

UNITIL CORP
Form 10-K
January 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire
(State or other jurisdiction of

02-0381573
(I.R.S. Employer

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incorporation or organization)
6 Liberty Lane West, Hampton, New Hampshire
(Address of principal executive offices)

Identification No.)
03842-1720
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Common Stock, No Par Value	Name of Each Exchange on Which Registered New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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Based on the closing price of the registrant's common stock on June 30, 2015, the aggregate market value of common stock held by non-affiliates of the registrant was \$452,207,259.

The number of shares of the registrant's common stock outstanding was 13,992,817 as of January 25, 2016.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 20, 2016 are incorporated by reference into Part III of this Report

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CAUTIONARY STATEMENT

This report and the documents incorporated by reference into this report contain statements that may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the future operations of the Company (as such term is defined in Part I, Item I (Business)), are forward-looking statements.

These statements include declarations regarding the Company's beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential or negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those described in Part I, Item 1A (Risk Factors) and the following:

the Company's regulatory environment (including regulations relating to climate change, greenhouse gas emissions and other environmental matters), which could affect the rates the Company is able to charge, the Company's authorized rate of return and the Company's ability to recover costs in its rates;

fluctuations in the supply of, demand for, and the prices of, gas and electric energy commodities and transmission and transportation capacity and the Company's ability to recover energy supply costs in its rates;

customers' preferred energy sources;

severe storms and the Company's ability to recover storm costs in its rates;

declines in the valuation of capital markets, which could require the Company to make substantial cash contributions to cover its pension obligations, and the Company's ability to recover pension obligation costs in its rates;

general economic conditions, which could adversely affect (i) the Company's customers and, consequently, the demand for the Company's distribution services, (ii) the availability of credit and liquidity resources and (iii) certain of the Company's counterparty's obligations (including those of its insurers and lenders);

the Company's ability to obtain debt or equity financing on acceptable terms;

increases in interest rates, which could increase the Company's interest expense;

restrictive covenants contained in the terms of the Company's and its subsidiaries' indebtedness, which restrict certain aspects of the Company's business operations;

variations in weather, which could decrease demand for the Company's distribution services;

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long-term global climate change, which could adversely affect customer demand or cause extreme weather events that could disrupt the Company's electric and natural gas distribution services;

numerous hazards and operating risks relating to the Company's electric and natural gas distribution activities, which could result in accidents and other operating risks and costs;

catastrophic events;

the Company's ability to retain its existing customers and attract new customers; and

increased competition.

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

Table of Contents**PART I****Item 1. Business****UNITIL CORPORATION**

In this Annual Report on Form 10-K, the Company, Unitil, we, and our refer to Unitil Corporation and its subsidiaries, unless the context requires otherwise. Unitil is a public utility holding company and was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly-owned subsidiaries of Unitil:

Company Name	State and Year of Organization	Principal Business
Unitil Energy Systems, Inc. (Unitil Energy)	NH - 1901	Electric Distribution Utility
Fitchburg Gas and Electric Light Company (Fitchburg)	MA - 1852	Electric & Natural Gas Distribution Utility
Northern Utilities, Inc. (Northern Utilities)	NH - 1979	Natural Gas Distribution Utility
Granite State Gas Transmission, Inc. (Granite State)	NH - 1955	Natural Gas Transmission Pipeline
Unitil Power Corp. (Unitil Power)	NH - 1984	Wholesale Electric Power Utility
Unitil Service Corp. (Unitil Service)	NH - 1984	Utility Service Company
Unitil Realty Corp. (Unitil Realty)	NH - 1986	Real Estate Management
Unitil Resources, Inc. (Unitil Resources)	NH - 1993	Non-regulated Energy Services
Usource Inc. and Usource L.L.C. (collectively Usource)	DE - 2000	Energy Brokering Services

Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005.

Unitil's principal business is the local distribution of electricity and natural gas to approximately 182,000 customers throughout its service territories in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities: i) Unitil Energy, which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the capital city of Concord, ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts, and iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland, which is the largest city in northern New England. In addition, Unitil is the parent company of Granite State, an interstate natural gas transmission pipeline company that provides interstate natural gas pipeline access and transportation services to Northern Utilities in its New Hampshire and Maine service territory. Together, Unitil's three distribution utilities serve approximately 103,300 electric customers and 78,700 natural gas customers.

	Customers Served as of December 31, 2015		
	Residential	Commercial & Industrial (C&I)	Total
Electric:			
Unitil Energy	63,462	11,056	74,518
Fitchburg	24,982	3,769	28,751

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Total Electric	88,444	14,825	103,269
Natural Gas:			
Northern Utilities	47,247	15,823	63,070
Fitchburg	14,023	1,656	15,679
Total Natural Gas	61,270	17,479	78,749
Total Customers Served	149,714	32,304	182,018

Unitil's distribution utilities had an investment in Net Utility Plant of \$808.9 million at December 31, 2015. Unitil's total operating revenue was \$426.8 million in 2015. Unitil's operating revenue is substantially derived from regulated natural gas and electric distribution utility operations.

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A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy, but currently has limited business and operating activities. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy in 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

Unitil also has three other wholly-owned non-utility subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and energy supply management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are indirect subsidiaries that are wholly-owned by Unitil Resources. Usource provides energy brokering and advisory services to a national client base of large commercial and industrial customers. For segment information relating to each segment's revenue, earnings and assets, see Note 3 (Segment Information) to the Consolidated Financial Statements included in Part II, Item 8 (Financial Statements and Supplementary Data) of this report. All of the Company's revenues are attributable to customers in the United States of America and all its long-lived assets are located in the United States of America.

OPERATIONS

Natural Gas Operations

Unitil's natural gas operations include gas distribution utility operations and interstate gas transmission pipeline operations, discussed below. Revenue from Unitil's gas operations was \$202.6 million for 2015, which represents about 47% of Unitil's total operating revenue.

Natural Gas Distribution Utility Operations

Unitil's natural gas distribution operations are conducted through two of the Company's operating utilities, Northern Utilities and Fitchburg. The primary business of Unitil's natural gas utility operations is the local distribution of natural gas to customers in its service territories in New Hampshire, Massachusetts and Maine. As a result of a restructuring of the gas utility industry, Northern Utilities' Commercial and Industrial (C&I) customers and Fitchburg's residential and C&I customers have the opportunity to purchase their natural gas supplies from third-party energy supply vendors. Most customers, however, continue to purchase such supplies through Northern Utilities and Fitchburg under regulated rates and tariffs. Northern Utilities and Fitchburg purchase natural gas from unaffiliated wholesale suppliers and recover the actual costs of these natural gas supplies on a pass-through basis through reconciling rate mechanisms that are periodically adjusted.

Natural gas is supplied and distributed by Northern Utilities to approximately 63,000 customers in 44 New Hampshire and southern Maine communities, from Plaistow, New Hampshire in the south to the city of Portland, Maine and then extending to Lewiston-Auburn, Maine in the north. Northern Utilities has a diversified customer base both in Maine and New Hampshire. Commercial businesses include healthcare, education, government and retail. Northern Utilities' industrial base includes manufacturers in the auto, housing, rubber, printing, textile, pharmaceutical, electronics, wire and food production industries as well as a military installation. Northern Utilities' 2015 gas operating revenue was \$165.3 million, of which approximately 38% was derived from residential firm sales and 62% from C&I firm sales.

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Natural gas is supplied and distributed by Fitchburg to approximately 15,700 customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts. Fitchburg's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. Fitchburg's 2015 gas operating revenue was \$31.0 million, of which approximately 52% was derived from residential firm sales and 48% from C&I firm sales.

Gas Transmission Pipeline Operations

Granite State is an interstate natural gas transmission pipeline company, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State

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provides Northern Utilities with interconnection to major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State had operating revenue of \$6.3 million for 2015. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and to third-party marketers.

Electric Distribution Utility Operations

Unitil's electric distribution operations are conducted through two of the Company's utilities, Unitil Energy and Fitchburg. Revenue from Unitil's electric utility operations was \$218.0 million for 2015, which represents about 51% of Unitil's total operating revenue.

The primary business of Unitil's electric utility operations is the local distribution of electricity to customers in its service territory in New Hampshire and Massachusetts. As a result of electric industry restructuring in New Hampshire and Massachusetts, Unitil's customers are free to contract for their supply of electricity with third-party suppliers. The distribution utilities continue to deliver that supply of electricity over their distribution systems. Both Unitil Energy and Fitchburg supply electricity to those customers who do not obtain their supply from third-party suppliers, with the approved costs associated with electricity supplied by the distribution utilities being recovered on a pass-through basis under periodically adjusted rates.

Unitil Energy distributes electricity to approximately 74,500 customers in New Hampshire in the capital city of Concord as well as parts of 12 surrounding towns and all or part of 18 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow. Unitil Energy's service territory consists of approximately 408 square miles. In addition, Unitil Energy's service territory encompasses retail trading and recreation centers for the central and southeastern parts of the state and includes the Hampton Beach recreational area. These areas serve diversified commercial and industrial businesses, including manufacturing firms engaged in the production of electronic components, wire and plastics, healthcare and education. Unitil Energy's 2015 electric operating revenue was \$154.7 million, of which approximately 57% was derived from residential sales and 43% from C&I sales.

Fitchburg is engaged in the distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts. Fitchburg's service territory encompasses approximately 170 square miles. Electricity is supplied and distributed by Fitchburg to approximately 28,800 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. Fitchburg's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries and educational institutions. Fitchburg's 2015 electric operating revenue was \$63.3 million, of which approximately 60% was derived from residential sales and 40% from C&I sales.

Seasonality

The Company's results of operations are expected to reflect the seasonal nature of the natural gas business. Annual gas revenues are substantially realized during the heating season as a result of higher sales of natural gas due to cold weather. Accordingly, the results of operations are historically most favorable in the first and fourth quarters. Fluctuations in seasonal weather conditions may have a significant effect on the result of operations. Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by the weather conditions in both the winter and summer seasons.

Unitil Energy, Fitchburg and Northern Utilities are not dependent on a single customer or a few customers for their electric and natural gas sales.

Non-Regulated and Other Non-Utility Operations

Unitil's non-regulated operations are conducted through Usource, a subsidiary of Unitil Resources. Usource provides energy brokering and advisory services to a national client base of large commercial and industrial customers. Revenue from Unitil's non-regulated operations was \$6.2 million in 2015.

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The results of Unitil's other non-utility subsidiaries, Unitil Service and Unitil Realty, and the holding company, are included in the Company's consolidated results of operations. The results of these non-utility operations are principally derived from income earned on short-term investments and real property owned for Unitil's and its subsidiaries' use and are reported, after intercompany eliminations, in Other segment income. For segment information, see Note 3 (Segment Information) to the Consolidated Financial Statements included in Part II, Item 8 (Financial Statements and Supplementary Data) of this report.

RATES AND REGULATION**Rate Case Activity**

Northern Utilities Base Rates Maine On December 27, 2013, the Maine Public Utilities Commission (MPUC) approved a settlement agreement providing for a \$3.8 million permanent increase in annual revenue for Northern Utilities' Maine division, effective January 1, 2014. The settlement agreement also allowed the Company to implement a Targeted Infrastructure Replacement Adjustment (TIRA) rate mechanism to adjust base distribution rates annually to recover the revenue requirements associated with targeted investments in gas distribution system infrastructure replacement and upgrade projects. The TIRA has an initial term of four years and covers targeted capital expenditures in 2013 through 2016. The 2014 TIRA provided for an annual increase in base distribution revenue of \$1.3 million, effective May 1, 2014. The 2015 TIRA provided for an annual increase in base distribution revenue of \$1.2 million, effective May 1, 2015.

Northern Utilities Base Rates New Hampshire On April 21, 2014, the New Hampshire Public Utilities Commission (NHPUC) approved a settlement agreement providing for an increase of \$4.6 million in distribution base revenue, effective May 1, 2014. The settlement agreement provided for additional step adjustments in 2014 and 2015 to recover the revenue requirements associated with investments in gas mains extensions and infrastructure replacement projects. The 2014 step adjustment provided for an annual increase in revenue of \$1.4 million, effective May 1, 2014. The 2015 step adjustment provided for an annual increase of \$1.8 million in revenue effective May 1, 2015.

Northern Utilities Pipeline Refund On February 19, 2015 the FERC issued Opinion No. 524-A, the final order in Portland Natural Gas Transmission's (PNGTS) Section 4 rate case, requiring PNGTS to issue refunds to shippers. Northern Utilities received a pipeline refund of \$22.0 million on April 15, 2015. As a gas supply-related refund, the entire amount refunded will be credited to Northern Utilities' customers and marketers. In New Hampshire, the refund will be credited to all customers over a three year period as directed by the NHPUC. In Maine, the refund has been divided into two parts, as directed by the MPUC. Maine retail customers who purchase their gas directly from Northern Utilities will be credited their portion of the refund over a three year period. The second part of the refund was paid on October 5, 2015 as a one-time lump sum payment directly to marketers who transport gas on Northern Utilities' distribution system. The Company has recorded current and noncurrent Regulatory Liabilities of \$7.6 million and \$8.1 million, respectively, on its Consolidated Balance Sheets as of December 31, 2015.

Unitil Energy Base Rates On April 26, 2011, the NHPUC approved a rate settlement that extends through May 1, 2016 and provides for a long-term rate plan and earnings sharing mechanism, with a series of step adjustments to increase revenue in future years to support Unitil Energy's continued capital improvements to its distribution system. The third and final step increase of \$1.5 million in annual revenue was effective May 1, 2014.

Granite State Base Rates Granite State had in place a FERC approved amended settlement agreement under which it had been permitted each June to file for a rate adjustment to recover the revenue requirements associated with specified capital investments in gas transmission projects up to a specific cost cap. The final rate adjustment under this agreement was effective August 1, 2014. Granite State has received FERC approval of a second amended settlement agreement under which it will continue to be permitted to file annually, each June, for a rate

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adjustment to recover the revenue requirements associated with specified capital investments in gas transmission projects up to a cost cap. The FERC approval of the second amended settlement included a rate increase of \$0.4 million, effective August 1, 2015.

Fitchburg Base Rates Electric On May 30, 2014, the Massachusetts Department of Public Utilities (MDPU) approved a \$5.6 million increase in Fitchburg's base revenue decoupling target, effective

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June 1, 2014. The MDPU approved a 9.7% return on equity and a common equity ratio of 48%. As part of the increase in base revenue, the MDPU approved the recovery, over three years, of \$5.0 million of previously deferred emergency storm repair costs incurred in 2011 and 2012. In addition, the MDPU approved an expanded storm resiliency vegetation management program at an annual funding amount of \$0.5 million. The MDPU also approved the recovery of \$0.9 million over a five-year period of past due amounts associated with hardship accounts that are protected from shut-off. The impact of the rate order on previously capitalized or deferred items was not material.

On June 16, 2015, Fitchburg filed for a \$3.8 million increase in electric base revenue decoupling target, which represents a 5.6 percent increase over 2014 test year operating electric revenues. The filing included a request for approval of a capital cost recovery mechanism to recover prudently incurred additions to utility plant on an annual basis. Discovery and hearings have been completed and briefs have been filed. By statute, the MDPU is afforded ten months to act on a request for a rate increase. A decision is expected by the end of April, 2016.

Fitchburg Base Rates Gas On June 16, 2015, Fitchburg filed for a \$3.0 million increase in gas base revenue decoupling target, which represents an 8.3 percent increase over 2014 test year total gas operating revenues. Discovery and hearings have been completed and briefs have been filed. By statute, the MDPU is afforded ten months to act on a request for a rate increase. A decision is expected by the end of April, 2016.

Regulation

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 with regard to certain bookkeeping, accounting and reporting requirements. Unitil's utility operations related to wholesale and interstate energy business activities are also regulated by the FERC. Unitil's distribution utilities are subject to regulation by the applicable state public utility commissions, with regard to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the NHPUC; Fitchburg is subject to regulation by the MDPU; and Northern Utilities is regulated by the NHPUC and MPUC. Granite State, Unitil's interstate natural gas transmission pipeline, is subject to regulation by the FERC with regard to its rates and operations. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under cost of service regulation. Under this regulatory structure, Unitil's distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, and earn a return on their capital investment in utility assets. In addition, the Company's distribution utilities and its natural gas transmission pipeline company may also recover certain base rate costs, including capital project spending and enhanced reliability and vegetation management programs, through annual step adjustments and cost tracker rate mechanisms.

As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, most of Unitil's customers have the opportunity to purchase their electricity or natural gas supplies from third-party energy supply vendors. Most customers, however, continue to purchase such supplies through the distribution utilities under regulated energy rates and tariffs. Unitil's distribution utilities purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual approved costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

Fitchburg is subject to revenue decoupling. Revenue decoupling is the term given to the elimination of the dependency of a utility's distribution revenue on the volume of electricity or natural gas sales. The difference between distribution revenue amounts billed to customers and the targeted revenue decoupling amounts is recognized as an increase or a decrease in Accrued Revenue which forms the basis for resetting rates for future cash recoveries from, or credits to, customers. These revenue decoupling targets may be adjusted as a result of rate cases and other

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authorized adjustments that the Company files with the MDPU. The Company estimates that revenue decoupling applies to approximately 27% and 11% of Unitil's total annual electric and natural gas sales volumes, respectively.

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Also see *Regulatory Matters* in Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements for additional information on rates and regulation.

NATURAL GAS SUPPLY

Unitil manages gas supply for customers served by Northern Utilities in Maine and New Hampshire as well as customers served by Fitchburg in Massachusetts.

Northern Utilities' C&I customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors, and third-party supply is prevalent among Northern Utilities' larger C&I customers. Most small C&I customers, as well as all residential customers, purchase their gas supply from Northern Utilities under regulated rates and tariffs. Fitchburg's residential and C&I business customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors. Many large and some medium C&I customers purchase their supplies from third-party suppliers, while most of Fitchburg's residential and small C&I customers continue to purchase their supplies at regulated rates from Fitchburg. The approved costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically adjusted rates and are included in Cost of Gas Sales in the Consolidated Statements of Earnings.

Regulated Natural Gas Supply

Northern Utilities purchases a majority of its natural gas from U.S. domestic and Canadian suppliers under contracts of one year or less, and on occasion from producers and marketers on the spot market. Northern Utilities arranges for gas transportation and delivery to its system through its own long-term contracts with various interstate pipeline and storage facilities, through peaking supply contracts delivered to its system, or in the case of liquefied natural gas (LNG), to truck supplies to storage facilities within Northern Utilities' service territory.

Northern Utilities has available under firm contract 115,000 million British Thermal Units (MMbtu) per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.6 billion cubic feet (BCF) of underground storage. As a supplement to pipeline natural gas, Northern Utilities owns an LNG storage and vaporization facility. This plant is used principally during peak load periods to augment the supply of pipeline natural gas.

Fitchburg purchases natural gas under contracts from producers and marketers on the spot market. Fitchburg arranges for gas transportation and delivery to its system through its own long-term contracts with Tennessee Gas Pipeline, through peaking supply contracts delivered to its system, or in the case of LNG or liquefied propane gas (LPG), to truck supplies to storage facilities within Fitchburg's service territory.

Fitchburg has available under firm contract 14,057 MMbtu per day of year-round transportation and 0.33 BCF of underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, Fitchburg owns a propane air gas plant and an LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

ELECTRIC POWER SUPPLY

The restructuring of the electric utility industry in New Hampshire required the divestiture of Unitil's power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility energy service. Fitchburg, Unitil Energy, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the Independent System Operator - New England (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's electric customers.

As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts have the opportunity to purchase their electric supply from competitive third-party energy suppliers. As of December 2015, 79% of Unitil's largest

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New Hampshire customers, representing 26% of total New Hampshire electric energy sales, and 88% of Unitil's largest Massachusetts customers, representing 34% of total Massachusetts electric energy sales; are purchasing their electric power supply in the competitive market. Additionally, cities and towns in Massachusetts may, with approval from the MDPU, implement municipal aggregations whereby the municipality purchases electric power on behalf of all citizens and businesses that do not opt out of the aggregation. The Towns of Lunenburg and Ashby have active municipal aggregations. Customers in Lunenburg comprise about 17% of Fitchburg's customer base and customers in Ashby comprise another 5%. In New Hampshire, the number of residential customers purchasing from a third party supplier has increased more than tenfold in the past three years and stands at 13% of residential customers. Notwithstanding this activity, most residential and small commercial customers continue to purchase their electric supply through Unitil's electric distribution utilities under regulated energy rates and tariffs.

Regulated Electric Power Supply

In order to provide regulated electric supply service to their customers, Unitil's electric distribution utilities enter into load-following wholesale electric power supply contracts with various wholesale suppliers.

Unitil Energy currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. Currently, with approval of the NHPUC, Unitil Energy purchases Default Service power supply contracts for small, medium and large customers every six months for 100% of the supply requirements.

Fitchburg has power supply contracts with various wholesale suppliers for the provision of Basic Service electric supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Basic Service power supply contracts for residential, small and medium general service customers are acquired every six months, are 12 months in duration and provide 50% of the supply requirements. On June 13, 2012, the MDPU approved Fitchburg's request to discontinue the procurement process for Fitchburg's large customers and become the load-serving entity for these customers. Currently, all Basic Service power supply requirements for large accounts are assigned to Fitchburg's ISO-NE settlement account where Fitchburg procures electric supply through ISO-NE's real-time market.

The NHPUC and MDPU regularly review alternatives to their procurement policy, which may lead to future changes in this regulated power supply procurement structure.

Regional Electric Transmission and Power Markets

Fitchburg, Unitil Energy and Unitil Power, as well as virtually all New England electric utilities, are participants in the ISO-NE markets. ISO-NE is the Regional Transmission Organization (RTO) in New England. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economical manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England are performed on a regional basis. The ISO-NE tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated, reliable power system operation and a supportive business environment for the development of competitive electric markets.

Electric Power Supply Divestiture

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In connection with the implementation of retail choice, Unitil Power, which formerly functioned as the wholesale power supply provider for Unitil Energy, and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. The companies have a continuing obligation to submit regulatory filings that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

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Long-Term Renewable Contracts

Fitchburg has entered into long-term renewable contracts for electric energy and/or renewable energy credits pursuant to Massachusetts legislation, specifically, the Act Relative to Green Communities of 2008 and the Act Relative to Competitively Priced Electricity (2012) in the Commonwealth, and the MDPU's regulations implementing the legislation. The generating facilities associated with two of these contracts have been constructed and are operating. Another contract has been approved by the MDPU and is pending facility construction and operation, which is anticipated to begin by the end of 2016. Fitchburg recovers the costs associated with long-term renewable contracts on a fully reconciling basis through a MDPU-approved cost recovery mechanism.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in material compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2015, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, we cannot assure you that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Northern Utilities Manufactured Gas Plant Sites Northern Utilities has an extensive program to identify, investigate and remediate former manufactured gas plant (MGP) sites that were operated from the mid-1800s through the mid-1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. In Maine, Northern Utilities has documented the presence of MGP sites in Lewiston and Portland, and a former MGP disposal site in Scarborough. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

Northern Utilities or others have substantially completed remediation of the Exeter, Rochester, Dover, Somersworth, Portsmouth, Lewiston and Scarborough sites, though future activities may be required.

The site in Portland has been investigated and remedial activities have largely been completed. Final remediation activities were completed in the fourth quarter of 2015, and closure documentation will be prepared for submittal to the regulatory agency in the first half of 2016. In the second quarter of 2014, the State of Maine completed its taking of the site via eminent domain for the expansion of the adjacent marine terminal. As a result of this taking, and pursuant to an agreement between the State of Maine and Northern Utilities, future remedial activities necessitated as a result of development of the site will be primarily the responsibility of the State of Maine.

Although remediation at the site in Exeter has been substantially completed, sediment contamination attributed to the former MGP was identified off-site. This off-site location has been investigated and remediation activities in Exeter commenced in the fourth quarter of 2015. The anticipated completion of these activities is in the first quarter of 2016.

The NHPUC and MPUC have approved regulatory mechanisms for the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC has approved the recovery of MGP environmental costs over succeeding seven-year periods, without carrying costs. For Northern Utilities' Maine division, the MPUC has authorized the recovery of environmental remediation costs over succeeding five-year periods, without carrying costs.

Fitchburg s Manufactured Gas Plant Site Fitchburg completed the scheduled site work at the former MGP site at Sawyer Passway, located in Fitchburg, Massachusetts in the fourth quarter of 2014. The closure documentation for the site was submitted in the fourth quarter of 2015 and is under review by the Massachusetts Department of Environmental Protection.

Fitchburg recovers the environmental response costs incurred at this former MGP site in gas rates pursuant to the terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs.

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The Company's ultimate liability for future environmental remediation costs, including MGP site costs, may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

Also, see *Environmental Matters* in Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements for additional information on Environmental Matters.

EMPLOYEES

As of December 31, 2015, the Company and its subsidiaries had 500 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of December 31, 2015, a total of 159 employees of certain of the Company's subsidiaries were represented by labor unions. The following table details by subsidiary the employees covered by a collective bargaining agreement (CBA) as of December 31, 2015:

	Employees Covered	CBA Expiration
Fitchburg	44	05/31/2019
Northern Utilities NH Division	34	06/05/2017
Northern Utilities ME Division/Granite State	38	03/31/2017
Unitil Energy	38	05/31/2018
Unitil Service	5	05/31/2016

The CBAs provide discrete salary adjustments, established work practices and uniform benefit packages. The Company expects to negotiate new agreements prior to their expiration dates.

AVAILABLE INFORMATION

The Internet address for the Company's website is www.unitil.com. On the Investors section of the Company's website, the Company makes available, free of charge, its Securities and Exchange Commission (SEC) reports, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practical after the Company electronically files such material with, or furnishes such material to, the SEC.

The Company's current Code of Ethics was approved by Unitil's Board of Directors on January 15, 2004. This Code of Ethics, along with any amendments or waivers, is also available on Unitil's website.

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Unitil's common stock is listed on the New York Stock Exchange under the ticker symbol UTL.

INVESTOR INFORMATION

Annual Meeting

The Company's annual meeting of shareholders is scheduled to be held at the offices of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Wednesday, April 20, 2016, at 11:30 a.m.

Transfer Agent

The Company's transfer agent, Computershare Investor Services, is responsible for shareholder records, issuance of common stock, administration of the Dividend Reinvestment and Stock Purchase Plan, and the distribution of Unitil's dividends and IRS Form 1099-DIV. Shareholders may contact Computershare at:

Computershare Investor Services

P.O. Box 30170

College Station, TX 77842-3170

Telephone: 800-736-3001

www.computershare.com/investor

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Investor Relations

For information about the Company, you may call the Company directly, toll-free, at: 800-999-6501 and ask for the Investor Relations Representative; visit the Investors page at www.unitil.com; or contact the transfer agent, Computershare, at the number listed above.

Special Services & Shareholder Programs Available to Holders of Record

If a shareholder's shares of our common stock are registered directly in the shareholder's name with the Company's transfer agent, the shareholder is considered a holder of record of the shares. The following services and programs are available to shareholders of record:

Internet Account Access is available at www.computershare.com/investor.

Dividend Reinvestment and Stock Purchase Plan:

To enroll, please contact the Company's Investor Relations Representative or Computershare.

Dividend Direct Deposit Service:

To enroll, please contact the Company's Investor Relations Representative or Computershare.

Direct Registration:

For information, please contact Computershare at 800-935-9330 or the Company's Investor Relations Representative at 800-999-6501.

Item 1A. Risk Factors

Risks Relating to Our Business

The Company is subject to comprehensive regulation, which could adversely impact the rates it is able to charge, its authorized rate of return and its ability to recover costs. In addition, certain regulatory authorities have the statutory authority to impose financial penalties and other sanctions on the Company, which could adversely affect the Company's financial condition and results of operations.

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The Company is subject to comprehensive regulation by federal regulatory authorities (including the FERC) and state regulatory authorities (including the NHPUC, MDPU and MPUC). These authorities regulate many aspects of the Company's operations, including the rates that the Company can charge customers, the Company's authorized rates of return, the Company's ability to recover costs from its customers, construction and maintenance of the Company's facilities, the Company's safety protocols and procedures, including environmental compliance, the Company's ability to issue securities, the Company's accounting matters, and transactions between the Company and its affiliates. The Company is unable to predict the impact on its financial condition and results of operations from the regulatory activities of any of these regulatory authorities. Changes in regulations, the imposition of additional regulations or regulatory decisions particular to the Company could adversely affect the Company's financial condition and results of operations.

The Company's ability to obtain rate adjustments to maintain its current authorized rates of return depends upon action by regulatory authorities under applicable statutes, rules and regulations. These regulatory authorities are authorized to leave the Company's rates unchanged, to grant increases in such rates or to order decreases in such rates. The Company may be unable to obtain favorable rate adjustments or to maintain its current authorized rates of return, which could adversely affect its financial condition and results of operations.

Regulatory authorities also have authority with respect to the Company's ability to recover its electricity and natural gas supply costs, as incurred by Unitil Power, Unitil Energy, Fitchburg, and Northern Utilities. If the Company is unable to recover a significant amount of these costs, or if the Company's recovery of these costs is significantly delayed, then the Company's financial condition and results or operations could be adversely affected.

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In addition, certain regulatory authorities have the statutory authority to impose financial penalties and other sanctions on the Company if the Company is found to have violated statutes, rules or regulations governing its utility operations. Any such penalties or sanctions could adversely affect the Company's financial condition and results of operations.

The Company's electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may adversely affect the Company's customers and correspondingly the Company's financial condition and results of operations.

The Company's business is influenced by the economic activity within its service territory. The level of economic activity in the Company's electric and natural gas distribution service territories directly affects the Company's business. As a result, adverse changes in the economy may adversely affect the Company's financial condition and results of operations. Economic downturns or periods of high electric and gas supply costs typically can lead to the development of legislative and regulatory policy designed to promote reductions in energy consumption and increased energy efficiency and self-generation by customers. This focus on conservation, energy efficiency and self-generation may result in a decline in electricity and gas sales in our service territories. If any such declines were to occur without corresponding adjustments in rates, then our revenues would be reduced and our future growth prospects would be limited. In addition, a period of prolonged economic weakness could impact customers' ability to pay bills in a timely manner and increase customer bankruptcies, which may lead to increased bad debt expenses or other adverse effects on our financial position, results of operations and/or cash flows.

The Company may not be able to obtain financing, or may not be able to obtain financing on acceptable terms, which could adversely affect the Company's financial condition and results of operations.

The Company requires capital to fund utility plant additions, working capital and other utility expenditures. While the Company derives the capital necessary to meet these requirements primarily from internally-generated funds, the Company supplements internally-generated funds by incurring short-term and long-term debt, as needed. Additionally, from time to time, the Company has accessed the public capital markets through public offerings of equity securities. A downgrade of our credit rating or events beyond our control, such as a disruption in global capital and credit markets, could increase our cost of borrowing and cost of capital or restrict our ability to access the capital markets and negatively affect our ability to maintain and to expand our businesses.

The Company's short-term debt revolving credit facility typically has variable interest rates. Therefore, an increase or decrease in interest rates will increase or decrease the Company's interest expense associated with its revolving credit facility. An increase in the Company's interest expense could adversely affect the Company's financial condition and results of operations. As of December 31, 2015, the Company had approximately \$42.0 million in short-term debt outstanding under its revolving credit facility. Additionally, if the lending counterparties under the Company's current credit facility are unwilling or unable to meet their funding obligations, then the Company may be unable to, or limited in its ability to, incur short-term debt under its credit facility. This could hinder or prevent the Company from meeting its current and future capital needs, which could correspondingly adversely affect the Company's financial condition and results of operations.

Also, from time to time, the Company repays portions of its short-term debt with the proceeds it receives from long-term debt financings or equity financings. General economic conditions, conditions in the capital and credit markets and the Company's operating and financial performance could negatively affect the Company's ability to obtain such financings or the terms of such financings, which could correspondingly adversely affect the Company's financial condition and results of operations. The Company's long-term debt typically has fixed interest rates. Therefore, changes in interest rates will not affect the Company's interest expense associated with its presently outstanding fixed rate long-term debt. However, an increase or decrease in interest rates may increase or decrease the Company's interest expense associated with any new fixed rate long-term debt issued by the Company, which could adversely affect the Company's financial condition and results of operations.

In addition, the Company may need to use a significant portion of its cash flow to repay its short-term debt and long-term debt, which would limit the amount of cash it has available for working capital, capital expenditures and other general corporate purposes and could adversely affect its financial condition and results of operations.

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Declines in the valuation of capital markets could require the Company to make substantial cash contributions to cover its pension and other post-retirement benefit obligations. If the Company is unable to recover a significant amount of pension and other post-retirement benefit obligation costs in its rates, or if the Company's recovery of these costs in its rates is significantly delayed, then the Company's financial condition and results of operations could be adversely affected.

The amount of cash contributions the Company is required to make in respect of its pension and other post-retirement benefit obligations is dependent upon the valuation of the capital markets. Adverse changes in the valuation of the capital markets could result in the Company being required to make substantial cash contributions in respect of these obligations. These cash contributions could have an adverse effect on the Company's financial condition and results of operations if the Company is unable to recover such costs in rates or if such recovery is significantly delayed. Please see the section entitled *Critical Accounting Policies - Retirement Benefit Obligations* in Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Note 10 (Retirement Benefit Plans) to the accompanying Consolidated Financial Statements for a more detailed discussion of the Company's pension obligations.

The terms of the Company's and its subsidiaries' indebtedness restrict the Company's and its subsidiaries' business operations (including their ability to incur material amounts of additional indebtedness), which could adversely affect the Company's financial condition and results of operations.

The terms of the Company's and its subsidiaries' indebtedness impose various restrictions on the Company's business operations, including the ability of the Company and its subsidiaries to incur additional indebtedness. These restrictions could adversely affect the Company's financial condition and results of operations. See the sections entitled *Liquidity, Commitments and Capital Requirements* in Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Note 5 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements for a more detailed discussion of these restrictions.

A significant amount of the Company's sales are temperature sensitive. Because of this, mild winter and summer temperatures could decrease the Company's sales, which could adversely affect the Company's financial condition and results of operations. Also, the Company's sales may vary from year to year depending on weather conditions, and the Company's results of operations generally reflect seasonality.

The Company estimates that approximately 70% of its annual natural gas sales are temperature sensitive. Therefore, mild winter temperatures could decrease the amount of natural gas sold by the Company, which could adversely affect the Company's financial condition and results of operations. The Company's electric sales also are temperature sensitive, but less so than its natural gas sales. The highest usage of electricity typically occurs in the summer months (due to air conditioning demand) and the winter months (due to heating-related and lighting requirements). Therefore, mild summer temperatures and mild winter temperatures could decrease the amount of electricity sold by the Company, which could adversely affect the Company's financial condition and results of operations. Also, because of this temperature sensitivity, sales by the Company's distribution utilities vary from year to year, depending on weather conditions.

The Company's results of operations reflect the seasonal nature of the natural gas business. Annual gas revenues are substantially realized during the heating season as a result of higher sales of natural gas due to cold weather. Accordingly, the results of operations are historically most favorable in the first and fourth quarters. Fluctuations in seasonal weather conditions may have a significant effect on the result of operations. Sales of electricity are generally less sensitive to weather than natural gas sales but may also be affected by the weather conditions in both the winter and summer seasons.

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Unitil is a public utility holding company and has no operating income of its own. The Company's ability to pay dividends on its common stock is dependent on dividends and other payments received from its subsidiaries and on factors directly affecting Unitil, the parent corporation. The Company cannot assure that its current annual dividend will be paid in the future.

The ability of the Company's subsidiaries to pay dividends or make distributions to Unitil depends on, among other things:

the actual and projected earnings and cash flow, capital requirements and general financial condition of the Company's subsidiaries;

the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by the Company's subsidiaries;

the restrictions on the payment of dividends contained in the existing loan agreements of the Company's subsidiaries and that may be contained in future debt agreements of the Company's subsidiaries, if any; and

limitations that may be imposed by New Hampshire, Massachusetts and Maine state regulatory authorities.

In addition, before the Company can pay dividends on its common stock, it has to satisfy its debt obligations and comply with any statutory or contractual limitations.

As of January 27, 2016, the Company's current annual dividend is \$1.42 per share of common stock, payable quarterly. The Company's Board of Directors reviews Unitil's dividend policy periodically in light of a number of business and financial factors, including those referred to above, and the Company cannot assure the amount of dividends, if any, that may be paid in the future.

A substantial disruption or lack of growth in interstate natural gas pipeline transmission and storage capacity and electric transmission capacity may impair the Company's ability to meet customers' existing and future requirements.

In order to meet existing and future customer demands for natural gas and electricity, the Company must acquire sufficient supplies of natural gas and electricity. In addition, the Company must contract for reliable and adequate upstream transmission and transportation capacity for its distribution systems while considering the dynamics of the natural gas interstate pipelines and storage, the electric transmission markets and its own on-system resources. The Company's financial condition or results of operations may be adversely affected if the future availability of natural gas and electric supply were insufficient to meet future customer demands for natural gas and electricity.

The Company's electric and natural gas distribution activities (including storing natural gas and supplemental gas supplies) involve numerous hazards and operating risks that may result in accidents and other operating risks and costs. Any such accident or costs could adversely affect the Company's financial position or results of operations.

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Inherent in the Company's electric and natural gas distribution activities are a variety of hazards and operating risks, including leaks, explosions, electrocutions and mechanical problems. These hazards and risks could result in loss of human life, significant damage to property, environmental pollution, damage to natural resources and impairment of the Company's operations, which could adversely affect the Company's financial position or results of operations.

The Company maintains insurance against some, but not all, of these risks and losses in accordance with customary industry practice. The location of pipelines, storage facilities and electric distribution equipment near populated areas (including residential areas, commercial business centers and industrial sites) could increase the level of damages associated with these hazards and operating risks. The occurrence of any of these events could adversely affect the Company's financial position or results of operations.

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The Company's business is subject to environmental regulation in all jurisdictions in which it operates and its costs of compliance are significant. New, or changes to existing, environmental regulation, including those related to climate change or greenhouse gas emissions, and the incurrence of environmental liabilities could adversely affect the Company's financial condition and results of operations.

The Company's utility operations are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural resources, and the health and safety of the Company's employees. The Company's utility operations also may be subject to new and emerging federal, state and local legislative and regulatory initiatives related to climate change or greenhouse gas emissions including the U.S. Environmental Protection Agency's mandatory greenhouse gas reporting rule. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties and other sanctions; imposition of remedial requirements; and issuance of injunctions to ensure future compliance. Liability under certain environmental laws and regulations is strict, joint and several in nature. Although the Company believes it is in material compliance with all applicable environmental and safety laws and regulations, we cannot assure you that the Company will not incur significant costs and liabilities in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, including those related to climate change or greenhouse gas emissions, could result in increased environmental compliance costs.

Catastrophic events could adversely affect the Company's financial condition and results of operations.

The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could inhibit the Company's ability to deliver electric or natural gas to its customers for an extended period, which could adversely affect the Company's financial condition and results of operations. Also, if the Company is unable to recover a significant amount of costs associated with catastrophic events in its rates, or if the Company's recovery of such costs in its rates is significantly delayed, then the Company's financial condition and results of operations may be adversely affected.

The Company's operational and information systems on which it relies to conduct its business and serve customers could fail to function properly due to technological problems, a cyber-attack, acts of terrorism, severe weather, a solar event, an electromagnetic event, a natural disaster, the age and condition of information technology assets, human error, or other reasons, that could disrupt the Company's operations and cause the Company to incur unanticipated losses and expense.

The operation of the Company's extensive electricity and natural gas systems rely on evolving information technology systems and network infrastructures that are likely to become more complex as new technologies and systems are developed. The Company's business is highly dependent on its ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex. The failure of these information systems and networks could significantly disrupt operations; result in outages and/or damages to the Company's assets or operations or those of third parties on which it relies; and subject the Company to claims by customers or third parties, any of which could have a material effect on the Company's financial condition, results of operations, and cash flows.

The Company's information systems, including its financial information, operational systems, metering, and billing systems, require constant maintenance, modification, and updating, which can be costly and increases the risk of errors and malfunction. Any disruptions or deficiencies in existing information systems, or disruptions, delays or deficiencies in the modification or implementation of new information systems, could result in increased costs, the inability to track or collect revenues, the diversion of management's and employees' attention and resources, and could negatively impact the effectiveness of the Company's control environment, and/or the Company's ability to timely file required regulatory reports. Despite implementation of security and mitigation measures, all of the Company's technology systems are vulnerable to impairment or failure due to cyber-attacks, computer viruses, human errors, acts of war or terrorism and other reasons. If the Company's information technology systems were to fail or be materially impaired, the Company might be unable to fulfill critical business functions and serve its customers, which

could have a material effect on the Company's financial condition, results of operations, and cash flows.

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In the ordinary course of its business, the Company collects and retains sensitive electronic data including personal identification information about customers and employees, customer energy usage, and other confidential information. The theft, damage, or improper disclosure of sensitive electronic data through security breaches or other means could subject the Company to penalties for violation of applicable privacy laws or claims from third parties and could harm the Company's reputation and adversely affect the Company's financial condition and results of operations.

In addition, the Company's electric and natural gas distribution and transmission delivery systems are part of an interconnected regional grid and pipeline system. If these neighboring interconnected systems were to be disrupted due to cyber-attacks, computer viruses, human errors, acts of war or terrorism or other reasons, the Company's operations and its ability to serve its customers would be adversely affected, which could have a material effect on the Company's financial condition, results of operations, and cash flows.

The inability to attract and retain a qualified workforce including, but not limited to, executive officers, key employees and employees with specialized skills, could have an adverse effect on the Company's operations.

The success of our business depends on the leadership of our executive officers and other key employees to implement our business strategies. The inability to maintain a qualified workforce including, but not limited to, executive officers, key employees and employees with specialized skills, may negatively affect our ability to service our existing or new customers, or successfully manage our business or achieve our business objectives. There may not be sufficiently skilled employees available internally to replace employees when they retire or otherwise leave active employment. Shortages of certain highly skilled employees may also mean that qualified employees are not available externally to replace these employees when they are needed. In addition, shortages in highly skilled employees coupled with competitive pressures may require the Company to incur additional employee recruiting and compensation expenses.

The Company may be adversely impacted by work stoppages, labor disputes, and/or pandemic illness to which it may not be able to promptly respond.

Approximately one-third of the Company's employees are represented by labor unions and are covered by collective bargaining agreements. Disputes with the unions over terms and conditions of the agreements could result in instability in the Company's labor relationships and work stoppages that could impact the timely delivery of natural gas and electricity, which could strain relationships with customers and state regulators and cause a loss of revenues. The Company's collective bargaining agreements may also increase the cost of employing its union workforce, affect its ability to continue offering market-based salaries and employee benefits, limit its flexibility in dealing with its workforce, and limit its ability to change work rules and practices and implement other efficiency-related improvements to successfully compete in today's challenging marketplace, which may negatively affect the Company's financial condition and results of operations.

Additionally, pandemic illness could result in part, or all, of the Company's workforce being unable to operate or maintain the Company's infrastructure or perform other tasks necessary to conduct the Company's business. A slow or inadequate response to this type of event may adversely affect the Company's financial condition and results of operations.

The Company's business could be adversely affected if it is unable to retain its existing customers or attract new customers, or if customers demand for its current products and services significantly decreases.

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The success of the Company's business depends, in part, on its ability to maintain and increase its customer base and the demand that those customers have for the Company's products and services. The Company's failure to maintain or increase its customer base and/or customer demand for its products and services could adversely affect its financial condition and results of operations.

The natural gas and electric supply requirements of the Company's customers are fulfilled by the Company or, in some instances and as allowed by state regulatory authorities, by third-party suppliers who contract directly with customers. In either scenario, significant increases in natural gas and electricity commodity prices may negatively impact the Company's ability to attract new customers and grow its customer base.

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Developments in distributed generation, energy conservation, power generation and energy storage could affect the Company's revenues and the timing of the recovery of the Company's costs. Advancements in power generation technology are improving the cost-effectiveness of customer self-supply of electricity. Improvements in energy storage technology, including batteries and fuel cells, could also better position customers to meet their around-the-clock electricity requirements. Such developments could reduce customer purchases of electricity, but may not necessarily reduce the Company's investment and operating requirements due to the Company's obligation to serve customers, including those self-supply customers whose equipment has failed for any reason, to provide the power they need. In addition, since a portion of the Company's costs are recovered through charges based upon the volume of power delivered, reductions in electricity deliveries will affect the timing of the Company's recovery of those costs and may require changes to the Company's rate structures.

The financial performance of the Company's non-regulated energy brokering business, Usource, may be adversely affected if suppliers and/or customers default in their performance under multi-year energy brokering contracts or by competition from other energy brokers.

Usource provides energy brokering and consulting services to a national client base of large commercial and industrial customers. Revenues from this business are primarily derived from brokering fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts. Usource's customers and/or the suppliers providing energy to Usource's customers may default in their performance under multi-year energy brokering contracts, which could adversely affect the Company's financial condition and results of operations. In addition, Usource may lose market share to other energy brokers which could adversely affect the Company's financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2015, Unitil owned, through its natural gas and electric distribution utilities, five utility operation centers located in New Hampshire, Maine and Massachusetts. In addition, the Company's real estate subsidiary, Unitil Realty, owns the Company's corporate headquarters building and the 12 acres of land on which it is located. In 2015, the Company completed its acquisition of a property for its new Maine Gas Distribution Operations Center (See Note 8 to the accompanying Consolidated Financial Statements).

The following tables detail certain of the Company's natural gas and electric operations properties.

Natural Gas Operations

Description	Northern Utilities			Granite State	Total
	NH	ME	Fitchburg		
Underground Natural Gas Mains Miles	528	557	275		1,360
Natural Gas Transmission Pipeline Miles				86	86
Service Pipes	22,707	21,212	10,924		54,843

Electric Operations

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Description	Unitil Energy	Fitchburg	Total
Primary Transmission and Distribution Pole Miles Overhead	1,270	443	1,713
Conduit Distribution Bank Miles Underground	216	62	278
Transmission and Distribution Substations	33	16	49
Capacity of Transmission and Distribution Substations	225,900 kVa	438,200 kVa	664,100 kVa

The Company's natural gas operations property includes two liquid propane gas plants and two liquid natural gas plants. Northern Utilities also owns a propane air gas plant and an LNG storage and vaporization facility. Fitchburg owns a propane air gas plant and an LNG storage and vaporization facility, both of which are located on land owned by Fitchburg in north central Massachusetts.

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Northern Utilities' gas mains are primarily made up of polyethylene plastic (77%), coated and wrapped cathodically protected steel (16%), cast/wrought iron (4%), and unprotected bare and coated steel (3%). Fitchburg's gas mains are primarily made up of steel (47%), polyethylene plastic (32%), and cast iron (21%).

Granite State's underground natural gas transmission pipeline, regulated by the FERC, is located primarily in Maine and New Hampshire.

Unitil Energy's electric substations are located on land owned by Unitil Energy or land occupied by Unitil Energy pursuant to perpetual easements in the southeastern seacoast and state capital regions of New Hampshire. Unitil Energy's electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by Unitil Energy without objection by the owners. In the case of certain distribution lines, Unitil Energy owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone companies.

The physical utility properties of Unitil Energy, with certain exceptions, and its franchises are subject to its indenture of mortgage and deed of trust under which the respective series of first mortgage bonds of Unitil Energy are outstanding.

Fitchburg's electric substations, with minor exceptions, are located in north central Massachusetts on land owned by Fitchburg or occupied by Fitchburg pursuant to perpetual easements. Fitchburg's electric distribution lines and gas mains are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, express or implied through use by Fitchburg without objection by the owners.

The Company believes that its facilities are currently adequate for their intended uses.

Item 3. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these claims will not have a material impact on its financial position, operating results or cash flows.

In early 2009, a putative class action complaint was filed against Unitil's Massachusetts based utility, Fitchburg, in Massachusetts' Worcester Superior Court (the "Court"), (captioned Bellermann et al v. Fitchburg Gas and Electric Light Company). The Complaint seeks an unspecified amount of damages, including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg's service territory in December 2008. The Complaint, as amended, includes M.G.L. ch. 93A claims for purported unfair and deceptive trade practices related to the December 2008 ice storm. Following several years of discovery, the plaintiffs in the complaint filed a motion with the Court to certify the case as a class action. On January 7, 2013, the Court issued its decision denying plaintiffs' motion to certify the case as a class action. The plaintiffs appealed this decision to the Massachusetts Supreme Judicial Court (the "SJC"), and the SJC upheld the lower Court's order. Subsequently, Plaintiffs filed a renewed motion to certify a class under a different theory than previously argued. The Company filed its opposition to this motion and also filed a motion for summary judgment. On July 27, 2015, the Court issued its decision allowing class certification and denying the Company's motion for summary judgment. The Company appealed this decision to the SJC, and on October 15, 2015, the SJC granted the Company's motion for direct review of the case, and it is being briefed by the parties and set for oral argument during the first quarter of 2016. The Town of Lunenburg has filed a separate action in the Court arising out of the December 2008 ice storm. The Court

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accepted the parties' joint schedule with discovery continuing into 2016 and trial likely in late 2016. The Company continues to believe that both of these suits are without merit and will continue to defend itself vigorously. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these suits will not have a material impact on its financial position, operating results or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is listed on the New York Stock Exchange under the symbol UTL. As of December 31, 2015, there were 1,443 shareholders of record of our common stock.

Common Stock Data

Dividends per Common Share	2015	2014
1st Quarter	\$ 0.350	\$ 0.345
2nd Quarter	0.350	0.345
3rd Quarter	0.350	0.345
4th Quarter	0.350	0.345
Total for Year	\$ 1.40	\$ 1.38

See also Dividends in Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) below.

Price Range of Common Stock	2015		2014	
	High/Ask	Low/Bid	High/Ask	Low/Bid
1st Quarter	\$ 39.00	\$ 32.99	\$ 33.22	\$ 29.05
2nd Quarter	\$ 35.29	\$ 32.63	\$ 34.84	\$ 31.62
3rd Quarter	\$ 37.59	\$ 32.75	\$ 34.00	\$ 31.02
4th Quarter	\$ 38.75	\$ 33.75	\$ 38.55	\$ 31.07

Information regarding securities authorized for issuance under our equity compensation plans, as of December 31, 2015, is set forth in the table below.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in
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	column (a))
Equity compensation plans approved by security holders⁽¹⁾	416,691
Equity compensation plans not approved by security holders	
Total	416,691

NOTES: (also see Note 6 to the accompanying Consolidated Financial Statements)

- ⁽¹⁾ Consists of the Second Amended and Restated 2003 Stock Plan (the Plan). On April 19, 2012, shareholders approved the Plan, and a total of 677,500 shares of our common stock were reserved for issuance pursuant to awards of restricted stock, restricted stock units and common stock under the Plan. A total of 262,595 shares of restricted stock have been awarded and 1,106 restricted stock units have been settled and issued as shares of common stock by Plan participants through December 31, 2015. As of December 31, 2015, a total of 2,892 shares of restricted stock were forfeited and once again became available for issuance under the Plan.

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Stock Performance Graph

The following graph compares Unitil Corporation's cumulative stockholder return since December 31, 2010 with the Peer Group index, comprised of the S&P 500 Utilities Index, and the S&P 500 index. The graph assumes that the value of the investment in the Company's common stock and each index (including reinvestment of dividends) was \$100 on December 31, 2010.

Comparative Five-Year Total Returns

NOTE:

- ⁽¹⁾ The graph above assumes \$100 invested on December 31, 2010, in each category and the reinvestment of all dividends during the five-year period. The Peer Group is comprised of the S&P 500 Utilities Index.

Table of Contents**Unregistered Sales of Equity Securities and Uses of Proceeds**

There were no sales of unregistered equity securities by the Company for the fiscal period ended December 31, 2015.

Issuer Purchases of Equity Securities

Pursuant to the written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted and announced by the Company on May 1, 2015, the Company will periodically repurchase shares of its Common Stock on the open market related to Employee Length of Service Awards and the stock portion of the Directors' annual retainer for those Directors who elected to receive common stock. There is no pool or maximum number of shares related to these purchases; however, the trading plan will terminate when \$76,000 in value of shares have been purchased or, if sooner, on May 1, 2016.

The Company may suspend or terminate this trading plan at any time, so long as the suspension or termination is made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, or other applicable securities laws.

The following table shows information regarding repurchases by the Company of shares of its common stock pursuant to the trading plan for each month in the quarter ended December 31, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/15 - 10/31/15	1,419	\$ 36.61	1,419	\$ 10,781
11/1/15 - 11/30/15				\$ 10,781
12/1/15 - 12/31/15	53	\$ 35.32	53	\$ 8,909
Total	1,472	\$ 36.56	1,472	

Table of Contents**Item 6. Selected Financial Data**

	For the Years Ended December 31, (all data in millions except customers served, shares, % and per share data)				
	2015	2014	2013	2012	2011
Customers Served (Year-End):					
Electric:					
Residential	88,444	88,012	87,692	87,062	86,780
Commercial & Industrial	14,825	14,740	14,701	14,612	14,574
Total Electric	103,269	102,752	102,393	101,674	101,354
Natural Gas:					
Residential	61,270	60,236	57,616	56,745	55,663
Commercial & Industrial	17,479	17,624	18,304	16,977	16,232
Total Natural Gas	78,749	77,860	75,920	73,722	71,895
Total Customers Served	182,018	180,612	178,313	175,396	173,249
Electric and Gas Sales:					
Electric Distribution Sales (kWh)	1,667.7	1,679.0	1,668.3	1,653.8	1,682.1
Firm Natural Gas Distribution Sales (Therms)	219.4	216.2	200.7	181.3	186.9
Consolidated Statements of Earnings:					
Operating Revenue	\$ 426.8	\$ 425.8	\$ 366.9	\$ 353.1	\$ 352.8
Operating Income	63.1	60.0	53.5	47.5	47.2
Interest Expense, net	21.9	20.9	18.8	18.1	20.4
Other (Income) Expense, net	(0.5)	0.4	0.4	0.2	0.4
Income Before Income Taxes	41.7	38.7	34.3	29.2	26.4
Income Taxes	15.4	14.0	12.7	11.0	10
Net Income	26.3	24.7	21.6	18.2	16.4
Dividends on Preferred Stock				0.1	0.1
Earnings Applicable to Common Shareholders	\$ 26.3	\$ 24.7	\$ 21.6	\$ 18.1	\$ 16.3
Earnings Per Average Share:	\$ 1.89	\$ 1.79	\$ 1.57	\$ 1.43	\$ 1.50
Common Stock (Diluted Weighted Average Outstanding, 000 s)	13,920	13,847	13,775	12,672	10,883
Dividends Declared Per Share	\$ 1.40	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38
Book Value Per Share (Year-End)	\$ 20.20	\$ 19.62	\$ 19.14	\$ 18.90	\$ 17.50
Balance Sheet Data (as of December 31,):					
Utility Plant	\$ 1,080.6	\$ 988.8	\$ 909.1	\$ 833.2	\$ 776.9
Capital Lease Obligations ⁽¹⁾	\$ 14.1	\$ 8.0	\$ 0.6	\$ 1.0	\$ 1.5
Total Assets	\$ 1,046.4	\$ 1,000.2	\$ 920.6	\$ 892.3	\$ 856.1
Capitalization:					
Common Stock Equity	\$ 282.6	\$ 273.1	\$ 265.0	\$ 260.4	\$ 191.7
Preferred Stock	0.2	0.2	0.2	0.2	2.0
Long-Term Debt, less current portion	308.1	328.9	284.8	287.3	287.8
Total Capitalization	\$ 590.9	\$ 602.2	\$ 550.0	\$ 547.9	\$ 481.5

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Current Portion of Long-Term Debt	\$ 17.4	\$ 4.0	\$ 2.5	\$ 0.5	\$ 0.5
Short-Term Debt	\$ 42.0	\$ 29.3	\$ 60.2	\$ 49.4	\$ 87.9
Capital Structure Ratios (as of December 31,):					
Common Stock Equity	48%	45%	48%	48%	40%
Long-Term Debt, less current portion	52%	55%	52%	52%	60%

⁽¹⁾ Includes amounts due within one year.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) (Note references are to the Notes to the Consolidated Financial Statements included in Item 8, below.)

OVERVIEW

Unitil is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005.

Unitil's principal business is the local distribution of electricity and natural gas to approximately 182,000 customers throughout its service territory in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities:

- i) Unitil Energy, which provides electric service in the southeastern seacoast and state capital regions of New Hampshire;
- ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and
- iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland and the Lewiston-Auburn area.

Unitil Energy, Fitchburg and Northern Utilities are collectively referred to as the distribution utilities. Together, the distribution utilities serve approximately 103,300 electric customers and 78,700 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite State, a natural gas transmission pipeline, regulated by the FERC, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to North American pipeline supplies.

The distribution utilities are local pipes and wires operating companies, and Unitil had an investment in Net Utility Plant of \$808.9 million at December 31, 2015. Unitil's total revenue was \$426.8 million in 2015, which includes revenue to recover the approved cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, the Company's earnings are not affected by changes in the cost of purchased electricity and natural gas. Earnings from Unitil's utility operations are derived from the return on investment in the three distribution utilities and Granite State.

Unitil also conducts non-regulated operations principally through Usource, which is wholly-owned by Unitil Resources. Usource provides energy brokering and consulting services to a national client base of large commercial and industrial customers. Usource's total revenues were \$6.2 million in 2015. The Company's other subsidiaries include Unitil Service, which provides, at cost, a variety of administrative and professional services to Unitil's affiliated companies, and Unitil Realty, which owns and manages Unitil's corporate office building and property located in Hampton, New Hampshire. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries.

Regulation

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 with regard to certain bookkeeping, accounting and reporting requirements. Unitil's utility operations related to wholesale and interstate energy business activities are also regulated by the FERC. Unitil's distribution utilities are subject to regulation by the applicable state public utility commissions, with regard to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the NHPUC; Fitchburg is subject to regulation by the MDPU; and Northern Utilities is regulated by the NHPUC and MPUC. Granite State, Unitil's interstate natural gas transmission pipeline, is subject to regulation by the FERC with regard to its rates and operations. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

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Unitil's distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil's distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, and earn a return on their capital investment in utility assets. In addition, the Company's distribution utilities and its natural gas transmission pipeline company may also recover certain base rate costs, including capital project spending and enhanced reliability and vegetation management programs, through annual step adjustments and cost tracker rate mechanisms.

As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, most of Unitil's customers have the opportunity to purchase their electricity or natural gas supplies from third-party energy supply vendors. Most customers, however, continue to purchase such supplies through the distribution utilities under regulated energy rates and tariffs. Unitil's distribution utilities purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual approved costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

Also see *Regulatory Matters* shown below and Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements for additional information on rates and regulation.

Fitchburg is subject to revenue decoupling. Revenue decoupling is the term given to the elimination of the dependency of a utility's distribution revenue on the volume of electricity or natural gas sales. The difference between distribution revenue amounts billed to customers and the targeted revenue decoupling amounts is recognized as an increase or a decrease in Accrued Revenue which forms the basis for resetting rates for future cash recoveries from, or credits to, customers. These revenue decoupling targets may be adjusted as a result of rate cases that the Company files with the MDPU. The Company estimates that revenue decoupling applies to approximately 27% and 11% of Unitil's total annual electric and natural gas sales volumes, respectively.

RESULTS OF OPERATIONS

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

The Company's results of operations are expected to reflect the seasonal nature of the natural gas business. Annual gas revenues are substantially realized during the heating season as a result of higher sales of natural gas due to cold weather. Accordingly, the results of operations are historically most favorable in the first and fourth quarters. Fluctuations in seasonal weather conditions may have a significant effect on the result of operations. Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by the weather conditions in both the winter and summer seasons. Also, as a result of recent rate cases, the Company's natural gas sales margins are derived from a higher percentage of fixed billing components, including customer charges. Therefore, natural gas revenues and margin will be less affected by the seasonal nature of the natural gas business. In addition, as discussed above, approximately 27% and 11% of the Company's total annual electric and natural gas sales volumes, respectively, are decoupled and changes in sales to existing customers do not affect sales margin on decoupled sales volumes.

Net Income and EPS Overview

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2015 Compared to 2014 The Company's Net Income was \$26.3 million, or \$1.89 per share, for the year ended December 31, 2015, an increase of \$1.6 million, or \$0.10 per share, compared to 2014. The Company's earnings for 2015 were driven by increases in natural gas and electric sales margins partially offset by higher utility operating expenses.

Natural gas sales margin was \$101.9 million in 2015, resulting in an increase of \$4.5 million compared to 2014. Natural gas sales margin was positively affected by higher therm unit sales in 2015, a growing customer base and higher distribution rates compared to 2014. Therm sales of natural gas increased

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1.5% in 2015 compared to 2014. The impact of growth in the number of customers year over year was partially offset by warmer weather in 2015 compared to the prior year. For the full year, based on weather data collected in the Company's service areas, there were 2.3% fewer Heating Degree Days in 2015. Estimated weather-normalized gas therm sales, excluding decoupled sales, were up four percent in 2015, led by a year over year increase of eight percent in gas therm sales to large Commercial and Industrial (C&I) customers.

Electric sales margin was \$85.5 million in 2015, resulting in an increase of \$4.7 million compared to 2014. The increase in electric sales margin primarily reflects higher electric distribution rates. Electric kilowatt-hour (kWh) sales decreased 0.7% in 2015 compared to 2014, reflecting a decrease in average use per customer for Residential customers, partially offset by an increase in electric sales to C&I customers.

Total Operation & Maintenance (O&M) expenses increased \$2.5 million in 2015 compared to 2014. The change in O&M expenses reflects higher compensation and benefit costs of \$3.5 million partially offset by lower professional fees of \$0.3 million and lower all other utility O&M costs, net of \$0.7 million.

Depreciation and Amortization expense increased \$3.6 million in 2015 compared to 2014, reflecting higher depreciation of \$2.4 million on normal utility plant assets in service, higher amortization of major storm restoration costs of \$0.9 million and an increase in all other amortization of \$0.3 million. The increase in major storm restoration cost amortization is currently recovered in electric rates and reflected in electric sales margin.

Taxes Other Than Income Taxes increased \$0.5 million in 2015 compared to 2014, primarily reflecting higher local property tax expense.

Interest Expense, net increased \$1.0 million in 2015 compared to 2014 reflecting higher levels of long-term debt and higher interest expense on regulatory liabilities.

Other (Income) Expense, net changed from an expense of \$0.4 million in 2014 to income of \$0.5 million in 2015. This change was the result of the recognition of a pre-tax gain of \$0.9 million in the fourth quarter of 2015 on the sale of property.

Usource, the Company's non-regulated energy brokering business, recorded revenues of \$6.2 million in 2015, representing an increase of \$0.5 million compared to 2014. Usource's revenues are primarily derived from fees billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

Income Taxes increased \$1.4 million in 2015 due to higher pre-tax earnings in 2015 compared to 2014.

In 2015, Unitil's annual common dividend was \$1.40 per share, representing an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January 2016 meeting, the Unitil Corporation Board of Directors declared a quarterly dividend on the Company's common stock of \$0.3550 per share, an increase of \$0.005 per share on a quarterly basis, resulting in an increase in the effective annual dividend rate to \$1.42 per share from \$1.40 per share.

2014 Compared to 2013 The Company's Net Income was \$24.7 million, or \$1.79 per share, for the year ended December 31, 2014, an increase of \$3.1 million, or \$0.22 per share, compared to 2013. The 14.0% increase in 2014 earnings was driven by higher natural gas and electric sales margins partially offset by changes in operating expenses.

A more detailed discussion of the Company's 2015 and 2014 results of operations and a year-to-year comparison of changes in financial position are presented below.

Gas Sales, Revenues and Margin

Therm Sales Unitil's total therm sales of natural gas increased 1.5% in 2015 compared to 2014. Sales to residential and C&I customers increased 1.1% and 1.6%, respectively, in 2015 compared to 2014.

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The impact of growth in the number of customers year over year was partially offset by warmer weather in 2015 compared to the prior year. The average number of natural gas customers served has increased by 1.8% compared to the prior year. For the full year, based on weather data collected in the Company's service areas, there were 2.3% fewer Heating Degree Days in 2015. Estimated weather-normalized gas therm sales, excluding decoupled sales, were up four percent in 2015, led by a year over year increase of eight percent in gas therm sales to large C&I customers.

Unitil's total therm sales of natural gas increased 7.7% in 2014 compared to 2013. The increase in gas therm sales in the Company's utility service territories was driven by the colder winter and spring weather in 2014 compared to 2013 coupled with strong growth in the number of new customers. Based on weather data collected in the Company's service areas, there were 5.9% more Heating Degree Days in 2014 compared to 2013. Weather-normalized gas therm sales, excluding decoupled sales, were estimated to be up 5.2% in 2014 compared to 2013.

The following table details total therm sales for the last three years, by major customer class:

Therm Sales (millions)	2015	2014	2013	Change			
				2015 vs. 2014		2014 vs. 2013	
				Therms	%	Therms	%
Residential	45.2	44.7	39.8	0.5	1.1%	4.9	12.3%
Commercial & Industrial	174.2	171.5	160.9	2.7	1.6%	10.6	6.6%
Total Therm Sales	219.4	216.2	200.7	3.2	1.5%	15.5	7.7%

Gas Operating Revenues and Sales Margin The following table details total Gas Operating Revenue and Sales Margin for the last three years by major customer class:

Gas Operating Revenues and Sales Margin (millions)	2015	2014	2013	Change			
				2015 vs. 2014		2014 vs. 2013	
				\$	%	\$	%
Gas Operating Revenue:							
Residential	\$ 78.5	\$ 80.0	\$ 68.5	\$ (1.5)	(1.9%)	\$ 11.5	16.8%
Commercial & Industrial	124.1	121.4	101.9	2.7	2.2%	19.5	19.1%
Total Gas Operating Revenue	\$ 202.6	\$ 201.4	\$ 170.4	\$ 1.2	0.6%	\$ 31.0	18.2%
Cost of Gas Sales	\$ 100.7	\$ 104.0	\$ 85.2	\$ (3.3)	(3.2%)	\$ 18.8	22.1%
Gas Sales Margin	\$ 101.9	\$ 97.4	\$ 85.2	\$ 4.5	4.6%	\$ 12.2	14.3%

The Company analyzes operating results using Gas Sales Margin, a non-GAAP measure. Gas Sales Margin is calculated as Total Gas Operating Revenue less Cost of Gas Sales. The Company believes Gas Sales Margin is a better measure to analyze profitability than Total Gas Operating Revenue because the approved cost of sales are tracked and reconciled to costs that are passed through directly to customers, resulting in an equal and offsetting amount reflected in Total Gas Operating Revenue. Sales margin can be reconciled to Operating Income, a GAAP measure, by including Operation and Maintenance, Depreciation and Amortization and Taxes Other Than Income Taxes for each segment in the analysis.

Natural gas sales margin was \$101.9 million in 2015, resulting in an increase of \$4.5 million compared to 2014. Approximately \$3.4 million of the increase reflects higher natural gas distribution rates and \$1.1 million of the increase reflects higher sales volumes related to customer growth, net of the impact of warmer weather in 2015.

The increase in Total Gas Operating Revenues of \$1.2 million, or 0.6%, in 2015 compared to 2014 reflects higher gas base rates and sales volumes, partially offset by lower costs of gas sales, which are tracked and reconciled to costs that are passed through directly to customers.

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Natural gas sales margin was \$97.4 million in 2014, resulting in an increase of \$12.2 million compared to 2013. Approximately \$7.6 million of the increase reflects higher natural gas distribution rates and \$4.6 million of the increase reflects higher sales volumes related to the colder than normal weather and customer growth.

The increase in Total Gas Operating Revenues of \$31.0 million, or 18.2%, in 2014 compared to 2013 reflects higher gas base rates and higher costs of gas sales, which are tracked and reconciled to costs that are passed through directly to customers.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales Unitil's total electric kWh sales decreased 0.7% in 2015 compared to 2014. Sales to residential customers decreased 2.4% in 2015 compared to 2014, reflecting a decrease in average use per customer. Sales to C&I customers increased 0.5% in 2015 compared to 2014, reflecting the addition of new customers. The average number of natural gas customers served has increased by 0.5% compared to the prior year. As discussed above, sales margins derived from revenue decoupled unit sales (representing approximately 27% of total annual sales volume) are not sensitive to changes in kWh sales.

Unitil's total electric kWh sales increased 0.6% in 2014 compared to 2013. Sales to residential customers decreased 0.5% in 2014 compared to 2013, reflecting the effect of milder summer weather in 2014, partially offset by colder than normal winter weather earlier in 2014.

The following table details total kWh sales for the last three years by major customer class:

kWh Sales (millions)	2015	2014	2013	Change			
				2015 vs. 2014		2014 vs. 2013	
				kWh	%	kWh	%
Residential	671.4	687.6	690.9	(16.2)	(2.4%)	(3.3)	(0.5%)
Commercial & Industrial	996.3	991.4	977.4	4.9	0.5%	14.0	1.4%
Total kWh Sales	1,667.7	1,679.0	1,668.3	(11.3)	(0.7%)	10.7	0.6%

Electric Operating Revenues and Sales Margin The following table details Total Electric Operating Revenue and Sales Margin for the last three years by major customer class:

Electric Operating Revenues and Sales Margin (millions)	2015	2014	2013	Change			
				2015 vs. 2014		2014 vs. 2013	
				\$	%	\$	%
Electric Operating Revenue:							
Residential	\$ 125.9	\$ 118.0	\$ 104.1	\$ 7.9	6.7%	\$ 13.9	13.4%
Commercial & Industrial	92.1	100.7	86.6	(8.6)	(8.5%)	14.1	16.3%

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Total Electric Operating Revenue	\$ 218.0	\$ 218.7	\$ 190.7	\$ (0.7)	(0.3%)	\$ 28.0	14.7%
Cost of Electric Sales	\$ 132.5	\$ 137.9	\$ 114.5	\$ (5.4)	(3.9%)	\$ 23.4	20.4%
Electric Sales Margin	\$ 85.5	\$ 80.8	\$ 76.2	\$ 4.7	5.8%	\$ 4.6	6.0%

The Company analyzes operating results using Electric Sales Margin, a non-GAAP measure. Electric Sales Margin is calculated as Total Electric Operating Revenues less Cost of Electric Sales. The Company believes Electric Sales Margin is a better measure to analyze profitability than Total Electric Operating Revenues because the approved cost of sales are tracked and reconciled to costs that are passed through directly to customers resulting in an equal and offsetting amount reflected in Total Electric Operating Revenues. Sales margin can be reconciled to Operating Income, a GAAP measure, by including Operation and Maintenance, Depreciation and Amortization and Taxes Other Than Income Taxes for each segment in the analysis.

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Electric sales margin was \$85.5 million in 2015, resulting in an increase of \$4.7 million compared to 2014. Higher electric distribution rates of \$5.0 million and the positive impact of \$0.7 million resulting from warmer summer weather in 2015 were partially offset by approximately \$1.0 million of lower electric sales margin, reflecting lower average usage in 2015.

The decrease in Total Electric Operating Revenue of \$0.7 million, or 0.3%, in 2015 compared to 2014 reflects lower costs of electric sales, which are tracked costs that are passed through directly to customers, partially offset by higher electric distribution rates.

Electric sales margin was \$80.8 million in 2014, resulting in an increase of \$4.6 million compared to 2013. Approximately \$4.4 million of the increase reflects higher electric distribution rates and \$0.2 million reflects higher sales volume due to growth in customers.

The increase in Total Electric Operating Revenue of \$28.0 million, or 14.7%, in 2014 compared to 2013 reflects higher electric distribution rates and higher costs of electric sales, which are tracked costs that are passed through directly to customers.

Operating Revenue Other

Total Other Operating Revenue is comprised of revenues from the Company's non-regulated energy brokering business, Usource. Usource's revenues in 2015 were \$6.2 million, an increase of \$0.5 million compared to 2014. Usource's revenues in 2014 were \$5.7 million, a decrease of \$0.1 million compared to 2013. As an energy broker and advisor, Usource assists business customers with the procurement and contracting for electricity and natural gas in competitive energy markets. Usource's revenues are primarily derived from fees billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

The following table details total Other Revenue for the last three years:

Other Revenue (millions)

	2015	2014	2013	Change			
				2015 vs. 2014		2014 vs. 2013	
	\$	\$	\$	\$	%	\$	%
Usource	\$ 6.2	\$ 5.7	\$ 5.8	\$ 0.5	8.8%	\$ (0.1)	(1.7%)
Total Other Revenue	\$ 6.2	\$ 5.7	\$ 5.8	\$ 0.5	8.8%	\$ (0.1)	(1.7%)

Operating Expenses

Cost of Gas Sales Cost of Gas Sales includes the cost of natural gas purchased and manufactured to supply the Company's total gas supply requirements and spending on energy efficiency programs. Cost of Gas Sales decreased \$3.3 million, or 3.2%, in 2015 compared to 2014. This decrease reflects lower wholesale natural gas prices and decreased spending on energy efficiency programs, partially offset by higher sales of natural gas and a decrease in the amount of natural gas purchased by customers directly from third-party suppliers. The Company reconciles and

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recovers the approved Cost of Gas Sales in its rates at cost on a pass through basis and therefore changes in approved expenses do not affect earnings.

In 2014, Cost of Gas Sales increased \$18.8 million, or 22.1%, compared to 2013. This increase reflects higher sales of natural gas, increased spending on energy efficiency programs and higher wholesale natural gas prices.

Cost of Electric Sales Cost of Electric Sales includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs, and spending on energy efficiency programs. Cost of Electric Sales decreased \$5.4 million, or 3.9%, in 2015 compared to 2014. This decrease reflects lower electric kWh sales and an increase in the amount of electricity purchased by customers directly from third-party suppliers. The Company reconciles and recovers the approved Cost of Electric Sales in its rates at cost on a pass through basis and therefore changes in approved expenses do not affect earnings.

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In 2014, Cost of Electric Sales increased \$23.4 million, or 20.4%, compared to 2013. This increase reflects higher wholesale electricity prices, increased spending on energy efficiency programs and higher electric kWh sales.

Operation and Maintenance O&M expense includes electric and gas utility operating costs, and the operating costs of the Company's non-regulated business activities. Total O&M expenses increased \$2.5 million, or 3.9%, in 2015 compared to 2014. The change in O&M expenses reflects higher compensation and benefit costs of \$3.5 million partially offset by lower professional fees of \$0.3 million and lower all other utility O&M costs, net of \$0.7 million. The decrease in utility operating costs includes \$0.8 million in lower electric and natural gas maintenance costs and higher all other utility operating costs, net of \$0.1 million.

In 2014, total O&M expenses increased \$4.4 million, or 7.3%, compared to 2013. The change in O&M expenses reflects higher compensation and benefit costs of \$2.8 million and higher utility operating costs of \$1.6 million. The increase in utility operating costs in 2014 includes \$0.7 million in higher electric and natural gas maintenance costs, \$0.6 million in higher bad debt expense and higher all other utility operating costs, net of \$0.3 million.

Depreciation and Amortization Depreciation and Amortization expense increased \$3.6 million, or 8.6%, in 2015 compared to 2014, reflecting higher depreciation of \$2.4 million on normal utility plant assets in service, higher amortization of major storm restoration costs of \$0.9 million and an increase in all other amortization of \$0.3 million. The increase in major storm restoration cost amortization is currently recovered in electric rates and reflected in electric sales margin.

In 2014, Depreciation and Amortization expense increased \$3.6 million, or 9.4%, compared to 2013, reflecting higher depreciation of \$2.2 million on higher utility plant assets in service, higher amortization of major storm restoration costs of \$1.3 million and an increase in all other amortization of \$0.1 million. The increase in major storm restoration cost amortization is currently recovered in electric rates and reflected in electric sales margin.

Taxes Other Than Income Taxes Taxes Other Than Income Taxes increased \$0.5 million, or 2.9%, in 2015 compared to 2014, primarily reflecting higher local property tax expense.

In 2014, Taxes Other Than Income Taxes increased \$2.2 million, or 14.7%, compared to 2013, reflecting higher local property taxes on higher levels of utility plant in service.

Interest Expense, net

Interest expense is presented in the Consolidated Financial Statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company's distribution utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated (See Note 5 to the accompanying Consolidated Financial Statements).

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Interest Expense, net increased \$1.0 million, or 4.8%, in 2015 compared to 2014 reflecting higher levels of long-term debt and higher interest expense on regulatory liabilities.

In 2014, Interest Expense, net increased \$2.1 million, or 11.2%, compared to 2013 reflecting lower net interest income on regulatory assets and higher interest on long-term debt, related to the issuance of \$50 million in Senior Unsecured Notes by Northern Utilities in October 2014.

Other (Income) Expense, net

Other (Income) Expense, net changed from an expense of \$0.4 million in 2014 to income of \$0.5 million in 2015. This change was the result of the recognition of a pre-tax gain of \$0.9 million in the fourth quarter of 2015 on the sale of property (See Note 8 to the accompanying Consolidated Financial Statements).

Other (Income) Expense, net, was essentially unchanged in 2014 compared to 2013.

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Income Taxes

Income Taxes increased \$1.4 million in 2015 compared to 2014 due to higher pre-tax earnings in 2015 compared to 2014 (See Note 9 to the accompanying Consolidated Financial Statements).

In 2014, Income Taxes increased \$1.3 million compared to 2013 due to higher pre-tax earnings in 2014 compared to 2013.

LIQUIDITY, COMMITMENTS AND CAPITAL REQUIREMENTS

Sources of Capital

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities. The Company initially supplements internally-generated funds through short-term bank borrowings, as needed, under its unsecured revolving Credit Facility. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets. Additionally, from time to time, the Company has accessed the public capital markets through public offerings of equity securities. The Company's utility operations are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The amount, type and timing of any future financing will vary from year to year based on capital needs and maturity or redemptions of securities.

The Company and its subsidiaries are individually and collectively members of the Unitil Cash Pool (the Cash Pool). The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool allows for an efficient exchange of cash among the Company and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on actual interest costs from lenders under the Company's revolving Credit Facility. At December 31, 2015 and December 31, 2014, the Company and all of its subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

On October 4, 2013, the Company entered into an Amended and Restated Credit Agreement (the Credit Facility) with a syndicate of lenders which amended and restated in its entirety the Company's prior credit agreement, dated as of November 26, 2008, as amended. The Credit Facility extends to October 4, 2018 and provides for a new borrowing limit of \$120 million which includes a \$25 million sublimit for the issuance of standby letters of credit. The Credit Facility provides Unitil with the ability to elect that borrowings under the Credit Facility bear interest under several options, including at a daily fluctuating rate of interest per annum equal to one-month London Interbank Offered Rate (LIBOR) plus 1.375%. Provided there is no event of default under the Credit Facility, the Company may on a one-time basis request an increase in the aggregate commitments under the Credit Facility by an aggregate additional amount of up to \$30 million.

On July 24, 2015, the Company entered into the First Amendment to the Credit Facility. The First Amendment provides for an extension of the scheduled termination date to October 4, 2020, reduces the daily fluctuating rate of interest per annum equal to one-month LIBOR plus 1.25%, and reduces other customary credit facility fees. All other terms and conditions of the Credit Facility, including affirmative and negative covenants, remain substantially unchanged.

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The Company utilizes the credit facility for cash management purposes related to its short-term operating activities. Total gross borrowings were \$140.3 million and \$179.4 million for the years ended December 31, 2015 and December 31, 2014, respectively. Total gross repayments were \$127.6 million and \$210.3 million for the years ended December 31, 2015 and December 31, 2014, respectively. The following table details the borrowing limits, amounts outstanding and amounts available under the revolving Credit Facility as of December 31, 2015 and December 31, 2014:

Revolving Credit Facility (millions)

	December 31,	
	2015	2014
Limit	\$ 120.0	\$ 120.0
Outstanding	\$ 42.0	\$ 29.3
Available	\$ 78.0	\$ 90.7

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The Credit Facility contains customary terms and conditions for credit facilities of this type, including affirmative and negative covenants. There are restrictions on, among other things, Unitil's and its subsidiaries' ability to permit liens or incur indebtedness, and restrictions on Unitil's ability to merge or consolidate with another entity or change its line of business. The affirmative and negative covenants under the Credit Facility shall apply to Unitil until the Credit Facility terminates and all amounts borrowed under the Credit Facility are paid in full (or with respect to letters of credit, they are cash collateralized). The only financial covenant in the Credit Facility provides that Unitil's Funded Debt to Capitalization (as each term is defined in the Credit Facility) cannot exceed 65%, tested on a quarterly basis. At December 31, 2015 and December 31, 2014, the Company was in compliance with the covenants contained in the Credit Facility in effect on that date. (See also "Credit Arrangements" in Note 5.)

Unitil Corporation and its utility subsidiaries, Fitchburg, Unitil Energy, and Northern Utilities are currently rated BBB+ by Standard & Poor's Ratings Services.

In April 2014, Unitil Service Corp. entered into a financing arrangement for various information systems and technology equipment. The financing arrangement is structured as a capital lease obligation. Final funding under this capital lease occurred on October 30, 2015, resulting in total funding of \$13.4 million. The capital lease matures on September 30, 2020. As of December 31, 2015, there are \$2.6 million of current and \$10.4 million of noncurrent obligations under this capital lease on the Company's Consolidated Balance Sheets.

The continued availability of various methods of financing, as well as the choice of a specific form of security for such financing, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions; the level of earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

Contractual Obligations

The table below lists the Company's known specified contractual obligations as of December 31, 2015.

Contractual Obligations (millions) as of December 31, 2015	Total	2016	Payments Due by Period		
			2017-2018	2019-2020	2021 & Beyond
Long-Term Debt	\$ 325.5	\$ 17.4	\$ 47.3	\$ 38.6	\$ 222.2
Interest on Long-Term Debt	246.7	21.2	38.4	31.8	155.3
Gas Supply Contracts	247.7	42.4	58.9	27.9	118.5
Electric Supply Contracts	13.0	1.2	2.5	2.5	6.8
Other (Including Capital and Operating Lease Obligations)	17.8	4.4	7.6	5.7	0.1
Total Contractual Cash Obligations	\$ 850.7	\$ 86.6	\$ 154.7	\$ 106.5	\$ 502.9

The Company and its subsidiaries have material energy supply commitments that are discussed in Note 7 to the accompanying Consolidated Financial Statements. Cash outlays for the purchase of electricity and natural gas to serve customers are subject to reconciling recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over-collected cash over subsequent periods of less than a year.

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The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company's policy is to limit the duration of these guarantees. As of December 31, 2015, there were approximately \$19.3 million of guarantees outstanding and the longest term guarantee extends through August 2016.

Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager

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and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was \$10.8 million and \$15.1 million of natural gas storage inventory at December 31, 2015 and 2014, respectively, related to these asset management agreements. The amount of natural gas inventory released in December 2015, which was payable in January 2016, was \$0.6 million and recorded in Accounts Payable at December 31, 2015. The amount of natural gas inventory released in December 2014, which was payable in January 2015, was \$1.0 million and recorded in Accounts Payable at December 31, 2014.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of December 31, 2014, the principal amount outstanding for the 8% Unitil Realty notes was \$1.1 million, and the principal amount outstanding for the 7.15% Granite State notes was \$10.0 million.

Benefit Plan Funding

The Company, along with its subsidiaries, made cash contributions to its Pension Plan in the amounts of \$4.2 million in each of 2015 and 2014. The Company, along with its subsidiaries, contributed \$4.0 million and \$3.7 million to Voluntary Employee Benefit Trusts (VEBTs) in 2015 and 2014, respectively. The Company, along with its subsidiaries, expects to continue to make contributions to its Pension Plan and the VEBTs in 2016 and future years at minimum required and discretionary funding levels consistent with the amounts recovered in the distribution utilities rates for these benefit plans. See Note 10 (Retirement Benefit Plans) to the accompanying Consolidated Financial Statements.

Off-Balance Sheet Arrangements

The Company and its subsidiaries do not currently use, and are not dependent on the use of, off-balance sheet financing arrangements such as securitization of receivables or obtaining access to assets or cash through special purpose entities or variable interest entities. Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements. Additionally, as of December 31, 2015, there were approximately \$19.3 million of guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities outstanding and the longest term guarantee extends through August 2016. See Note 5 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements.

Cash Flows

Unitil's utility operations, taken as a whole, are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The tables below summarize the major sources and uses of cash (in millions) for 2015 and 2014.

	2015	2014
Cash Provided by Operating Activities	\$ 115.1	\$ 84.0

Cash Provided by Operating Activities Cash Provided by Operating Activities was \$115.1 million in 2015, an increase of \$31.1 million compared to 2014.

Cash flow from net income, adjusted for the total of non-cash charges to depreciation, amortization and deferred taxes, was \$83.9 million in 2015 compared to \$81.2 million in 2014, reflecting an increase of \$2.7 million. The increase in net income of \$1.6 million in 2015 compared to 2014 is primarily attributable to increases in natural gas and electric sales margins as a result of base rate relief and higher gas unit sales and customer growth. The increase in depreciation and amortization of \$3.6 million in 2015 compared to 2014 reflects higher utility depreciation from higher net utility plant in service and higher amortization from major storm restoration costs. The decrease in the deferred tax provision of (\$2.5) million in 2015 compared to 2014 is primarily due to a deferred tax asset recorded in 2015 related to the pipeline refund from Portland Natural Gas Transmission System (PNGTS) (See Note 8). This was partially offset by the use of a portion of federal net operating loss carryforwards.

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Changes in working capital items resulted in a \$17.8 million source of cash in 2015 compared to a \$7.0 million source of cash in 2014, representing an increase of \$10.8 million. Changes in Regulatory Liabilities resulted in an increase in sources of cash of \$7.9 million in 2015 compared to 2014, primarily driven by the current portion of the PNGTS to be refunded to customers (see Note 8) of \$7.6 million as of December 31, 2015. All other changes in working capital reflect normal variations from year-to-year, including changes in underlying commodity prices.

Changes in Deferred Regulatory and Other Charges resulted in an increase in sources of cash of \$10.8 million in 2015 compared to 2014, primarily driven by the long-term portion of the PNGTS refund of \$8.1 million as of December 31, 2015. The change in Other, net in 2015 compared to 2014 was \$6.8 million.

	2015	2014
Cash (Used in) Investing Activities	\$ (103.9)	\$ (92.6)

Cash (Used in) Investing Activities Cash Used in Investing Activities was (\$103.9) million in 2015 compared to (\$92.6) million in 2014. The actual capital spending in both 2015 and 2014 is related to utility capital expenditures for electric and gas utility system additions. The Company's projected capital spending range for 2016 is \$95 million to \$100 million.

	2015	2014
Cash (Used in) Provided by Financing Activities	\$ (10.9)	\$ 7.6

Cash (Used in) Provided by Financing Activities Cash (Used in) Provided by Financing Activities was (\$10.9) million in 2015 compared to \$7.6 million in 2014. The higher cash used in financing activities in 2015 compared to 2014 is primarily attributable to lesser proceeds from the issuance of long-term debt of (\$50.0) million, greater repayment of long-term debt of (\$3.0) million and a net decrease in Exchange Gas Financing of (\$8.4) million, partially offset by greater proceeds from short-term debt of \$43.6 million.

FINANCIAL COVENANTS AND RESTRICTIONS

The agreements under which the Company and its subsidiaries issue long-term debt contain various covenants and restrictions. These agreements do not contain any covenants or restrictions pertaining to the maintenance of financial ratios or the issuance of short-term debt. These agreements do contain covenants relating to, among other things, the issuance of additional long-term debt, cross-default provisions, business combinations and covenants restricting the ability to (i) pay dividends, (ii) incur indebtedness and liens, (iii) merge or consolidate with another entity or (iv) sell, lease or otherwise dispose of all or substantially all assets. See Note 5 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements.

Unitil's Credit Facility contains customary terms and conditions for credit facilities of this type, including affirmative and negative covenants. There are restrictions on, among other things, Unitil's and its subsidiaries' ability to permit liens or incur indebtedness, and restrictions on Unitil's ability to merge or consolidate with another entity or change its line of business. The affirmative and negative covenants under the Credit Facility shall apply to Unitil until the Credit Facility terminates and all amounts borrowed under the Credit Facility are paid in full (or with respect to letters of credit, they are cash collateralized). The only financial covenant in the Credit Facility provides that Unitil's Funded Debt to Capitalization (as each term is defined in the Credit Facility) cannot exceed 65%, tested on a quarterly basis. At December 31, 2015 and

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December 31, 2014, the Company was in compliance with the covenants contained in the Credit Facility in effect on that date.

The Company and its subsidiaries are currently in compliance with all such covenants in these debt instruments.

DIVIDENDS

Unitil's annual common dividend was \$1.40 per common share in 2015 and \$1.38 per common share in both 2014 and 2013. Unitil's dividend policy is reviewed periodically by the Board of Directors. Unitil

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has maintained an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January 2016 meeting, the Unitil Corporation Board of Directors declared a quarterly dividend on the Company's common stock of \$0.3550 per share, an increase of \$0.005 per share on a quarterly basis, resulting in an increase in the effective annual dividend rate to \$1.42 from \$1.40. The amount and timing of all dividend payments are subject to the discretion of the Board of Directors and will depend upon business conditions, results of operations, financial conditions and other factors. In addition, the ability of the Company's subsidiaries to pay dividends or make distributions to Unitil, and, therefore, Unitil's ability to pay dividends, depends on, among other things:

the actual and projected earnings and cash flow, capital requirements and general financial condition of the Company's subsidiaries;

the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by the Company's subsidiaries;

the restrictions on the payment of dividends contained in the existing loan agreements of the Company's subsidiaries and that may be contained in future debt agreements of the Company's subsidiaries, if any; and

limitations that may be imposed by New Hampshire, Massachusetts and Maine state regulatory agencies.

In addition, before the Company can pay dividends on its common stock, it has to satisfy its debt obligations and comply with any statutory or contractual limitations. See *Financial Covenants and Restrictions*, above, as well as Note 5 (Debt and Financing Arrangements) to the accompanying Consolidated Financial Statements.

LEGAL PROCEEDINGS

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these claims will not have a material impact on its financial position, operating results or cash flows.

In early 2009, a putative class action complaint was filed against Unitil's Massachusetts based utility, Fitchburg, in Massachusetts' Worcester Superior Court (the "Court"), (captioned *Bellermann et al v. Fitchburg Gas and Electric Light Company*). The Complaint seeks an unspecified amount of damages, including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg's service territory in December 2008. The Complaint, as amended, includes M.G.L. ch. 93A claims for purported unfair and deceptive trade practices related to the December 2008 ice storm. Following several years of discovery, the plaintiffs in the complaint filed a motion with the Court to certify the case as a class action. On January 7, 2013, the Court issued its decision denying plaintiffs' motion to certify the case as a class action. The plaintiffs appealed this decision to the Massachusetts Supreme Judicial Court (the "SJC"), and the SJC upheld the lower Court's order. Subsequently, Plaintiffs filed a renewed motion to certify a class under a different theory than previously argued. The Company filed its opposition to this motion and also filed a motion for summary judgment. On July 27, 2015, the Court issued its decision allowing class certification and denying the Company's motion for summary judgment. The Company appealed this decision to the SJC, and on October 15, 2015, the SJC granted the Company's motion for direct review of the case, and it is being briefed by the parties and set for oral argument during the first quarter of 2016. The Town of Lunenburg has filed a separate action in the Court arising out of the December 2008 ice storm. The Court accepted the parties' joint schedule with discovery continuing into 2016 and trial likely in late 2016. The Company continues to believe that both of these suits are without merit and will continue to defend itself vigorously. The Company believes, based upon information furnished by counsel and others, that the ultimate resolution of these suits will not have a material impact on its financial position, operating results or cash flows.

Table of Contents**REGULATORY MATTERS**

Overview Unitil's distribution utilities deliver electricity and/or natural gas to customers in the Company's service territories at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil Energy, Fitchburg, and Northern Utilities recover the cost of providing distribution service to their customers based on a representative test year, in addition to earning a return on their capital investment in utility assets. Fitchburg's electric and gas divisions also operate under revenue decoupling mechanisms.

As a result of the restructuring of the utility industry in New Hampshire, Massachusetts and Maine, most Unitil customers have the opportunity to purchase their electric or natural gas supplies from third-party suppliers. For Northern Utilities, only business customers have the opportunity to purchase their natural gas supplies from third-party suppliers at this time. Most small and medium-sized customers, however, continue to purchase such supplies through Unitil Energy, Fitchburg and Northern Utilities as the providers of basic or default service energy supply. Unitil Energy, Fitchburg and Northern Utilities purchase electricity or natural gas for basic or default service from unaffiliated wholesale suppliers and recover the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted. The Maine Public Utilities Commission (MPUC), the Massachusetts Department of Public Utilities (MDPU), and the New Hampshire Public Utilities Commission (NHPUC) have each continued to approve these reconciling rate mechanisms which allow Fitchburg, Unitil Energy and Northern Utilities to recover their actual wholesale energy costs for electric power and natural gas.

In connection with the implementation of retail choice, Unitil Power and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. These assets have been principally recovered as of December 31, 2015. The remaining balance of these assets is \$1.9 million as of December 31, 2015, including \$0.3 million recorded in Current Assets as Accrued Revenue on the Company's Consolidated Balance Sheet projected to be recovered in the next year and \$1.6 million recorded in Regulatory Assets on the Company's Consolidated Balance Sheet projected to be recovered over the next six years. Unitil's distribution companies have a continuing obligation to submit filings in Massachusetts and New Hampshire that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

Northern Utilities Base Rates Maine On December 27, 2013, the Maine Public Utilities Commission (MPUC) approved a settlement agreement providing for a \$3.8 million permanent increase in annual revenue for Northern Utilities' Maine division, effective January 1, 2014. The settlement agreement also allowed the Company to implement a Targeted Infrastructure Replacement Adjustment (TIRA) rate mechanism to adjust base distribution rates annually to recover the revenue requirements associated with targeted investments in gas distribution system infrastructure replacement and upgrade projects. The TIRA has an initial term of four years and covers targeted capital expenditures in 2013 through 2016. The 2014 TIRA provided for an annual increase in base distribution revenue of \$1.3 million, effective May 1, 2014. The 2015 TIRA provided for an annual increase in base distribution revenue of \$1.2 million, effective May 1, 2015.

Northern Utilities Base Rates New Hampshire On April 21, 2014, the NHPUC approved a settlement agreement providing for an increase of \$4.6 million in distribution base revenue, effective May 1, 2014. The settlement agreement provided for additional step adjustments in 2014 and 2015 to recover the revenue requirements associated with investments in gas mains extensions and infrastructure replacement projects. The 2014 step adjustment provided for an annual increase in revenue of \$1.4 million, effective May 1, 2014. The 2015 step adjustment provided for an annual increase of \$1.8 million in revenue effective May 1, 2015.

Northern Utilities Pipeline Refund On February 19, 2015 the FERC issued Opinion No. 524-A, the final order in Portland Natural Gas Transmission's (PNGTS) Section 4 rate case, requiring PNGTS to issue refunds to shippers. Northern Utilities received a pipeline refund of \$22.0 million on April 15, 2015.

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As a gas supply-related refund, the entire amount refunded will be credited to Northern Utilities' customers and marketers. In New Hampshire, the refund will be credited to all customers over a three year period as directed by the NHPUC. In Maine, the refund has been divided into two parts, as directed by the MPUC. Maine retail customers who purchase their gas directly from Northern Utilities will be credited their portion of the refund over a three year period. The second part of the refund was paid on October 5, 2015 as a one-time lump sum payment directly to marketers who transport gas on Northern Utilities' distribution system. The Company has recorded current and noncurrent Regulatory Liabilities of \$7.6 million and \$8.1 million, respectively, on its Consolidated Balance Sheets as of December 31, 2015.

Unitil Energy Base Rates On April 26, 2011, the NHPUC approved a rate settlement that extends through May 1, 2016 and provides for a long-term rate plan and earnings sharing mechanism, with a series of step adjustments to increase revenue in future years to support Unitil Energy's continued capital improvements to its distribution system. The third and final step increase of \$1.5 million in annual revenue was effective May 1, 2014.

Granite State Base Rates Granite State had in place a FERC approved amended settlement agreement under which it had been permitted each June to file for a rate adjustment to recover the revenue requirements associated with specified capital investments in gas transmission projects up to a specific cost cap. The final rate adjustment under this agreement was effective August 1, 2014. Granite State has received FERC approval of a second amended settlement agreement under which it will continue to be permitted to file annually, each June, for a rate adjustment to recover the revenue requirements associated with specified capital investments in gas transmission projects up to a cost cap. The FERC approval of the second amended settlement included a rate increase of \$0.4 million, effective August 1, 2015.

Fitchburg Base Rates Electric On May 30, 2014, the Massachusetts Department of Public Utilities (MDPU) approved a \$5.6 million increase in Fitchburg's base revenue decoupling target, effective June 1, 2014. The MDPU approved a 9.7% return on equity and a common equity ratio of 48%. As part of the increase in base revenue, the MDPU approved the recovery, over three years, of \$5.0 million of previously deferred emergency storm repair costs incurred in 2011 and 2012. In addition, the MDPU approved an expanded storm resiliency vegetation management program at an annual funding amount of \$0.5 million. The MDPU also approved the recovery of \$0.9 million over a five-year period of past due amounts associated with hardship accounts that are protected from shut-off. The impact of the rate order on previously capitalized or deferred items was not material.

On June 16, 2015, Fitchburg filed for a \$3.8 million increase in electric base revenue decoupling target, which represents a 5.6 percent increase over 2014 test year operating electric revenues. The filing included a request for approval of a capital cost recovery mechanism to recover prudently incurred additions to utility plant on an annual basis. Discovery and hearings have been completed and briefs have been filed. By statute, the MDPU is afforded ten months to act on a request for a rate increase. A decision is expected by the end of April, 2016.

Fitchburg Base Rates Gas On June 16, 2015, Fitchburg filed for a \$3.0 million increase in gas base revenue decoupling target, which represents an 8.3 percent increase over 2014 test year total gas operating revenues. Discovery and hearings have been completed and briefs have been filed. By statute, the MDPU is afforded ten months to act on a request for a rate increase. A decision is expected by the end of April, 2016.

Major Storms Fitchburg and Unitil Energy

Fitchburg 2011 Storm Cost Deferral and 2012 Storm Costs As part of its May 30, 2014 order approving a base rate increase for Fitchburg, the MDPU approved the recovery over three years, without carrying charges, of \$5.0 million of costs of repair for damage due to severe storms, including previously deferred costs incurred in 2011, as well as costs incurred in 2012 as a result of Superstorm Sandy.

Unitil Energy 2012 Storm Costs On April 25, 2013, the NHPUC approved the recovery of \$2.3 million of costs to repair damage to Unitil Energy's electrical system resulting from Superstorm Sandy over

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a five-year period, with carrying charges at the Company's long-term cost of debt, net of deferred taxes, or 4.52%, applied to the uncollected balance through the recovery period.

Thanksgiving 2014 Snow Storm Both Fitchburg and Unitil Energy experienced a significant snow storm that began the afternoon of November 26, 2014 and ended the morning of November 27, 2014, Thanksgiving Day. Unitil Energy spent approximately \$2.1 million for the repair and replacement of electric distribution systems damaged during the storm, including \$0.4 million related to capital construction and \$1.7 million for which Unitil Energy will seek recovery through its approved storm reserve fund, subject to review by the NHPUC in a future regulatory proceeding. Fitchburg spent approximately \$0.3 million for the repair and replacement of electric distribution systems damaged during the storm, including \$0.1 million related to capital construction and \$0.2 million in storm expense. As Fitchburg does not have an approved storm reserve fund, these expenses resulted in a pre-tax charge against 2014 earnings of \$0.2 million. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations.

NHPUC Energy Efficiency Resource Standard Proceeding On May 8, 2015, the NHPUC issued an order of notice commencing a proceeding to establish an Energy Efficiency Resource Standard, an energy efficiency policy with specific targets or goals for energy savings that New Hampshire electric and gas utilities must meet. In this proceeding the Commission will define the savings targets and address issues related to public and private funding; program cost recovery; lost-revenue recovery (e.g. decoupling); performance-based incentives and penalties; program administration; and evaluation, measurement, and verification. Initial comments were filed by interested parties on December 9, 2015, and the matter remains pending.

Northern Utilities Other In the fourth quarter of 2015, Northern Utilities completed the transition into a new Distribution Operations Center (DOC) for its operations in Portland, Maine. The new property includes an existing building and is located at 376 Riverside Industrial Parkway in Portland, Maine. On September 19, 2014, Northern Utilities sold its existing DOC facility located at 1075 Forest Avenue in Portland, Maine. While the new DOC facility was being renovated, Northern Utilities leased back its existing DOC facility from the new owner. The new DOC facility was needed due to space limitations at the existing DOC. In recent years Northern Utilities' gas expansion initiative and the work associated with it resulted in staff, company vehicles, and material storage additions to a facility that could not adequately handle these additions. Northern Utilities recognized a net gain on sale of the Forest Avenue property of \$0.9 million in the fourth quarter of 2015.

Fitchburg Electric Operations On November 24, 2014, Fitchburg submitted its 2014 annual reconciliation of costs and revenues for transition and transmission under its restructuring plan, including the reconciliation of costs and revenues for a number of other surcharges and cost factors, for review and approval by the MDPU. All of the rates were approved, subject to investigation and reconciliation, effective January 1, 2015 for billing purposes, and given final approval by the MDPU on June 16, 2015.

On November 17, 2015, Fitchburg submitted its 2015 annual reconciliation of costs and revenues for transition and transmission under its restructuring plan, including the reconciliation of costs and revenues for a number of other surcharges and cost factors, for review and approval by the MDPU. All of the rates were approved, subject to investigation and reconciliation, effective January 1, 2016 for billing purposes, and given final approval by the MDPU on December 29, 2015.

Fitchburg Gas Operations On June 26, 2014, the Governor of Massachusetts signed into law a gas leak bill providing for the following, among other items: amends MDPU's ability to fine gas companies for violations of gas pipeline safety rules consistent with federal law; establishes a uniform natural gas leak classification standard for the Commonwealth; provides that the MDPU investigate new programs and policies to facilitate customer conversions to natural gas; and establishes an infrastructure replacement program to address aging natural gas pipeline infrastructure. The infrastructure replacement program allows gas distribution companies to accelerate the replacement of eligible infrastructure in order to improve public safety or infrastructure reliability, and to reduce or potentially reduce lost and unaccounted for natural gas. The law

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also authorizes gas companies to begin to recover through rates the estimated costs associated with infrastructure plans once they are approved by the MDPU, subject to reconciliation to actual prudently

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incurred costs. Pursuant to this new law, on October 31, 2014, Fitchburg Gas filed with the MDPU a 20 year gas system enhancement plan to replace aging natural gas pipeline infrastructure. On April 30, 2015, the MDPU approved the Company's plan and allowed the Company to collect \$0.3 million to recover the estimated cost to be incurred in calendar year 2015, the first year of the program, to replace eligible leak-prone infrastructure, effective May 1, 2015. The second annual filing, to recover the estimated costs to be incurred in calendar year 2016, was made on October 31, 2015. The Company seeks approval to collect in rates \$0.9 million for the costs of its cumulative capital investments for 2015 and 2016, effective May 1, 2016. This matter remains pending.

Fitchburg Service Quality On March 1, 2015, Fitchburg submitted its 2014 Service Quality Reports for both its gas and electric divisions. Fitchburg reported that it met or exceeded its benchmarks for service quality performance in all metrics for its gas division except for the metric related to consumer complaints. As a result of penalty offsets earned, no net penalty was assessed. The electric division met or exceeded all metric benchmarks. On July 7, 2015, the MDPU approved Fitchburg's 2013 gas division Service Quality Report as filed. On October 21, 2015, the MDPU approved Fitchburg's 2012 electric division Service Quality Report as filed. On November 25, 2015, the MDPU approved Fitchburg's 2014 gas division Service Quality Report as filed. Fitchburg's 2013 and 2014 electric division Service Quality Reports remain pending.

Amendments to MDPU Service Quality Guidelines On December 22, 2014, the MDPU issued an order adopting new Service Quality Guidelines. The new guidelines, which are to be implemented over several years, establish state-wide standards for most metrics, impose new methods for calculating penalty thresholds, eliminate the ability to offset subpar performance in one metric by exemplary performance in another, and add several new or enhanced metrics. The joint utilities filed a motion with the MDPU to reconsider the adoption of state-wide standards and requested reconsideration and clarification on other technical issues. On December 18, 2015, the MDPU issued its order on the motion to reconsider, and issued revised guidelines. The new guidelines reverse the change to state-wide standards in favor of the company specific standards currently in place, eliminate several metric and reporting requirements and revise several existing metrics in addition to the changes noted above. The Company does not believe that the MDPU's new Service Quality Guidelines will have a material adverse impact on the Company's financial condition or results of operations.

Fitchburg Other On February 5, 2013, there was a natural gas explosion in the city of Fitchburg, Massachusetts in an area served by Fitchburg's gas division resulting in property damage to a number of commercial and residential properties. The MDPU, pursuant to its authority under state and federal law, commenced an investigation of the incident, with which Fitchburg cooperated. The MDPU released its report of the incident on May 7, 2015, without finding of fault. No further action or investigation by the MDPU is anticipated. The Company does not believe this incident or investigation will have a material adverse impact on the Company's financial condition, results of operations or cash flows.

On February 11, 2009, the Massachusetts SJC issued its decision in the Attorney General's (AG) appeal of the MDPU orders relating to Fitchburg's recovery of bad debt expense. The SJC agreed with the AG that the MDPU was required to hold hearings regarding changes in Fitchburg's tariff and rates, and on that basis vacated the MDPU orders. The SJC, however, declined to rule on an appropriate remedy, and remanded the cases back to the MDPU for consideration of that issue. In the Company's August 1, 2011 rate decision, the MDPU held that the approval of dollar for dollar collection of supply-related bad debt in Fitchburg's rate cases in 2006 (gas) and 2007 (electric) satisfied the requirement for a hearing ordered by the SJC. The MDPU opened a docket to address the amounts collected by Fitchburg between the time the MDPU first approved dollar for dollar collection of Fitchburg's bad debt, and the rate decisions in 2006 and 2007. On May 20, 2015, the MDPU issued its decision, allowing Fitchburg to retain the bad debt amounts that were previously collected in rates, and no refunds or other adjustments were required. This matter is now closed. The final decision did not have an impact on the Company's consolidated financial statements.

On December 23, 2013, the MDPU opened an investigation into Modernization of the Electric Grid. The stated objective of the Grid Modernization proceeding is to ensure that the electric distribution companies adopt grid modernization policies and practices. On June 12, 2014, the MDPU issued its first Grid Modernization order, setting forth a requirement that each electric distribution company submit a ten-

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year strategic Grid Modernization Plan (GMP). As part of the GMP, each company must include a five-year Short-Term Investment Plan (STIP), which must include an approach to achieving advanced metering functionality within five years of the Department's approval of the GMP. The filing of a GMP will be a recurring obligation and must be updated as part of subsequent base distribution rate cases, which by statute must occur no less often than every five years. Capital investments contained in the STIP are eligible for pre-authorization, meaning that the MDPU will not revisit in later filings whether the Company should have proceeded with these investments. On November 5, 2014, the MDPU issued two inter-related orders regarding Grid Modernization. The first order provided guidance and filing requirements for the business case justification that the electric companies must file as part of their GMPs. The second order required the electric companies to implement sufficient advanced metering functionality to enable the sale of electricity to Basic Service customers via time varying rates (rates which vary depending upon the period or time of day that the electricity is consumed). The MDPU determined that time varying rates will establish pricing signals that will enable customers to save money by altering usage patterns and reducing peak load, among other enumerated benefits. Fitchburg and the Commonwealth's three other electric distribution companies filed their initial GMPs on August 19, 2015. These filings are currently under the MDPU's review. The MDPU is addressing in separate proceedings (1) cybersecurity, privacy, and access to meter data, and (2) electric vehicles. These matters remain pending.

FERC Transmission Formula Rate Proceeding On December 28, 2015, FERC issued an order, pursuant to section 206 of the Federal Power Act, instituting a proceeding concerning the justness and reasonableness of ISO-New England, Inc. Participating Transmission Owners' Regional Network Service and Local Network Service formula rates and to develop formula rate protocols for these rates. Fitchburg and Unitil Energy are Participating Transmission Owners, although Unitil Energy does not own transmission plant. To the extent that this proceeding results in any changes to the rates being charged, a refund period will begin as of January 4, 2016. The Company does not believe this investigation will have a material adverse impact on the Company's financial condition or results of operations.

ENVIRONMENTAL MATTERS

The Company's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in material compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2015, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, we cannot assure you that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Northern Utilities Manufactured Gas Plant Sites Northern Utilities has an extensive program to identify, investigate and remediate former MGP sites that were operated from the mid-1800s through the mid-1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. In Maine, Northern Utilities has documented the presence of MGP sites in Lewiston and Portland, and a former MGP disposal site in Scarborough. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

Northern Utilities or others have substantially completed remediation of the Exeter, Rochester, Dover, Somersworth, Portsmouth, Lewiston and Scarborough sites, though future activities may be required.

The site in Portland has been investigated and remedial activities have largely been completed. Final remediation activities were completed in the fourth quarter of 2015, and closure documentation will be prepared for submittal to the regulatory agency in the first half of 2016. In the second quarter of 2014, the State of Maine completed its taking of the site via eminent domain for the expansion of the adjacent marine terminal. As a result of this taking, and pursuant to an agreement between the State of Maine and Northern Utilities, future remedial activities necessitated as a result of development of the site will be primarily the responsibility of the State of Maine.

Although remediation at the site in Exeter has been substantially completed, sediment contamination attributed to the former MGP was identified off-site. This off-site location has been investigated and

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remediation activities in Exeter commenced in the fourth quarter of 2015. The anticipated completion of these activities is in the first quarter of 2016.

The NHPUC and MPUC have approved regulatory mechanisms for the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC has approved the recovery of MGP environmental costs over succeeding seven-year periods, without carrying costs. For Northern Utilities' Maine division, the MPUC has authorized the recovery of environmental remediation costs over succeeding five-year periods, without carrying costs.

Fitchburg's Manufactured Gas Plant Site Fitchburg completed the scheduled site work at the former MGP site at Sawyer Passway, located in Fitchburg, Massachusetts in the fourth quarter of 2014. The closure documentation for the site was submitted in the fourth quarter of 2015 and is under review by the Massachusetts Department of Environmental Protection.

The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties. Fitchburg recovers the environmental response costs incurred at this former MGP site in gas rates pursuant to the terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs.

The Company's ultimate liability for future environmental remediation costs, including MGP site costs, may vary from estimates, which may be adjusted as new information or future developments become available. Based on the Company's current assessment of its environmental responsibilities, existing legal requirements and regulatory policies, the Company does not believe that these environmental costs will have a material adverse effect on the Company's consolidated financial position or results of operations.

Also, see *Environmental Matters* in Part II, Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements for additional information on Environmental Matters.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's Consolidated Financial Statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company's most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant accounting policies, refer to the financial statements and Note 1: Summary of Significant Accounting Policies.

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Regulatory Accounting The Company's principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the MDPU, Unitil Energy is regulated by the NHPUC and Northern Utilities is regulated by the MPUC and NHPUC. Granite State, the Company's natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the Financial Accounting Standards Board Accounting Standards Codification (FASB Codification). In accordance with the FASB Codification, the Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

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The FASB Codification specifies the economic effects that result from the cause and effect relationship of costs and revenues in the rate-regulated environment and how these effects are to be accounted for by a regulated enterprise. Revenues intended to cover some costs may be recorded either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, these costs would be recorded as deferred charges or regulatory assets. If revenues are recorded for costs that are expected to be incurred in the future, these revenues would be recorded as deferred credits or regulatory liabilities.

The Company's principal regulatory assets and liabilities are included on the Company's Consolidated Balance Sheet and a summary of the Company's Regulatory Assets is provided in Note 1 thereto. The Company receives a return on investment on its regulated assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements.

The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of the FASB Codification topic on Regulated Operations. If unable to continue to apply the FASB Codification provisions for Regulated Operations, the Company would be required to apply the provisions for the Discontinuation of Rate-Regulated Accounting included in the FASB Codification. In the Company's opinion, its regulated operations will be subject to the FASB Codification provisions for Regulated Operations for the foreseeable future.

Utility Revenue Recognition Utility revenues are recognized according to regulations and are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenues are calculated. These unbilled revenues are calculated each month based on estimated customer usage by class and applicable customer rates.

Fitchburg is subject to revenue decoupling. Revenue decoupling is the term given to the elimination of the dependency of a utility's distribution revenue on the volume of electricity or natural gas sales. The difference between distribution revenue amounts billed to customers and the targeted revenue decoupling amounts is recognized as an increase or a decrease in Accrued Revenue which forms the basis for resetting rates for future cash recoveries from, or credits to, customers. These revenue decoupling targets may be adjusted as a result of rate cases that the Company files with the MDPU. The Company estimates that revenue decoupling applies to approximately 27% and 11% of Unitil's total annual electric and natural gas sales volumes, respectively.

Allowance for Doubtful Accounts The Company recognizes a provision for doubtful accounts each month based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company's distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Also, the electric division of Fitchburg is authorized to recover through rates past due amounts associated with hardship accounts that are protected from shut-off. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including expected fuel assistance payments from governmental authorities and the level of customers enrolling in payment plans with the Company. It has been the Company's experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

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Retirement Benefit Obligations The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company, and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The FASB Codification requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates.

The Company's RBO and reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. The Company's RBO are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future costs. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company's financial statements. The discount rate assumptions used in determining retirement plan costs and retirement plan obligations are based on an assessment of current market conditions using high quality corporate bond interest rate indices and pension yield curves. For the year ended December 31, 2015, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately \$472,000 in the Net Periodic Benefit Cost for the Pension Plan. Similarly, a change of 0.50% in the expected long-term rate of return on plan assets would have resulted in an increase or decrease of approximately \$424,000 in the Net Periodic Benefit Cost for the Pension Plan. For the year ended December 31, 2015, a 1.0% increase in the assumption of health care cost trend rates would have resulted in increases in the Net Periodic Benefit Cost for the PBOP Plan of \$1,383,000. Similarly, a 1.0% decrease in the assumption of health care cost trend rates would have resulted in decreases in the Net Periodic Benefit Cost for the PBOP Plan of \$1,040,000. (See Note 10 to the accompanying Consolidated Financial Statements).

Income Taxes The Company is subject to Federal and State income taxes as well as various other business taxes. This process involves estimating the Company's current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company's Consolidated Balance Sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with the FASB Codification guidance on Income Taxes. The Company classifies penalty and interest expense related to income tax liabilities as income tax expense and interest expense, respectively, in the Consolidated Statements of Earnings.

Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of earnings is presented. The Company accounts for income taxes in accordance with the FASB Codification guidance on Income Taxes, which requires an asset and liability approach for the financial accounting and reporting of income taxes. Significant judgments and estimates are required in determining the current and deferred tax assets and liabilities. The Company's current and deferred tax assets and liabilities reflect its best assessment of estimated future taxes to be paid. Periodically, the Company assesses the realization of its deferred tax assets and liabilities and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts and circumstances that gave rise to the revision become known.

Depreciation Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements.

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Commitments and Contingencies The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2015, the Company is not aware of any material commitments or contingencies other than those disclosed in the Significant Contractual Obligations table in the Contractual Obligations section above and the Commitments and Contingencies footnote to the Company's consolidated financial statements below.

Refer to **Recently Issued Pronouncements** in Note 1 of the Notes of Consolidated Financial Statements for information regarding recently issued accounting standards.

For further information regarding the foregoing matters, see Note 1 (Summary of Significant Accounting Policies), Note 9 (Income Taxes), Note 7 (Energy Supply), Note 10 (Retirement Benefit Plans) and Note 8 (Commitment and Contingencies) to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Please also refer to Part I, Item 1A. **Risk Factors** .

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding was \$25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately \$250,000. The average interest rate on short-term borrowings was 1.5%, 1.6%, and 1.8% during 2015, 2014, and 2013, respectively.

COMMODITY PRICE RISK

Although Unitil's three distribution utilities are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed in the section entitled *Rates and Regulation* in Part I, Item 1 (Business) and in Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

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Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Unitil Corporation

We have audited the accompanying consolidated balance sheets of Unitil Corporation and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of earnings, changes in common stock equity, and cash flows for the years then ended. We also have audited the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Unitil Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in

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conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

Boston, MA

January 28, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Unitil Corporation and subsidiaries:

We have audited the accompanying consolidated statements of earnings, cash flows and changes in common stock equity of Unitil Corporation for the year ended December 31, 2013. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Unitil Corporation and subsidiaries for the year ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Boston, Massachusetts

January 29, 2014

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Table of Contents**CONSOLIDATED STATEMENTS OF EARNINGS***(Millions, except per share data)*

Year Ended December 31,	2015	2014	2013
Operating Revenues:			
Gas	\$ 202.6	\$ 201.4	\$ 170.4
Electric	218.0	218.7	190.7
Other	6.2	5.7	5.8
Total Operating Revenues	426.8	425.8	366.9
Operating Expenses:			
Cost of Gas Sales	100.7	104.0	85.2
Cost of Electric Sales	132.5	137.9	114.5
Operation and Maintenance	67.1	64.6	60.2
Depreciation and Amortization	45.7	42.1	38.5
Taxes Other Than Income Taxes	17.7	17.2	15.0
Total Operating Expenses	363.7	365.8	313.4
Operating Income	63.1	60.0	53.5
Interest Expense, net	21.9	20.9	18.8
Other (Income) Expense, net	(0.5)	0.4	0.4
Income Before Income Taxes	41.7	38.7	34.3
Income Taxes	15.4	14.0	12.7
Net Income Applicable to Common Shares	\$ 26.3	\$ 24.7	\$ 21.6
Earnings per Common Share Basic and Diluted	\$ 1.89	\$ 1.79	\$ 1.57
Weighted Average Common Shares Outstanding (Basic and Diluted)	13.9	13.8	13.8

(The accompanying Notes are an integral part of these consolidated financial statements.)

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December 31,	2015	2014
Current Assets:		
Cash and Cash Equivalents	\$ 8.7	\$ 8.4
Accounts Receivable, net	49.8	60.7
Accrued Revenue	38.4	48.5
Exchange Gas Receivable	11.1	15.0
Gas Inventory	0.8	1.1
Deferred Income Taxes	4.7	
Prepayments and Other	12.4	11.5
Total Current Assets	125.9	145.2
Utility Plant:		
Gas	576.8	522.9
Electric	408.4	390.6
Common	35.5	32.7
Construction Work in Progress	59.9	42.6
Utility Plant	1,080.6	988.8
Less: Accumulated Depreciation	271.7	255.1
Net Utility Plant	808.9	733.7
Other Noncurrent Assets:		
Regulatory Assets	99.6	107.6
Other Assets	12.0	13.7
Total Other Noncurrent Assets	111.6	121.3

TOTAL ASSETS

\$ 1,046.4

\$ 1,000.2

(The accompanying Notes are an integral part of these consolidated financial statements.)

Table of Contents*CONSOLIDATED BALANCE SHEETS (cont.) (Millions, except number of shares)***LIABILITIES AND CAPITALIZATION**

December 31,	2015	2014
Current Liabilities:		
Accounts Payable	\$ 33.3	\$ 44.2
Short-Term Debt	42.0	29.3
Long-Term Debt, Current Portion	17.4	4.0
Regulatory Liabilities	15.6	8.7
Energy Supply Obligations	14.6	22.1
Environmental Obligations	1.3	3.5
Capital Lease Obligations	3.1	0.5
Deferred Income Taxes		3.1
Taxes Payable	2.4	0.1
Other Current Liabilities	14.9	13.9
Total Current Liabilities	144.6	129.4
Noncurrent Liabilities:		
Deferred Income Taxes	92.2	72.9
Cost of Removal Obligations	70.1	63.8
Retirement Benefit Obligations	124.4	118.6
Regulatory Liabilities	8.1	0.1
Capital Lease Obligations	11.0	7.5
Environmental Obligations	1.5	2.0
Other Noncurrent Liabilities	3.6	3.7
Total Noncurrent Liabilities	310.9	268.6
Capitalization:		
Long-Term Debt, Less Current Portion	308.1	328.9
Stockholders' Equity:		

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Common Equity (Outstanding 13,991,430 and 13,916,026 Shares)	237.5	234.7
Retained Earnings	45.1	38.4
Total Common Stock Equity	282.6	273.1
Preferred Stock	0.2	0.2
Total Stockholders Equity	282.8	273.3
Total Capitalization	590.9	602.2
Commitments and Contingencies (Note 8)		
TOTAL LIABILITIES AND CAPITALIZATION	\$ 1,046.4	\$ 1,000.2

(The accompanying Notes are an integral part of these consolidated financial statements.)

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (Millions)**

Year Ended December 31,	2015	2014	2013
Operating Activities:			
Net Income	\$ 26.3	\$ 24.7	\$ 21.6
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	45.7	42.1	38.5
Deferred Taxes Provision	11.9	14.4	12.3
Changes in Working Capital Items:			
Accounts Receivable	10.9	(8.5)	(4.5)
Accrued Revenue	10.1	8.1	6.8
Regulatory Liabilities	6.9	(1.0)	2.9
Taxes Refundable / Payable	2.3	(0.1)	(0.5)
Exchange Gas Receivable	3.9	(4.2)	(1.4)
Accounts Payable	(10.9)	6.1	5.4
Other Changes in Working Capital Items	(5.4)	6.6	(2.9)
Deferred Regulatory and Other Charges	9.2	(1.6)	15.0
Other, net	4.2	(2.6)	3.1
Cash Provided by Operating Activities	115.1	84.0	96.3
Investing Activities:			
Property, Plant and Equipment Additions	(103.9)	(92.6)	(89.5)
Cash Used In Investing Activities	(103.9)	(92.6)	(89.5)
Financing Activities:			
Proceeds from (Repayment of) Short-Term Debt, net	12.7	(30.9)	10.8
Issuance of Long-Term Debt		50.0	
Repayment of Long-Term Debt	(7.4)	(4.4)	(0.5)
Increase / (Decrease) in Capital Lease Obligations	6.1	6.5	(0.7)
Net (Decrease) Increase in Exchange Gas Financing	(4.0)	4.4	1.2
Dividends Paid	(19.6)	(19.2)	(19.1)
Proceeds from Issuance of Common Stock	1.3	1.2	1.1
Cash (Used In) Provided by Financing Activities	(10.9)	7.6	(7.2)
Net Increase (Decrease) in Cash	0.3	(1.0)	(0.4)
Cash at Beginning of Year	8.4	9.4	9.8
Cash at End of Year	\$ 8.7	\$ 8.4	\$ 9.4

Supplemental Information:

Interest Paid	\$ 22.3	\$ 20.8	\$ 20.8
Income Taxes Paid	\$ 1.8	\$ 1.2	\$ 0.8
Payments on Capital Leases	\$ 1.1	\$ 0.6	\$ 0.7
Capital Expenditures Included in Accounts Payable	\$ 0.4	\$ 0.3	\$ 0.7

(The accompanying Notes are an integral part of these consolidated financial statements.)

Table of Contents***CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY (Millions, except shares data)***

	Common Equity	Retained Earnings	Total
Balance at January 1, 2013	\$ 230.0	\$ 30.4	\$ 260.4
Net Income for 2013		21.6	21.6
Dividends (\$1.38 per Common Share)		(19.1)	(19.1)
Shares Issued Under Stock Plans	1.0		1.0
Issuance of 39,559 Common Shares	1.1		1.1
Balance at December 31, 2013	232.1	32.9	