

Northern Utilities, Inc. Cost Allocation Manual

2009

Overview

Northern Utilities, Inc. (“Northern Utilities”) is a natural gas distribution utility company serving approximately 54,200 customers in 44 New Hampshire and southern Maine communities. Northern Utilities was acquired by Unitil Corporation (“Unitil”) in December 2008 and is now one of three distribution utility companies owned by Unitil. Northern Utilities’ Maine and New Hampshire natural gas operations represent two of Unitil’s five distribution utility jurisdictional operations.

Unitil’s accounting policies and practices are designed to assign costs appropriately among Unitil’s various companies, including Northern Utilities. Whenever possible, costs are charged directly to the appropriate subsidiary and jurisdiction. In situations where costs are not directly assignable, common cost allocation methodologies have been developed. Northern Utilities’ Cost Allocation Manual (“Manual”) describes the cost allocation policies and practices that affect Northern Utilities’ accounting books and records, and develop the cost allocation factors to be used in 2009.

Common cost allocations generally pertain to four major cost categories:

1. Common costs related to centralized administrative and professional services provided by Unitil Service Corp. (“Service Corp.”) to Unitil and all its subsidiaries.
2. Common costs related to natural gas purchases incurred by Northern Utilities that are allocable to the Maine Division and the New Hampshire Division.
3. Common costs other than those related to natural gas purchases incurred by Northern Utilities that are allocable to the Maine Division and the New Hampshire Division.
4. Costs related to shared facilities including Northern Utilities’ facilities at Portsmouth, NH and Portland, ME, which provide office space and shared facilities to the other Northern Utilities jurisdiction and/or other Unitil affiliates, and a storage facility in the town of Plaistow, NH, which is partially used by Northern Utilities.

Common Cost Allocation Methodologies

1. Centralized administrative and professional services provided by Unitil Service Corp.

Expenses related to centralized services from Service Corp. and charged to Northern Utilities are governed by the Service Agreement between Northern Utilities and Service Corp. (“Service Agreement”). See Attachment 1. Service Corp. provides services and resources to Unitil client companies. These services include: administrative services, financial and corporate services, accounting and tax services, regulatory and legal services, technology systems and data management, engineering, operations support services, energy resources management, customer care services, access to and use of facilities, training, personnel, intellectual property and other general services. Service Corp. labor charges to client companies are governed by the Unitil System Policy regarding Service Corp. employee time charges. The policy includes Time Charge Guidelines, which are updated annually. See Attachment 2. Service Corp. expenses may be directly charged or included in overhead charges which are assigned to client companies based on labor charges.

The Service Agreement was approved by the Maine and New Hampshire Public Utilities Commissions as part of the Settlement Agreements in Docket Nos. 2008-155 (Maine) and DG 08-048 (New Hampshire).

2. Common costs related to natural gas purchases

Expenses related to natural gas costs (“Gas Costs”) are allocated as provided for in both the Northern Utilities’ Maine and New Hampshire retail tariffs on file with and approved by the Commissions. Gas Costs have two major components: variable Commodity costs, and fixed Demand/Capacity costs. Each of these cost components is subject to allocation between the Maine and New Hampshire divisions.

Variable Commodity costs are allocated by factors based on relative firm sendout therms for each jurisdiction, including any company use within each jurisdiction. The factors for these variable Commodity costs vary by month, and are included in periodic Cost of Gas adjustment clause filings in each jurisdiction.

Fixed Demand/Capacity charges are allocated using the Modified Proportional Responsibility Method via factors based on relative demands

under annual design cold weather conditions. The basis for the New Hampshire factor reflects the New Hampshire total firm sales load plus 100% of the New Hampshire capacity-assigned firm transportation load. The basis for the Maine factor reflects the Maine total firm sales load plus 50% of the Maine firm transportation load. Fixed Demand/Capacity allocation factors are updated annually for the upcoming gas year (November through October). For the most recent Gas Cost allocations, refer to New Hampshire Docket No. DG 08-115, Revision to Proposed Cost of Gas for the Winter Period (November 2008 – April 2009), page 31; and Maine Docket No. 2008-343, Proposed Cost of Gas Factor for the Peak Period of November 2008 through April 2009.

3. Common costs other than those related to natural gas purchases incurred by Northern Utilities and allocable to the Maine and New Hampshire Divisions

Under previous NiSource/Bay State ownership, expenses incurred by Northern Utilities were directly assigned to either the New Hampshire or Maine division. Unitil has established payroll and purchasing practices to continue the direct assignment of most expenses. In anticipation of situations where costs are not directly assignable between the Maine and New Hampshire divisions, a set of common cost allocation factors for Northern Utilities accounts have been developed. Any expense booked to a common account(s) will be subsequently allocated to the New Hampshire and Maine divisions using common cost allocation factors. There are four common cost allocation factors, which are based on: i) Plant, ii) Labor, iii) Meters, and iv) Net Revenue. Refer to Attachment 3, 2008 Northern Utilities, Inc. Common Cost Allocation Factors. These common cost allocation factors will be updated annually, for effect each January, based on prior year results. As shown in Attachment 3, Unitil elected to use 2007 data to develop the allocation factors for 2009 to avoid any transition issues that may exist with 2008 data. Similar common cost allocation factors are used to allocate common expenses between gas and electric operations of Unitil's Fitchburg Gas and Electric Light Company subsidiary.

4. Common costs of shared facilities at the Portsmouth, NH and Portland, ME facilities owned by Northern Utilities and the Plaistow, NH storage facility.

Building facilities owned by Northern Utilities will also be utilized by other Unitil/Northern Utilities affiliates. Continuing the cost sharing practices under previous NiSource/Bay State ownership, the underlying allocation will be based on the area (square footage) assigned to the affiliate and/or

jurisdiction. In New Hampshire, for the Northern Utilities Portsmouth, NH facility, and for the storage/garage facility in Plaistow, NH, these proportionate area assignments will be applied to the costs associated with the facilities (distributed cost methodology). In Maine, for the Northern Utilities Portland, ME facility, the square footage will be applied to a market-based rental rate. (The baseline for this rental rate was established in 2003, with CPI driven annual escalation thereafter.) The area assignments have been developed for 2009, and are shown in Attachment 4: 2009 Square Foot Allocations. The allocation and/or rental factors will be adjusted as required based on utilization, and reviewed annually.

SERVICE AGREEMENT

BETWEEN

NORTHERN UTILITIES, INC.

AND

UNITIL SERVICE CORP.

THIS SERVICE AGREEMENT (this "Agreement") is made and entered into as of December 1, 2008 by and between Northern Utilities, Inc., a corporation organized under the laws of the State of New Hampshire, ("Client Company"), and Unitil Service Corp., a corporation organized under the laws of The State of New Hampshire (the "Service Company").

WITNESSETH:

WHEREAS, Service Company is a wholly owned subsidiary of Unitil Corporation ("Unitil"); and

WHEREAS, Service Company is organized, staffed and equipped to render to Client Company services as herein provided; and

WHEREAS, economies and increased efficiencies will result from the performance by Service Company of services for Client Company and the provision of certain property and resources to Client Company as herein provided, and the Client Company desires for the Service Company to provide, and the Client Company to accept the services, property and resources provided for hereunder;

WHEREAS, subject to the terms and conditions herein described, Service Company is willing, upon request by Client Company, to render such services and provide such property and resources to Client Company;

NOW, THEREFORE, in consideration of the premises and of the mutual representations, covenants and agreements hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE 1 - DEFINITIONS

As used hereinafter, the following terms, in addition to those elsewhere defined in this Agreement, shall have the following meanings unless the context otherwise requires:

- A. "Services" shall mean those services described in Articles 2, 3, 4 and 5 hereof.
- B. "Non-Affiliate" means any corporation, company, agency, government, business, entity or person other than Unitil, a direct or indirect subsidiary of Unitil, or a person employed by Unitil or any of such subsidiaries.

C. "Intellectual Property" means any process, program or technique which is protected by the copyright, patent or trademark laws, or as a trade secret, and which has been specifically and knowingly incorporated into, exhibited in, or reduced to a tangible writing, drawing, manual, computer program, data base, product or similar manifestation or thing.

D. "Work Order" means any request for services from the Service Company by the Client Company and is evidence of the commitment of the parties hereto. The Service Company assigns all work orders a Job Order Number ("JON") and the terms work order and JON may be used interchangeably. Work Orders can be created by specific written instruction, orally, or by contract (such as the Agreement) or by approval of the Client Company of the monthly invoice for services rendered by the Service Company.

ARTICLE 2 - AGREEMENT TO FURNISH SERVICES

Section 2.1 The Service Company shall furnish to the Client Company, as requested by the Client Company by work order or other request, upon the terms and conditions hereinafter set forth, such of the services described herein and in Articles 3, 4 and 5 below (as such may be amended from time to time) at such times, for such periods and in such manner as the Client Company may from time to time request and which the Service Company concludes it is equipped to perform. The Service Company shall also provide the Client Company with such special services, in addition to those services described herein and in Articles 3, 4 and 5 below, as may be requested by the Client Company and which the Service Company concludes it is equipped to perform. In supplying such services, the Service Company may arrange, where it deems appropriate, for the services of such experts, consultants, advisors and other persons with necessary qualifications as required for or pertinent to the provision of such services.

Section 2.2 The Client Company shall take from the Service Company such of the services described in Section 2.1 and such additional general or special services, whether or not now contemplated, as are requested from time to time by the Client Company and which the Service Company concludes it is equipped to perform.

Section 2.3 The services described herein shall be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The Client Company shall have the right from time to time to amend, alter or rescind any activity, project, program or work order provided that (i) any such amendment or alteration which results in a material change in the scope of services to be performed or the equipment to be provided is agreed to by the Service Company, (ii) the cost for the services covered by the activity, project, program or work order shall include any additional expense incurred by the Service Company as a direct result of such amendment, alteration or rescission of an activity, project, program or work order, and (iii) no amendment, alteration or rescission of an activity, project, program or work order shall release the Client Company from liability for all costs already incurred by the Service Company pursuant to the activity, project, program or work order, regardless of whether the services associated with such costs have been completed.

Section 2.4 The provision of services by Service Company pursuant to this Agreement shall in all cases and notwithstanding anything herein contained to the contrary be subject to any limitations contained in authorizations, rules or regulations of those governmental agencies, if any, having jurisdiction over Service Company, Client Company or such provision of services, including the New Hampshire Public Utilities Commission affiliate transaction rules described in NH PUC 2100 Affiliate Transaction Rules, the Massachusetts Department of Telecommunications and Energy affiliate transaction rules described in MA 220 CMR 12.00 Standards of Conduct for Distribution Companies and their Affiliates, and the Maine Public Utility Commission's Utility Requirements for Non-Core Activities and Transactions Between Affiliates, in Code of Maine Rules 65-407-820.

ARTICLE 3 - DESCRIPTION OF SERVICES

The services which may be provided by Service Company hereunder shall include the following:

1. **Administrative Services.** Provide services and assistance relating to the administration of personnel policies, benefit and pension plans, employee relations, risk management, claims administration, insurance administration and facility support and

other human resource services. Provide security and facilities management services.
Provide administrative, clerical and secretarial support and other services.

2. Financial and Corporate Services. Provide services and advice in the areas of financings, financial forecasting and budgeting, cash management, internal auditing, banking relations, investor relations, and corporate, shareholder services and employee communications. Provide executive management services and advice in connection with the overall management of various phases of business operations. Advise and assist Client Company in matters involving the preparation and development of construction and operating budgets, cash and cost forecasts, and budgetary controls.

2. Accounting and Tax Services. Provide services, assistance and advice in connection with the installation and operation of accounting systems and similar special projects. Perform duties in conformity with the requirements of regulatory bodies and the U.S. Treasury with respect to accounting and tax compliance, and internal and external audits. Prepare and analyze financial and operating reports and other statistical matters relating to users of Client Company's financial information. Prepare annual and interim reports to shareholders, regulatory bodies, rating agencies, prospective investors and others. Provide accounts payable accounting services and process payments to vendors. Provide asset and project accounting services and make available fixed asset and utility plant and property accounting systems, and perform other accounting, tax and financial duties as requested by Client Company.

3. Regulatory Services. Provide services and advice on overall relations with regulatory agencies, including the preparation of regulatory filings, petitions and applications on matters relating to revenue requirements, rate design, sales and load forecasting, demand-side management programs and integrated resource planning.

4. Legal. Provide services and advice relating to regulatory filings and other regulatory matters and financings, financial reporting, shareholder meetings, power contracting, real estate leasing and other legal matters.

5. Technology Systems and Data Management. Provide services, advice and solutions management in the areas of technology systems and data base development. Provide advice and assistance on procedures, electronic data processing, telecommunications, web based systems, mainframe computing, personal computers and

networks, customer billing and customer accounting. Provide local area network, wide area network and desktop technology services. Advise and assist Client Company in the formation of good operating practices and methods of procedure, the standardization of forms, the purchase, rental and use of mechanical and electronic data processing, computing and communications equipment, in conducting economic research and planning and in the development of special economic studies. Provide telecommunications services and support.

6. Engineering. Provide services, advice and assistance in areas relating to the planning and design of gas and electric transmission and distribution facilities. Provide electric distribution system engineering, gas distribution system engineering, Computer Aided Drafting services, and geographic information system services.

7. Operations. Provide services, advice and assistance relating to the construction and operation and maintenance of facilities required for the transmission and distribution of gas and electric energy products. Provide materials management and purchasing services. Provide environmental and safety services including oversight of concerns related to air, water, land and waste, as well as compliance with relevant regulations. Provide demand side management services and distribution business development services.

8. Energy Resources Management. Provide services and advice on matters relating to gas and electric energy supply, provision of these supplies through planning and acquisition and its production and operation. Provide contract and portfolio management services. Provide electricity and gas procurement services. Provide financial analysis and services and advice in the purchase and sale of bulk power, including the provision of energy trading, market analysis and power brokering services.

9. Customer Care Services. Provide complete customer care services including a customer information system and data base administration, customer service centers, meter reading and billing, credit and collections, customer communications, cash remittance processing, administrative and technical support, quality assurance and training and other customer billing services. Provide services and advice on matters relating to the methods and practices of customer relations.

10. Access to and Use of Facilities. Make available to Client Company and/or its customers access to, use of, or rights in all facilities, products, processes, techniques, computer hardware and software, telecommunications facilities, technical information, training aids and properties, intellectual property, vehicles, equipment, machines and other property, whether owned, leased, licensed or otherwise by Service Company.

11. Training. Provide services and assist Client Company in providing training to personnel of Client Company; develop and make available training procedures, materials and facilities, and provide instructors.

12. General. Provide services and advice in the areas of construction planning and supervision, design, management programs, quality assurance, licensing matters, research and development, purchasing, insurance, and communications systems and procedures.

13. Other Services. Render services, advice and assistance in connection with such other matters as Client Company may request and Service Company may be able to perform with respect to Client Company's business and operations.

ARTICLE 4 - PROVISION OF PERSONNEL

Where specifically requested by Client Company and with the consent of Service Company, which consent will not be unreasonably withheld, Service Company will lend its employees to Client Company. In that event, such loaned employees will be under the sole supervision and control of Client Company for such period or periods of time as are necessary to complete the work to be performed by such employees. Such employees may be withdrawn by Service Company from tasks assigned by Client Company only with the consent of Client Company, which consent will not be unreasonably withheld. Client Company will be responsible for the actions and activities of such employees while engaged in the performance of the work to the same degree as though such persons were employees of Client Company. However, as part of Services, Service Company during periods when such employees are loaned to Client Company will continue to provide to, and with respect to, such employees those same payroll, pension, savings, tax withholding, unemployment, bookkeeping, benefits and insurance and other personnel

support services then being utilized by Service Company in connection with compensating and benefiting such employees.

ARTICLE 5 - INTELLECTUAL PROPERTY

5A. As part of the Services, Service Company will make available to Client Company for use or for re-sale or licensing to Non-Affiliates all Intellectual Property heretofore or hereafter developed or obtained by Service Company without charge (except for the actual expenses incurred in making the same available, and except as otherwise provided in Article 8 below); provided, however, that such availability shall be dependent and subject to any contractual commitments of Service Company to Non-Affiliates, applicable laws and regulations, any affiliate conduct rules of regulatory bodies and the legal rights and entitlements of others.

5B. Should Client Company in the course of its business develop Intellectual Property, it will make such Intellectual Property available for utilization by Service Company without charge (except the actual expenses incurred by Client Company in connection with making such new Intellectual Property so available); provided, however, that such availability shall be dependent upon and subject to any contractual commitments of Client Company to Non-Affiliates, applicable laws and regulations, any affiliate conduct rules of regulatory bodies and the legal rights and entitlements of others.

ARTICLE 6 - COMPENSATION OF SERVICE COMPANY

As compensation for the services to be rendered hereunder, the Client Company shall pay to the Service Company all costs which reasonably can be identified and related to particular services performed by the Service Company for or on Client's behalf. Where more than one Client Company is involved in or has received benefits from a service performed, costs will be directly assigned, distributed or allocated, between or among such companies on a basis reasonably related to the service performed.

It is the intent of this Service Agreement that the payment for services rendered by the Service Company to the Client Companies under this Service Agreement shall cover all the costs of its doing business (less the cost of services provided to associated companies not a party to this Service Agreement and other non-associated companies),

including but not limited to, salaries and wages, office supplies and expenses, outside services employed, insurance, injuries and damages, employee benefits, miscellaneous general expenses, rents (including property leased from Client Companies for use by the Service Company), maintenance of structures and equipment, depreciation and amortization, and compensation for use of capital.

The method of assignment, distribution or allocation of costs described below shall be subject to review annually, or more frequently if appropriate. Such method of assignment, distribution or allocation of costs may be modified or changed by the Service Company upon the express approval of the modification by each affected Client Company without the necessity of an amendment to this Service Agreement provided that in each instance, costs of all services rendered hereunder shall be fairly and equitably assigned, and notice of such change is provided to the Client Company.

Such Costs shall be determined in accordance with subparagraphs 6A, 6B, and 6C below.

6A. Direct Labor Cost. Direct Labor Costs shall be based on the wage rates of assigned employees and the actual number of hours devoted to providing the Service. Direct Labor Costs include certain indirect labor costs such as the costs of paid, excused absences, such as vacations, sick pay and holidays.

6B. Service Company Overhead. Service Company Overhead ("Overhead") shall be charged to the Client Company in direct proportion to Direct Labor costs charged during the month. Overhead costs shall include all employee fringe benefit costs and the general and administrative expenses of the Service Company. Employee fringe benefit costs include incentive compensation and health and welfare benefits such as pension costs, insurance benefits, payroll taxes, employee savings plan, and other employee related items. The Service company administrative and general expenses shall include building rent, leased equipment costs, insurance, depreciation and amortization, interest, taxes, utilities and all other reasonable and necessary expenses required to carry out its service functions.

6C. Direct Charges. Certain expenses incurred by the Service Company will be directly charged to the Client Company. These expenses include certain leased equipment expenses, actual travel and meals expenses of Service Company employees

incurred while performing services for the Client Company, and other expenses directly associated with any particular service provided to the Client Company. Leased equipment expenses include costs of specialized hardware and data management equipment acquired to support the services provided to the Client Company.

ARTICLE 7 - SERVICE COMPANY ACCOUNTING AND BILLING SYSTEM

The Service Company shall maintain a cost accounting system in accordance with the Uniform System of Accounts for Centralized Service Companies as prescribed by the Federal Energy Regulatory Commission (18 C.F.R. Part 367). The Service Company shall maintain a billing system to compile hours charged to the Client Company by Service Company employees and labor and overhead rates to be charged for Service Company services. The purpose of the Service Company Time and Billing System is to establish guidelines and procedures which provide uniform and consistent methods of billing for services rendered to the Client Company. The Service Company will direct charge or allocate costs to the Client Company as practical and appropriate. The Service Company accounting and billing systems shall be maintained in sufficient detail to enable the Client Company to review and audit the costs of services provided. Revenues and costs related to these billings will be recorded in the accounting records of the Service Company in accordance with Generally Accepted Accounting Principles ("GAAP") and Securities and Exchange Commission ("SEC") guidelines.

Section 7.1 Service Company Billing System - Time Charges.

Services will be performed in accordance with work orders or requests issued or made by or on behalf of Client Company and accepted by Service Company, and all Services will be assigned an applicable job order number ("JON") to enable specific work to be properly allocated by project or other appropriate basis. Each employee of the Service Company will track his or her hours worked to provide services to the Client Company and associate each of those hours with a JON for the service provided. Each employee will direct charge to specific client companies for services performed and, in the case of services provided to Service Company's regulated Utility client companies, an allocation factor may be used to apportion time charges fairly across the regulated utility client companies. JON's shall be as specific as practicable in defining the Services

requested to be performed. Employees may enter their time into the billing system throughout the month. Service Company employees are given five working days notice, prior to the end of the month, to completely enter their time on the computer system by the last day of the month. After all time is entered, an edit listing is created and employee counts, hours, total wages, and holiday hours are verified. Reports of wages by job order number, wages by employee, individual company bills, m-t-d and y-t-d employee statistics are all reconciled.

Section 7.2 Service Company Billing System – Direct Labor. The rate for direct labor of Service Company personnel is determined by dividing the employee's wages for the month by the straight time and overtime hours for the month. The direct labor rate is then multiplied by the number of hours charged to each JON for each client company.

Section 7.3 Service Company Billing System - Indirect labor. The indirect labor rate of the Service Company includes: 1) the cost of time of Service Company employees that is charged each month to a JON for compensated absences like vacation, sick and holiday time, etc. and 2) the cost of any time charged directly to the Service Company for general and administrative purposes. The cost of Service Company indirect labor each month is spread over the entire amount of direct labor charged in that month. An illustrative diagram of the Service Company's time and billing calculation/compilation process is shown on Exhibit 1.

Section 7.4 Service Company Billing System - Overhead. The Service Company shall apply an overhead rate to labor charges each month sufficient to recover its costs, beyond direct and indirect labor costs, of providing services. Overhead costs represent the Service Company's General and Administrative expenses, and are allocated based on a monthly overhead rate applied against direct time charges. Overhead costs include pension costs, insurance, payroll taxes, employee savings plan, incentive compensation and similar payroll and benefit items. Administrative and general expenses are those administrative and operating expenses incurred by the Service Company in providing services to associated companies which cannot be identified with or directly charged to a specific project or job.

The Service Company overhead rate is added to each hour of services rendered by Service Company for its client companies (e.g., the hourly rate for Service Company employee charges is based on an individual's actual salary plus overhead rate.) The overhead rate for Service Company is determined in order to create a "break-even" for Service Company. Thereby, Service Company recovers its cost and earns no profit on services provided under this Agreement. The overhead rate charged by Service Company is the same rate to each Client Company in a given month. However, the amount that is actually charged to each Client Company will vary as the number of direct labor hours charged varies between companies and in different months.

By operation, the Service Company's overhead rate is estimated in advance using the Service Company's budget for the next year. From the annual budget, which shows all of the Service Company's projected wage and overhead expenses, Service Company establishes an overhead rate which is projected to recover its costs. Each month, the actual costs are tracked, and the overhead rate is adjusted, to minimize (and ideally eliminate) all overages and underages in the Service Company's recovery of its costs. From the accounting vantage point, an entry is made to the Service Company P&L accounts which makes revenues and expenses break even. On the other side of the Balance Sheet for Service Company, an entry is made for an "administrative transfer credit" which can be a receivable or a payable. Each month, the overhead rate is adjusted in an attempt to zero out the administrative transfer credit by the end of the billing period.

Section 7.5 Service Company Billing System - Direct Charges. Certain expenses incurred by the Service Company will be directly charged to the Client Company. These expenses include certain leased equipment expenses, actual travel and meals expenses of Service Company employees incurred while performing services for the Client Company, and other expenses directly associated with any particular service provided to the Client Company. Leased equipment expenses include costs of specialized hardware and data management equipment acquired to support the services provided to the Client Company. Direct Charges can either be specifically identified as attributable to a service provided for a certain Client Company or allocated based upon an allocation factor which supports the relationship of the cost incurred to all the Client Companies.

Section 7.6 Service Company Billing System - Monthly Invoice. The Service Company shall render a monthly statement to the Client Company that shall reflect the billing information necessary to identify the costs charged for that month. Billing packages are prepared for each client that include the Service Bill, Job Order Summary and Summary of Direct Charges (with supporting documentation), costs to be capitalized, and copies of relevant Employees Expense Reimbursement forms. Approvals are obtained, and the invoices are submitted to Accounts Payable for payment. By the end of the month following invoicing, the Client Company shall remit payment to the Service Company for all charges billed to it. Monthly charges may be billed on an estimated basis, but adjustments will be made within ninety (90) days to assure that billings are accurate and complete.

For the recovery of the cost of funds advanced for Services provided, Client Company will be charged a cost of funds based on the actual time period from billing date of such costs to date of receipt of payment from Client Company. The cost of funds shall be the annual rate associated with the costs to Service Company of its most recent short-term borrowings. The costs of funds factor shall be applied to each monthly billing to Client Company after receipt of payment by Service Company; provided, however, that the last monthly billing to Client Company for a project shall include a cost of funds amount based on an assumed thirty (30) day time period.

ARTICLE 8 - LIMITATION OF LIABILITY AND INDEMNIFICATION

Section 8.1 In performing the Services hereunder, except to the extent such services are being performed by employees loaned to and under the supervision of Client Company, Service Company will exercise due care to assure that the Services are performed in a workmanlike manner, meet the standards and specifications set forth in the applicable Service Request with respect to such Services, and comply with applicable standards of law and regulation. However, failure to meet these obligations shall in no event subject Service Company to any claims or liabilities other than to complete the services requested such that the work fully complies with the applicable Service Request. Service Company makes no other warranty with respect to its performance of the

Services, and Client Company agrees to accept such Services without further warranty of any nature.

Section 8.2 The Client Company shall and does hereby indemnify and agree to hold harmless and defend Service Company for the payment of any sum or sums of money on account of, or resulting from, claims or suits growing out of (i) injuries to or the death of any person, (ii) damage to or loss of any property, and/or (iii) other damages, in any way attributable to or arising out of the performance and prosecution of any project or work performed by or on behalf of Client Company for Non-Affiliates whether or not the same results or allegedly results from the claimed or actual negligence or breach of warranty of, or willful conduct by, Client Company or of its employees, agents or subcontractors or any combination thereof.

Section 8.3 Client Company shall and does hereby indemnify and agree to hold harmless and defend Service Company (a) from any and all liens, garnishments, attachments, claims, suits, costs, attorneys' fees, cost of investigation and of defense resulting from, incurred in connection with, or relating to any such claims, (b) from the payment of any such sum or sums of money, and (c) from the payment of any penalties, fines, damages, suits or claims (and any liens or attachments asserted in connection therewith) arising out of (i) any alleged or actual violation of law, court order, or governmental agency rule or regulation committed by or existing with respect to Client Company or its employees, agents or subcontractors (except Service Company when not performing Services hereunder), (ii) any alleged or actual breaches of contract by Client Company, (iii) any claims made by or for account of any employee, agent or subcontractor (except Service Company when not performing Services hereunder or an employee or agent of Service Company where such claim does not arise specifically in connection with the performance of Services hereunder) of Client Company, or for (iv) service or labor performed, materials, provisions or supplies furnished or room and board which have been purchased or allegedly contracted for by or on behalf of Client Company, its employees, agents or subcontractors (except Service Company when not performing services hereunder).

Section 8.4 Service Company shall within five business days after it receives notice of any claims, actions, damages or liability against which it will expect to be

indemnified pursuant to Article 5.1 notify Client Company of such claims, actions, damages or liabilities. Thereafter, Client Company may at its own expense, upon notice to Service Company, defend or participate in the defense of such action or claim or any negotiation for settlement of such action or claim, provided that unless Client Company proceeds promptly and in good faith to pay or defend such action or claim, then Service Company shall have the right (but not the obligation), in good faith, upon ten days notice to Client Company, to pay, settle, compromise or proceed to defend any such action or claim without the further participation by Client Company. Client Company will immediately pay (or reimburse Service Company, as the case may be) any payments, settlements, compromises, judgments, costs or expenses made or incurred by Service Company in or resulting from the pursuit by Service Company of such right. If any judgment is rendered against Service Company in any such action defended by Client Company or from which Service Company is otherwise entitled to indemnification under Section 5.1 or any lien attaches to the assets of Service Company in connection therewith, Client Company immediately upon such entry or attachment shall pay the judgment in full or discharge any such lien unless, at its expense and direction, appeal shall be taken under which the execution of the judgment or satisfaction of the lien is stayed. If and when a final judgment is rendered against Service Company for which no appeal can be brought in any such action, Client Company shall forthwith pay such judgment or discharge such lien prior to the time that Service Company would be legally held to do so.

Section 8.5 Client Company shall maintain at all times adequate levels of insurance to discharge financially its obligations under this Section 5.

ARTICLE 9 - CONFIDENTIALITY AND RECORDKEEPING

Section 9.1 Except as otherwise expressly provided in this Agreement, Service Company and Client Company each agrees that (a) all information communicated to it by the other and identified as confidential, whether before or after the date hereof, (b) all information identified as confidential to which it has access in connection with provision of the Services, whether before or after the date hereof, and (c) this Agreement and the parties' rights and obligations hereunder, will be and will be deemed to have been

received in confidence and will be used only for purposes of this Agreement, and each of Service Company and Client Company agrees to use the same means as it uses to protect its own confidential information, but in no event less than reasonable means, to prevent the disclosure and to protect the confidentiality thereof. No such information will be disclosed by the recipient party without the prior written consent of the other party; provided, however, that each party may disclose this Agreement and the other party's confidential information to those of the recipient party's attorneys, auditors, insurers (if applicable), subcontractors and full time employees who have a need to have access to such information in connection with their employment (or engagement, if applicable) by the recipient party, so long as the recipient party requires, in the case of its attorneys, auditors and insurers, that each of them execute a confidentiality agreement containing terms and conditions no less restrictive than those set forth in this Section 6 and advises, in the case of its subcontractors, agents and employees, each such subcontractor, agent and employee of the confidentiality obligations set forth in this Section 6. In any event, compliance by each of the persons referenced in the preceding sentence with the confidentiality obligations set forth in this Section 6 will remain the responsibility of the party employing or engaging such persons.

Section 9.2 The foregoing will not prevent either party from disclosing information that belongs to such party or (i) is already known by the recipient party without an obligation of confidentiality other than under this Agreement, (ii) is publicly known or becomes publicly known through no unauthorized act of the recipient party, (iii) is rightfully received from a third party, (iv) is independently developed without use of the other party's confidential information or (v) is disclosed without similar restrictions to a third party by the party owning the confidential information. If confidential information is required to be disclosed pursuant to a requirement of a governmental authority, such confidential information may be disclosed pursuant to such requirement so long as the party required to disclose the confidential information, to the extent possible, provides the other party with timely prior notice of such requirement and coordinates with such other party in an effort to limit the nature and scope of such required disclosure, provided, however, that, in the event of a tax audit, (A) notice of a disclosure requirement in connection therewith will not be given prior to the

commencement of the audit, and (B) the parties will use commercially reasonable efforts to ensure that any confidential information that is subject to a valid request for delivery of a copy of such information (including a copy of this Agreement) to the taxing authority is not subject to further disclosure by it (such as by marking such information as a trade secret). Upon written request of the disclosing party at the expiration or termination of this Agreement for any reason, all documented confidential information (and all copies thereof) of the disclosing party will be returned to the disclosing party or will be destroyed, with written certification thereof being given to the disclosing party. The provisions of this Section 6 shall survive the expiration or termination of this Agreement for any reason.

Section 9.3. All accounts and records of Service Company shall be kept in accordance with the Uniform System of Accounts for Centralized Service Companies (18 C.F.R. part 367), in effect from and after the date hereof.

Section 9.4. Service Company shall permit Client Company access to its accounts and records, including the basis and computation of allocations.

Section 9.5. This Service Agreement and any amendments hereto shall not be effective until any necessary regulatory approvals have been obtained.

ARTICLE 10 - OTHER AGREEMENTS

From time to time, should Client Company find it necessary or desirable either to enter into agreements covering services of the type contemplated by this Agreement to be provided by parties other than Service Company or to enter into other agreements covering functions to be performed by Service Company hereunder, nothing in this Agreement shall be deemed to limit in any way the right of Client Company to acquire such services from others or to enter into such other agreements.

ARTICLE 11 - TERM AND TERMINATION

This Agreement shall be in full force and effect from and after the date it is executed by the parties hereto, except as otherwise provided in this Agreement. Upon becoming effective as aforesaid, this Agreement shall continue in full force and effect, except as otherwise provided in this Agreement, unless notice in writing shall be given by

either party hereto to the other of its termination 365 days prior to the end of the current term.

ARTICLE 12 - MISCELLANEOUS

Section 12.1. This Agreement shall be binding upon the successors and assigns of the parties hereto, provided that Service Company shall not be entitled to assign or subcontract out any of its obligations under this Agreement or under any Service Request issued hereunder without the prior written approval of Client Company.

Section 12.2. This Agreement may not be modified or amended in any respect except in writing executed by the parties hereto.

Section 12.3. This Agreement shall be construed and enforced under and in accordance with the laws of the state of New Hampshire.

Section 12.4. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and both of which, when taken together, shall be deemed to be one and the same instrument.

Section 12.5. No provision of this Agreement shall be deemed waived nor a breach of this Agreement consented to unless such waiver or consent is set forth in writing and executed by the party hereto making such waiver or consent.

Section 12.6. A party shall be excused from performance hereunder caused by reasons beyond such party's reasonable control, provided such party immediately notifies the other of the reason for the delay and the anticipated effect. Performance shall be delayed no longer than the period of force majeure.

Section 12.7. Any notices pursuant to this Agreement shall be in writing and shall be sent to the parties at the following address or at such other addresses as shall be specified by the parties by like notice:

If to Service Company:

Unitil Service Corp.

6 Liberty Lane West, Hampton, NH 03842

Attn: Corporate Secretary

If to Client Company:

Northern Utilities, Inc.

6 Liberty Lane West, Hampton, NH 03842

Attn: Corporate Secretary

Such notices or other communications shall be deemed to have been duly given and received (i) on the day of sending if sent by personal delivery, cable, telegram, facsimile transmission or telex, (ii) on the next business day after the day of sending if sent by Federal Express or other similar express delivery service, or (iii) on the fifth calendar day after the day of sending if sent by registered or certified mail (return receipt requested).

Section 12.8. If any term or other provision of this Agreement is held to be invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other terms, conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic and legal substance of the transactions contemplated hereby are not affected in any manner materially adverse to a party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the covenants and agreements contemplated hereunder may be fulfilled to the fullest extent possible.

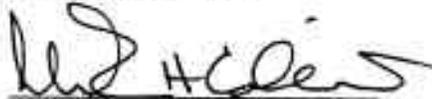
Section 12.9. This Agreement and its Exhibits and Schedules and the Service Requests contemplated hereby constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, each of the parties hereto has caused this agreement to be executed in its corporate name by its President or one of its Vice Presidents and corporate seal to be hereunto affixed and attested by its Secretary, Clerk or Secretary of the Board of Directors as of the day and year first above written.

Attest:


Secretary

UNITIL Service Corp.

By: 
President

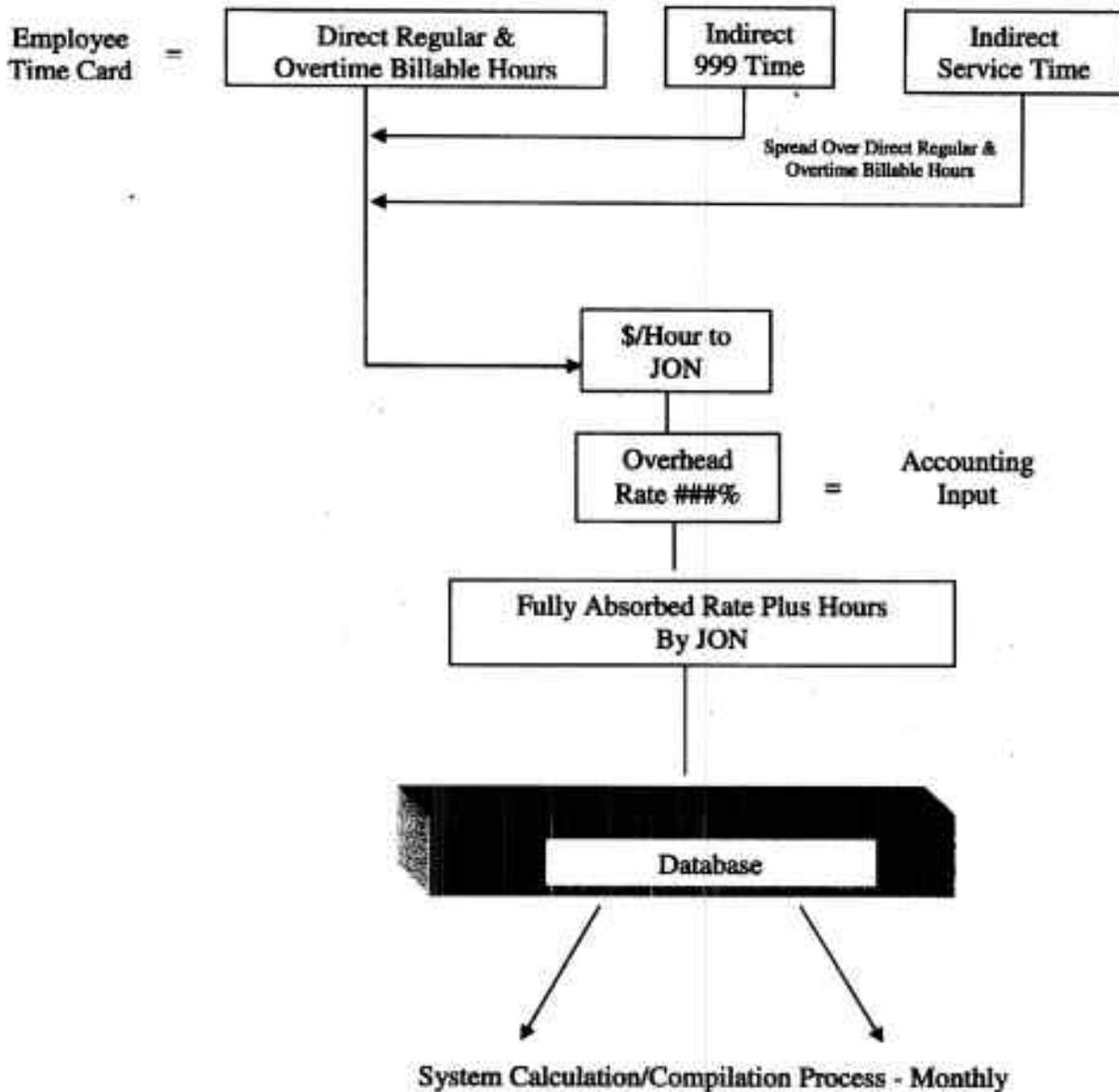
Attest:


Secretary

Northern Utilities, Inc.

By: 
President

Exhibit 1
USC Time Billing System



Subject: USC Time Charges

Policy Number: FS, AC 1.06(G)

To: ALL USC Personnel

From: Dan Main, Assistant Controller

Effective: January 1, 2009

PURPOSE: This policy gives guidance to Unitil Service Corp., ("USC"), employees when submitting their cards into the USC Time and Billing System. USC charges labor and overhead to: Realty, Resources, Corporate, Service, UES, Fitchburg, Northern Utilities and Granite State (the "USC Clients").

OBJECTIVE: The proper charging of USC labor and overhead costs. The groups of regulators that examine our USC time charges are: the SEC, the NHPUC, MPUC, the FERC and the MDPU. Our Bondholders, Auditors and Internal Management Team also require the fair, accurate and reasonable charging of our annual USC costs. The SEC Examination Staff has issued recommendations concerning: the standardizing of allocation methodologies for particular service company departments, and the overall simplification of allocating costs.

GENERAL: Our Service Company Agreements are governed by the Federal Energy Regulatory Commission under the Energy Policy Act of 2005. Accordingly, USC employees should "Direct Charge" the USC Clients for services rendered. "Direct Charging" USC time means that all USC employees will record properly chargeable or allocable labor costs in the USC Time Billing System at least monthly. Each USC Department Manager will approve the employee time cards for their particular function to ensure they are in compliance with this policy and the current USC Time Charge Guidelines in effect for that fiscal year. (A copy of the 2009 USC Time Charge Guidelines is attached.)

It is considered good business practice under this policy for USC employees to:

- Direct Charge to USC Clients by USC function.
- Properly allocate charges between the Maine, New Hampshire and Massachusetts regulated jurisdictions.
- Properly allocate charges between Regulated and Non-Regulated business activities.
- Properly track time charges to any special project type work performed for the USC Clients.
- Limit direct time charges to the Service Company.

SPECIFIC TIME REPORTING STANDARDS:

- ✦ Employees should Direct Charge each USC Client [i.e. Realty, Resources, Corporate, Service, UES, Fitchburg, Northern, and Granite] his/her time by functional Job Order Numbers ("JON's").
- ✦ USC Employees perform regular and recurring functional duties for the USC Clients and those duties are performed under designated JON's for each Department/Function at USC.
- ✦ As a general rule for regular and recurring work performed for the Utility USC Clients, an employee should Direct Charge his/her time by functional JON, and allocate time charges among to the Utility USC Clients according to the standard **Utility Companies Departmental Allocators** indicated in the USC Time Charge Guidelines issued for the particular fiscal period. These guidelines will be updated as part of the annual budgeting process.
- ✦ Generally, USC Services performed for UES do not need to be further allocated to the UES' DOC locations. The exception to this rule is those employees who will charge time to both the UES/Capital and the UES/Seacoast DOC locations for O&M and Capital Budgeting purposes. Your Supervisor will give you further guidance on this. The USC Time Charge Guidelines attached to this policy provide allocation factors for those employees who need to split their UES charges between the UES/Capital and the UES/Seacoast locations.
- ✦ Generally, USC Services performed for Northern Utilities, as a whole, do not need to be further allocated to the NU' DOC locations. The exception to this rule is those employees who will charge time to both the Northern - ME and to Northern - NH DOC locations for O&M and Capital Budgeting purposes. Your Supervisor will give you further guidance on this. The USC Time Charge Guidelines attached to this policy provide allocation factors for those employees who need to split their Northern charges between the NU - ME and the NU - NH locations.
- ✦ Sometimes, designated employees may charge time to JON's for special projects. This will be the exception to the rule above. In those cases, employees should Direct Charge by JON, with prior specific approval of the Project Manager, to the specific JON and USC Client designated by the Project Manger.
- ✦ Employees should only Direct Charge time to the Service Company for vacation, holiday, sickness, personal, general or other category to JON's designated by the USC VP of Administration. There should be no exceptions to this rule unless prior approval is obtained from the Controller or VP of Administration of USC.

- ✘ Employees should perform services for the Unitil System special purpose or Non-Regulated companies only after receiving specific prior approval from the employee's Department Manager. All USC Department Managers will approve such time charges based on prior approval from the Manager responsible for budgeting the special purpose activity or company's costs for the fiscal year. Time charges for special projects performed for the Non-Regulated USC Clients should be Direct Charged by functional JON as the actual number of hours worked. Time charges for regular and recurring work performed for the Non-Regulated USC Clients should be Direct Charged by

functional JON and allocated between the Utility and Non-Regulated USC Clients according to the standard **Non-Regulated Administrative Departmental Allocators** indicated in the USC Time Charge Guidelines issued for the particular fiscal period. These guidelines will be updated as part of the annual budgeting process.

INTERPRETATIONS AND ISSUE RESOLUTION UNDER THIS POLICY: All questions about the interpretation and implementation of this policy will be resolved by the Department Manager, the USC Assistant Controller, the USC Controller, and the USC VP of Administration.

END

Unitil Service Corp.
 Time Charge Guidelines, Utility Companies (Including Northern & Granite)
 Effective 01/01/09

POLICY NUMBER: PLAC 1.08(C)

Updated 11/13/08

DEPT #	DEPT	DEPT MGR	% Allocation		Primary Allocator
			Allocated	Recovery	
1	REGULATORY SERVICES	KRISHA ABERTY	95-100%	9-10%	R/C/A 3-factor allocator
7	WORKERS OPERATIONS	CHRY CERRILL	95-100%	9-10%	R/C/A 3-factor allocator
3	HUMAN RESOURCES	GEORGE LONG	95-100%	9-10%	Headcount/USC DL Billed
4	ADMINISTRATIVE SERVICES	JACQUEE AZEL	95-100%	9-10%	R/C/A 3-factor allocator
7	EXECUTIVE	JOE RODENWISER	95-100%	9-10%	R/C/A 3-factor allocator
8	FINANCE	ELONA TAVIRA	95-100%	9-10%	R/C/A 3-factor allocator
8	INFORMATION SYSTEMS	RAY HORNBERY	95-100%	9-10%	R/C/A 3-factor allocator
18	ACCOUNTING	LARRY BRACK	95-100%	9-10%	R/C/A 3-factor allocator
13	ENGINEERING	KERRY STRAUZE	95-100%	9-10%	Utility Plant Assets
13	ENERGY CONTRACTS	BOB FARMING	95-100%	9-10%	Specific Identification
15	FINANCIAL SERVICES	MARK COLLIER	95-100%	9-10%	R/C/A 3-factor allocator
18	ENERGY MARKETS	TODD BLAZ	95-10%	9-10%	R/C/A 3-factor allocator
17	RESTRAINED OPERATIONS	TONI HERRICK	100%	0%	Utility Plant Assets
21	CUSTOMER SERVICE	MARC LABRETT	95-100%	9-10%	R/C/A 3-factor allocator
23	RESTRAINED OPERATIONS	ALLEN BUELLER	95-100%	9-10%	Utility Plant Assets
24	COMMUNICATION SERVICES	GEORGE GARTZ	95-100%	9-10%	R/C/A 3-factor allocator
25	GAS ENGINEERING	NOVA SPRANDE	95-100%	9-10%	Utility Plant Assets
26	ENERGY MANAGEMENT & CONTROL	JUSTIN ZETTLER	95-100%	9-10%	R/C/A 3-factor allocator
27	GAS OPERATIONS	CHRIS USZAK	95-100%	9-10%	Utility Plant Assets
28	OPERATIONS SERVICES	TY M DETROCHE	95-100%	9-10%	R/C/A 3-factor allocator

Unitil System - Utility Client Companies

	NH		VT		CT		MA		NY		NJ		PA		Total
	Secord	UES	Cold	Electric	PG&E	ME	NH	NJ	UT	EST					
REGULATORY	13%	20%	33%	12%	18%	30%	10%	10%	34%	3%	100%				
CUSTOMERS	18%	27%	45%	9%	15%	25%	14%	18%	30%	8%	100%				
UTILITY PLANT ASSETS	13%	20%	33%	12%	17%	30%	10%	13%	34%	3%	100%				
R/C/A 3-factor allocation	15%	22%	37%	11%	17%	28%	17%	16%	33%	2%	100%				
Headcount/USC DL Billed	13%	17%	30%		21%	13%	10%	10%	36%	3%	100%				
APPORTIONMENT 3-FACTOR	40%	65%	18%						47%	18%					
APPORTIONMENT 3-FACTOR (GAS ONLY)			25%						35%						
APPORTIONMENT UTILITY PLANT	40%	65%	18%						45%	18%					
APPORTIONMENT UTILITY PLANT (GAS ONLY)			27%						33%						

**Unitil Service Corp.
Time Charge Guidelines, Non-Regulated Administration
Effective 01/01/09**

POLICY NUMBER: FSJAC 1.06(G)

DEPT	DEPT	DEPT MGR	% Standard Allocation	Rec-mustering	Primary Allocator
3	HUMAN RESOURCES	GEORGE LONG	90-100%	0-10%	Headcount/LSC DL Billed
4	ADMINISTRATIVE SERVICES	JACQUEE AGEL	90-100%	0-10%	REVENUE
8	FINANCE	ROSAY TAPOVA	90-100%	0-10%	REVENUE
9	INFORMATION SYSTEMS	MAY MORRISSEY	90-100%	0-10%	REVENUE

Unitil System - Client Companies										
	MH	MA	MU	MS	MT	ML	MT	MS	MT	Total
	Capital	Seaccount	UES	PG & E	ME	MI	MI	GST	Ubounts	
REVENUE	13%	19%	31%	26%	17%	16%	33%	3%	3%	100%
Headcount/LSC DL Billed	13%	17%	30%	36%	18%	18%	36%	3%	1%	100%