UNITIL CORP
Form 10-Q
October 27, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2006

Commission File Number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

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

Class	**Outstanding at October 26, 2006**
Common Stock, No par value	5,641,564 Shares

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

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PART I. FINANCIAL INFORMATION

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

SAFE HARBOR CAUTIONARY STATEMENT

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

These statements include declarations regarding Management s beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential or negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include the following:

- Variations in weather;
- Changes in the regulatory environment;
- Customers preferences on energy sources;
- Interest rate fluctuation and credit market concerns;
- General economic conditions;
- Increased competition; and
- Fluctuations in supply, demand, transmission capacity and prices for energy commodities.

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

RESULTS OF OPERATIONS

Earnings Overview

The Company s Earnings Applicable to Common Shareholders was $1.8 million for the third quarter of 2006, an increase of $0.2 million compared to the same period in 2005. The improvement in earnings was primarily driven by the recent approval of new electric distribution base rates for Unitil Energy Systems, Inc. (UES), Unitil s New Hampshire electric utility subsidiary. Earnings per common share were $0.32 for the third quarter of 2006, an improvement of $0.04 per share compared with earnings of $0.28 per share for the third quarter of 2005.

For the nine month period ended September 30, 2006, earnings were $5.2 million compared to $5.7 million in 2005. Through the first nine months, earnings per share were $0.93 for 2006 compared with $1.03 per share for 2005. This decrease in earnings for the nine-month period reflects lower gas and electric sales primarily due to milder weather this year compared to 2005. The impact of the New Hampshire electric distribution base case is reflected in the Company s consolidated financial statements for both the three and nine month periods ending September 30, 2006.

On October 6, 2006, UES received approval from the New Hampshire Public Utilities Commission (NHPUC) of a settlement agreement, resolving all issues in its electric distribution base rate case filed in November 2005. Included in this Settlement Agreement is an increase in UES electric base distribution rates of $2.3 million applied as of January 1, 2006; two future step increases to base rates totaling approximately $0.5 million related

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to utility plant additions in 2006; the recovery of $0.3 million of supply related costs through default service energy rates; a reduction of approximately $0.6 million in annual depreciation expense; and, the resolution of the recovery in rates of pension and other postretirement benefit costs and other operating costs.

Total electric kWh sales were 3.2% and 1.7% lower in the three and nine months ended September 30, 2006, respectively, reflecting milder weather and a decline in average energy usage per customer during the period of higher energy prices. The weather in the Company s service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, resulting in lower consumption of electricity for heating related purposes. During the summer of 2006 the weather in the Company s service territories was approximately 11% cooler than in the same period for 2005, resulting in lower consumption of electricity for air conditioning purposes. Although the Company established a new record for peak electricity demand use by its customers in early August of 2006, the duration of very hot weather during this period was shorter than the extended period of very hot weather experienced during the summer of 2005. As a result, weather sensitive electric kWh sales in 2006 lagged behind same period sales in 2005.

Electric sales margin was lower in the three and nine month periods ended September 30, 2006, primarily reflecting a decrease in revenue related to the expiration of the Seabrook Amortization Surcharge (SAS) in late 2005. This decrease in SAS revenue is largely matched with a corresponding decrease in amortization expenses on Regulatory Assets, and therefore has no material impact on net income (see discussion on Depreciation and Amortization below). Absent the decrease in SAS revenues, electric sales margin increased $0.3 million and $2.2 million in the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. The higher sales margins in the three and nine months ended September 30, 2006, primarily reflect the Company s recently approved base rate increase in New Hampshire.

Total therm sales of natural gas increased 32.0% and 11.7% in the three and nine months ended September 30, 2006, respectively, compared to the same periods in 2005. The increases in both of these periods were due to a new gas sales contract with a large industrial customer. Absent the sales from this new special contract, total gas therm sales were approximately 5.6% and 9.8% lower for the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. The declines in sales, absent the sales from the new contract discussed above, reflect significantly milder winter weather in 2006 and lower average energy usage by customers during a period of higher energy prices. The weather in the Company s service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, and the region as a whole experienced a record warm January.

Gas sales margin for the three month period ended September 30, 2006 was flat to the same period in 2005 and decreased $0.6 million in the nine month period ended September 30, 2006 compared to the same period in 2005. The decrease in gas margin is attributable to lower therm sales volume to customers as discussed above. Margin sharing under the special contract with a large industrial customer discussed above is currently pending approval from the MDTE. Accordingly, pending the results of this proceeding, the Company is recording revenue from this contract on a reduced basis and therefore the significant increase in gas sales due to this contract is not matched by a similar increase in sales margin.

Total Operation and Maintenance expenses decreased $0.2 million in the three month period ended September 30, 2006 compared to the same period in 2005. For the nine month period ended September 30, 2006, Operation and Maintenance expenses increased $1.3 million compared to the same period in 2005, reflecting higher retiree and employee benefit costs of $0.7 million, higher salaries and compensation expenses of $0.6 million and an increase in all other operating expenses of $0.2 million, net, partially offset by lower audit and legal fees of $0.2 million.

Depreciation and Amortization expense decreased $1.4 million and $2.9 million for the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. These decreases were due to lower utility plant depreciation rates resulting from the New Hampshire rate settlement and lower amortization on regulatory assets as a result of the expiration of the SAS, discussed above, partially offset by increased depreciation on normal utility plant additions.

Interest Expense, Net increased by $0.4 million and $0.7 million in the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. The change in Interest Expense, Net was primarily driven by a higher weighted average cost of debt in 2006 compared to 2005. Unitil s subsidiary,

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UES issued and sold $15 million of Series O, 6.32% First Mortgage Bonds to institutional investors on September 26, 2006. The proceeds from this financing were used principally to permanently finance long-lived utility plant additions that had been previously financed on an interim basis with short-term bank borrowings.

Operating Revenues Electric

Electric Operating Revenues Total Electric Operating Revenues, increased by $8.6 million, or 16.4%, and by $25.5 million, or 17.5%, in the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. Total Electric Operating Revenues include the recovery of costs of electric sales, which are recorded as Purchased Electricity and Conservation & Load 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 $9.4 million, offset by lower sales margin of $0.8 million. The net increase in Total Electric Operating Revenues in the nine month period reflects higher Purchased Electricity costs of $26.6 million, offset by lower sales margin of $1.0 million and lower C&LM revenues of $0.1 million.

Purchased Electricity and C&LM revenues increased a net $9.4 million, or 17.9%, and $26.6 million, or 18.3%, of Total Electric Operating Revenues in the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005, reflecting higher electric commodity prices and lower spending on energy efficiency programs that were implemented during those periods. 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. The Company recovers the cost of Purchased Electricity and C&LM in its rates at cost on a pass through basis.

Electric sales margin was lower in the three and nine month periods ending September 30, 2006, primarily reflecting a decrease in revenue related to the expiration of the Seabrook Amortization Surcharge (SAS) in late 2005. This decrease in SAS revenue is largely matched with a corresponding decrease in amortization expenses on Regulatory Assets, and therefore has no material impact on net income (see discussion on Depreciation and Amortization below). Absent the decrease in SAS revenues, electric sales margin increased $0.3 million and $2.2 million in the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. The higher sales margins in the three and nine months ended September 30, 2006, primarily reflect the Company s recently approved base rate increase in New Hampshire.

The following table details total Electric Operating Revenues and Sales Margin for the three and nine month periods ended September 30, 2006 and 2005:

Electric Operating Revenues and Sales Margin (millions)

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2006	**2005**	**$ Change**	**% Change[1]**	**2006**	**2005**	**$ Change**	**% Change[1]**
Electric Operating Revenue:								
Residential	**$ 29.3**	$ 22.4	$ 6.9	13.1%	**$ 76.9**	$ 62.0	$ 14.9	10.2%
Commercial / Industrial	**31.9**	30.2	1.7	3.2%	**94.1**	83.5	10.6	7.3%
Total Electric Operating Revenue	**$ 61.2**	$ 52.6	$ 8.6	16.4%	**$ 171.0**	$ 145.5	$ 25.5	17.5%
Cost of Electric Sales:								
Purchased Electricity	**$ 46.4**	$ 37.0	$ 9.4	17.9%	**$ 126.9**	$ 100.3	$ 26.6	18.3%
Conservation & Load Management	**0.9**	0.9			**2.7**	2.8	(0.1)	(0.1)%
Electric Sales Margin	**$ 13.9**	$ 14.7	$ (0.8)	(1.5)%	**$ 41.4**	$ 42.4	$ (1.0)	(0.7)%

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

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Kilowatt-hour Sales - Unitil s total electric kWh sales were 3.2% and 1.7% lower in the three and nine months ended September 30, 2006, respectively, reflecting milder weather and a decline in average energy usage per customer during the period of higher energy prices. The weather in the Company s service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, resulting in lower consumption of electricity for heating related purposes. During the summer of 2006 the weather in the Company s service territories was approximately 11% cooler than in the same period for 2005, resulting in lower consumption of electricity for air conditioning purposes. Although the Company established a new record for peak electricity demand use by its customers in early August of 2006, the duration of very hot weather during this period was shorter than the extended period of very hot weather experienced during the summer of 2005. As a result, weather sensitive electric kWh sales in 2006 lagged behind same period sales in 2005.

The following table details total kWh sales for the three and nine months ended September 30, 2006 and 2005 by major customer class:

kWh Sales (millions)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006	**2005**	**Change**	**% Change**	**2006**	**2005**	**Change**	**% Change**
Residential	**188.6**	193.8	(5.2)	(2.7)%	**521.5**	529.0	(7.5)	(1.4)%
Commercial / Industrial	**294.9**	305.5	(10.6)	(3.5)%	**825.5**	840.9	(15.4)	(1.8)%
Total	**483.5**	499.3	(15.8)	(3.2)%	**1,347.0**	1,369.9	(22.9)	(1.7)%

Operating Revenues - Gas

Gas Operating Revenues Total Gas Operating Revenues increased $0.9 million, or 25.7%, and $3.3 million, or 15.6%, in the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. 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 net increase in Total Gas Operating Revenues in the three month period reflects higher Purchased Gas costs of $0.9 million. The net increase in Total Gas Operating Revenues in the nine month period reflects higher Purchased Gas costs of $3.9 million, offset by lower sales margin of $0.6 million.

Purchased Gas and C&LM revenues increased a net $0.9 million, or 25.7%, and $3.9 million, or 18.4%, of Total Gas Operating Revenues in the three and nine month periods ended September 30, 2006, respectively, compared to the same period in 2005, reflecting higher gas commodity prices, higher unit sales and relatively flat spending on energy efficiency programs that were implemented during those periods. 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. The Company recovers the cost of Purchased Gas and C&LM in its rates at cost on a pass through basis.

Gas sales margin for the three month period ended September 30, 2006 was flat to the same period in 2005 and decreased $0.6 million in the nine month period ended September 30, 2006 compared to the same period in 2005. The decrease in gas margin is attributable to lower therm sales volume to customers. Margin sharing under the special contract with a large industrial customer discussed above is currently pending approval from the MDTE. Accordingly, pending the results of this proceeding, the Company is recording revenue from this contract on a reduced basis and therefore the significant increase in gas sales due to this contract is not matched by a similar increase in sales margin.

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The following table details total Gas Operating Revenues and Sales Margin for the three and nine months ended September 30, 2006 and 2005:

Gas Operating Revenues and Sales Margin (millions)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006	**2005**	**$ Change**	**% Change[1]**	**2006**	**2005**	**$ Change**	**% Change[1]**
Gas Operating Revenue:								
Residential	**$ 2.0**	$ 1.8	$ 0.2	5.7%	**$ 13.0**	$ 12.4	$ 0.6	2.8%
Commercial / Industrial	**1.4**	1.6	(0.2)	(5.7)%	**9.2**	8.6	0.6	2.8%
Total Firm Gas Revenue	**$ 3.4**	$ 3.4	$		**$ 22.2**	$ 21.0	$ 1.2	5.6%
Interruptible Gas Revenue	**1.0**	0.1	0.9	25.7%	**2.2**	0.1	2.1	10.0%
Total Gas Operating Revenue	**$ 4.4**	$ 3.5	$ 0.9	25.7%	**$ 24.4**	$ 21.1	$ 3.3	15.6%
Cost of Gas Sales:								
Purchased Gas	**$ 2.8**	$ 1.9	$ 0.9	25.7%	**$ 17.1**	$ 13.2	$ 3.9	18.4%
Conservation & Load Management					**0.2**	0.2		
Gas Sales Margin	**$ 1.6**	$ 1.6	$		**$ 7.1**	$ 7.7	$ (0.6)	(2.8)%

[1] Represents change as a percent of Total Gas Operating Revenue.

Therm Sales Unitil s total therm sales of natural gas increased 32.0% and 11.7% in the three and nine months ended September 30, 2006, respectively, compared to the same periods in 2005. The increases in both of these periods were due to a new gas sales contract with a large industrial customer. Absent the sales from this new contract, total sales were approximately 5.6% and 9.8% lower for the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. The declines in sales, absent the sales from the new contract discussed above, reflect significantly milder winter weather in 2006 and lower average energy usage by customers during a period of higher energy prices. The weather in the Company s service territories in the winter of 2006 was approximately 12% warmer than in the same period for 2005, and the region as a whole experienced a record warm January.

The following table details total firm therm sales for the three and nine months ended September 30, 2006 and 2005, by major customer class:

Therm Sales (millions)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006	**2005**	**Change**	**% Change**	**2006**	**2005**	**Change**	**% Change**
Residential	**0.7**	0.7			**7.7**	8.6	(0.9)	(10.5)%
Commercial / Industrial	**2.6**	1.8	0.8	44.4%	**12.4**	9.4	3.0	31.9%
Total	**3.3**	2.5	0.8	32.0%	**20.1**	18.0	2.1	11.7%

Operating Revenue - Other

Total Other Revenue increased $0.2 million, or 28.7%, and $0.4 million, or 26.8% in the three and nine month periods ended September 30, 2006, respectively, compared to the same periods in 2005. These increases were the result of growth in revenues from the Company s unregulated 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 Company will also realize future fees, estimated at the end of September, of $3.7 million from executed energy supply contracts running 2007 through 2011.

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The following table details total Other Revenue for the three and nine months ended September 30, 2006 and 2005:

Other Revenue (000 s)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006	2005	$ Change	% Change	2006	2005	$ Change	% Change
Other	**$ 678**	$ 527	151	28.7%	**$ 1,877**	$ 1,480	$ 397	26.8%