

STATE OF NEW HAMPSHIRE
Before the
PUBLIC UTILITIES COMMISSION

UNITIL CORPORATION

AND

NORTHERN UTILITIES, INC.

JOINT PETITION

for

APPROVAL OF STOCK ACQUISITION

March 31, 2008

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STATE OF NEW HAMPSHIRE
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NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

)	
In Re Unitil Corporation and)	
Northern Utilities, Inc.,)	Docket No. DG 08-048
)	

JOINT PETITION FOR APPROVAL OF STOCK ACQUISITION

I. INTRODUCTION

By this Joint Petition, Unitil Corporation ("Unitil") and Northern Utilities, Inc. ("Northern") (collectively referred to herein as the "Joint Petitioners"), respectfully request approval, pursuant to RSA 374:33 and RSA 369:8, II(b), of the acquisition of Northern by Unitil by way of Unitil's purchase of 100 percent of the common stock of Northern, (the "Transaction"). In addition, the Joint Petitioners seek approval to defer and amortize the transaction costs and transition costs associated with the acquisition of Northern by Unitil over 10 years.¹

Following the Transaction, Northern will become a wholly-owned subsidiary of Unitil. As explained below and in the attached testimony, the Transaction meets the statutory standard for the Commission's approval in that it "will not have an adverse effect on rates, terms, service or operation of the public utility within the state" (RSA 369:8, II)(b)(1)), and is "lawful, proper, and in the public interest," as required by RSA 374:33. Accordingly, the Joint Petitioners respectfully request that the Commission

¹ Transaction costs are comprised of investment banking, advisory and legal fees which are incurred by Unitil to achieve the Transaction, and are estimated to be approximately \$3.6 million. Transition Costs represent the amount to be paid by Unitil to NiSource affiliates for the continuation of administrative and management services to Northern after the close of the Transaction pending full integration of Northern into Unitil. Transition costs are currently estimated to be approximately \$3.0 million.

issue an order within 180 days of the date of this filing finding that the Transaction will have no adverse effect, approving the Transaction, and granting the other approvals sought herein.

The Joint Petition is supported by the following Unitil witnesses: Mark Collin, Senior Vice President and Chief Financial Officer; Laurence Brock, Controller and Chief Accounting Officer; Thomas Meissner, Senior Vice President and Chief Operating Officer; David Foote, Vice President, Energy Contracts jointly with Francis Wells, Senior Energy Trader, and George Gantz, Senior Vice President, Customer Services and Communications.

On behalf of Unitil, Mr. Collin will provide an overview of the Transaction, a summary of the benefits of the Transaction and an explanation of the proposed financing for the Transaction. Mr. Brock discusses Unitil's service company affiliate structure and provides a preliminary estimate of the savings or synergies that are projected to result from the Transaction. In addition, Mr. Brock summarizes the transition plan to integrate Northern into Unitil and the purchase price allocation for the Transaction. Mr. Meissner will address the operational, organizational and safety compliance aspects of the Transaction, in particular how Northern's field operations, construction programs and gas safety and compliance plans will be managed and integrated with Unitil's existing utility operations. Mr. Foote and Mr. Wells will discuss gas supply and transportation matters and will describe the plan for integrating Northern's gas supply functions with Unitil's. Finally, Mr. Gantz will describe Unitil's customer service operations and how Northern's customer service operations will be integrated with Unitil's. Mr. Gantz also describes the

proposed customer outreach and communication plan following approval of the Transaction.

The Petition includes the following exhibits/appendices:

- Exhibit 1 Stock Purchase Agreement, dated February 15, 2008
- Exhibit 2 Unitil Corporate Structure After Acquisition
- Exhibit 3 Unitil Corporation Board of Directors' Resolution Approving Acquisition
- Exhibit 4 Unitil Corporation Certificate of Incorporation
- Exhibit 5 Proposed Amended and Restated Cash Pooling and Loan Agreement
- Exhibit 6 Proposed Service Agreement Between Unitil Service Corp. ("Service Corp.") and Northern
- Exhibit 7 Unitil's Tax Sharing Agreement

The Transaction must be approved by the Commission, and by the Maine Public Utilities Commission ("MPUC"), and is subject to certain federal approvals, including review under the Hart-Scott-Rodino Anti Trust Improvement Acts of 1976, as amended ("HSR"). The Transaction is scheduled to close promptly upon receipt of the necessary consents and regulatory approvals.

For the reasons described herein and in the accompanying testimony, the Joint Petitioners respectfully request that the Commission find that the Transaction meets the statutory standards in New Hampshire and approve the Transaction within 180 days of the date of this filing, or by October 1, 2008.

II. THE JOINT PETITIONERS

A. Unitil

1. Unitil is a public utility holding company incorporated in New Hampshire. Unitil's principal business is the retail distribution of electricity and natural gas through its two utility subsidiaries, Unitil Energy Systems, Inc. ("UES") and Fitchburg Gas and Electric Light Company, d/b/a Unitil ("FG&E"). UES is an electric utility with an operating franchise in the southeastern seacoast and capitol city areas of New Hampshire and FG&E is a combination gas and electric utility with an operating franchise in the greater Fitchburg area of north central Massachusetts. Together, Unitil's two retail distribution utilities serve approximately 100,000 electric customers and 15,000 gas customers. Service Corp. is a subsidiary of Unitil and provides a wide variety of shared business functions to the New Hampshire and Massachusetts operating utilities on an at-cost basis. The shared services provided by Service Corp. relate to six major functional areas that include: 1) Corporate and Administration; 2) Customer Service; 3) Energy Services; 4) Engineering and Operations; 5) Regulatory, Finance and Accounting; and 6) Technology.

B. Northern

2. Northern is a New Hampshire corporation and a public utility under New Hampshire law. Northern provides natural gas distribution services to a total of 52,000 customers in 44 New Hampshire and southern Maine communities, stretching from Atkinson, New Hampshire, in the south, to Lewiston-Auburn, Maine, in the north. Unitil's and Northern's service territories overlap in the New Hampshire towns of Atkinson, East Kingston, Exeter, Greenland, Hampton, Hampton Falls, Kensington, Plaistow, Seabrook and Stratham. Bay State Gas Company ("Bay State"), a

Massachusetts corporation and public utility holding company that provides natural gas distribution service in Massachusetts, owns all of the outstanding shares of Northern. NiSource Inc. ("NiSource") an Indiana corporation and public utility holding company, based in Merrillville, Indiana, owns all of the common stock of Bay State and of Granite State Gas Transmission, Inc. ("Granite"). NiSource acquired Northern in 1999 as part of its larger acquisition of Bay State, and is retaining ownership of Bay State following the sale of Northern and Granite to Unitil.

C. Communications/Correspondence

3. All communications and correspondence with respect to this

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III. THE PROPOSED TRANSACTION

A. The Stock Purchase Agreement

4. The Stock Purchase Agreement, attached as Exhibit 1, was entered into on February 15, 2008 by and among NiSource, Bay State and Unitil. The Stock Purchase Agreement provides that Bay State will sell Northern's shares to Unitil, and NiSource will sell Granite's shares to Unitil for an aggregate purchase price of One Hundred and Sixty Million (\$160,000,000) Dollars, plus a net working capital adjustment. The purchase will be financed by newly issued common stock and debt securities. The Transaction is subject to the receipt of all federal and state regulatory approvals prior to its effectiveness.

5. Unitil's corporate structure upon completion of the transaction (including Northern and Granite) is attached as Exhibit 2. Northern and Granite will continue to operate as stand-alone subsidiaries with their own assets, liabilities, accounting records and corporate identities.

6. Unitil's Board of Directors voted to approve the acquisition on January 17, 2008, and the Board of Directors' Resolution is attached as Exhibit 3. A copy of the Unitil Corporation Certificate of Incorporation is also attached as Exhibit 4.

B. Financing For the Proposed Transaction

7. The transaction is structured as an all cash purchase of the common stock of Northern and Granite. The purchase price will be financed by Unitil through a combination of permanent capital consisting of approximately 50 percent newly issued senior long-term debt by Northern and 50 percent common equity by Unitil.

Northern's additional working capital requirements on an ongoing basis will be financed under Unitil's Cash Pooling and Loan Agreement.

8. The common equity portion of the acquisition will be financed through a public offering and issuance of Unitil common stock. For the common equity offering, Shareholder approval is required to amend Unitil's Certificate of Incorporation to increase its authorized capital stock. Accordingly, Unitil will file a proxy statement with the Securities and Exchange Commission under the Securities Exchange Act of 1934. The proxy statement will be sent to all of Unitil's shareholders seeking approval to increase the number of authorized common shares available to Unitil to finance the transaction. Thereafter, Unitil will file a public offering prospectus for the sale and issuance of additional common stock. Unitil expects to receive this approval and to complete the equity offering and funding prior to the closing of the Transaction.

9. Northern will be seeking Commission authorization during the course of this proceeding to issue up to \$90 million of senior long-term notes concurrent with the closing of the Transaction. This portion of the financing is necessary to refinance and replace the NiSource inter-company debt formerly included in the capital structure of Northern, which will be redeemed and paid-off in full prior to completion of the Transaction so that Northern can be transferred to Unitil debt-free.

IV. JURISDICTION AND STANDARD OF REVIEW

10. Commission authority to approve the acquisition of Northern stems from RSA 374:33, which provides in relevant part:

No public utility or public utility holding company as defined in section 2(a)(7)(A) of the Public Utility Holding Company Act of 1935 shall directly or indirectly acquire more than 10 percent, or more than the ownership level which triggers reporting requirements under 15 U.S.C.,

section 78-P, whichever is less, of the stocks or bonds of any other public utility or public utility holding company incorporated in or doing business in this state, unless the commission finds that such acquisition is lawful, proper and in the public interest.

RSA369:8, II (b)(1) provides the procedure for the approval of an acquisition involving the parent company of a public utility:

To the extent that the approval of the commission is required by any other statute for any corporate merger or acquisition involving parent companies of a public utility whose rates, terms, and conditions of service are regulated by the commission, the approval of the commission shall not be required if the public utility files with the commission a detailed written representation no less than 60 days prior to the anticipated completion of the transaction that the transaction will not have an adverse effect on rates, terms, service, or operation of the public utility within the state.

11. Under the procedure in RSA 369.8, II(b)(2) – (5), a series of timelines are set forth that are designed to allow the Transaction to go forward if it meets the “no adverse effect” test set forth in RSA 369:8, II(b)(1). Specifically, an acquisition is deemed to be approved if the Commission does not issue an order within sixty (60) days of the filing under RSA 369:8, II(b)(2), subject to various extensions and findings set forth in RSA 369:8, II(b)(3)-(5). If the Commission finds an adverse effect, the petitioner is afforded an opportunity to amend its filing, and the Commission is then required under RSA 369:8, section II (b)(5) to review the filing “under the statute that would have otherwise applied but for this section” within 180 days of the filing of the initial Petition.²

² Subsection (b)(2) provides that a transaction is deemed approved if the Commission does not act within sixty (60) days. Subsection (b)(3) allows the Commission to make a preliminary finding of an adverse effect within thirty (30) days of filing, and allows the utility at least thirty (30) days to amend its filing to address such a preliminary adverse finding. Subsection (b)(4) allows the

12. In Order No. 23,470, dated May 8, 2000, Docket No. DG 99-193 approving the acquisition of EnergyNorth by Eastern Enterprise and KeySpan, the Commission described its responsibilities under RSA 374:33 in conjunction with RSA 369:8, II as follows:

Under the public interest standard of RSA 374:33 and the ‘no adverse effect’ standard of RSA 369:8 to be applied by the Commission where a utility or public utility holding company seeks to acquire, directly or indirectly, a jurisdictional utility, the Commission must determine that the proposed transaction will not harm ratepayers.³

In this Petition and the accompanying testimony, the Joint Petitioners demonstrate that the Transaction meets the statutory standards under both RSA 369:8, II(b) and RSA 374:33. In so doing, the Joint Petitioners request that the Commission evaluate the Transaction under the statutory standards set forth in both RSA 369:8, II(b) and RSA 374:33 from the outset, and hereby jointly waive any rights to a preliminary determination of “no adverse effects” under RSA 369:8, II(b)(1). This will allow the Commission to complete its review and approval under both the “no adverse effect” and “no net harm” standards of RSA 369:8, II(b) and RSA 374:33, with a final order issuing no later than the 180-day time frame provided in RSA 369:8, II(b). The benefits of the Transaction that form the basis for the evaluations required under the statutory standards are set forth in the following section.

Commission to extend the period by which it must make its preliminary finding by thirty (30) days. If the Commission, upon receiving the amended filing, finds that the proposal will still have an adverse effect, subsection (b)(5) authorizes a further sixty (60) day review period under “the statute that would otherwise have applied but for this section.” Assuming that the Commission takes the full 60 days allowed to make its initial adverse finding, that the utility subsequently amends its filing in 30 days, and the Commission, after another 30 days and upon reviewing the amended filing finds that the merger or acquisition will have an adverse effect, the Commission then has an additional 60 days to review the filing, producing a total time line of 180 days for action either under RSA 369:8 II(b) or under RSA 374:33.

³ Order No. 23,470, DG 99-193, page 15.

V. BENEFITS OF THE PROPOSED TRANSACTION

A. Increased Commitment to the Communities We Serve

13. Until is headquartered in New Hampshire, and through its predecessor companies, Exeter & Hampton Electric Company and Concord Electric Company, has been providing utility service in the state for over 100 years. Until has strong ties to New Hampshire and to the communities in which its regulated utility, UES, currently operates. Until's officers and employees are leaders in several community and charitable organizations. Following the acquisition of Northern, those ties will be strengthened and expanded into new communities with the addition of Northern's facilities and employees.

14. Until is retaining all of Northern's 78 current employees. In addition, Until estimates that it will add more than 40 new positions following the acquisition of Northern, primarily in the areas of gas engineering, operations and customer service. The creation of several new positions will increase employment in the region and the tax base, and contribute to the economic growth of the region.

15. Until's Customer Service Center ("CSC") is located in Concord, New Hampshire, centrally located to its distribution company service areas, and staffed by 45 employees who either live within or are neighbors of the communities we serve. The CSC provides full functionality for all customer service activities, including: billing, customer service call response, payment services, customer accounting, credit and collections, service order generations, outage notification and emergency call processing. Until also offers Integrated Voice Response ("IVR") automation options and a full range

of customer services functions over the internet. Of the 40 new employees that Unitil expects to hire after the acquisition of Northern, approximately 12 will be hired to supplement Unitil's current staffing complement at the CSC to adequately meet the additional responsibilities associated with serving Northern's customers.

16. Portions of UES' electric service territory in southeastern New Hampshire overlap portions of Northern's natural gas service territory, which will increase the convenience for many Northern customers who will now be doing business with a single gas and electric distribution utility, and provide opportunities to strengthen economic and community development and customer outreach programs.

B. Synergy Savings Resulting in Increased Financial Strength

17. Following the transaction, Unitil's customer base will increase by approximately 45 percent and the combination of Northern with the Unitil system of companies is expected to produce integration savings. Based upon Unitil's preliminary analysis, the Transaction is expected to produce total system-wide synergies beginning in the first full year following integration of Unitil's and Northern's utility operations (2010) of approximately \$5.4 million per year. These savings are primarily due to the achievement of efficiencies associated with the provision of shared utility services and adoption of best practices associated with the provision of these shared utility services by Service Corp. Northern's share of these synergy savings is projected to be approximately \$2.3 million per year. Unitil has just begun to work with NiSource and Bay State on the transition plan and will continue to refine its estimate of the expected synergies to be realized from the Transaction. Synergy savings will also favorably impact each of the remaining pre-acquisition affiliated companies of Unitil.

18. There will be no changes to the rates, terms or conditions of service provided to Northern for at least one year from the closing of the Transaction. Absent the transaction, because Northern is not earning its authorized return, Northern anticipated the need for increased delivery rates to recover the higher costs of providing service to its customers in both New Hampshire and Maine. Expected synergy savings from the Transaction will allow Northern to defer increases in delivery rates for at least a year following the close of the Transaction, and to use the expected synergy savings to stabilize rates thereafter. At the time of Northern's next rate case, cost savings achieved due to the acquisition will be fully reflected in Northern's cost of service and directly benefit Northern's customers.

19. Northern will benefit from Until's overall corporate strategy to continually pursue operational efficiencies and achieve cost savings. Until's recent investments in improvements to its data networks and technology systems have also improved the timeliness, availability and accuracy of data, and have lead to efficiencies and opportunities for productivity improvements in the future.

20. Until has consistently demonstrated adequate access to capital markets at reasonable terms to finance its existing utility operations. The addition of Northern will increase Until's total capitalization by over 60 percent, and broaden Until's access to capital markets and utility financings.

C. Experienced Capable Management Committed to Service Quality, Safety and Reliability

21. Until has well established local management and utility operating capabilities. Northern's customers will benefit from Until's local utility operations, organizational structure, and management experience that will be further enhanced with

the additional employee talent and resources moving to Unitil from Northern. From the very outset, throughout the integration and transition process, Unitil will adopt best practices, processes and systems to ensure that Northern's customer benefit from excellent safety and operating practices in the Northern system.

22. Unitil, through the activities of Service Corp. and FG&E's gas division, is currently an active participant in the New England regional gas markets. Unitil has developed extensive experience and understanding of the gas markets and principles that guide the management of its existing gas supply and transportation portfolio. The Transition Plan will ensure a seamless transfer of supply responsibilities at Northern from Bay State to Unitil. Northern's customer will benefit from Unitil's gas supply and transportation portfolio management, ensuring reliable service at the lowest reasonable cost while maintaining flexibility to respond to variable and changing requirements.

23. Unitil is committed to excellence in customer service and reliability. Although UES and FG&E are not currently operating under a performance based rate plan mechanism in New Hampshire or Massachusetts, Unitil tracks call statistics as well as customer satisfaction in order to better serve its customers. In fact, in FG&E's recent rate order in Massachusetts, the Massachusetts Department of Public Utilities commented favorably on FG&E's service quality in all areas, with a superior result in handling Gas/Emergency Odor calls.

VI. COMPLIANCE WITH STATUTORY STANDARDS

A. RSA 369:8, II(b): No Adverse Effect on Rates, Terms or Operations.

24. RSA 369:8, II(b) requires Northern to demonstrate with detailed written representations that the Transaction will not have an adverse effect on rates,

terms, service, or operation of the public utility in the state. The demonstration is as follows:

25. The Transaction will have no adverse effects on Northern's rates. First, Unitil is proposing to freeze Northern's delivery rates for at least one year following the close of the Transaction. Second, when new rates are filed after a period that may extend beyond this minimum one year, Northern will flow through the synergy savings from the Transaction to customers. Third, Unitil commits that it will not seek recovery in rates from New Hampshire ratepayers of the transaction costs and transition costs incurred to consummate the Transaction.

26. The Transaction will have no adverse effect on the terms of contracts with Northern's customers, suppliers, lenders, employees, or vendors. Northern will continue to honor all of its existing commitments following consummation of the Transaction. Unitil is not seeking any changes to Northern's tariffs, terms and conditions for service in connection with the Transaction. Unitil highly values the skills and experience of the employees of Northern who are vital to the success of Northern's operations and these employees will be retained following the Transaction.

27. The Transaction will have no adverse effect on Northern's ability to provide safe, adequate and reliable gas distribution service to its New Hampshire customers. The focus of Unitil's transition and integration effort is not only to produce efficiency and synergy savings, but to seek and adopt ways to improve service and operations. Indeed, as a result of Unitil's commitment to adopting best practices, Northern's ability to continue to provide such service will be maintained and enhanced after the Transaction.

28. The Transaction will not result in changes to the operations or regulatory policies applicable to Northern. Northern will continue to be regulated as it is currently by the Commission pursuant to RSA 362 *et seq.*, and the Transaction will not affect any Commission orders, regulations or rulings currently in effect and applicable to Northern. The Commission's access to the management of Northern will be facilitated by the Transaction, because Unitil is headquartered in New Hampshire.

29. The Transaction will have no adverse effects on the rates of UES. Rather, the synergy savings resulting from the Transaction, which occur primarily due to efficiencies associated with the provision of shared utility services and the overall increase of Unitil's customer base, will also favorably impact the allocation of centralized costs to UES from Service Corp.

30. Based on the representations in this Petition and the accompanying testimony, the Commission should conclude that the Transaction complies with standards set forth in RSA 369:8, II(b) and approve Transaction on that basis.

B. RSA 374:33: Transaction is Lawful, Proper and in the Public Interest

31. As required by RSA 374.33, the Transaction is both lawful and proper. The Transaction is subject to regulatory approvals from this Commission and by the Maine Public Utilities Commission ("MPUC"). The MPUC application is being filed coincident with the filing of this petition, and its approval and the Commission's review in this proceeding will demonstrate that the Proposed Transaction is lawful and proper. Clearance under the United States anti-trust laws, and any additional federal approvals, are being pursued and will be obtained before the close of the Transaction. Shareholder approval of the Transaction, by either Unitil's or NiSource's shareholders, is not required.

VII. OTHER AUTHORIZATIONS

A. Northern's Debt Issuance under RSA 369:1

32. For the debt portion of the financing, Northern will be seeking authority, in a separate petition to be filed during the course of this proceeding pursuant to RSA 369:1, 369:2 and 369:4, to issue, at par, to institutional investors promissory notes evidencing unsecured long-term debt in an aggregate amount of up to ninety million dollars (\$90,000,000). The term of the notes are expected to be of varying maturities ranging from 10 to 30 years and are to bear fixed annual rates of interest, to be determined through a private placement auction process. Northern will make best efforts to close the debt financing concurrently with the close of the transaction.

B. Filing of Proposed Amendments to Affiliate Agreements under RSA 366:3

33. Exhibit 5, the Proposed Amended and Restated Cash Pooling and Loan Agreement, and Exhibit 6, the Proposed Service Agreement Between Unitil Service Corp. and Northern, are provided in proposed form to allow for an investigation and review pursuant to RSA 366:5, concurrent with consideration of the Transaction. Upon the close of the Transaction, Unitil will promptly file final, executed copies of these agreements pursuant to RSA 366:3. Also provided as Exhibit 7 is Unitil's Tax Sharing Agreement which, by its terms, requires no amendment to add Northern.

34. The Unitil Corporation Cash Pooling and Loan Agreement was created in 1985 (the "Cash Pool"). All Unitil subsidiaries are members of the Cash Pool, which has been amended to include Northern, pending approval of the Transaction. In accordance with the requirement under RSA 366:3 to file affiliate contracts within 10 days of execution, and to allow review and investigation pursuant to RSA 366:5, Unitil is

providing the proposed amendment of the Cash Pooling Agreement, to include Northern. As a party to the agreement, Northern would be able to request advances from and contribute surplus funds to Unitil's Cash Pool, and cause it to be bound by all provisions of the agreement as if it were originally a party thereto.

35. Unitil is also providing a proposed service agreement between Service Corp. and Northern. Similar to the organizational structure of Unitil, Northern currently operates under a centralized business model, with a number of professional and administrative support services provided by a central service company that supports all NiSource affiliates. In addition, Northern shares and relies on its parent company, Bay State, for a number of central services. After the transfer of Northern to Unitil and a transition period following the close of the transaction which is expected to last for approximately six months, NiSource and Bay State will cease providing these centralized services to Northern and Service Corp. will support Northern on an ongoing basis through the proposed service agreement, which is discussed in the testimony of Laurence Brock.

C. Approval of Deferral and Amortization of the Costs of the Transaction

36. The Joint Petitioners request that the Commission authorize Northern to defer and amortize the costs of the transaction and the transition costs resulting from the transaction over 10 years. The deferral and amortization is reasonable as these are the up-front transaction and transition costs incurred to obtain the benefits and costs savings that are expected to be realized over time. A straight-line amortization over 10 years creates a better match between the costs to obtain the savings and the realization of those savings. As indicated above, Unitil commits that it will not seek to recover the transaction and transition costs from its customers.

VIII. REQUEST FOR APPROVALS

WHEREFORE, the Joint Petitioners respectfully request the Commission:

1. Approve the Transaction under which Northern becomes a subsidiary of Unitil Corporation, pursuant to RSA 369:8, II(b) and RSA 374:33;
2. Authorize Northern to defer and amortize the costs of the transaction and the transition costs resulting from the transaction over 10 years;
3. Issue all other approvals, authorization or clearances, if any, in order that the Joint Petitioners can efficiently effect Transaction; and
4. Grant such other and further relief as may be just and proper.

WHEREFORE, Unitil and Northern respectfully submit that the Transaction meets all statutory criteria for a change of control, and request that this Application be approved by the Commission. Unitil and Northern request that the Commission consider this Petition expeditiously and issue an Order authorizing the Transaction within 180 days of this filing.

Respectfully submitted,

Unitil Corporation

/s/ Gary Epler

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