

August 2009



**UNITIL / NORTHERN
TRANSITION PLAN REPORT**

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Transition Plan Report
August 14, 2009

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SECTION 1: EXECUTIVE SUMMARY

The Transaction Closing (“Closing”) occurred on Monday, December 1, 2008. On that date, Unitil Corporation (“Unitil” or the “Company”) acquired all of the stock of Northern Utilities, Inc. (“Northern”) and Granite State Gas Transmission, Inc. (“Granite”). Since the Closing, the Company’s efforts focused on the transition of the Customer Service functions and related processes and systems as well as the Gas Purchasing, Management and Dispatch functions. During that time, those functions continued to be supported under the Transition Services Agreement (“TSA”) between Unitil and NiSource and its affiliates, including Bay State Gas Company (“Bay State”).

In past Transition Plan Reports, we provided information regarding the two major components of Unitil’s Transition Plan: a) the Business Integration Plan (“BIP”) and b) the TSA between Unitil and NiSource and its affiliates.

The first component of the Transition Plan, the BIP, contained the individual, functional Go-Live plans, most of which are now complete, prepared by Unitil’s Functional Integration Team Leaders (“FIT’s”) in conjunction with their NiSource and Bay State counterparts. The major component of the BIP was the conversion of the Northern customer portfolio from the NiSource systems into the Unitil Customer Information System (“CIS”). The conversion of the Northern customer portfolio from the NiSource systems into the Unitil CIS was completed on July 4 when Unitil successfully validated the CIS portfolio data transfer and when Unitil’s Customer Service functions for Northern’s customers commenced on July 5. With the conversion of Northern’s customer portfolio to Unitil’s CIS, we will continue to report only on the remaining BIP components that still have steps to complete. For a detailed discussion of historical events, please refer to the Transaction Plan Reports that were filed for the preceding months.

The second component of the Transition Plan, Transition Services under the TSA, began on December 1, 2008 and has been provided for over eight months. The first

notification to extend Transition Services was due 45 days prior to the expiration of the Initial Term, which ended on March 31, 2009. Unitil provided written notice for the First Extension Period to NiSource on February 13, 2009. Unitil's written notice to extend Transition Services for the Second Extension Period through September 30, 2009, to ensure there is no interruption or diminution to the quality of service to customers, was provided to NiSource on May 15, 2009.

At the time of this filing, Unitil has performed the customer service, billing, remittance, credit and related functions for the Northern customer portfolio for approximately six weeks. Generally, the Customer Service functions that were assumed by Unitil are operating as functionally designed and in accordance with Unitil operating procedures. In this August Transition Plan Report, we provide: a) a summary of notable events since the CIS portfolio data conversion, b) the status of the remaining BIP components, c) a discussion and summary of capital expenditures to date, and d) a discussion and summary of transition service expenditures to date.

Unitil has committed to provide these Transition Plan Report updates monthly, on the 15th of each month throughout the transition period. Unitil expects to file its final Transition Plan Report on September 15, 2009.

SECTION 2: BUSINESS INTEGRATION PLAN – UPDATE

A) CIS Portfolio Data Conversion

The conversion of the Northern customer portfolio from the NiSource systems to the Unitil CIS was completed on July 4 when Unitil successfully validated the CIS portfolio data transfer. The Customer Service functions, which serve the needs of Northern's customers, commenced on July 5. At the time of this filing, Unitil has performed the customer service, billing, remittance, credit and related functions for the Northern customer portfolio for approximately six weeks. Generally, the Customer Service functions that were assumed by Unitil are operating as functionally designed and in accordance with Unitil operating procedures. A summary of notable items events that have occurred since Unitil assumed responsibility for the Customer Service functions is presented below:

Customer Service: In July, the Customer Service Center received 32,807 calls with Northern's customers representing approximately 24% of the total call volume. Overall, the service level for the month of July was 79.4% of calls answered in 20 seconds.

Customer Billing: As noted in the July Transition Plan Report, customer billings were held temporarily for review throughout the first week to verify the accuracy of the billed charges, customer information and overall presentation of the bill. Since that time, we have caught up and the customer billing for July is essentially complete.

Cash Remittance: Cash remittance sources available to customers include bank lockboxes for check payments, web / IVR e-check and credit card payments, electronic bill presentment and payment services, walk-in Western Union payments and Auto-Bank Draft ("Uni-Pay") services. The "menu" of payment options has been well received by customers, customer payment activity has been robust and the posting of payments to customer accounts is current.

Credit and Collections: As noted in the July Transition Plan Report, all delinquency processes were disabled until Monday, July 27, to allow us to review the converted data, resolve any payment posting problems and to review and/or enter all customer payment arrangements. Effective Monday, July 27, all delinquency processes are operating in accordance with normal Company operating procedures.

B) Go-Live Plan – Update

The Go-Live component of the BIP for the acquisition of Northern and Granite by Unitil presents the steps to be undertaken for the cutover of business processes, functions, data and systems from NiSource and Bay State to Unitil. The Go-Live plans were tied to two key dates: 1) the Closing and 2) the Customer Services Go-Live date. This section identifies the status of Unitil's Go-Live plans. In addition, this section also identifies certain functions for which Transition Services are currently being utilized that are consistent with the description provided in Section 3A of this Transition Plan Report.

(1) Customer Services

The Unitil CIS conversion, including testing and verification, has been completed and the Go-Live plan was successfully executed effective July 5. As a result, the broad range of Transition Services from NiSource to provide customers with continuous services and to ensure a seamless transition to Unitil's customer services has significantly declined following the conversion. We are continuing to verify the internal customer service quality of the conversion in conjunction with the July financial close.

(2) Accounting and Finance

The Go-Live plans for the accounting and finance teams and the associated Transition Services are effectively complete.

(3) Corporate Communications

The Go-Live plan for the corporate communications team and the associated Transition Services are effectively complete.

(4) Distribution Field Operations

The Go-Live plan for the distribution field operations team and the associated Transition Services are effectively complete.

(5) Gas Supply and Gas Dispatch and Control

The Go-Live plan for the gas supply team and the associated Transition Services are effectively complete – with ongoing training and specific systems support. As noted in the July Transition Plan Report, Unitil has decided to continue these Transition Services through September 30. This continuation will provide Unitil additional time to train with the Bay State dispatchers in Ludlow, MA and will allow Unitil to access the SCADA web viewer as a back up, if needed.

(6) Engineering and Operations Management

The Go-Live plan for engineering and operations management and the associated Transition Services are effectively complete.

(7) Transmission System Management and Operations

The Go-Live plan for the transmission system management and operations team and the associated Transition Services are effectively complete – with specific ongoing systems support. Unitil will require ongoing Transition Services to manage compliance and preventative maintenance activities for Granite using NiSource's Maximo system until Unitil implements its software solution.

(8) Corporate

The Go-Live plan for the corporate team and the associated Transition Services are effectively complete.

(9) Infrastructure

The Go-Live plan for the infrastructure team and the associated Transition Services are effectively complete.

C) Capital Projects – Expenditures: Summary

As noted in previous Transition Plan Reports, each team had prepared a preliminary assessment of internal and external resources that will be required to complete the integration according to schedule. The status of the capital project expenditures as of July 31, 2009, is provided on the following page. As noted previously, these investments are necessary to achieve the potential synergy savings. Therefore, Unitil will seek cost recovery of these expenditures in future rate case filings.

**Capital Projects
Expenditures Summary
July 31, 2009**

Authorization	Original Budget	Expenditures to Date
CUSTOMER SERVICE PROJECTS:		
Billing Conversion - Customer Information Systems	\$930,000	\$1,779,221
Interfacing - Customer Information Systems / Web-based Customer Systems, Metering, Ledgers & Reporting	544,000	553,937
Measurement - MV90 xi Network Server & Communications Equipment	147,000	156,147
G - Intake (Operations & Business Development)	71,400	100,722
Telecom Upgrade	189,000	339,030
Total Customer Service Projects:	1,881,400	2,929,057
GAS OPERATIONS & ENGINEERING PROJECTS:		
Operation Data Integration	150,675	91,887
Compliance Management System	145,300	160,484
Mobile Terminals	111,750	189,488
Gas Procedures Manuals	81,600	31,448
Gas SCADA System	142,000	192,478
Integrity Management Analysis System	65,000	58,180
Gas Dispatch Phone & Central Radio System	41,000	26,429
Equipment & Tools	31,000	52,630
Facility Enhancements & Signage	99,500	21,056
GIS	150,000	134,296
Total Gas Operations & Engineering Projects	1,017,825	958,376
FINANCE, ACCOUNTING & OTHER PROJECTS:		
Flexi Ledger / Accounts Payable / Projects / Purchasing	143,700	156,237
Energy Contracts / Energy Measurement & Control	94,000	314,607
Other Miscellaneous Projects	87,500	37,971
Total Finance, Accounting & Other Projects	325,200	508,815
Grand Total	\$3,224,425	\$4,396,248

SECTION 3: TRANSITION SERVICES – UPDATE

A) Transition Services Agreement – Overview

Transition Services under the TSA began on December 1, 2008 and the initial term of the TSA has been extended through September 30, 2009 with the services provided under the TSA to be charged to Unitil at NiSource's fully loaded cost plus a profit factor of 15%. The TSA provides for the general contractual terms and conditions for the provision of Transition Service by NiSource and its affiliates.

Unitil's objective is to replace the remaining TSA services in an efficient and timely manner but not before Unitil is prepared to provide these services. In February, Unitil provided notice of Early Termination of certain Transition Services, related to the southern NH service territory, which were deemed to no longer be needed. Many of the Annexes and Transition Services pertained directly to, or were indirectly related to, the Customer Service functions. As a result of the conversion of the CIS customer portfolio, Unitil has assumed the Customer Service functions and the majority of the remaining Transition Services will terminate naturally during August with the exception of:

- i. Specific functions associated with Gas Dispatch and Control Services
- ii. Specific functions associated with Granite Transportation Services
- iii. Ad hoc inquiries that rise to a level of Transition Services

Transition Services pertaining to specific functions associated with i and ii above are discussed in more detail in Section 2B of this report.

Unitil is currently evaluating the status of the Transition Services provided by NiSource and, as appropriate, will provide formal written notice to NiSource to terminate some or all of the remaining Transition Services. Unitil will not terminate any Transition Services unless Unitil is prepared to perform the functions and is certain that there will be no interruption or diminution to the quality of service provided to the customers of Northern and Granite.

B) Transition Services – Expenditures: Summary

There are two categories of Transition Costs. Unitil has agreed that it will not seek recovery in rates of either category of these Transition Costs. The first category of costs is the expenditures Unitil will pay to NiSource and its affiliates under the TSA, (the “TSA Costs”). As of August 14, 2009, Unitil has been billed for seven months’ TSA Costs incurred through June 30, 2009.

The second category of costs, for which Unitil has agreed not to seek recovery in rates, is all of the other non-recurring expenditures (“Other Transition Costs”) necessary to complete the transition. These Other Transition Costs include non-recurring consulting fees, temporary help and labor costs and all other miscellaneous costs related to the transition. As of July 31, 2009, Transition Costs billed to date include:

<u>TSA Costs – NiSource and Affiliates:</u>	<u>Amount</u>
Customer Service Support	\$1,932,982
Gas Dispatch and Control	241,804
Gas Supply Services	184,069
All Other	<u>227,217</u>
Total	<u>\$2,586,072</u>

<u>Other Transition Costs:</u>	<u>Amount</u>
Consulting and Professional Fees	\$1,590,651
Temporary Help and Labor	1,440,207
Other	<u>158,255</u>
Total	<u>\$3,189,113</u>