

TAX SHARING AGREEMENT

AGREEMENT made as of *September 10*, 1985, among Concord Electric Company a New Hampshire corporation, Exeter & Hampton Electric Company a New Hampshire corporation, UNITIL Service Corp., a New Hampshire corporation, and UNITIL Power Corp., a New Hampshire corporation and UNITIL Corporation ("UNITIL"), a New Hampshire corporation ("AFFILIATE" companies or, collectively, the "AFFILIATES"). Whenever it is intended to include UNITIL in the context of the affiliated group, the term "CONSOLIDATED AFFILIATE" or "CONSOLIDATED AFFILIATES" may be used, and when reference is to the affiliated group as a collective tax paying unit the term "Group" may be used.

WHEREAS, UNITIL owns at least 80 percent of the issued and outstanding shares of each class of voting common stock of each of the AFFILIATES: each of the CONSOLIDATED AFFILIATES is a member of an affiliated group within the meaning of section 1504 of the Internal Revenue Code of 1954, as amended (the "Code"), of which UNITIL is the common parent corporation; and UNITIL proposes to include each of the AFFILIATES in filing a consolidated income tax return for the calendar year 1985;

NOW, THEREFORE, UNITIL and the AFFILIATES agree as follows:

1. Consolidated Return Election. If at any time and from time to time UNITIL so elects, each of the AFFILIATES will join in the filing of a consolidated Federal income tax return for the calendar year 1985 and for any subsequent period for which the Group is required or permitted to file such a return. UNITIL and its affiliates agree to file such consents, elections and other documents and to take such other action as may be necessary or appropriate to carry out the purposes of this Section 1. Any period for which any of the AFFILIATES is included in a consolidated Federal

income tax return filed by UNITIL is referred to in this Agreement as a "Consolidated Return Year".

2. AFFILIATES' Liability to UNITIL for Consolidated Return Year. Prior to the filing of each consolidated return by UNITIL each of the AFFILIATES included therein shall pay to UNITIL the amount, if any, of the Federal income tax for which the AFFILIATES would have been liable for that year, computed in accordance with Treasury Regulations, section 1.1552-1(a)(2)(ii) as though that AFFILIATE had filed a separate return for such year, giving effect to any net operating loss carryovers, capital loss carryovers, investment tax credit carryovers, foreign tax credit carryovers or other similar items, incurred by that AFFILIATE for any period ending on or before the date of this Agreement.

The foregoing allocation of Federal income tax liability is being made in accordance with Treasury Regulations, sections 1.1552-1(a)(2) and 1.1502-33(d)(2)(ii), and no amount shall be allocated to any CONSOLIDATED AFFILIATE in excess of the amount permitted under Treasury Regulations, section 1.1502-33(d)(2)(ii). Accordingly, after taking into account the allocable portion of the Group's Federal income tax liability, no amount shall be allocated to any CONSOLIDATED AFFILIATE in excess of the amount permitted in accordance with Treasury Regulations, section 1.1502-33(d)(2)(ii).

3. UNITIL Liability to Each Affiliate for Consolidated Return Year. If for any Consolidated Return Year, any AFFILIATE included in the consolidated return filed by UNITIL for such year has available a net operating loss, capital loss, foreign tax credit, investment tax credit or similar items (computed by taking into account carryovers of such items from periods ending on or before the date of this Agreement) that reduces the consolidated tax liability of the Group below the amount that would have been payable if that AFFILIATE did not have such item available, UNITIL shall pay the amount of the reduction attributable to such AFFILIATE prior to the filing of the consolidated return for such year.

The amount of the reduction shall be equal to a portion of the excess of (i) the total of the separate return tax liabilities of each of the CONSOLIDATED AFFILIATES computed in accordance with Section 2 of this Agreement, over (ii) the Federal income tax liability of the Group for the year. The portion of such reduction attributable to an AFFILIATE shall be computed by multiplying the total reduction by a fraction, the numerator of which is the value of the tax benefits contributed by the AFFILIATE to the Group and the denominator of which is the value of the total value of such benefits contributed by all CONSOLIDATED AFFILIATES during the year.

For purposes of the foregoing paragraph a deduction or credit generated by a CONSOLIDATED AFFILIATE which is in excess of the amount required to eliminate its separate tax return liability but which is utilized in the computation of the Federal income tax liability of

the Group shall be deemed to be a tax benefit contributed by the CONSOLIDATED AFFILIATE to the Group. The value of a deduction which constitutes such a benefit shall be determined by applying the current corporate income tax rate, presently 46 percent, to the amount for the deduction. The value of a credit that constitutes such a benefit shall be the tax savings, currently 100 percent thereof. The value of capital losses used to offset capital gains shall be computed at the then current rate applicable to capital gains for corporations.

4. Payment of Estimated Taxes. Prior to the paying and filing of estimated consolidated tax declaration by UNITIL, each of the AFFILIATES included in such estimated tax declaration shall pay to UNITIL the amount, if any, of the estimated Federal income tax for which the AFFILIATE would have been liable for that year, computed as though that AFFILIATE had filed a separate estimated tax declaration for such year.
5. Tax Adjustments. In the event of any adjustments to the consolidated tax return as filed (by reason of an amended return, a claim for refund or an audit by the Internal Revenue Service), the liability, if any, of each of the AFFILIATES under Sections 2, 3, and 4 shall be redetermined to give effect to any such adjustment as if it had been made as part of the original computation of tax liability, and payments between UNITIL and the appropriate AFFILIATES shall be made within 120 days after any such payments are made or refunds are received, or, in the case of contested proceedings, within 120 days after a final determination of the contest.

Interest and penalties, if any, attributable to such an adjustment shall be paid by each AFFILIATE to UNITIL in proportion to the increase in such AFFILIATE'S separate return tax liability that is required to be paid to UNITIL, as computed under Section 2.

6. Subsidiaries of Affiliates. If at any time, any of the AFFILIATES acquire or creates one or more subsidiary corporations that are includable corporations of the Group, they shall be subject to this Agreement and all references to the AFFILIATES herein shall be interpreted to include such subsidiaries as a group.
7. Successors. This Agreement shall be binding on and inure to the benefit of any successor, by merger, acquisition of assets or otherwise, to any of the parties hereto (including but not limited to any successor of UNITIL or any of the AFFILIATES succeeding to the tax attributes of such corporation under section 381 of the Code) to the same extent as if such successor had been an original party to this Agreement.
8. Affiliates' Liability for Separate Return Years. If any of the AFFILIATES leaves the Group and files separate Federal income tax returns, within 120 days of the end of each of the first fifteen taxable years for which it files such returns, it shall pay to UNITIL the excess, if any, of (A) Federal income tax that such AFFILIATE would have paid for such year (on a separate return basis giving effect to its net operating loss carryovers) if it never had been a

member of the Group, over (b) the amount of Federal income tax such AFFILIATE has actually paid or will actually pay for such years.

9. Examples of Calculations. Attached hereto and made part hereof, as "Appendix A To Tax Sharing Agreement By And Between UNITIL Corporation And Its Affiliated Companies", are illustrative examples of the matters contained herein.

IN WITNESS WHEREOF, the duly authorized representatives of the parties hereto have set their hands this tenth day of September, 1985.

UNITIL CORPORATION

By Michael J. Raben
Its President

EXETER & HAMPTON ELECTRIC COMPANY

By Michael J. Raben
Its President

CONCORD ELECTRIC COMPANY

By Michael J. Raben
Its President

UNITIL POWER CORP.

By Michael J. Raben
Its President

UNITIL SERVICE CORP.

By Peter J. Stulgis
Its President

APPENDIX A TO TAX SHARING AGREEMENT
BY AND BETWEEN UNITIL CORPORATION AND ITS
AFFILIATED COMPANIES

The allocation agreement follows the Internal Revenue Service regulations for "basic" and "supplemental" allocation of consolidated return liability and benefits.

The "basic" method used to allocate UNITIL'S liability shown on the consolidated return is provided by Internal Revenue Code section 1552(a) and provides for allocation based on the amount of tax liability calculated on a separate return basis.

The "supplemental" method provides that the tax savings of credits and deductions in excess of the amount of an individual company can use, but which can be used in consolidations, is allocated among the members supplying the savings and the benefiting members reimburse them.

For example, assume that a three member group has consolidated taxable income and consolidated tax liability of \$200,000 and \$100,000 respectively. The individual members, A, B, and C have separate return taxable income (loss) of \$150,000 \$100,000 and \$(50,000) and the individual members have separate return liabilities of \$75,000, \$50,000 and none, respectively. (Loss members are deemed to have a zero tax liability). Under the proposed method, the individual tax liability and benefit is allocated as follows:

<u>Member</u>	<u>A</u>	<u>B</u>	<u>C</u>
Taxable income (loss)	\$150,000	\$100,000	\$(50,000)
Separate Tax Liability	75,000	50,000	none
Percent of Total (\$125,000)	60%	40%	0%
Consolidated Tax Allocation	60,000	40,000	none
Separate Tax Liability	75,000	50,000	0
Less Consolidated Tax	<u>60,000</u>	<u>40,000</u>	0
	15,000	10,000	0
	<u>100%</u>	<u>100%</u>	
Supplemental Allocation	15,000	10,000	0
Benefits paid to C	<u>\$(15,000)</u>	<u>\$(10,000)</u>	<u>\$(25,000)</u>

Regulation 1.1502-33(d) provides the "supplemental" method of allocating tax liability in order to permit members to receive reimbursement for contributing tax deductions or credits to the group. The method adopted by the Company and outlined at Regulation 1.1502-33(2)(ii) provides for immediate reimbursement for the tax year involved. The steps are as follows:

- (1) Tax liability is allocated to the members by the basic method outlined above.
- (2) Each member with a separate company tax will be allocated 100% of the excess of its separate return liability over its share of the consolidated liability under step (1).
- (3) The amounts allocated to benefiting members under Step 2 are credited to the members supplying the capital losses, deductions, credits, or other items to which the savings are attributable. for this purpose, an amount generated by a member which is in excess of the amount required to eliminate its own separate return tax liability and which is utilized in the computation of the Federal income tax liability of the group shall be deemed to be a tax benefit contributed by the member to the group.

In some years the Step 2 savings to be credited may be less than the total tax savings items available for use. In such a case, the savings shall be attributed to tax savings items in the order that they are used on the consolidated return and in an amount equal to the savings actually realized.

Under this method, capital losses would normally be used first to the extent there are capital gains, since these items are netted in order to reach income, and are used before any deductions or credits are taken into account. The value of the capital loss would be the current rate of tax for capital gain income of the loss. The next item to be used would be deductions resulting in a current year operating loss, and these would be valued at the marginal rate of tax on the income they offset. This is normally 46 percent under current law, but would be less for income under \$100,000, which falls in to the graduated tax brackets Under Reg. 1.1502-33(d)(2), the amount of each graduated rate bracket is apportioned equally by dividing that amount by the number of corporations that were members of the group. Additionally, an alternative is to allocate the amount of each graduated rate bracket based on a election made by each of the companies' and included with that year's tax return. Operating loss carryovers would be used next, and finally credits would be used. Credits will be valued at 100 percent, since they result in dollar for dollar savings. Where the total amount of an item is not used, the savings will be allocated to each member in proportion to his share of the total of that benefit available from all members of the consolidated group.

- (4) Benefiting members will reimburse the other members prior to the filing of the consolidated tax return..

A more complicated situation is presented when there are several loss companies. Assume that the facts are the same as above except that there are three loss companies: C, D and E with the following tax savings items:

	<u>C</u>	<u>D</u>	<u>E</u>
Capital Loss	0	5,000	0
Current Operating Loss	5,000	0	3,000
Operating Loss Carryover	0	10,000	0
Credits	4,000	8,000	4,000

Allocation of the \$25,000 benefit from Step (2) would proceed as follows:

	<u>C</u>	<u>D</u>	<u>E</u>	<u>Remaining Benefit</u>
Capital Gains @ 28%	0	1,400	0	23,600
Current Operating Loss Offsetting 46% Income	2,300	0	1,380	19,920
Operating Loss Carryover Offsetting 46% Income		4,600		15,320
Credits @ 100% (proportionate)	<u>3,830</u>	<u>7,660</u>	<u>3,830</u>	<u>0</u>
Total Allocated	6,130	13,660	5,210	0

Thus companies A and B would reimburse C, D and E for the above amounts. There will be credit carryovers for C, D, and E of \$170, \$340, and \$170, respectively.

Separate Return Liability

The Allocations and reimbursements outlined above use the concept of a "separate return tax liability" as a starting point for allocations. This liability is the amount which a member of the affiliated group would pay if it filed a separate return. It is calculated in three basic steps.

- (1) The rules for consolidated return deferred accounting, inventory adjustments, basis determination, basis adjustments, excess losses, earnings and profits, and obligations of members must be applied.
- (2) Intercompany dividends are eliminated and no dividend received or paid deduction is allowed on intercompany

dividends.

- (3) Adjustments are made for specific items used in the consolidated return which must be divided by some equitable method among the members.

The third step is the subject of this part of the Appendix. Two different approaches may be taken for the apportionment of the limits, deductions, and exemptions used to reach tax liability.

It is recognized that each company is a part of an affiliated group, and that all credits, deductions and limitations must be apportioned in some equitable manner.

Specific Apportionments

- (1) Carryovers. On a consolidated basis, items such as operating losses, capital losses, and contributions will be used first from the current year and then carried forward from the oldest year forward until exhausted. It is the intention of the Tax Sharing Agreement, for allocation and reimbursement purposes, that a member shall use its own carryovers first before it is required to reimburse another member for use of its carryover in consolidation, without regard for the fact that the tax regulations for consolidated returns may require a different order.
- (2) Contribution Deduction. The amount of the contribution deduction is limited to 10% of consolidated taxable income. Thus the amount allowable may exceed the actual contributions. In order to avoid having a consolidated contribution carryover which is not owned by a member, each member agrees that its deduction be limited to its proportionate share on a separate return basis of the consolidated contribution deduction in a given year, rather than 10% of its separate return income, and that any contribution in excess of such amount be treated as its own carryover.

If the consolidated deduction is greater than the separate deductions of the profitable members (thus permitting a deduction for contributions of a loss member) the excess allowable deduction will be allocated to the loss members in proportion to the excess allowable over their available contributions.

Contribution Illustration

Example A

	<u>A</u>	<u>B</u>	<u>C</u>	<u>Consolidated</u>
Income before contributions	12,000	100	(5,600)	6,500
Contributions-current	400	25	100	
-carryover	300	25		
-available	700	50	100	
10% limit				650
Allowable on SR basis	1,200	10		
Allowable by agreement	644	6		
Carryover by agreement				
-current	-0-	19	100	
-prior	<u>56</u>	<u>25</u>		
Taxable income	11,356	94	(5,600)	5,850

Example B

	<u>A</u>	<u>B</u>	<u>C</u>	<u>Consolidated</u>
Income before contributions	12,000	(100)	(5,400)	6,500
Contributions-current only	200	50	200	
10% limit				650
Available on SR basis	200			200
Excess deduction allowable				250
Allocation by agreement		50	200	
Carryover by agreement	<u> </u>	<u>50</u>	<u>200</u>	
Taxable income	11,800	(150)	(5,600)	6,050

- (3) Tax Brackets. The members agree that the brackets will first be applied equally to the members with ordinary income. If the allocated amount exceeds income, the excess can be reapplied equally to the other members with remaining income.

- (4) I.T.C. Limitation. The limitation on 100% utilization of investment tax credit provided by Internal Revenue Code S46(a)(3), currently \$25,000, will be allocated equally among the members with tax liability and available credits, with any excess to be allocated equally to those with remaining liability and credits.
- (5) I.T.C. Limit For Used Property. The limitation on used property cost deemed eligible for investment credit, currently \$125,000, will be allocated equally among the companies that have used property acquisitions with a ten year recovery life in any year. If a member is unable to utilize all of its allocated amount, the excess will be allocated proportionately to the members with used property acquisitions in excess of their allocated share. If there are insufficient ten year recovery life assets, the remainder will be allocated to five year recovery life assets in a similar manner. Likewise, if there are not enough ten and five year recovery life assets, the remainder of the \$100,000 limitation will be allocated equally to members having three year recovery life used property additions.
- (6) Future Developments. Any credits, deductions, or other items established by future legislation will be allocated in a manner consistent with the above methods.

The foregoing examples are for illustrative purposes and are not intended to cover all possible situations that may arise.