs of $0.5 million.

Purchased Gas and C&LM revenues increased by $0.3 million, or 7.7% of Total Gas Operating Revenues in the three month period ended September 30, 2008 compared to the same period in 2007 and decreased $0.5 million, or 2.0% of Total Gas Operating Revenues in the nine month period ended September 30, 2008 compared to the same period in 2007. The increase in the three month period reflects higher sales volumes and higher natural gas commodity prices. The decrease in the nine month period reflects lower sales volumes and an increase in the amount of natural gas purchased by customers directly from third-party suppliers, partially offset by higher natural gas commodity prices. Purchased Gas revenues include the recovery of the cost of gas purchased and manufactured to supply our total gas supply requirements as well as other energy supply related costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. We recover the cost of Purchased Gas and C&LM in our rates at cost on a pass through basis.

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Gas sales margin increased $0.2 million and $1.3 million in the three and nine months ended September 30, 2008, respectively, compared to the same periods in 2007. The increase in the three month period reflects gas base rates implemented in November 2007 and higher natural gas sales to C&I customers. The increased gas sales margin in the nine month period reflects higher rates, partially offset by lower sales.

Operating Revenue Other

The following table details total Other Operating Revenue for the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(millions)	**2008**	**2007**	**$ Change**	**% Change**	**2008**	**2007**	**$ Change**	**% Change**
Other	$ 1.1	$ 1.0	$ 0.1	10.0%	$ 2.9	$ 2.8	$ 0.1	3.6%
Total Other Operating Revenue	$ 1.1	$ 1.0	$ 0.1	10.0%	$ 2.9	$ 2.8	$ 0.1	3.6%

Total Other Operating Revenue increased by $0.1 million, or 10.0%, and $0.1 million, or 3.6%, in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. These increases reflect higher revenues from our non-regulated energy brokering business, Usource.

Operating Expenses

Purchased Electricity. Purchased Electricity expenses include the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. Purchased Electricity increased $6.8 million, or 16.2%, and $2.0 million, or 1.6%, in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. These increases reflect higher electric commodity prices, partially offset by lower sales volumes. We recover the costs of Purchased Electricity in our rates at cost on a pass through basis and therefore changes in these expenses do not affect Net Income.

Purchased Gas. Purchased Gas expenses include the cost of gas purchased and manufactured to supply our total gas supply requirements. Purchased Gas expenses increased by $0.3 million, or 14.3%, in the three month period ended September 30, 2008 compared to the same period in 2007 and decreased $0.5 million, or 3.2% in the nine month period ended September 30, 2008 compared to the same period in 2007. The increase in the three month period reflects higher sales volumes and higher natural gas commodity prices. The decrease in the nine month period reflects lower sales volumes and an increase in the amount of natural gas purchased by customers directly from third-party suppliers, partially offset by higher natural gas commodity prices. We recover the costs of Purchased Gas in our rates at cost on a pass through basis and therefore changes in these expenses do not affect Net Income.

Operation and Maintenance. O&M expense includes electric and gas utility operating costs, and the operating cost of our unregulated business activities. O&M expenses increased $0.5 million for the three month period ended September 30, 2008 compared to the same period in 2007. The increase in the three month period reflects higher salary and benefit costs of $0.3 million, higher bad debt expenses of $0.2 million and higher utility operating costs of $0.2 million, partially offset by lower professional fees of $0.2 million. For the nine month period ended September 30, 2008, O&M expenses decreased $1.1 million compared to the same period in 2007, including a reduction of $2.8 million from the proceeds of an insurance settlement, lower utility operating costs of $0.1 million and lower professional fees of $0.1 million, partially offset by increases in salary and benefit costs of $1.5 million and higher bad debt expenses of $0.4 million.

Conservation and Load Management. C&LM expenses are associated with the development, management, and delivery of our Energy Efficiency programs. Energy Efficiency programs are designed, in conformity with state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy costs. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 90% of these costs are related to electric operations and 10% to gas operations.

Total C&LM expenses decreased $0.2 million, or 25.0% and $0.8 million, or 27.6%, in the three and nine month periods ended September 30, 2008 compared to the same periods in 2007. These changes reflect the timing of spending on the implementation of Energy Efficiency programs. These costs are collected from customers on a pass through basis and therefore fluctuations in program costs have no impact on Net Income.

Depreciation, Amortization and Taxes

Depreciation and Amortization. Depreciation and Amortization expense increased by $0.1 million, or 2.2%, and $0.9 million, or 6.7%, in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. The increase in the three month period primarily reflects higher depreciation on normal utility plant additions, partially offset by lower amortization of information systems related costs. The increase in the nine month period primarily reflects the amortization, in the first quarter of 2008, of $0.7 million of natural gas inventory carrying costs deferred under a previous regulatory ruling and higher depreciation on normal utility plant additions.

Local Property and Other Taxes. Local Property and Other Taxes increased by $0.1 million, or 7.7%, and by $0.3 million, or 7.1%, in the three and nine month periods ended September 30, 2008, respectively, compared to the same periods in 2007. These increases were due to higher property tax rates on increased property assessments and higher payroll taxes on higher compensation expenses.

Federal and State Income Taxes. Federal and State Income Taxes were lower by $0.3 million in the three month period ended September 30, 2008 compared to the same period in 2007 reflecting lower pre-tax earnings and a lower effective tax rate year over year due to the recognition of higher permanent book/tax differences, including higher tax credits and prior year tax return true-up adjustments, in the third quarter of 2008. Federal and State Income Taxes were lower by $0.2 million in the nine month period ended September 30, 2008 compared to the same period in 2007 reflecting a lower effective tax rate year over year due to the same items discussed above.

Other Non-Operating Expense (Income)

Other Non-Operating Expenses (Income) were flat in the three month period ended September 30, 2008 compared to the same period in 2007 and increased by $0.2 million in the nine month period ended September 30, 2008 compared to the same period in 2007. The increase in the nine month period reflects an adjustment of $0.1 million in conjunction with our electric base distribution rate increase in Massachusetts which was implemented in March 2008.

Interest Expense, Net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by our retail distribution utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated.

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We operate a number of reconciling rate mechanisms to recover from our customers 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 our tariff, interest is accrued on these balances and will produce either interest income or interest expense. 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.

	Three Months Ended September 30,			Nine Months Ended September 30,		
Interest Expense, Net (millions)	**2008**	**2007**	**Change**	**2008**	**2007**	**Change**
Interest Expense						
Long-Term Debt	$ 2.9	$ 2.9	$	$ 8.6	$ 8.2	$ 0.4
Short-Term Debt	0.1	0.1		0.5	0.8	(0.3)
Regulatory Liabilities		0.1	(0.1)	0.1	0.4	(0.3)
Subtotal Interest Expense	3.0	3.1	(0.1)	9.2	9.4	(0.2)
Interest Income						
Regulatory Assets	(0.6)	(0.7)	0.1	(1.9)	(2.2)	0.3
AFUDC and Other(1)		(0.1)	0.1		(0.4)	0.4
Subtotal Interest Income	(0.6)	(0.8)	0.2	(1.9)	(2.6)	0.7
Total Interest Expense, Net	$ 2.4	$ 2.3	$ 0.1	$ 7.3	$ 6.8	$ 0.5

(1) AFUDC means Allowance for Funds Used During Construction.

Interest Expense, Net increased $0.1 million for the three month period ended September 30, 2008 compared to the same period in 2007. The increase in the three month period reflects lower Allowance for Funds Used During Construction (AFUDC) and interest earned on regulatory assets . For the nine month period ended September 30, 2008, Interest Expense, Net increased $0.5 million compared to the same period in 2007, reflecting higher interest expense associated with an increase in long-term debt outstanding and lower AFUDC and interest earned on regulatory assets compared to the prior period.

Critical Accounting Policies

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States of America requires management 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, management 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 our financial statements. If actual results were to differ significantly from those estimates, assumptions and judgments, our financial statements could be materially different than reported. The following is a summary of our 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 our significant accounting policies, please refer to the financial statements and Note 1 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Regulatory Accounting

Our principal business is the distribution of electricity and natural gas by our retail distribution utilities: UES and FG&E. Both UES and FG&E are subject to regulation by the FERC and FG&E is regulated by the MDPU and UES is regulated by the NHPUC. Accordingly, we use the provisions of FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS No. 71). In accordance with SFAS No. 71, we have 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.

Our principal regulatory assets and liabilities are detailed on our Consolidated Balance Sheet and a summary of our Regulatory Assets is provided below. We receive a return on investment on our 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 our consolidated financial statements. We believe it is probable that our regulated distribution utilities will recover their investments in long-lived assets, including regulatory assets. We also have commitments under long-term contracts for the purchase of electricity and natural gas from various suppliers. The annual costs under these contracts are included in Purchased Electricity and Purchased Gas in the Consolidated Statements of Earnings and these costs are recoverable in current and future rates under various orders issued by the FERC, MDPU, and NHPUC.

Regulatory Assets consist of the following (millions)	**September 30, 2008**	**September 30, 2007**	**December 31, 2007**
Power Supply Buyout Obligations	$ 57.7	$ 77.7	$ 72.7
Deferred Restructuring Costs	28.1	29.5	30.5
Generation-related Assets	1.0	1.8	1.6
Subtotal Restructuring Related Items	86.8	109.0	104.8
Retirement Benefit Obligations	35.2	37.3	35.1
Income Taxes	13.4	17.9	14.6
Environmental Obligations	11.6	13.1	13.1
Other	3.3	3.5	2.9
Total Regulatory Assets	$ 150.3	$ 180.8	$ 170.5

If we, or a portion of our 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 SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, we would be required to apply the provisions of FASB Statement No. 101, Regulated Enterprises Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71 (SFAS No. 101). In our opinion, our regulated operations will be subject to SFAS No. 71 for the foreseeable future.

Utility Revenue Recognition

Regulated utility revenues 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. 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.

Allowance for Doubtful Accounts

We recognize a provision for doubtful accounts each month. The amount of the monthly provision is based upon our experience in collecting electric and gas utility service accounts receivable in prior years. Account write-offs, net of recoveries, are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account an assumption about the cash recovery of delinquent receivables and also uses calculations related to customers who have chosen payment plans to resolve their arrears. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. We are authorized by regulators to recover the supply-related portion of our written-off accounts from customers through periodically reconciling 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 us. Also, we have experienced periods when state regulators have extended the periods during which certain standard credit and collection activities of utility companies are suspended. In periods when account write-offs exceed estimated levels, we adjust the provision for doubtful accounts to maintain an adequate Allowance for Doubtful Accounts balance. It has been our experience that the assumptions we have used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

Retirement Benefit Obligations

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

In September 2006, the FASB issued SFAS No. 158, an amendment of FASB Statement No. 87, Employers Accounting for Pensions (SFAS No. 87), FASB Statement No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits (SFAS No. 88), FASB Statement No. 106, Employers Accounting for Postretirement Benefits other than Pensions (SFAS No. 106), and FASB Statement No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits. SFAS No. 158 requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their RBOs based on the projected benefit obligation. We have recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas retail rates.

Our reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. We have 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. Our health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Our 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. Our RBO may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining our RBO.

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 our financial statements. The discount rate assumptions used in determining retirement plan costs and retirement plan obligations are based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For the years ended December 31, 2007 and 2006, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Benefit Cost for the Pension Plan. For the years ended December 31, 2007 and 2006, 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 $690,000 and $683,000, 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 $539,000 and $530,000, respectively. Please see Note 8 to our consolidated financial statements contained in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, which is incorporated herein by reference.

Income Taxes

Provisions for income taxes are calculated in each of the jurisdictions in which we operate for each period for which a statement of income is presented. This process involves estimating our 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 our consolidated balance sheets. We account for income tax assets, liabilities and expenses in accordance with FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109) and under FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of Financial Accounting Standards (FAS) 109 (FAS 109).

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. We conduct independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and consider the results presented in these studies in determining the useful lives of our fixed assets. A change in the estimated useful lives of these assets could have a material impact on our consolidated financial statements.

Commitments and Contingencies

Our accounting policy is to record and/or disclose commitments and contingencies in accordance with FASB Statement No. 5, Accounting for Contingencies (SFAS No. 5). SFAS No. 5 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 September 30, 2008, we are not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to our consolidated financial statements contained in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, which is incorporated herein by reference.

Please see Note 1 to our consolidated financial statements contained in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, which is incorporated herein by reference.

Labor Relations

As of September 30, 2008, we had 305 employees, of which 82 were represented by labor unions. In May 2005, we reached agreements with our bargaining units for new five-year contracts, effective June 1, 2005. These agreements replace contracts that expired on May 31, 2005.

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Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

The majority of our 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, we periodically repay our 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 long-term debt securities issued by us. In addition, our short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease our interest expense in future periods. For example, if we had an average amount of short-term debt outstanding of $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 (pre-tax). The average interest rates on our short-term borrowings for the three months ended September 30, 2008 and 2007 were 3.03% and 5.71%, respectively. The average interest rates on our short-term borrowings for the nine months ended September 30, 2008 and 2007 were 3.28% and 5.75%, respectively.

Market Risk

Although our retail 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 full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, we have divested our commodity-related contracts and therefore further reduced our exposure to commodity risk.

Fiscal Years Ended December 31, 2007, 2006 and 2005

Results of Operations

Net Income and EPS Overview

Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006. Our Net Income was $8.6 million for 2007, an increase of 9% over 2006 Net Income of $7.9 million. EPS was $1.52 for 2007, $0.11 per share higher than last year.

Earnings in 2007 reflect higher electric and gas sales margins, driven by higher rates and increased sales of natural gas, and improved profits from Usource. Partially offsetting these factors were higher operating expenses.

The following table presents the significant items (discussed below) contributing to the change in EPS in 2007 as compared to 2006:

2007 Earnings Per Common Share vs. 2006

	2006	**$ 1.41**
Electric Sales Margin		0.21
Gas Sales Margin		0.23
Usource Sales Margin		0.14
Operation and Maintenance Expense		(0.06)
Depreciation, Amortization and Other		(0.22)
Interest Expense, Net		(0.19)
	2007	**$ 1.52**

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Our total electric kWh sales decreased 0.5% in 2007 compared to 2006. Electric kWh sales to residential customers increased 0.4% in 2007 compared to 2006. The lower electric kWh sales in 2007 compared to 2006 were primarily driven by cooler summer weather in 2007, energy conservation by our customers and a slowing economy.

Our total therm sales of natural gas increased 7.6% in 2007 compared to 2006. The increase in gas sales in 2007 reflects a colder winter heating season in 2007 and higher natural gas sales to C&I customers. In 2007, natural gas sales to residential customers increased 4.1% compared to 2006 while sales to C&I customers increased 9.6% compared to 2006, primarily due to a special contract with a large industrial customer.

Total electric and gas sales margin increased $3.9 million in 2007 compared to 2006. This increase reflects higher gas and electric rates and increased sales of natural gas.

Total O&M expense increased $0.5 million, or 1.9%, in 2007 compared to 2006. This increase reflects higher employee and retiree compensation and benefit expenses of $0.8 million, higher bad debt expenses of $0.1 million and an increase in all other operating expenses of $0.2 million, net, offset by lower distribution utility operating expenses of $0.6 million.

Depreciation, Amortization, Taxes and Other expenses increased $2.2 million in 2007 compared to 2006 reflecting higher depreciation on normal utility plant additions in 2007 and income taxes on higher levels of pre-tax earnings in 2007 compared to 2006.

Interest Expense, Net increased $1.8 million in 2007 compared to 2006 reflecting higher debt outstanding, higher interest rates and higher interest expense recorded on reconciling mechanisms.

Usource, our non-regulated energy brokering business, recorded revenues of $3.7 million in 2007, an increase of $1.3 million over 2006. 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.

In 2007, our annual common dividend was $1.38 per share, representing an unbroken record of quarterly dividend payments since trading began in our common stock. At its January 2008 meeting, our Board of Directors declared a quarterly dividend on our common stock of $0.345 per share.

Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005. Our Net Income was $7.9 million for 2006. EPS were $1.41 for 2006 compared to $1.51 for 2005. Earnings in 2006 reflect lower electric and gas sales. The lower sales in 2006 were primarily driven by milder weather compared to 2005. Earnings in 2006 also reflect higher operating and maintenance expenses and interest costs. Partially offsetting these factors was an increase in electric distribution rates in 2006 for our utility subsidiary in New Hampshire and increased gas delivery sales under a new contract with a large industrial customer in Massachusetts.

A more detailed discussion of our 2007 and 2006 results of operations and a year-to-year comparison of changes in financial position are presented below.

Balance Sheet

Our investment in Net Utility Plant increased by $17.1 million in 2007 compared to 2006. This increase was due to capital expenditures related to UES and FG&E s electric and gas distribution systems, including expenditures of approximately $6.6 million for our AMI project.

Regulatory Assets decreased $28.3 million in 2007 compared to 2006, primarily reflecting current year cost recoveries. A significant portion of this decrease is matched by a corresponding decrease of $19.9 million in Power Supply Contract Obligations.

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Long-Term Debt increased $19.6 million in 2007 compared to 2006 reflecting the issuance and sale on May 2, 2007 by Unitil Corporation of $20.0 million of 6.33% Senior Long-Term Notes, due May 1, 2022, to institutional investors in the form of a private placement. Short-Term Debt decreased $7.2 million in 2007 compared to 2006, as short-term borrowings were refinanced with the issuance of Senior Long-Term Notes, discussed above.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales. Our total electric kWh sales decreased 0.5% in 2007 compared to 2006. Electric kWh sales to residential customers increased 0.4% in 2007 compared to 2006. The lower total electric kWh sales in 2007 compared to 2006 were driven by cooler summer weather in 2007, energy conservation by customers in response to higher overall energy prices and environmental concerns, and a slowing economy.

Our total electric kWh sales decreased 2.2% in 2006 compared to 2005. This decrease reflects a decline in average energy usage per customer, primarily due to milder weather in 2006 compared to 2005 and increased energy conservation by customers.

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

				2007 vs. 2006		2006 vs. 2005	
kWh Sales (millions)	**2007**	**2006**	**2005**	**kWh Change**	**% Change**	**kWh Change**	**% Change**
Residential	674.8	672.2	688.3	2.6	0.4%	(16.1)	(2.3%)
Commercial / Industrial	1,068.2	1,079.3	1,102.1	(11.1)	(1.0%)	(22.8)	(2.1%)
Total	1,743.0	1,751.5	1,790.4	(8.5)	(0.5%)	(38.9)	(2.2%)

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

				2007 vs. 2006		2006 vs. 2005	
(millions)	**2007**	**2006**	**2005**	**$ Change**	**% Change(1)**	**$ Change**	**% Change(1)**
Electric Operating Revenue:							
Residential	$ 114.7	$ 105.9	$ 85.3	$ 8.8	3.9%	$ 20.6	10.4%
Commercial / Industrial	110.3	119.3	112.0	(9.0)	(4.0%)	7.3	3.7%
Total Electric Operating Revenue	$ 225.0	$ 225.2	$ 197.3	$ (0.2)	(0.1%)	$ 27.9	14.1%
Cost of Electric Sales:							
Purchased Electricity	$ 165.4	$ 167.3	$ 138.1	$ (1.9)	(0.8%)	$ 29.2	14.8%
Conservation and Load Management	3.4	3.6	3.8	(0.2)	(0.1%)	(0.2)	(0.1%)
Electric Sales Margin	$ 56.2	$ 54.3	$ 55.4	$ 1.9	0.8%	$ (1.1)	(0.6%)

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

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Total Electric Operating Revenues decreased by $0.2 million, or 0.1%, in 2007 compared to 2006. Total Electric Operating Revenues include the recovery of costs of electric sales, which are recorded as Purchased Electricity and C&LM in Operating Expenses. The net decrease in Total Electric Operating Revenues in 2007 reflects lower Purchased Electricity costs of $1.9 million and lower C&LM revenues of $0.2 million, offset by higher sales margin of $1.9 million.

Purchased Electricity and C&LM revenues decreased $2.1 million, or 0.9%, of Total Electric Operating Revenues in 2007 compared to 2006, primarily reflecting an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher electric commodity prices. Purchased Electricity revenues include the recovery of the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. We recover the cost of Purchased Electricity and C&LM in our rates at cost on a pass-through basis.

Electric sales margin increased $1.9 million in 2007 compared to 2006. The improvement in electric sales margin reflects higher average distribution rates in 2007 compared to 2006, partially offset by lower sales volumes due to cooler summer weather in 2007, energy conservation by customers in response to higher overall energy prices and environmental concerns, and a slowing economy.

In 2006, Total Electric Operating Revenues increased by $27.9 million, or 14.1%, compared to 2005. The net increase in Total Electric Operating Revenues in 2006 reflects higher Purchased Electricity costs of $29.2 million, offset by lower sales margin of $1.1 million and lower C&LM revenues of $0.2 million. Purchased Electricity and C&LM revenues increased a net $29.0 million, or 14.7%, of Total Electric Operating Revenues in 2006 compared to 2005, reflecting higher electric commodity prices.

Electric sales margin was lower by $1.1 million in 2006 compared to 2005, reflecting a decrease in revenue of $3.2 million related to the expiration of the Seabrook Amortization Surcharge (SAS) in late 2005. Absent the decrease in SAS revenues, electric sales margin increased $2.1 million in 2006 compared to 2005. The higher sales margin in 2006 primarily reflects our approved base rate increase in New Hampshire of $2.7 million, partially offset by lower sales margin of $0.6 million resulting from a decline in average energy usage per customer, primarily due to significantly milder weather and energy conservation.

Gas Sales, Revenues and Margin

Therm Sales. Our total therm sales of natural gas increased 7.6% in 2007 compared to 2006. The increase in gas sales in 2007 reflects a colder winter heating season in 2007 and higher natural gas sales to C&I customers. In 2007, natural gas sales to residential customers increased 4.1% compared to 2006 while sales to C&I customers increased 9.6% compared to 2006, primarily due to a special contract with a large industrial customer.

Our total therm sales of natural gas increased 8.6% in 2006 compared to 2005, due to a new gas transportation sales contract with a large industrial customer. Sales to residential customers decreased 10.9% in 2006 compared to 2005 due to a milder winter heating season in 2006 compared to the prior year. Sales to C&I customers increased 24.8% in 2006 compared to 2005. Absent the sales from the new contract, discussed above, sales to C&I customers were 10.4% lower in 2006 compared to 2005 primarily due to a milder winter heating season.

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

				2007 vs. 2006		2006 vs. 2005	
Therm Sales (millions)	2007	2006	2005	Change	% Change	Change	% Change(1)
Residential	10.2	9.8	11.0	0.4	4.1%	(1.2)	(10.9%)
Commercial / Industrial	18.2	16.6	13.3	1.6	9.6%	3.3	24.8%
Total	28.4	26.4	24.3	2.0	7.6%	2.1	8.6%

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

				2007 vs. 2006		2006 vs. 2005	
(millions)	2007	2006	2005	$ Change	% Change(1)	$ Change	% Change(1)
Gas Operating Revenue:							
Residential	**$ 18.8**	$ 17.2	$ 18.1	$ 1.6	4.8%	$ (0.9)	(2.8%)
Commercial / Industrial	**15.4**	16.1	14.7	(0.7)	(2.1%)	1.4	4.3%
Total Gas Operating Revenue	**$ 34.2**	$ 33.3	$ 32.8	$ 0.9	2.7%	$ 0.5	1.5%
Cost of Gas Sales:							
Purchased Gas	**$ 21.3**	$ 22.4	$ 21.2	$ (1.1)	(3.3%)	$ 1.2	3.7%
Conservation and Load Management	**0.2**	0.2	0.3			(0.1)	(0.4%)
Gas Sales Margin	**$ 12.7**	$ 10.7	$ 11.3	$ 2.0	6.0%	$ (0.6)	(1.8%)

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

Total Gas Operating Revenues increased $0.9 million, or 2.7%, in 2007 compared to 2006. Total Gas Operating Revenues include the recovery of the cost of sales, which are recorded as Purchased Gas and C&LM in Operating Expenses. The increase in Total Gas Operating Revenues in 2007 reflects higher sales margin of $2.0 million, partially offset by lower Purchased Gas costs of $1.1 million.

Purchased Gas and C&LM revenues decreased $1.1 million, or 3.3%, of Total Gas Operating Revenues in 2007 compared to 2006, reflecting lower natural gas commodity prices and an increase in the amount of natural gas purchased by customers directly from third-party suppliers. Purchased Gas revenues include the recovery of the cost of gas supply as well as the other energy supply related costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. We recover the cost of Purchased Gas and C&LM in our rates at cost on a pass-through basis.

Natural gas sales margin increased $2.0 million in 2007 compared to 2006 reflecting higher sales and new natural gas distribution rates approved and implemented in 2007.

In 2006, Total Gas Operating Revenues increased $0.5 million, or 1.5%, compared to 2005. The net increase in Total Gas Operating Revenues in 2006 reflects higher Purchased Gas costs of $1.2 million, offset by lower sales margin of $0.6 million and lower C&LM revenues of $0.1 million. Purchased Gas and C&LM revenues increased a net $1.1 million, or 3.3%, of Total Gas Operating Revenues in 2006 compared to 2005, reflecting higher gas commodity prices and higher unit sales during those periods.

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Gas sales margin for 2006 decreased $0.6 million compared to 2005. This decline in gas sales margin was due to lower therm sales, which, absent the sales from the new contract were 10.8% lower in 2006 compared to 2005. The lower gas sales were primarily due to a milder winter heating season. The weather in our service territory in the winter of 2006 was approximately 12% warmer than in the same period for 2005, reflecting a record warm winter heating season.

Operating Revenue Other

Total Other Operating Revenue increased $1.3 million in 2007 compared to 2006 and $0.4 million in 2006 compared to 2005. These increases were the result of growth in revenues from our non-regulated energy brokering business, Usource. Usource s revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

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

				2007 vs. 2006		2006 vs. 2005	
(millions)	**2007**	**2006**	**2005**	**$ Change**	**% Change**	**$ Change**	**% Change**
Usource	$ 3.7	$ 2.4	$ 2.0	$ 1.3	54.2%	$ 0.4	20.0%
Total Other Operating Revenue	$ 3.7	$ 2.4	$ 2.0	$ 1.3	54.2%	$ 0.4	20.0%

Operating Expenses

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 $1.9 million, or 1.1%, in 2007 compared to 2006. This decrease reflects lower electric kWh sales and an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher electric commodity prices. We recover the costs of Purchased Electricity in our rates at cost and therefore changes in these expenses do not affect earnings.

In 2006, Purchased Electricity expenses increased $29.2 million, or 21.1%, compared to 2005 due to higher electric commodity prices.

Purchased Gas. Purchased Gas includes the cost of natural gas purchased and manufactured to supply our total gas supply requirements. Purchased Gas decreased $1.1 million, or 4.9%, in 2007 compared to 2006. The decrease in Purchased Gas is attributable to lower gas commodity prices and an increase in the amount of natural gas purchased by customers directly from third -party suppliers, partially offset by increased therm sales. We recover the costs of Purchased Gas in our rates at cost on a pass-through basis and therefore changes in these expenses do not affect earnings.

In 2006, Purchased Gas increased by $1.2 million, or 5.7%, compared to 2005, reflecting increased therm sales and higher gas commodity costs.

Operation and Maintenance. O&M expense includes electric and gas utility operating costs, and the operating costs of our non-regulated business activities. Total O&M expense increased $0.5 million, or 1.9%, in 2007 compared to 2006. This increase reflects higher employee and retiree compensation and benefit expenses of $0.8 million, higher bad debt expenses of $0.1 million and an increase in all other operating expenses of $0.2 million, net, offset by lower distribution utility operating expenses of $0.6 million.

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In 2006, total O&M expense increased $1.2 million, or 4.9%, compared to 2005. This increase reflects higher retiree and employee compensation and benefit costs of $1.1 million and an increase in all other operating expenses of $0.1 million, net.

Conservation and Load Management. C&LM expenses are expenses associated with the development, management, and delivery of our energy efficiency programs. Energy efficiency programs are designed, in conformity to state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy costs. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 90% of these costs are related to electric operations and 10% to gas operations.

Total C&LM expenses decreased by $0.2 million in 2007 compared to 2006. These costs are collected from customers on a fully reconciling basis and, therefore, fluctuations in program costs do not affect earnings.

Total C&LM expenses decreased $0.3 million in 2006 compared to 2005.

Depreciation and Amortization. Depreciation and Amortization expense increased $1.7 million, or 10.6% in 2007 compared to 2006 reflecting higher depreciation on normal utility plant additions in 2007.

In 2006, Depreciation and Amortization expense decreased $3.0 million, or 15.7%, compared to 2005, reflecting lower amortization on regulatory assets, including Seabrook Station, and lower depreciation rates on utility plant established in our electric rate case settlement in New Hampshire, partially offset by depreciation on normal utility plant additions. Our regulatory asset related to our former abandoned property investment in Seabrook Station became fully-amortized in the third quarter of 2005.

Local Property and Other Taxes. Local Property and Other Taxes increased by $0.1 million, or 1.8%, in 2007 compared to 2006. This increase was due to higher local property tax rates on higher levels of utility plant in service and higher payroll taxes.

In 2006, Local Property and Other Taxes increased by $0.2 million, or 3.8%, compared to 2005. This increase was due to higher local property tax rates on higher levels of utility plant in service and higher payroll taxes.

Federal and State Income Taxes. Federal and State Income Taxes increased by $0.2 million in 2007 compared to 2006 due to higher pre-tax operating income in 2007 compared to 2006.

Federal and State Income Taxes were essentially flat in 2006 compared to 2005 due to lower pre-tax operating income in 2006 compared to 2005 offset by a higher effective tax rate in 2006 related to our former abandoned property investment in Seabrook Station, discussed above.

Other Non-Operating Expenses

Other Non-Operating Expenses increased by $0.2 million in 2007 compared to 2006. This change reflects the recognition in 2006 of a gain on the sale of land and timber harvest revenue.

Other Non-Operating Expenses improved to income of $19,000 in 2006 compared to an expense of $147,000 in 2005 due to the gain discussed above.

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Interest Expense, Net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by our retail distribution utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated. Please see Note 3 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

In 2007, Total Interest Expense, net, rose by $1.8 million compared to 2006. This increase principally reflects our issuance of new long-term debt on May 2, 2007. We issued and sold $20 million of Senior Long-Term Notes at a coupon rate of 6.33% through a private placement to institutional investors. We utilized the proceeds from the long-term note financing to refinance existing short-term debt and for other corporate purposes of our retail distribution utilities. The resulting reduction in average daily short-term bank borrowings lowered short-term interest expense for the year which partially offset the increase in long-term interest expense.

In 2006, Total Interest Expense, net, increased by $1.0 million compared to 2005. Interest expense on long-term borrowings increased due to the issuance of new fixed rate long-term debt. Our New Hampshire subsidiary, UES, issued and sold $15 million of Series O, 6.32% First Mortgage Bonds to institutional investors on September 26, 2006. In December 2005, our Massachusetts utility subsidiary, FG&E, issued $15 million of unsecured long-term notes to institutional investors at an interest rate of 5.90%. The proceeds from these long-term financings were used principally to finance utility plant additions that had been previously financed on an interim basis with short-term bank borrowings. Interest expense on short-term debt increased compared to 2005 primarily due to higher variable short-term interest rates. These increases in interest expense were partially offset by an increase in interest income due to higher carrying charges on regulatory assets.

Dividends

Our annualized common dividend was $1.38 per common share in 2007, 2006 and 2005. Our dividend policy is reviewed periodically by the Board of Directors. We have maintained an unbroken record of quarterly dividend payments since trading began in our common stock. At its January 2008 meeting, our Board of Directors declared a quarterly dividend on our common stock of $0.345 per share. The amount and timing of all dividend payments are subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors.

Employees and Employee Relations

As of December 31, 2007, we, along with our subsidiaries, had 291 employees. We consider our relationships with employees to be good and have not experienced any major labor disruptions.

As of December 31, 2007, there were approximately 85 employees represented by labor unions. These employees are covered by collective bargaining agreements, which expire on May 31, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. We expect to successfully negotiate new agreements prior to their expiration dates.

Critical Accounting Policies

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

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date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, management 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 our financial statements. If actual results were to differ significantly from those estimates, assumptions and judgments, our financial statements could be materially different than reported. The following is a summary of our 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 our significant accounting policies, please refer to the financial statements and Note 1 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Regulatory Accounting

Our principal business is the distribution of electricity and natural gas by our retail distribution utilities: UES and FG&E. Both UES and FG&E are subject to regulation by the FERC and FG&E is regulated by the MDPU and UES is regulated by the NHPUC. Accordingly, we use the provisions of SFAS No. 71. In accordance with SFAS No. 71, we have recorded Regulatory Assets and Regulatory Liabilities which will be recovered or refunded in future electric and gas retail rates.

SFAS No. 71 specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or regulatory assets under SFAS No. 71. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or regulatory liabilities under SFAS No. 71.

If we, or a portion of our 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 SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, we would be required to apply the provisions of SFAS No. 101. In our opinion, our regulated operations will be subject to SFAS No. 71 for the foreseeable future.

Utility Revenue Recognition

Regulated utility revenues 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.

Allowance for Doubtful Accounts

We recognize a provision for doubtful accounts each month. The amount of the monthly provision is based upon our experience in collecting electric and gas utility service accounts receivable in prior years.

Account write-offs, net of recoveries, are processed monthly. At the end of each month, an analysis of the delinquent receivables is performed and the adequacy of the Allowance for Doubtful Accounts is reviewed. The analysis takes into account an assumption about the cash recovery of delinquent receivables and also uses calculations related to customers who have chosen payment plans to resolve their arrears. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. We are authorized by regulators to recover the supply-related portion of our written-off accounts from customers through periodically reconciling rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis. Also, we have experienced periods when state regulators have extended the periods during which certain standard credit and collection activities of utility companies are suspended. In periods when account write-offs exceed estimated levels, we adjust the provision for doubtful accounts to maintain an adequate Allowance for Doubtful Accounts balance.

Retirement Benefit Obligations

We sponsor the following retirement benefit plans to provide certain pension and postretirement benefits for our retirees and current employees: the Pension Plan, a defined benefit pension plan covering substantially all of our employees; the PBOP Plan, which provides health care and life insurance benefits to retirees; and the SERP, an unfunded retirement plan, with participation limited to executives selected by the Board of Directors.

We account for our pension and postretirement benefits in accordance with SFAS No. 158, SFAS No. 87, and SFAS No. 106. In applying these accounting policies, we have 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. For each of these plans, the development of the benefit obligation, fair value of plan assets, funded status and net periodic benefit cost is based on these significant assumptions. SFAS No. 158 requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their RBO based on the projected benefit obligation. We have recognized corresponding Regulatory Assets, to recognize the future collection of these obligations in electric and gas retail rates. Please see Notes 1 and 8 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Our reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. 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 our consolidated financial statements. Please see Note 8 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Income Taxes

Provisions for income taxes are calculated in each of the jurisdictions in which we operate for each period for which a statement of earnings is presented. This process involves estimating our 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 our consolidated balance sheets. We account for income tax assets, liabilities, and expenses in accordance with SFAS No. 109 and FIN 48, an interpretation of FAS 109.

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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. We conduct independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and consider the results presented in these studies in determining the useful lives of our fixed assets. A change in the estimated useful lives of these assets could have a material impact on our consolidated financial statements.

Commitments and Contingencies

Our accounting policy is to record and/or disclose commitments and contingencies in accordance with SFAS No. 5. SFAS No. 5 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 December 31, 2007, we are not aware of any material commitments or contingencies other than those disclosed in the Significant Contractual Obligations table in the Contractual Obligations section above and the Commitments and Contingencies footnote to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Please refer to Note 1 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

For further information regarding these types of activities, see Notes 1, 4, 5, 7, and 8 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Liquidity, Commitments and Capital Requirements

Sources of Capital

We, along with Northern Utilities and Granite State, require capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent and future periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities, excluding payment of dividends. We initially supplement internally generated funds through bank borrowings, as needed, under unsecured short-term bank lines. Periodically, we replace portions of our short-term debt with long-term financings more closely matched to the long-term nature of our utility assets.

The continued availability of these methods of financing, as well as our choice of a specific form of security, 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, if any; the level of our earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

At September 30, 2008 and December 31, 2007, we had an aggregate of $37 million and $30.0 million, respectively, in unsecured revolving lines of credit. We had short-term debt outstanding through bank borrowings of $21.7 million and $13.0 million at September 30, 2008 and 2007, respectively. We had short-term debt outstanding through bank borrowings of $18.8 million and $26.0 million at December 31, 2007 and December 31, 2006, respectively. On November 26, 2008, we entered into a $60 million, 364-day revolving credit agreement with Bank of America, as administrative agent, and a syndicate of lenders. This facility replaces certain bilateral credit agreements with Bank of America and RBS Citizens, N.A. Borrowings under the revolving credit agreement bear interest at a floating annual rate equal to the daily

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LIBOR (the London Interbank Offered Rate) reported by the British Banking Association plus the applicable margin. We have the option of locking in the daily rate applicable to outstanding loans for one-, two-, three- or six-month interest periods. The applicable margin is initially equal to 1.75%, but may be increased over time if we do not meet specified conditions with respect to our equity capital. As of December 10, 2008, we had approximately $30.3 million outstanding under our revolving credit agreement.

The revolving credit agreement contains customary terms and conditions for credit facilities of this type, including certain financial covenants, including, without limitation, covenants restricting our ability to incur liens, merge or consolidate with another entity or change our line of business. The revolving credit agreement also contains a covenant restricting our ability to permit long-term debt to exceed 65% of our capitalization at the end of each fiscal quarter until the revolving credit agreement terminates and all amounts borrowed under the revolving credit agreement are paid in full.

The events of default under the revolving credit agreement include, but are not limited to, the following: (i) failure to pay outstanding principal or interest, (ii) failure of representations or warranties to be correct, in any material respects, (iii) failure to perform any other term, covenant or agreement and such failure is not remedied within 30 days of notice of such failure, (iv) a cross-default with other debt in certain circumstances, (v) a change of control, (vi) non-appealable judgments in excess of an agreed amount, (vii) certain defaults on obligations under the Employee Retirement Income Security Act or (viii) bankruptcy. Such events of default would require the repayment of any outstanding borrowings and the termination of the right to borrow additional funds under the revolving credit agreement.

Upon completion of the offering of common stock, as described in this prospectus supplement, and the sale and issuance of the Granite State notes, we believe that we will be in compliance with the debt to capitalization ratio covenant contained in the revolving credit agreement at December 31, 2008. However, unless we are able to raise funds by issuing additional common stock or to negotiate a waiver or amendment to this covenant, we will be restricted in our ability to incur any material amount of additional indebtedness in future quarters in compliance with this covenant.

Certain of our or our subsidiaries outstanding notes and agreements for indebtedness have similar debt to capitalization ratios that may restrict our or their ability to incur additional indebtedness.

On February 15, 2008, we entered into a Stock Purchase Agreement with NiSource and Bay State to acquire all of the outstanding stock of Northern Utilities and Granite State.

We financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility, as described below, coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract. We closed the Acquisitions on December 1, 2008.

We expect to repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million, as soon as practicable using the net proceeds from: (i) the offering of our common stock, as described in this prospectus; and (ii) the anticipated sale and issuance by Granite State to institutional investors in a private placement of $10.0 million aggregate principal amount of long-term unsecured notes on December 15, 2008. We expect to repay the estimated $38.9 million balance outstanding under the bridge credit facility prior to its maturity date of November 1, 2009 by issuing additional equity or debt or using borrowings under a revolving credit facility. Please see Note 4 to our consolidated financial statements contained in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, which is incorporated herein by reference.

As of December 10, 2008, we had approximately $85.7 million outstanding under the bridge credit facility, which provides for a loan for up to eleven months. Amounts outstanding under the bridge credit

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facility accrue interest at either the Eurodollar Rate or the base rate, in each case plus the applicable margin. The Eurodollar Rate is based on an applicable LIBOR (the London Interbank Offered Rate) as increased by statutory reserve requirements. The base rate is the higher of (i) the rate of interest announced publicly by Royal Bank of Canada from time to time and (ii) the Federal Funds Rate plus 0.50%. The applicable margin is a range of interest rates that varies from 2.50% to 5.00% depending on the remaining term of the borrowings. The bridge credit facility also contains customary terms and conditions, including, without limitation, covenants restricting our ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all substantially all of our assets.

On September 12, 2008, we priced the sale and issuance of $80.0 million aggregate principal amount of senior unsecured notes by Northern Utilities, which we closed on December 3, 2008, and the anticipated sale and issuance of $10.0 million aggregate principal amount of senior unsecured notes by Granite State, subject to the conditions discussed below. The notes consist of:

(i) $30.0 million aggregate principal amount of 6.95% senior unsecured notes of Northern Utilities, which are due in 2018;

(ii) $50.0 million aggregate principal amount of 7.72% senior unsecured notes of Northern Utilities, which are due in 2038; and

(iii) $10.0 million aggregate principal amount of 7.15% senior unsecured notes of Granite State, which are due in 2018, along with a guarantee from us for the payment of principal, interest and other amounts payable on the Granite State notes.

We agreed to guarantee the payment of principal, interest and other amounts payable on the Granite State notes. This guarantee will terminate if Granite State is reorganized and merges with and into Northern Utilities.

The foregoing is not intended to, and does not, constitute an offering of the notes described above. The sale and issuance of the Granite State notes (i) is subject to the execution of a definitive note purchase agreement by Granite State and the prospective purchasers of the notes and satisfaction of closing conditions and (ii) will not be, and has not been, registered under the Securities Act and the notes may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements. We have received the required regulatory approvals from the NHPUC and the MPUC for the sale and issuance of the notes.

We, along with our 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 Agreement allows for an efficient exchange of cash among us and our subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on our actual interest costs from our banks under the revolving lines of credit. At September 30, 2008 and December 31, 2007, all of our subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

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Contractual Obligations

The table below lists our significant contractual obligations as of December 31, 2007.

		Payments Due by Period				
(millions)		Total	2008	2009-2010	2011-2012	2013 and Beyond
Long-Term Debt		$ 160.0	$ 0.4	$ 0.8	$ 1.0	$ 157.8
Capital Leases		0.8	0.3	0.3	0.2	
Operating Leases		2.8	0.5	1.0	0.9	0.4
Power Supply Contract Obligations	MA	42.0	8.1	16.7	16.6	0.6
Power Supply Contract Obligations	NH	30.7	11.9	14.4	1.2	3.2
Gas Supply Contracts		23.2	16.0	3.9	3.0	0.3
Total Contractual Cash Obligations		$ 259.5	$ 37.2	$ 37.1	$ 22.9	$ 162.3

We have material energy supply commitments that are discussed in Note 4 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference. Cash outlays for the purchase of electricity and natural gas to serve our customers are subject to reconciling recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over collected cash over subsequent 6-12 month periods.

We provide limited guarantees on certain energy contracts entered into by our regulated subsidiaries. Our policy is to limit these guarantees to the duration of the contracts. As of September 30, 2008, there were approximately $6.0 million of guarantees outstanding and the longest term guarantee extends through October 31, 2009.

We also guarantee the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty. As of September 30, 2008, the principal amount outstanding for the 8% Unitil Realty notes was $4.8 million.

In addition, Northern Utilities entered into a gas storage management agreement pursuant to which (i) Northern Utilities released certain pipeline and storage capacity to an asset manager from November 1, 2008 through March 31, 2009 or April 30, 2009 and (ii) the asset manager financed inventories associated with the released storage capacity from Northern Utilities contemporaneously with the closing of the Acquisitions. The agreement also requires Northern Utilities to repurchase quantities of natural gas over the 2008/2009 winter heating season at a specified price and any remaining balance of the gas inventories on April 30, 2009 at the same price initially paid by the asset manager. The agreement provides for us to issue a guarantee of payment of $15 million for the term of the agreement.

We expect to guarantee the payment of principal, interest and other amounts payable on the $10 million Granite State notes due 2018, as described above. This guarantee will terminate if Granite State reorganizes and merges with and into Northern Utilities, as discussed in Note 4 to our consolidated financial statements contained in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, which is incorporated herein by reference.

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Benefit Plan Funding

In September 2008, we, along with our subsidiaries (other than Northern Utilities and Granite State), made cash contributions to our Pension Plan in the amount of $2.8 million. In 2007 and 2006, we, along with our subsidiaries (other than Northern Utilities and Granite State), made cash contributions to our Pension Plan in the amount of $2.8 million and $2.5 million, respectively. Through September 30, 2008, we, along with our subsidiaries (other than Northern Utilities and Granite State), contributed approximately $1.6 million to Voluntary Employee Benefit Trusts (VEBT). We project additional contributions of approximately $1.1 million in the fourth quarter of 2008. In 2007 and 2006, we, along with our subsidiaries (other than Northern Utilities and Granite State), contributed approximately $2.5 million and $2.2 million, respectively, to VEBTs. We, along with our subsidiaries, expect to continue to make contributions to our Pension Plan and the VEBTs in future years in amounts consistent with the amounts recovered in retail distribution utility rates for these other postretirement benefit costs. Please see Note 8 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Off-Balance Sheet Arrangements

We 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. We do have an operating lease agreement with a major financial institution. The operating lease is used to finance our utility vehicles. Please see Note 3 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

Cash Flows for the Nine Months Ended September 30

The tables below summarize the major sources and uses of cash (in millions) for the nine months ended September 30, 2008 compared to the same period in 2007.

(millions)	**2008**	**2007**
Cash Provided by Operating Activities	$ 27.1	$ 23.6

Cash Provided by Operating Activities

Cash Provided by Operating Activities was $27.1 million during the nine months ended September 30, 2008, an increase of $3.5 million over the comparable period in 2007. Cash flow from Net Income, adjusted for non-cash charges to depreciation, amortization and deferred taxes was $23.2 million and $16.9 million in the first nine months of 2008 and 2007, respectively. Changes in Current Assets and Liabilities (working capital) provided $1.2 million and $3.5 million in cash flow in the 2008 and 2007 nine-month periods, respectively. Deferred Restructuring Charges provided $2.4 million and $1.5 million in cash in the first nine months of 2008 and the same period in 2007, respectively. All other items resulted in net sources of cash of $0.3 million and $1.7 million in the first nine months of 2008 and 2007, respectively.

(millions)	**2008**	**2007**
Cash (Used in) Investing Activities	$ (20.6)	$ (25.9)

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Cash (Used in) Investing Activities

Cash used in Investing Activities was $20.6 million for the nine months ended September 30, 2008, a decrease in capital spending of $5.3 million over the comparable period in 2007. This is mainly due to the funding in 2007 and the completion in 2008 of our AMI project. In the first nine months of 2007, capital expenditures included approximately $5.9 million of cash outlays for investment in the AMI project.

(millions)	**2008**	**2007**
Cash Provided by (Used in) Financing Activities	$ (6.1)	$ 1.9

Cash Provided by (Used in) Financing Activities

Cash used in Financing Activities was $6.1 million in the nine months ended September 30, 2008. Uses of cash primarily reflect our regular quarterly dividend payments on common and preferred stock, expenditures related to our acquisition of Northern Utilities and Granite State, discussed above, and the scheduled repayment of long-term debt. Proceeds from the issuance of common stock through our stock plans and additional short-term debt provided $3.6 million of cash in 2008. In the second quarter of 2007, we received cash proceeds of $20.0 million from the issuance of senior long-term notes, which were used to pay down short-term debt.

Cash Flows for the Twelve Months Ended December 31

The tables below summarize the major sources and uses of cash for 2007 compared to 2006.

(millions)	**2007**	**2006**
Cash Provided by Operating Activities	$ 26.8	$ 20.4

Cash Provided by Operating Activities

Cash Provided by Operating Activities was $26.8 million in 2007, an increase of $6.4 million compared to 2006. Sources of cash from Net Income were higher by $0.7 million compared to last year and sources of cash from Depreciation and Amortization rose by approximately $1.7 million. An additional $1.4 million of cash was utilized for Deferred Tax Provisions during the current year. Working capital related cash flows decreased $0.8 million in 2007 compared to 2006. Included in this change in working capital cash flows was an increase of $6.0 million year over year from Accrued Revenue, principally due to the recoveries of Accrued Revenues through reconciling cost recovery mechanisms. Sources of cash related to Deferred Restructuring Costs increased by $5.5 million in 2007 year over year, reflecting improvement in net cash flows for the collection of deferred costs related to utility industry restructuring. All other changes in cash flows from operating activities were a net increase of $0.7 million in sources of cash in 2007 compared to 2006.

(millions)	**2007**	**2006**
Cash (Used in) Investing Activities	$ (32.5)	$ (33.6)

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Cash (Used in) Investing Activities

Cash (Used in) Investing Activities in 2007 was $32.5 million, a decrease of $1.1 million compared to 2006. Cash used in investing activities is primarily for capital expenditures related to UES and FG&E s electric and gas distribution systems. Capital expenditures are projected to be $29.3 million in 2008, reflecting normal electric and gas utility plant additions. Capital expenditure projections are subject to changes during the fiscal year.

(millions)	2007	2006
Cash Provided by Financing Activities	$ 5.7	$ 14.6

Cash Provided by Financing Activities

Cash Provided by Financing Activities was $5.7 million in 2007, a decrease of $8.9 compared to 2006. Cash provided from short-term debt declined by $14.5 million in 2007, principally reflecting the repayment of short-term debt from the issuance of $20 million in Senior Long-Term Notes by us in May 2007, described above. Proceeds from long-term debt issuances increased by $5.0 million in 2007 as compared to 2006, reflecting the issuance of $20 million in Senior Long-Term Notes in 2007 and the $15 million in of Series O, 6.32% First Mortgage Bonds in 2006, described above. All other cash flows provided from other financing activities aggregated to a net change in cash flows of $0.6 million in 2007.

Financial Covenants and Restrictions

The agreements under which our long-term debt and that of our retail distribution utilities, UES and FG&E, were issued contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions and business combinations. We expect to issue the notes for Northern Utilities and Granite State with similar covenants and restrictions, including, without limitation, covenants restricting our ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all or substantially all of our assets. Please see Note 3 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

The long-term debt and preferred stock of Unitil Corporation, UES, and FG&E are privately held, and we do not issue commercial paper. We expect that the long-term debt for Northern Utilities and Granite State will also be privately held. For these reasons, our and our subsidiaries debt securities are not publicly rated, and we do not expect the debt securities of Northern Utilities and Granite State to be publicly rated.

We financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility, coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract. The bridge credit facility contains customary terms and conditions, including, without limitation, covenants restricting our ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all or substantially all of our assets.

On November 26, 2008, we entered into a $60 million, 364-day revolving credit agreement. The revolving credit agreement contains customary terms and conditions, including certain financial covenants, including, without limitation, covenants restricting our ability to incur liens, merge or consolidate with

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another entity or change our line of business. The revolving credit agreement also contains a covenant restricting our ability to permit long-term debt to exceed 65% of our capitalization until the revolving credit agreement terminates and all amounts borrowed under the revolving credit agreement are paid in full.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As discussed above, we, along with Northern Utilities and Granite State, meet our 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, we periodically repay our 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 we had an average amount of short-term debt outstanding of $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 rate on short-term borrowings was 5.6%, 5.5% and 3.8% during 2007, 2006 and 2005, respectively.

Market Risk

Although our utility operating companies, including Northern Utilities, are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, we have divested our commodity-related contracts and therefore further reduced our exposure to commodity risk.

Please also see the section entitled *Risk Factors* in this prospectus supplement.

OUR COMPANY

The following is a description of our company as it existed prior to the consummation of the Acquisitions, which we closed on December 1, 2008. As such, the description generally excludes information about Northern Utilities and Granite State. For a description of Northern Utilities and Granite State, please see the sections entitled (i) Prospectus Summary The Acquisitions, (ii) The Acquisitions, (iii) Northern Utilities and (iv) Granite State.

We are a public utility holding company headquartered in Hampton, New Hampshire. We are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005. We incorporated under the laws of the State of New Hampshire in 1984. We are the parent of the companies described on the following page (the Unitil companies).

Our principal business is the retail distribution of electricity in the southeastern seacoast and state capital regions of New Hampshire and the retail distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts. We have two distribution utility subsidiaries, UES, which operates in New Hampshire, and FG&E, which operates in Massachusetts. UES, through its predecessors Concord Electric Company and Exeter & Hampton Electric Company, was incorporated in 1901. FG&E was incorporated in 1852. UES and FG&E are collectively referred to as our retail distribution utilities.

Our retail distribution utilities serve approximately 100,000 electric customers and 15,100 natural gas customers in their service territory. Our retail distribution utilities are local pipes and wires utility distribution companies with a combined investment in Net Utility Plant of $256.0 million at September 30, 2008. We do not own or operate electric generating facilities or major transmission facilities and substantially all of our utility assets are dedicated to the local delivery of electricity and natural gas to our customers. Our total revenue was $262.9 million in 2007 and $200.4 million for the nine months ended September 30, 2008, which includes revenue to recover the cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, our earnings are not affected by changes in the cost of purchased electricity and natural gas. Earnings applicable to common shareholders for 2007 were $8.6 million and for the nine months ended September 30, 2008 were $6.4 million. Substantially all of our earnings are derived from the return on investment in our retail distribution utilities.

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

We have three additional wholly owned subsidiaries: Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and Unitil Resources, Inc. (Unitil Resources). Unitil Realty owns and manages our corporate office building and property located in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and management services to its affiliated Unitil companies. Unitil Resources is our wholly owned non-utility subsidiary that provides energy brokering, consulting and management related services. The Usource entities are wholly owned subsidiaries of Unitil Resources. Usource provides energy brokering services, as well as various energy consulting services, to large C&I customers in the northeastern United States.

Our business strategy is to be a leader in the reliable and cost effective management of a growing level of local electric and natural gas distribution assets. Our growth initiatives include evaluation of organic growth opportunities as well as strategic acquisitions. As part of our growth strategy, on December 1, 2008,

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we purchased (i) all of the outstanding capital stock of Northern Utilities, a retail natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State and (ii) all of the outstanding capital stock of Granite State, an interstate gas pipeline company primarily serving the needs of Northern Utilities, from NiSource pursuant to the Stock Purchase Agreement dated as of February 15, 2008 by and among NiSource, Bay State, and us. Bay State is a wholly owned subsidiary of NiSource. Please see the sections entitled (i) *Risk Factors Risks Relating to the Acquisitions* in this prospectus supplement, (ii) *Prospectus Summary Summary Unaudited Pro Forma Combined Financial Data* and (iii) *The Acquisitions*.

We are the parent of the following wholly owned significant subsidiaries:

We became the direct parent of Northern Utilities and Granite State upon the closing of the Acquisitions.

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Our Operations

Our Electric Utility Operations

Our electric utility operations are conducted through our subsidiaries UES and FG&E. For the year ended December 31, 2007 and the nine months ended September 30, 2008, the revenues from our electric utility operations were approximately $225.0 million and $172.2 million, respectively. Earnings from our electric utility operations were $7.3 million for the year ended December 31, 2007 and $4.4 million for the nine months ended September 30, 2008.

The primary business of our electric utility operations is the retail distribution of electricity to customers in our service territory. As a result of the implementation of retail choice in New Hampshire and Massachusetts, our customers are free to contract for their supply of electricity with third-party suppliers. Both UES and FG&E supply electricity to those customers who do not obtain their supply from third-party suppliers, with the costs associated with electricity supplied by UES and FG&E being recovered on a pass-through basis from customers under periodically adjusted rates.

UES is engaged principally in the retail distribution of electricity to approximately 72,200 customers in New Hampshire in the capital city of Concord as well as 12 surrounding towns and all or part of 16 towns in the southeastern seacoast and state capital regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson, and Plaistow. UES service territory consists of approximately 408 square miles in the Merrimack River Valley of south central New Hampshire and in southeastern New Hampshire.

The state capital of New Hampshire is located within UES service territory and includes the executive, legislative and judicial branches and offices and facilities for all major state government agencies as well as several federal government facilities. In addition, UES service territory includes retail trading and recreation centers for the central and southeastern parts of the state. These areas serve diversified C&I businesses, including manufacturing firms engaged in the production of electronic components, wires, and plastics. Our service territory includes popular resort areas and beaches along the Atlantic Ocean, including the Hampton Beach recreational area. UES 2007 retail electric operating revenue was $157.8 million, of which approximately 51% was derived from residential sales and 49% from C&I sales.

FG&E is engaged principally in the retail distribution of both electricity and natural gas in the city of Fitchburg in north central Massachusetts and several surrounding communities. FG&E s service territory encompasses approximately 170 square miles. Electricity is supplied and distributed by FG&E to approximately 27,800 customers in the communities of Fitchburg, Ashby, Townsend, and Lunenburg. FG&E s industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. FG&E s 2007 retail electric operating revenue was $67.2 million, of which approximately 52% was derived from residential sales and 48% from C&I sales.

Our Gas Utility Operations Prior to the Acquisitions

FG&E supplies and distributes natural gas to approximately 15,100 retail customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner, and Westminster, all located in Massachusetts.

As a result of the introduction of retail choice for all natural gas customers in Massachusetts, our customers are free to contract for their supply of natural gas with third-party suppliers. FG&E continues to provide natural gas supply services to those customers who do not obtain their supply from third-party suppliers. The costs associated with natural gas supplied by FG&E are recovered on a pass-through basis from customers under periodically adjusted rates.

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FG&E s 2007 gas operating revenue was $34.2 million, of which approximately 55% was derived from residential firm sales and 45% from C&I firm sales. FG&E s gas operating revenue was $25.3 million for the nine months ended September 30, 2008. Earnings from FG&E s gas utility operations were $1.0 million for the year ended December 31, 2007, and $1.9 million for the nine months ended September 30, 2008.

Seasonality and Customer Dependence

Natural gas sales in New England are seasonal, and our results of operations reflect this seasonal nature. Accordingly, results of operations are typically positively impacted by gas operations during the five heating season months from November through March of the following year. Electric sales in New England are far less seasonal than natural gas sales; however, the highest usage typically occurs in both the summer months due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours. We are not dependent on a single customer or a few customers for our electric and natural gas sales.

Our Non-Regulated and Other Non-Utility Operations

Our non-regulated, non-utility operations are conducted through Unitil Resources. Unitil Resources provides energy brokering, consulting and management related services. The Usource entities are wholly owned subsidiaries of Unitil Resources. Usource provides energy brokering services, as well as various energy consulting services, to large C&I customers in the northeastern United States. For the year ended December 31, 2007 and the nine months ended September 30, 2008, the revenues from our non-regulated operations were $3.7 million and $2.9 million, respectively. Earnings from our non-regulated operations were $0.3 million for the year ended December 31, 2007, and $0.3 million for the nine months ended September 30, 2008.

Our other non-utility subsidiaries are Unitil Realty and Unitil Service. Unitil Realty owns and manages our corporate office building and property located in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and management services to its affiliated Unitil companies. Unitil Service s and Unitil Realty s earnings are principally derived from income earned on short-term investments and real property owned for our and our subsidiaries use.

Regulation and Restructuring

We 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. Certain aspects of our electric operations as they relate to wholesale energy supply and interstate business activities are also regulated by the FERC. Our retail distribution utilities, UES and FG&E, are subject to regulation by the NHPUC and the MDPU, respectively, in regards to their rates, issuance of securities and other accounting and operational matters. Because our primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect our operations and financial position. Granite State, as an interstate natural gas pipeline, is regulated by the FERC.

Our retail distribution utilities deliver electricity and/or natural gas to all customers in our service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, UES and FG&E recover the cost of providing distribution service to their customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. As a

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result of a restructuring of the utility industry in Massachusetts and New Hampshire, all of our customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. Most small and medium-sized customers, however, continue to purchase such supplies through UES and FG&E as the providers of basic or default service energy supply. UES and FG&E purchase electricity or natural gas for basic or default service from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, on a pass-through basis from customers, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

In connection with the implementation of retail choice, we divested substantially all of the long-term power supply contracts and interests in generation assets of Unitil Power and FG&E through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts. UES and FG&E recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The remaining balance of these assets, to be recovered principally over the next three to five years, was $104.8 million as of December 31, 2007. UES and FG&E have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans. Please see Note 5 to our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated herein by reference.

On March 31, 2008, we, along with Northern Utilities, filed joint petitions and supporting testimony with the MPUC and the NHPUC requesting approval of our acquisition of Northern Utilities. On May 30, 2008, we, along with Northern Utilities, filed joint petitions with the MPUC and NHPUC requesting authority for Northern Utilities to issue unsecured long-term debt to assist in financing our acquisition of Northern Utilities. On August 22, 2008 and August 15, 2008, we, along with Northern Utilities and the active parties to the respective Maine and New Hampshire proceedings, filed with the MPUC and the NHPUC, respectively, unopposed settlement agreements resolving all outstanding issues and recommending approval of our acquisition of Northern Utilities and the financing petitions.

Although separately negotiated and filed with the MPUC and the NHPUC, the settlement agreements reflect several common topics (including regulatory authorizations, matters affecting rates, customer service provisions, service quality, gas safety and reliability, agreements regarding Granite State and reporting requirements) as follows:

Authorizations

The settlement agreements include the following authorizations and approvals:

- approval of our acquisition of Northern Utilities;
- approval of the amended Unitil Service Agreement adding Northern Utilities as a party;
- approval of the amended Unitil Cash Pooling Agreement adding Northern Utilities as a party; and
- approval of Northern Utilities accounting deferral and 10-year amortization of transaction costs and transition costs resulting from our acquisition of Northern Utilities on condition of our agreement that we will not seek recovery of these costs, or the transaction or transition costs of any other utility subsidiary, in rates.

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Rate Matters

The settlement agreements include the following commitments related to rates:

agreement that synergy savings resulting from our acquisition of Northern Utilities will be retained by us until the next base rate change and then will flow to ratepayers;

agreement not to request a base rate change for Northern Utilities before November 1, 2010 unless (i) Northern Utilities projected annual revenues are more than 8% below the level of total 2007 distribution revenues or (ii) the MPUC or NHPUC, as applicable, approves a plan to subject Granite State s rates to state regulation;

agreement to allow Northern Utilities to recover prudently incurred integration costs for capitalized expenditures to build or upgrade systems or facilities required to independently operate Northern Utilities;

agreement not to seek recovery in Northern Utilities rates of any acquisition premium resulting from our acquisition of Northern Utilities and that any acquisition adjustment (positive or negative) shall be accounted for over a 10-year period and accrue to our shareholders;

agreement to hold Northern Utilities customers harmless for the elimination of historical accumulated deferred income tax (ADIT) liabilities resulting from its Internal Revenue Service Section 338(h)(10) election by maintaining pro forma regulatory accounting for use in setting rates until such time as the level of ADIT balances at closing are reconciled;

agreement to use an imputed weighted cost of debt for ratemaking purposes until Northern Utilities existing debt instruments would have matured, and not to seek recovery of any equity issuance costs for the proposed transaction; and

agreement not to change Northern Utilities existing depreciation rates for its Maine division until approved in the next general rate case.

Customer Provisions

The settlement agreements also contain the following commitments related to customers:

agreement to implement a Low Income Program for Northern Utilities Maine division, to provide additional customer payment options (including credit or debit cards and by internet and telephone) for Maine customers and to continue low income programs in Northern Utilities New Hampshire division;

agreement to review with the parties to the settlements communications that we develop to inform Northern Utilities customers about our acquisition of Northern Utilities and to keep them apprised of the transition; and

with respect to Maine, agreement to conduct a study of alternatives for the sale, lease, or use of the unused Portland manufactured gas site property that would best serve ratepayers interests.

Service Quality, Gas Safety and Reliability

The settlement agreements contain the following commitments related to service quality, gas safety and reliability:

agreement to improve and adhere to Northern Utilities existing service quality plans in each jurisdiction; and agreement to provide notifications and safety reports based on several service quality and gas safety metrics, as well as implementing gas operations programs and practices.

Granite State

The settlement agreements contain the following commitments related to Granite State:

agreement to work collaboratively with the parties to the settlements to design and to conduct a comprehensive study of the issues and costs for modification of the physical, operational, regulatory, and corporate structure necessary for state regulation of Granite State and to provide a report within one year of the closing; and

authorization for Northern Utilities to execute a firm service contract with Granite State for 100,000 Dekatherms (Dth) of capacity at Granite State s current recourse rate of $1.6666/ Dth for the period November 1, 2008 through October 31, 2010.

Reporting

The settlement agreements contain the following commitments regarding affiliate books and records and transaction reporting:

agreement to provide timely access to the books and records of any of Northern Utilities affiliates at the discretion of the MPUC or the NHPUC, as applicable;

agreement to file reports on our transition progress, business integration, costs, the Transition Services Agreement and costs while our acquisition of Northern Utilities was pending; and

agreement to notify the MPUC and the NHPUC of any substantial changes in the financing terms.

On October 10, 2008, the NHPUC issued orders approving the settlement agreement and the financing petition and authorizing our acquisition of Northern Utilities. The NHPUC approved the settlement agreement in its entirety without conditions. Northern Utilities will continue to be regulated by the NHPUC.

On October 6, 2008, the MPUC publicly deliberated the matter and voted to approve the joint petition filed on March 31, 2008 and settlement agreement with conditions, subject to its issuance of a final written order. On October 22, 2008, the MPUC issued a written decision approving the settlement agreement and authorizing our acquisition of Northern Utilities, subject to several conditions related to: (i) our commitment to implement the MPUC s Management Audit recommendations regarding Northern Utilities Operations and Safety Practices; (ii) Northern Utilities compliance with certain gas safety-related obligations of Northern Utilities under a stipulation in separate proceedings (the NOPV Stipulation), and placing all of the cost responsibility on NiSource; and (iii) our commitment to evaluate the costs and benefits of state regulation of Granite State. One condition would have potentially contravened the allocation of risks agreed to in the settlement agreement and the Stock Purchase Agreement with regard to several pending regulatory safety and compliance proceedings involving Northern Utilities that were addressed in the NOPV Stipulation. On October 28, 2008, we filed a joint petition with Northern Utilities for reconsideration of the October 22, 2008 decision on narrow grounds requesting clarification and/or modification of a condition of approval contained in the decision regarding the allocation of risk between NiSource and us for certain future compliance costs under the NOPV Stipulation. On November 5, 2008, the MPUC issued an Order on Reconsideration Modifying Conditions, which modified the allocation of risk established in the October 22, 2008 decision. On November 10, 2008, we filed a joint Emergency Petition with Northern Utilities for reconsideration of the November 5, 2008 Order seeking clarification or modification of the modified condition addressing the allocation of risk between NiSource and us for certain compliance costs under the NOPV Stipulation, which petition was withdrawn on November 20, 2008. On November 20, 2008, the

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MPUC also orally approved a Stipulation and Agreement (the November 20 Stipulation) to resolve certain outstanding issues raised by Northern Utilities in its pending Motion for Reconsideration regarding the NOPV Stipulation. Under the November 20 Stipulation, we, Northern Utilities and prosecutorial staff agreed to an estimate and allocation of costs for future compliance activities. On November 21, 2008, the MPUC issued its order approving the November 20 Stipulation in which the parties agreed on what regulator station improvements recommended by SEA Consulting will be implemented. As part of the November 21, 2008 order, the MPUC rescinded the condition limiting Northern Utilities ability to challenge the recommendation of SEA Consulting because the condition is no longer necessary as a result of the November 20 Stipulation. The November 5, 2008 Order on Reconsideration Modifying Conditions in the acquisition proceeding is final, as the appeal period has expired. Northern Utilities will continue to be regulated by the MPUC. See the section entitled *Northern Utilities, Business and Financial Information Management s Discussion and Analysis of Financial Condition and Results of Operations*.

As a result of statutory changes in Massachusetts, on August 13, 2008, we, along with Bay State, filed a joint petition with the MDPU requesting an advisory ruling that Massachusetts law is not applicable to the acquisition of Northern Utilities, or, in the alternative, that the MDPU approve the acquisition as consistent with the public interest. The Massachusetts Attorney General asserted that Massachusetts law grants the MDPU jurisdiction to review the transaction and argued that Bay State s customers will be harmed by the sale. We, along with Bay State, disputed the Attorney General s assertions. On October 1, 2008, the MDPU held a hearing on the joint petition, and on October 10, 2008 and October 17, 2008, Unitil and Bay State and the Attorney General filed their initial and reply briefs, respectively. On November 18, 2008, the MDPU issued an order approving our acquisition of Northern Utilities. The order is final, as the appeal period has expired.

Regulatory Matters

FG&E Electric Division

On August 17, 2007, FG&E filed an electric distribution rate increase of $3.3 million, which represented an increase of 4.7% over FG&E s 2006 total electric operating revenue. The MDPU suspended the effective date until March 1, 2008 in order to investigate the propriety of our request. Evidentiary hearings were held in November 2007 and briefing was completed in January 2008. We received a final order from the MDPU on February 29, 2008 approving an electric rate increase of $2.1 million, which represented a 3.0% increase over test year levels, with an effective date for new electric rates of March 1, 2008. On December 3, 2007, FG&E submitted its annual reconciliation of costs and revenues for Transition, Transmission, Standard Offer Service, and Default Service filed under its restructuring plan. The rates were approved effective January 1, 2008, subject to reconciliation pursuant to the MDPU s investigation. On June 6, 2008, FG&E submitted a revised Transition Charge reducing the recovery of net costs associated with the sale of FG&E s 0.1822% interest in Wyman IV, an oil-fired electric generating station in Yarmouth, Maine, by $36,762 pursuant to an agreement with the Attorney General. This filing was approved on August 19, 2008.

FG&E Gas Division

FG&E provides natural gas delivery service to its customers on a firm or interruptible basis under unbundled distribution rates approved by the MDPU. Its current retail distribution rates were approved by the MDPU in 2007. FG&E s customers may purchase gas supplies from third-party vendors or purchase their gas from FG&E as the provider of last resort. FG&E collects its gas supply costs through a seasonal reconciling Cost of Gas Adjustment Clause and recovers other related costs through a reconciling Local Distribution Adjustment Clause.

On January 26, 2007, the MDPU approved a rate settlement agreement between FG&E and the Attorney General of Massachusetts for FG&E s gas division (the Gas Division). Under the settlement agreement, FG&E increased its gas distribution rates by $1.2 million on February 1, 2007 and an additional $1.0 million on November 1, 2007. The settlement agreement also included agreement on several other rate matters and service quality performance measures for our Gas Division in the areas of safety, customer service and satisfaction.

FG&E Other

On June 22, 2007, the MDPU opened an inquiry into revenue decoupling for gas and electric distribution utilities, generally defined as a ratemaking mechanism designed to eliminate or reduce the dependence of a utility s distribution revenues on sales. Revenue decoupling is intended to remove the disincentive a utility has to administer and promote customer efforts to reduce energy consumption and demand or to install distributed generation to displace electricity delivered by the utility. On July 16, 2008, the MDPU issued an order establishing a comprehensive plan for decoupling to be adopted by gas and electric distribution utilities on a going-forward basis. Company specific rate cases will be required. Lost base revenue recovery associated with incremental energy efficiency savings will be allowed through 2012 consistent with the MDPU s expectation that, with limited exceptions, distribution companies will be operating under decoupling plans by year-end 2012. Within 45 days of this order, each distribution company was to notify the MDPU of when the company expects to file a rate case to implement decoupling. FG&E notified the MDPU that it will be prepared to file rate cases for each of its divisions by the third quarter of 2009, based upon a calendar 2008 test year, along with a comprehensive decoupling proposal and associated base rate adjustment mechanism. This matter remains pending before the MDPU.

On July 2, 2008, Massachusetts Senate Bill No. 2768 (the Green Communities Act) was signed into law. The Green Communities Act is intended to increase energy efficiency, update the renewable energy portfolio standard, increase public oversight of utilities, increase service quality of power companies, assist low-income energy customers, and increase the use of renewable generation and energy efficiency products. The Green Communities Act requires electric companies to boost investment in energy efficiency measures that reduce energy demand and deliver savings to customers; provides a new funding source for efficiency measures through the auction of pollution allowances by power plants through the Regional Greenhouse Gas Initiative; creates stronger incentives for the development of renewable energy, like wind and solar, by requiring 15% of electricity to be supplied by new green power facilities by 2020 and establishing a pilot program for utilities to enter into long-term contracts with renewable energy projects; expressly authorizes cities and towns to own renewable energy facilities; and encourages green building design through updated codes, training and assistance. The MDPU has begun to initiate regulatory proceedings to implement various sections of the Green Communities Act. The impact of any new measures to be required of FG&E in compliance with the Green Communities Act cannot be estimated at this time.

UES

UES provides electric distribution service to its customers pursuant to rates approved by the NHPUC. Its current retail electric distribution rates were approved by the NHPUC in 2006 under a settlement agreement with the NHPUC.

In July 2008, the State of New Hampshire passed a law that allows electric utilities to make investments in distributed energy resources including energy efficiency and demand reduction technologies as well as clean cogeneration and renewable generation. In June 2008, the State of New Hampshire also passed a law approving state participation in the Regional Greenhouse Gas Initiative (the RGGI). The RGGI program begins in 2009 and requires large electric generators in 10 northeast and mid-Atlantic states to purchase allowances for their carbon emissions. These allowances are being sold through a regional auction process and the funds will be used by the states for investments in energy efficiency and alternative energy.

On March 14, 2008, UES made its annual reconciliation and rate filing with the NHPUC under its restructuring plan, for rates effective May 1, 2008, including reconciliation of prior year costs and revenues, power supply and power supply-related stranded costs. The filing was approved on April 23, 2008. On July 9, 2008, UES proposed an increase to its External Delivery Charge, effective September 1, 2008, reflecting higher transmission costs. The filing was approved on August 29, 2008.

On June 22, 2007, the NHPUC issued an order in its investigation into implementation of the federal Energy Policy Act of 2005 regarding the adoption of standards for time-based metering and interconnection. On August 31, 2007, the NHPUC issued an order on motion for rehearing, staying the June 22, 2007 order pending hearing and reconsideration of the issues. An order following rehearing was issued on January 22, 2008 finding that it is appropriate to implement some form of time-based metering standards and ordering that the details, including cost-benefit analyses, form of rate design, time of implementation and applicable customer classes shall be determined in separate proceedings to be initiated by the NHPUC. In a decision issued on September 15, 2008, the NHPUC ordered the establishment of a working group to facilitate the evaluation and implementation of advanced metering infrastructure and time-based rates and that such working group make a report to the NHPUC by December 1, 2008 with regard to next steps toward utility specific cost-benefit analyses regarding such implementation. The NHPUC also found that additional review of the energy standards for net metering, fuel diversity and fossil fuel generation efficiency as proposed in the Energy Policy Act of 2005 is not required due to action of the New Hampshire legislature and the NHPUC in adopting comparable standards.

On May 14, 2007, the NHPUC issued an order opening an investigation into the merits of instituting appropriate rate mechanisms, such as revenue decoupling, which would have the effect of removing obstacles to, and encouraging investment in, energy efficiency. This matter is pending before the NHPUC.

Environmental Matters

Our past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. Certain environmental laws impose joint and several, strict liability for costs required to remediate and restore sites where wastes or hazardous substances have been disposed or released into the environment. Failure to comply with environmental laws and regulations may result in the assessment of administrative, civil, or criminal sanctions, including monetary fines or penalties, the imposition of remedial obligations, and the issuance of injunctions limiting or prohibiting certain activities or operations. We believe we are in compliance with applicable environmental and safety laws and regulations, and we believe that as of September 30, 2008, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Sawyer Passway MGP Site

FG&E continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. FG&E has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection, which allows FG&E to work towards temporary closure of the site. A status of temporary closure requires FG&E to monitor the site until a feasible permanent remediation alternative can be developed and completed.

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

FG&E is in the process of developing long-range plans for a feasible permanent remediation solution for the Sawyer Passway site, including alternatives for re-use of the site. Included on our Consolidated Balance Sheet at September 30, 2008 in Environmental Obligations is $12.0 million related to estimated future clean up costs for permanent remediation of the site. A corresponding Regulatory Asset was recorded to reflect the future rate recovery for these costs. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties.

Our ultimate liability for future environmental remediation costs may vary from estimates, which may be adjusted as new information or future developments become available. Based on our current assessment of our environmental responsibilities, existing legal requirements and regulatory policies, we do not believe that these environmental costs will have a material adverse effect on our consolidated financial position or results of operations.

Please refer to Note 7 to our consolidated financial statements contained in our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, which is incorporated herein by reference.

Our Strengths

We believe our strengths have enabled us to grow our business profitably and create shareholder value. These strengths include:

Growing Service Territory. Prior to the closing of the Acquisitions, our operations were located in the southeastern seacoast and state capital regions of New Hampshire, as well as in the greater Fitchburg area of north central Massachusetts. This service territory provides a diverse and growing customer base.

The Acquisitions provide an attractive opportunity for us to grow our operations within coastal northern New England. Northern Utilities brings approximately 52,000 additional natural gas retail distribution customers, which increases our retail customer base to approximately 167,000 customers in our service territory in the New England region. Given the lower penetration of gas distribution customers among the population in Northern Utilities service territory, we believe there are significant opportunities for us to expand Northern Utilities operations, particularly in light of our customer driven expertise in serving rural and small metropolitan areas such as Northern Utilities service territory.

Regulated Asset Base. Our core assets consist of retail distribution facilities necessary for the delivery of our customers electric and natural gas supply needs within our service territory and regulatory assets related to our regulated utility operations. Our electric and natural gas distribution assets and regulatory assets, from which we derive substantially all of our operating income, provide stable earnings and cash flow. Over the past five years, we have invested $104.7 million and $26.4 million in capital additions and improvements in our electric and natural gas distribution businesses, respectively, and increased our Net Utility Plant by 5.6% on average per year. As a result of the restructuring of our utility operations, we have divested all of our generation assets and our portfolio of long-term power purchase agreements, and we have secured regulatory approval to recover any stranded costs related to this divestiture over future periods. We expect the Acquisitions to increase our assets by approximately 52% contributing to significant growth of our retail distribution facilities.

Diversified Customer Base. Our customers are a diversified mix of residential and C&I customers, with no single customer representing more than 5% of our total revenues. Our sales to large C&I customers are not concentrated in one industry segment but vary from government facilities to large retail outlets, colleges, hospitals and a broad range of industrial companies that reflect the diverse nature of the communities that we serve. The Acquisitions have increased our customer base by approximately 52,000 natural gas customers and have provided further diversification to our operations with respect to geography (into Maine) and utility business mix (between our gas and electric divisions).

Efficient and Flexible Operating Structure. We believe that due in part to our size and the proximity of our utility operations, we are able (i) to expeditiously and effectively respond to changing regulatory and public policy initiatives, (ii) to leverage new technology solutions that significantly improve productivity and customer service, and (iii) to implement organizational changes that improve our performance. We have a proven track record of successfully transitioning our company to meet the business and operational challenges affecting our industry. The Acquisitions bring together similarly sized local utilities that will continue to provide a high level of service to their communities.

Historic Dividend Stability. Since our incorporation in 1984, we have continuously paid quarterly dividends and we have never reduced our dividend rate, while still increasing our investment in our utility distribution facilities. We expect to maintain our current dividend policy while providing for future growth of earnings available to shareholders.

Experienced Management Team. Our senior management team is highly experienced in the utility industry. Our Chairman and Chief Executive Officer, Robert Schoenberger, has 30 years of industry experience. Our senior management team as a whole averages approximately 24 years experience in the industry and 16 years experience with us. Our management team is well-equipped and prepared to lead the integration of Northern Utilities and Granite State.

Our Properties

As of December 31, 2007, we owned, through our retail distribution utilities, two operation centers, approximately 2,160 pole miles of local transmission and distribution overhead electric lines and 584 conduit bank miles of underground electric distribution lines, along with 49 electric substations, including three mobile electric substations. Our natural gas operations property includes a liquid propane gas plant, a liquid natural gas plant and 264 miles of underground gas mains. In addition, our real estate subsidiary, Unitil Realty, owns our corporate headquarters building and the 12 acres of land on which it is located.

UES owns and maintains distribution operations centers in Concord, New Hampshire and Kensington, New Hampshire. UES 30 electric distribution substations, including a 5,000 kilovolt ampere (kVA) mobile substation, constitute 214,037 kVA of capacity, which excludes capacity of spare transformers, for the transformation of electric power from the 34.5 kV subtransmission voltage to other primary distribution voltage levels. The electric substations are located on land owned by UES or land occupied by UES pursuant to perpetual easement.

UES has a total of approximately 1,601 pole miles of local transmission and distribution overhead electric lines and a total of 406 conduit bank miles of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by UES without objection by the owners. In the case of certain distribution lines, UES owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone companies.

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

FG&E s electric properties consisted principally of 559 pole miles of local transmission and distribution overhead electric lines, 178 conduit bank miles of underground electric distribution lines and 19 transmission and distribution stations (including two mobile electric substations). The capacity of these substations totals 443,150 kVA, which excludes capacity of spare transformers.

FG&E owns a liquid propane gas plant and a liquid natural gas plant, both of which are located on land owned by FG&E. FG&E also has 264 miles of underground steel, cast iron and plastic gas mains.

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

We believe that our facilities are currently adequate for their intended uses.

Our Employees

As of September 30, 2008, we had 305 full-time and part-time employees. We consider our relationship with our employees to be good and we have not experienced any major labor disruptions since the early 1960s. As of September 30, 2008, we had 82 employees represented by labor unions. These employees are covered by collective bargaining agreements, which expire on May 31, 2010. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. We expect to successfully negotiate new agreements prior to their expiration dates.

Legal Proceedings

We are involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. In the opinion of our management, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on our financial position.

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THE ACQUISITIONS

The following is a summary of the material terms of, and other information relating to, the Acquisitions. This summary is not complete, may not contain all of the information that is important to you, and is qualified in its entirety by reference to additional information in this prospectus and to the complete text of the Stock Purchase Agreement dated February 15, 2008 by and among NiSource, Bay State and us. A copy of the Stock Purchase Agreement was filed as Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on February 20, 2008 and is incorporated herein by reference. Please see the sections entitled (i) *Northern Utilities Business and Financial Information* and (ii) *Granite State s Business and Financial Information*.

Description of the Acquisitions

On February 15, 2008, we entered into the Stock Purchase Agreement with NiSource and Bay State pursuant to which we agreed to acquire (i) all of the outstanding shares of capital stock of Northern Utilities from Bay State and (ii) all of the outstanding shares of capital stock of Granite State from NiSource. In consideration for the Acquisitions, we paid NiSource and Bay State an aggregate of $160 million in cash, plus an additional $41.6 million in cash as a working capital adjustment, including approximately $33.9 million of natural gas storage inventory. We closed the Acquisitions on December 1, 2008.

We financed the Acquisitions and the related costs and expenses using borrowings under a bridge credit facility, as described below, coupled with proceeds from the contemporaneous financing of Northern Utilities gas inventory pursuant to a gas storage management contract.

As of December 1, 2008, we had $165 million outstanding under the bridge credit facility, which provides for a loan for up to eleven months. We subsequently repaid approximately $79.3 million of the amount outstanding under the bridge credit facility using the net proceeds from the sale and issuance by Northern Utilities of $80.0 million aggregate principal amount of long-term unsecured notes, which closed on December 3, 2008.

As of December 10, 2008, we had approximately $85.7 million outstanding under the bridge credit facility. We expect to repay amounts outstanding under the bridge credit facility, except for an estimated $38.9 million, as soon as practicable using the net proceeds from:

(i) the offering of our common stock, as described in this prospectus; and

(ii) the anticipated sale and issuance by Granite State to institutional investors in a private placement of $10.0 million aggregate principal amount of long-term unsecured notes on December 15, 2008.

We expect to repay the estimated $38.9 million balance outstanding under the bridge credit facility prior to its maturity date of November 1, 2009 by issuing additional equity or debt or by using borrowings under a revolving credit facility.

We expect to guarantee the payment of principal, interest and other amounts payable on the Granite State notes. This guarantee will terminate if Granite State reorganizes and merges with and into Northern Utilities.

The foregoing is not intended to, and does not, constitute an offering of the notes described above. The sale and issuance of the Granite State notes (i) is subject to the execution of a definitive note purchase agreement by Granite State and the prospective purchasers of the notes and satisfaction of closing conditions and (ii) will not be, and has not been, registered under the Securities Act and the notes may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements.

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Please see the sections entitled (i) *Prospectus Summary Recent Developments* and (ii) *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements.*

The Acquisitions were subject to certain regulatory requirements and approvals and customary closing conditions, including entering into a Transition Services Agreement with NiSource and Bay State. In connection with the closing of the Acquisitions, we obtained the following regulatory approvals and clearances:

(i) approval by the MDPU;

(ii) approval by the MPUC;

(iii) approval by the NHPUC;

(iv) early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and

(v) approval by the Federal Communications Commission of certain license transfers.

All applicable appeal periods on the above approval orders have expired.

On October 28, 2008, we, along with Northern Utilities, filed a joint petition requesting clarification and/or modification of a condition in the MPUC approval order that purported to change the parties agreed-upon sharing of risk under the Stock Purchase Agreement relating to several pending regulatory safety and compliance proceedings involving Northern Utilities. On November 5, 2008, the MPUC issued an Order on Reconsideration Modifying Conditions, which is final, as the appeal period has expired. See the sections entitled (i) *Prospectus Summary Recent Developments* and (ii) *Northern Utilities Business and Financial Information Management s Discussion and Analysis of Financial Condition and Results of Operations*.

The Stock Purchase Agreement provides that NiSource and Bay State will indemnify us for certain losses as described therein, including certain losses arising from the breach of representations and warranties contained therein, the breach of covenants contained therein, and liabilities relating to certain regulatory proceedings. The indemnification provided by NiSource and Bay State is subject to (i) a per claim minimum indemnification limit of $100,000, (ii) an aggregate claims minimum indemnification limit of 1% of the purchase price, and (iii) an aggregate claims maximum indemnification limit of 10% of the purchase price (other than the tax indemnification provided by NiSource and Bay State, which is not subject to any dollar limit). For detailed information regarding indemnification obligations, please see the Stock Purchase Agreement, a copy of which was filed as Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on February 20, 2008 and is incorporated herein by reference.

Reasons for Engaging in, and Estimated Potential Synergy Savings Attributable to,

the Acquisitions

We believe that the Acquisitions and related transactions will result in the following significant benefits to us:

Attractive Local Growth Opportunity Consistent with our Strategy. Northern Utilities and Granite State provide us with an attractive opportunity to grow our operations within coastal northern New England. Northern Utilities brings approximately 52,000 additional natural gas distribution customers, which has increased our customer base to approximately 167,000 customers in our service territory in the New

England region. Given the lower penetration of gas distribution customers among the population in Northern Utilities service territory, we believe that there are significant opportunities for Northern Utilities to expand its operations, particularly in light of our customer-driven expertise in serving rural and small metropolitan areas such as Northern Utilities service territory. Additionally, Northern Utilities provides further diversification to our operations with respect to geography (into Maine) and utility business mix (between our gas and electric divisions).

Reduced Operating Expenses and Cash Flow Savings. We project that the Acquisitions will produce annual system-wide synergy savings of approximately $5.6 million, of which approximately $2.4 million is expected to be directly realized by Northern Utilities and Granite State. We expect to begin realizing these synergy savings within the first year after integration. These projected savings are primarily due to operating efficiencies obtained from economies of scale, efficient use of our personnel, infrastructure and information systems, achievement of efficiencies associated with the provision of shared utility services and adoption of best practices associated with these shared utility services. Our expected achievement of these system-wide synergy savings should allow Northern Utilities and our other retail distribution utilities to improve their respective earnings and to stabilize the rates charged to their respective customers.

Pursuant to the MPUC s and NHPUC s orders authorizing our acquisition of Northern Utilities, we will retain these system-wide synergy savings until the time of the next rate case for Northern Utilities. In this way, these synergy savings will help to extend the period between rate cases and stabilize rates for our retail distribution utilities and Northern Utilities by reducing their costs of service and improving operating results. At the time of the next base rate case, these synergy savings will be reflected in the cost of service used to determine Northern Utilities revenue requirements for ratemaking purposes.

Opportunity for Improved Regulated Utility Operating Earnings through the Execution of Our Regulatory Plan. We believe there is an opportunity to stabilize and improve the operating earnings of Northern Utilities and Granite State by executing a consistent and well-structured regulatory plan that provides Northern Utilities and Granite State with an opportunity to earn a reasonable rate of return. Northern Utilities has not sought base rate relief since 1983 in Maine or since 2002 in New Hampshire. Our regulatory plan will seek to maximize the benefits of the expected synergy savings discussed above for Northern Utilities and Granite State and provide Northern Utilities and Granite State with an opportunity to earn a reasonable rate of return on their utility rate base.

Pursuant to the MPUC s and NHPUC s orders authorizing our acquisition of Northern Utilities, we cannot seek base rate relief in Maine or New Hampshire until November 1, 2010, subject to certain exceptions. At such time, the system-wide synergy savings discussed above will be reflected in the cost of service used to determine Northern Utilities revenue requirements for ratemaking purposes.

Increased Market Capitalization and Liquidity. We expect that the Acquisitions and this offering will increase our market capitalization by approximately 34.6% and increase our shareholders liquidity. As a result, we and our shareholders should benefit from the long-term financial stability of a larger, more liquid company.

We also believe that the Acquisitions and related transactions will result in the following significant benefits to our other stakeholders:

Increased Commitment to Local Communities. We expect the Acquisitions to demonstrate our increased commitment to local communities in New Hampshire and Maine through the creation of employment opportunities and the expansion of our local presence. We anticipate retaining all of Northern Utilities employees and estimate that we will add approximately 65 new positions, while still achieving the expected synergy savings discussed above. The new positions will be primarily in the areas of gas

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operations and customer service, which are necessary to provide shared utility services previously provided by NiSource and included in the Northern Utilities and Granite State operating expenses.

Improved Customer Convenience and Service. We anticipate that the overlap between portions of our electric service territory in southeastern New Hampshire and portions of Northern Utilities natural gas service territory will increase the convenience for many of Northern Utilities customers who are now doing business with a single gas and electric distribution utility as a result of the Acquisitions. Additionally, we estimate that we will add several new positions to our customer service department.

Accounting Treatment of the Acquisitions

We accounted for the Acquisitions under the purchase method of accounting for business combinations, in accordance with FASB Statement No. 141, Business Combinations (SFAS No. 141). In that process, we recognized and measured the identifiable assets acquired and the liabilities assumed at fair value. Also, we measured and recognized any acquisition adjustment related to a purchase premium or bargain relative to the fair values acquired against the purchase price.

Pursuant to SFAS No. 141, an acquiring entity shall allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. Accordingly, any difference between the fair value of acquired assets and liabilities (including identifiable intangible assets) and book value represents a purchase premium or bargain.

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NORTHERN UTILITIES   BUSINESS AND FINANCIAL INFORMATION

Description of Business

Business Overview

Northern Utilities is a retail natural gas distribution utility serving customers in Maine and New Hampshire. Northern Utilities provides natural gas distribution services to approximately 52,000 customers in 44 New Hampshire and southern Maine communities, from Plaistow, New Hampshire in the south to Lewiston-Auburn, Maine in the north.

Northern Utilities had an investment in Net Utility Plant of $163.5 million at December 31, 2007 and $169.4 million at September 30, 2008, and net revenues of $44.2 million for 2007 and $31.0 million for the nine months ended September 30, 2008. Northern Utilities derives its revenues and earnings from its regulated utility operations. Northern Utilities recovers the cost of purchased natural gas in rates on a fully reconciling basis and, therefore, Northern Utilities earnings are not affected by changes in the cost of purchased gas. Prior to the closing of the Acquisitions, Northern Utilities received centralized administrative, management, and support services from NiSource and its affiliates, the cost of which amounted to $8.6 million in 2007 and $6.8 million for the nine months ended September 30, 2008.

Corporate History

Northern Utilities was incorporated under the laws of New Hampshire in 1979. In 1979, Northern Utilities became a wholly owned subsidiary of Bay State. NiSource completed its acquisition of Bay State in 1999. We acquired Northern Utilities on December 1, 2008.

Description of the System

Northern Utilities distribution system is comprised of 932 miles of gas mains and 37,506 service pipes as of December 31, 2007. The gas mains are primarily made up of polyethylene plastic (64%), coated and wrapped cathodically protected steel (22%), cast/wrought iron (9%), and unprotected bare and coated steel (5%). Northern Utilities distribution system provides natural gas to approximately 52,000 customers in 44 New Hampshire and southern Maine communities.

Northern Utilities New Hampshire division serves approximately 27,000 customers in 21 communities. The New Hampshire division has 469 miles of distribution gas mains as of year end 2007, of which bare steel and cast iron pipe comprised 47 miles, or approximately 10% of the New Hampshire system. In addition, the New Hampshire division had 19,009 service pipes as of year end 2007 of which 468 are bare steel and cast iron service pipes, or approximately 2% of the New Hampshire system.

Northern Utilities Maine division serves approximately 25,000 customers in 23 communities. The Maine division had 463 miles of distribution gas mains as of year end 2007, of which bare steel and cast iron pipe comprised 78 miles, or approximately 17% of the Maine system. Of these 78 miles, only 4 miles consist of bare steel and the remaining 74 miles consist of cast iron. In addition, the Maine division had 18,497 service pipes as of year end 2007 of which 830 are bare steel, or approximately 4% of the Maine system.

Northern Utilities utilizes Itron remote meter reading technology which provides for cost-effective monthly remote meter reading via a drive-by van. The automated meter reading has been fully deployed in New Hampshire and is in the process of being deployed in the Maine system.

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Customers

Key Customers

Northern Utilities serves a diverse base of residential and commercial customers. The following table shows the top five customers by revenue for 2007 in Northern Utilities Maine division and in its New Hampshire division. Together, these customers represented approximately 9% of Northern Utilities net revenues in 2007.

Northern Utilities Maine	Northern Utilities New Hampshire
1. Portsmouth Naval Shipyard	1. University of New Hampshire Cogen
2. Knight Celotex, LLC	2. National Gypsum Company
3. Maine Medical Center	3. Foss Manufacturing
4. Fairchild Semiconductor	4. University of New Hampshire
5. Pioneer Plastics Corporation	5. Lonza Biologics

Customer Base

The following table shows the breakdown of Northern Utilities residential and commercial customers from 2000 to 2007:

	2000	2001	2002	2003	2004	2005	2006	2007
Residential Customers	35,863	36,580	37,272	37,796	37,962	38,166	38,497	38,983
Commercial Customers	12,836	12,898	13,087	13,127	13,188	13,705	13,848	13,899
Total Customers	48,699	49,478	50,359	50,923	51,150	51,871	52,345	52,882

Seasonality

Natural gas sales in New England are seasonal, and Northern Utilities results of operations, like all New England gas companies, reflect this seasonal dependency. Annual revenues are substantially realized during the heating season as a result of higher sales of natural gas due to winter weather. Accordingly, operating results historically are higher in the first and fourth calendar quarters. Therefore, fluctuations in seasonal weather among years may have a significant effect on Northern Utilities results of operations and cash flows.

Gas Supply Resources

Northern Utilities supply portfolio is made up of a combination of long-term supply, transportation and storage and peaking contracts that serve the combined New Hampshire and Maine system.

Supply Resources

Northern Utilities service territory has access to major interstate pipelines via Granite State, facilitating security, diversity and competitiveness of gas supply. Northern Utilities currently has long-term transportation contracts with Tennessee Gas Pipeline, TransCanada Pipeline, and Portland Natural Gas Transmission Systems (PNGTS).

A significant portion of Northern Utilities revenue is related to the recovery of all incurred gas costs, the review and recovery of which occurs through standard semi-annual regulatory proceedings. Northern Utilities recovers the cost of purchased natural gas in rates on a fully reconciling basis, and therefore earnings are not affected by changes in purchased gas costs.

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Transportation Resources

Northern Utilities has upstream transportation paths that deliver supply to its gates. The upstream pipelines that transport supply to Northern Utilities are Granite State, PNGTS, Tennessee Gas Pipeline, Texas Eastern, TransCanada Pipeline, Union, and Vector.

Storage Resources

Northern Utilities contracts for underground storage facilities located in Michigan and Pennsylvania and a small facility in the West Virginia / Pennsylvania area located off of Texas Eastern. Together, these assets provide Northern Utilities with approximately 66% of its winter gas supply requirements and provide the opportunity for a physical hedge against price volatility.

Lewiston LNG and Portland LPG Facilities

Northern Utilities owns two peak-shaving gas production facilities. The Lewiston LNG Plant, located in Maine, is a liquid methane storage and vaporization facility rated at 1400 thousand cubic feet per hour. The Portland LPG Plant, also located in Maine, is a liquid petroleum storage and vaporization facility rated at 300 thousand cubic feet per hour.

Regulatory Matters

Northern Utilities Maine and New Hampshire divisions deliver natural gas to all customers in their service territory. Effective September 21, 2001, the MPUC authorized any natural gas utility providing gas distribution service in Maine to provide gas distribution service to any municipality in Maine that is not already being served by another natural gas utility.

Northern Utilities provides service at rates established under traditional cost of service regulation. Under this regulatory structure, Northern Utilities recovers the cost of providing distribution service to its customers based on a historical test year, in addition to earning a return on its capital investment in utility assets. As a result of a restructuring of the utility industry in Maine and New Hampshire, Northern Utilities retail and C&I customers have the opportunity to purchase their natural gas supplies from third party vendors. Most customers, however, continue to purchase such supplies through Northern Utilities as the provider of last resort. Northern Utilities purchases natural gas from unaffiliated wholesale suppliers and recovers the actual costs of these supplies on a pass-through basis through reconciling rate mechanisms that are periodically adjusted.

The NHPUC approved a settlement agreement in 2002 setting base rates for Northern Utilities New Hampshire division, which reflected an overall rate of return of 7.85% and a return on equity of 9.67%. Northern Utilities has not sought base rate relief since 1983 in Maine.

For additional information regarding Northern Utilities regulatory matters, please see the section entitled *Northern Utilities Business and Financial Information Management s Discussion and Analysis of Financial Condition and Results of Operations*.

Environmental Matters

For over 10 years, Northern Utilities has had an extensive program to identify, investigate and remediate former MGPs. These plants were operated from the mid 1800s through the mid 1900s. This program has documented the presence of MGPs in Lewiston and Portland, Maine. In New Hampshire, MGPs were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. A former MGP disposal site was also identified in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both Maine and New Hampshire to address environmental concerns with these sites.

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

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

Northern Utilities accrues liabilities for costs associated with environmental remediation obligations when such costs are probable and can be reasonably estimated, regardless of when the expenditures are made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and, when possible, site-specific costs. The accrued liability is adjusted as further information is developed or circumstances change. Northern Utilities establishes a regulatory asset on the balance sheet to the extent that future recovery of environmental remediation cost is probable through the regulatory process.

Northern Utilities had current and non-current accrued liabilities totaling $1.7 million, $2.1 million and $3.7 million as of September 30, 2008, December 31, 2007 and December 31, 2006, respectively. These liabilities reflect estimated expenditures for six former MGP sites, of which three sites are in Maine and three sites are in New Hampshire, as of September 30, 2008, December 31, 2007 and December 31, 2006.

Legal Proceedings

In the normal course of its business, Northern Utilities has been named as defendant in various legal proceedings. In the opinion of Northern Utilities management, as discussed in Note 10 to its financial statements at December 31, 2007, the ultimate disposition of these currently asserted claims will not have a material adverse impact on Northern Utilities financial position or results of operations.

Employees

As of September 30, 2008, Northern Utilities had 76 full-time employees. Northern Utilities considers its relationship with employees to be good and has not experienced any major labor disruptions. We anticipate retaining all of Northern Utilities employees, of which 57 employees were subject to collective bargaining agreements as of September 30, 2008. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages.

The current agreement with the Utility Workers Union of America is set to expire on March 31, 2009 and covered 28 employees in Northern Utilities Maine division as of September 30, 2008. The current agreement with the United Steel Workers of America is set to expire June 5, 2010 and covered 29 employees in Northern Utilities New Hampshire division as of September 30, 2008.

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Selected Historical Financial Data

The following table shows selected historical financial data of Northern Utilities for the periods and as of the dates indicated. The selected historical financial data of Northern Utilities as of December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 are derived from the audited historical financial statements of Northern Utilities appearing elsewhere in this prospectus. The selected historical financial data of Northern Utilities as of September 30, 2008 and 2007 and for the nine months ended September 30, 2008 and 2007 are derived from the unaudited condensed financial statements of Northern Utilities appearing elsewhere in this prospectus. The selected historical financial data of Northern Utilities as of December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 are derived from unaudited financial statements not included herein. The table should also be read together with the section entitled *Northern Utilities Business and Financial Information Management s Discussion and Analysis of Financial Condition and Results of Operations*.

Sales of natural gas and the related results of operations can be significantly affected by seasonal weather conditions. Annual revenues are substantially realized during the heating season as a result of higher sales of natural gas due to cold weather. Accordingly, operating results historically are most favorable in the first and fourth calendar quarters. Therefore, fluctuations in seasonal weather conditions between years may have a significant effect on results of operations and cash flows.

(millions)	For the Nine Months Ended September 30, 2008	2007 (unaudited)	For the Year Ended December 31, 2007	2006	2005	2004 (unaudited)	2003 (unaudited)
Statements of Earnings:							
Net Revenues	$ 31.0	$ 31.4	$ 44.2	$ 38.4	$ 40.2	$ 41.1	$ 40.8
Operating Income	$ 0.6	$ 4.1	$ 6.7	$ 4.7	$ 7.6	$ 10.9	$ 13.8
Interest Expense, net and other	2.1	2.1	2.8	2.6	2.4	2.8	3.5
Income Taxes	(0.3)	1.1	1.7	0.8	2.2	4.2	4.3
Net (Loss) Income	$ (1.2)	$ 0.9	$ 2.2	$ 1.3	$ 3.0	$ 3.9	$ 6.0

(millions)	As of September 30, 2008	2007 (unaudited)	As of December 31, 2007	2006	2005 (unaudited)	2004 (unaudited)	2003 (unaudited)
Balance Sheet Data:							
Utility Plant (Original Cost)	$ 229.5	$ 216.4	$ 219.5	$ 205.7	$ 193.1	$ 184.6	$ 176.9
Total Assets	$ 327.4	$ 304.6	$ 314.9	$ 327.7	$ 313.2	$ 278.9	$ 280.0
Capitalization:							
Common Stock Equity	$ 120.4	$ 120.3	$ 121.6	$ 119.6	$ 116.9	$ 117.9	$ 114.9
Long-Term Debt, less Current Portion		61.7	61.7	62.5	63.3	64.2	65.0
Total Capitalization	$ 120.4	$ 182.0	$ 183.3	$ 182.1	$ 180.2	$ 182.1	$ 179.9
Current Portion of Long-Term Debt	$ 61.7	$ 0.8	$ 0.8	$ 0.8	$ 0.8		