

UNITIL CORP
Form 10-K
February 01, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2017

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

incorporation or organization)

Identification No.)

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

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

Name of Each Exchange on Which Registered

Common Stock, No Par Value

New York Stock Exchange

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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the

Act). Yes No

Based on the closing price of the registrant's common stock on June 30, 2017, the aggregate market value of common stock held by non-affiliates of the registrant was \$665,078,163.

The number of shares of the registrant's common stock outstanding was 14,816,931 as of January 29, 2018.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 25, 2018 are incorporated by reference into Part III of this Report.

Table of Contents**UNITIL CORPORATION****FORM 10-K****For the Fiscal Year Ended December 31, 2017****Table of Contents**

Item	Description	Page
	PART I	
1.	<u>Business</u>	3
	<u>Unitil Corporation</u>	3
	<u>Operations</u>	4
	<u>Rates and Regulation</u>	6
	<u>Natural Gas Supply</u>	9
	<u>Electric Power Supply</u>	9
	<u>Environmental Matters</u>	11
	<u>Employees</u>	12
	<u>Available Information</u>	12
	<u>Investor Information</u>	12
1A.	<u>Risk Factors</u>	13
1B.	<u>Unresolved Staff Comments</u>	19
2.	<u>Properties</u>	20
3.	<u>Legal Proceedings</u>	21
4.	<u>Mine Safety Disclosures</u>	21
	PART II	
5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	22
6.	<u>Selected Financial Data</u>	25
7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)</u>	26
7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	40
8.	<u>Financial Statements and Supplementary Data</u>	42
9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	89
9A.	<u>Controls and Procedures</u>	89
9B.	<u>Other Information</u>	89
	PART III	
10.	<u>Directors, Executive Officers and Corporate Governance</u>	90
11.	<u>Executive Compensation</u>	90
12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	90
13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	90
14.	<u>Principal Accountant Fees and Services</u>	90
	PART IV	

15.	<u>Exhibits and Financial Statement Schedules</u>	91
	SIGNATURES	
	<u>Signatures</u>	96

Table of Contents

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 continue or the 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;

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.

Table of Contents

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 186,300 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 105,000 electric customers and 81,300 natural gas customers.

Customers Served as of December 31, 2017		
	Commercial &	
Residential	Industrial (C&I)	Total

Edgar Filing: UNITIL CORP - Form 10-K

Electric:			
Unitil Energy	64,601	11,114	75,715
Fitchburg	25,408	3,855	29,263
Total Electric	90,009	14,969	104,978
Natural Gas:			
Northern Utilities	49,254	16,194	65,448
Fitchburg	14,187	1,674	15,861
Total Natural Gas	63,441	17,868	81,309
Total Customers Served	153,450	32,837	186,287

Unitil had an investment in Net Utility Plant of \$971.5 million at December 31, 2017. Unitil's total operating revenue was \$406.2 million in 2017. Unitil's operating revenue is substantially derived from regulated natural gas and electric distribution utility operations. A fifth utility subsidiary, Unitil Power,

Table of Contents

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 \$194.0 million for 2017, which represents about 48% 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. Northern Utilities' C&I customers and Fitchburg's residential and C&I customers are entitled to purchase their natural gas supply from third-party competitive suppliers, while Northern Utilities or Fitchburg remains their gas distribution company. Both Northern Utilities and Fitchburg supply gas to those customers who do not obtain their supply from third-party competitive suppliers, with the approved costs associated with this gas supply being recovered on a pass-through basis through regulated reconciling rate mechanisms that are periodically adjusted.

Natural gas is distributed by Northern Utilities to 65,448 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' 2017 gas operating revenue was \$155.2 million, of which approximately 38% was derived from residential firm sales and 62% from C&I firm sales.

Natural gas is distributed by Fitchburg to 15,861 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 2017 gas operating revenue was \$32.1 million, of which approximately 58% was derived from residential firm sales and 42% 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

Table of Contents

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 \$6.7 million for 2017. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and to third-party suppliers.

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 \$206.2 million for 2017, 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. All of Unitil Energy's and Fitchburg's electric customers are entitled to choose to purchase their supply of electricity from third-party competitive suppliers, while Unitil Energy or Fitchburg remains their electric distribution company. Both Unitil Energy and Fitchburg supply electricity to those customers who do not obtain their supply from third-party competitive suppliers, with the approved costs associated with electricity supply being recovered on a pass-through basis through regulated reconciling rate mechanisms that are periodically adjusted.

Unitil Energy distributes electricity to 75,715 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 2017 electric operating revenue was \$143.7 million, of which approximately 55% was derived from residential sales and 45% 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 distributed by Fitchburg to 29,263 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, printing, publishing and associated industries and educational institutions. Fitchburg's 2017 electric operating revenue was \$62.5 million, of which approximately 58% was derived from residential sales and 42% 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 colder weather seasons of the year as a result of higher sales of natural gas used for heating related purposes. 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 and the temperature 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 \$6.0 million in 2017.

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

Table of Contents

operations are principally derived from income earned on short-term investments and real property owned for Unitil 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**Tax Cuts and Jobs Act of 2017**

At the end of December 2017, the United States Congress voted and the President signed into law major federal tax law changes (TCJA) effective for tax year 2018. Among other things, the TCJA substantially reduces the corporate income tax rate to 21 percent, effective January 1, 2018. Each state public utility commission, with jurisdiction over the areas that are served by Unitil's electric and gas subsidiary companies, has or is in the process of issuing procedural orders directing how the tax law changes are to be reflected in rates, including requiring that the companies provide certain filings and calculations. Unitil is fully complying with these orders and will make any necessary changes to its rates as directed by the commissions. The FERC has not yet issued any procedural orders on this matter. The Company believes that the ultimate resolution of these matters will not have a material impact on its financial position, operating results or cash flows. (See Note 9 to the Consolidated Financial Statements).

In Maine, Northern Utilities' Maine division has a base rate case pending (described more fully below). The Maine Public Utilities Commission (MPUC) has issued a procedural order indicating that the tax law changes will be reflected in its calculation of final rates for the company.

In New Hampshire, Northern Utilities' New Hampshire division has a base rate case proceeding pending (described below), and the New Hampshire Public Utilities Commission (NHPUC) issued an order directing the company to show how the tax changes can be effected within the schedule for the rate case. With respect to Unitil Energy, the NHPUC has directed the company to make a filing by April 1, 2018, showing the effect of the tax law changes on rates.

In Massachusetts, the Attorney General filed a petition with the Massachusetts Department of Public Utilities (MDPU) asking that it open an investigation to require the flow-through of the tax law changes in rates for all utilities subject to the MDPU's jurisdiction. Fitchburg anticipates that the MDPU will issue an order on the Attorney General's motion quickly, or, alternatively, issue an order establishing its own procedure for addressing the tax law changes. Fitchburg will comply fully with the MDPU and the Attorney General as this matter moves forward and make all rate changes necessary as directed by the MDPU.

Rate Case Activity

Unitil Energy Base Rates On April 20, 2017 the NHPUC issued its final order approving a settlement between Unitil Energy, Commission Staff and the Office of Consumer Advocate providing for a permanent increase of \$4.1 million in electric base rates, and a three year rate plan with an additional rate step adjustment, effective May 1, 2017, of \$0.9 million, followed by two rate step adjustments in May of 2018 and 2019 to recover the revenue requirements associated with annual capital expenditures as defined under the rate plan.

Fitchburg Base Rates Electric On April 29, 2016 the MDPU issued an order approving a \$2.1 million increase in Fitchburg's electric base revenue decoupling target, effective May 1, 2016. As part of its order, the MDPU approved, with modifications, Fitchburg's request for an annual capital cost recovery mechanism, which allows for increases to target revenues to recover the revenue requirement associated with capital additions as defined under the mechanism.

In 2016, Fitchburg filed its first compliance report on capital investments for calendar year 2015. The MDPU approved the recovery of approximately \$0.5 million, effective January 1, 2017, subject to further investigation and reconciliation. On December 18, 2017, the MDPU approved Fitchburg's calendar year 2015 capital investments and associated revenue requirements for recovery. On June 29, 2017, Fitchburg filed its compliance report on capital investments for calendar year 2016. On December 20, 2017, the MDPU approved the recovery of approximately \$0.4 million, effective January 1, 2018, subject to further investigation and reconciliation.

Table of Contents

Fitchburg Base Rates Gas On April 29, 2016, the MDPU issued an order approving a \$1.6 million increase in Fitchburg's gas base revenue decoupling target, effective May 1, 2016.

Fitchburg Gas Operations On October 31, 2016, Fitchburg submitted its annual filing under its gas system enhancement program to recover the revenue requirements associated with its projected capital additions in 2017 as defined under the program. The filing sought approval to collect an additional \$0.9 million of annual revenue requirements. On April 28, 2017, the MDPU approved recovery of the projected 2017 revenue requirements, subject to reconciliation and a cap of 1.5% on the change in revenue requirement to be billed in any given year. The cap resulted in approval of an additional \$0.5 million of annual revenue requirements to be billed effective May 1, 2017 with the remaining \$0.4 million of annual revenue requirements deferred for billing in future periods. In its April 28, 2017 annual reconciliation filing for 2016 revenue requirements, the Company requested that the MDPU waive the 1.5% revenue requirement cap. On October 31, 2017, the MDPU approved a one-year waiver of the cap and allowed the Company to bill the total 2016 actual reconciliation balance. On October 31, 2017, Fitchburg submitted its annual filing under the program to recover the revenue requirements associated with its projected capital additions in 2018. In this filing, the Company has requested to change the revenue requirements cap to 3%. This matter remains pending.

Northern Utilities Base Rates Maine On May 31, 2017, Northern Utilities filed a base rate case with the MPUC seeking to increase annual revenues by \$6.0 million. On August 18, 2017, the Company made a supplemental filing seeking to increase revenues by an additional \$0.7 million associated with its Targeted Area Build-out Program (see below). Following an extensive regulatory review and investigation process, a final order from the MPUC on Northern Utilities' requests is expected by the end of February 2018.

In addition to the distribution base rate increase, Northern Utilities is requesting to extend its Targeted Infrastructure Replacement Adjustment mechanism (TIRA). The TIRA is a capital cost recovery mechanism designed to recover the annual revenue requirements associated with targeted investments in gas distribution system infrastructure replacement and upgrade projects, including the Company's Cast Iron Replacement Program (CIRP). This matter remains pending.

Northern Utilities Targeted Infrastructure Replacement Adjustment The settlement in Northern Utilities' Maine division's last rate case allowed the Company to implement a 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 had an initial term of four years and covers targeted capital expenditures in 2013 through 2016 as defined under the mechanism. The 2017 TIRA, for 2016 expenditures, was approved by the MPUC on April 25, 2017, and provided for an annual increase in distribution base revenue of \$1.1 million, effective May 1, 2017.

Northern Utilities Targeted Area Build-out Program Maine On December 22, 2015, the MPUC approved a Targeted Area Build-out (TAB) program and associated rate surcharge mechanism. This program is designed to allow the economic extension of natural gas mains to new, targeted service areas in Maine. It allows customers in the targeted area the ability to pay a rate surcharge, instead of a large upfront payment or capital contribution to connect to the natural gas delivery system. The initial pilot of the TAB program was approved for the City of Saco, and is being built out over a period of three years, with the potential to add 1,000 new customers and approximately \$1 million in annual distribution revenue in the Saco area. The second TAB program was approved for the Town of Sanford, and has the potential to add 2,000 new customers and approximately \$2 million in annual distribution revenue in the Sanford area.

Northern Utilities Base Rates New Hampshire On June 5, 2017, Northern Utilities filed for a base rate increase with the NHPUC seeking to increase annual revenues by \$4.7 million. On June 15, 2017, the Commission suspended the

Company's proposed permanent rates tariffs while the filing is under extensive regulatory review and investigation over the next several months. A final order from the NHPUC on Northern Utilities' request is expected in the second quarter of 2018.

Northern Utilities reached a settlement agreement on temporary rates to produce an increase in annual revenues of approximately \$1.6 million, effective with service rendered on and after August 1, 2017, and

Table of Contents

until a final, non-appealable order on permanent rates is issued. The settlement agreement was approved by the Commission on July 31, 2017. As of December 31, 2017, Northern Utilities has deferred approximately \$0.7 million of costs associated with this base rate case. Once a final decision on permanent rates is issued, it will be reconciled back to the date that temporary rates were implemented.

In its initial petition, Northern Utilities requested approval to implement a multi-year rate plan, including a capital cost recovery mechanism, which will allow for recovery of the revenue requirements associated with future annual capital expenditures as defined under the plan through changes, or step adjustments, to Northern Utilities' distribution rates without the need to file a general rate case prior to January 2021. This matter remains pending.

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 over three years as directed by the NHPUC and MPUC. As of December 31, 2017, \$19.7 million has been refunded to Northern Utilities' customers and marketers. The Company has recorded current Regulatory Liabilities related to these refunds of \$2.3 million on its Consolidated Balance Sheets as of December 31, 2017.

Granite State Base Rates Granite State has in place a FERC-approved second amended settlement agreement under which it is 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 specific cap on expenditures. On June 21, 2017 Granite State filed for an annual revenue increase under this provision of \$0.2 million, effective August 1, 2017. The FERC issued an order approving the filing on July 28, 2017. This is the last annual rate adjustment allowed under the second amended settlement.

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.

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 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.

Table of Contents

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 purchases and 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 are entitled to purchase their natural gas supply from third-party gas suppliers. Many of Northern Utilities' largest and some medium C&I customers purchase their gas supply from third party suppliers, while most small C&I customers, as well as all residential customers, purchase their gas supply from Northern Utilities under regulated rates and tariffs. As of December 2017, 80% of Unitil's largest New Hampshire gas customers, representing 33% of Unitil's New Hampshire gas therm sales and 69% of Unitil's largest Maine customers, representing 24% of Unitil's Maine gas therm sales, are purchasing gas supply from a third-party supplier.

Fitchburg's residential and C&I business customers are entitled to purchase their natural gas supply from third-party gas suppliers. Many large and some medium C&I customers purchase their gas supply 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. As of December 2017, 85% of Unitil's largest Massachusetts gas customers, representing 29% of Unitil's Massachusetts gas therm sales, are purchasing gas supply from third-party suppliers. The approved costs associated with natural gas supplied to 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), via over the road trucking of 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 under contracts of one year or less, and occasionally 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), via trucking of 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

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 wholesale electric power supply transactions, which are necessary to serve Unitil's electric customers with their supply of electricity.

Table of Contents

Unitil's customers in both New Hampshire and Massachusetts are entitled to purchase their electric supply from competitive third-party suppliers. As of December 2017, 77% of Unitil's largest New Hampshire customers, representing 27% of Unitil's New Hampshire electric kilowatt-hour (kWh) sales and 82% of Unitil's largest Massachusetts customers, representing 33% of Unitil's Massachusetts electric kWh 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 18% of Fitchburg's customer base and customers in Ashby comprise another 5%. Buoyed by the municipal aggregations, 32% of Unitil's residential customers in Massachusetts purchase their electricity from a third party supplier.

In New Hampshire, the number of residential customers purchasing electricity from a third party supplier stands at 11%, down slightly relative to the past two years when 13% of Unitil's residential customers in New Hampshire purchased their supply from third party suppliers. 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 to purchase electric supply from 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 and for 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

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

Table of Contents

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.

Long-Term Renewable Contracts

Fitchburg has entered into long-term renewable contracts for the purchase of clean energy and/or renewable energy certificates (RECs) pursuant to Massachusetts legislation, specifically, An Act Relative to Green Communities (the Green Communities Act) of 2008 and An Act Relative to Competitively Priced Electricity in the Commonwealth of 2012, and the MDPU 's regulations implementing the legislation. The generating facilities associated with three of these contracts have been constructed and are now operating. In 2016, the Company participated in a multi-state procurement for long-term renewable contracts and several contracts from this solicitation were executed and submitted to MDPU for approval in 2017. These approvals remain pending. Additional long-term clean energy contracts are expected in compliance with the Acts of 2016, An Act to Promote Energy Diversity (Energy Diversity Act). 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 is in material compliance with applicable environmental and safety laws and regulations and, as of December 31, 2017, has not identified any material losses reasonably likely to be incurred in excess of recorded amounts. However, we cannot assure 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. 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.

Northern Utilities Manufactured Gas Plant Sites Northern Utilities has an extensive program to identify, investigate and remediate former manufactured gas plant (MGP) sites, which 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 Maine Department of Environmental Protection (ME DEP) and New Hampshire Department of Environmental Services (NH DES) to address environmental concerns with these sites. Northern Utilities or others have substantially completed remediation of all sites, though on site monitoring continues and it is possible that future activities may be required.

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. For Northern Utilities ' Maine division, the MPUC has authorized the recovery of environmental remediation costs over succeeding five-year periods.

Fitchburg s Manufactured Gas Plant Site Fitchburg has worked with the Massachusetts Department of Environmental Protection (MA DEP) to address environmental concerns with the former MGP site at Sawyer Passway, and has substantially completed remediation activities, though on site monitoring will continue and it is possible that future activities may be required.

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,

Table of Contents

Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods.

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, 2017, the Company and its subsidiaries had 510 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of December 31, 2017, a total of 163 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, 2017:

	Employees Covered	CBA Expiration
Fitchburg	45	05/31/2019
Northern Utilities NH Division	36	06/05/2020
Northern Utilities ME Division	35	03/31/2021
Granite State	4	03/31/2021
Unitil Energy	38	05/31/2018
Unitil Service	5	05/31/2018

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.

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