

UNITIL CORP
Form 10-K
January 29, 2014
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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, 2013

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	Name of 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 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 amendments 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 Exchange Act). Yes No

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Based on the closing price of the registrant's common stock on June 30, 2013, the aggregate market value of common stock held by non-affiliates of the registrant was \$392,955,494.

The number of the registrant's common shares outstanding was 13,842,877 as of January 24, 2014.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 22, 2014 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 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 energy commodities and transmission capacity and the Company's ability to recover energy commodity costs in its rates;

customers' preferred energy sources;

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

the Company's stranded electric generation and generation-related supply costs and the Company's ability to recover stranded 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;

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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;

the Company's energy brokering customers' performance under multi-year energy brokering contracts; and

increased competition.

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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	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 178,300 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 102,400 electric customers and 75,900 natural gas customers.

	Customers Served as of December 31, 2013		
	Residential	Commercial & Industrial (C&I)	Total
Electric:			
Unitil Energy	62,818	10,970	73,788

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Fitchburg	24,874	3,731	28,605
Total Electric	87,692	14,701	102,393
Natural Gas:			
Northern Utilities	43,659	16,646	60,305
Fitchburg	13,957	1,658	15,615
Total Natural Gas	57,616	18,304	75,920
Total Customers Served	145,308	33,005	178,313

Unitil's distribution utilities had an investment in Net Utility Plant of \$665.6 million at December 31, 2013. Unitil's total operating revenue was \$366.9 million in 2013. 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.

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 \$170.4 million for 2013, which represents about 46% 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 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 60,300 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' 2013 gas operating revenue was \$133.7 million, of which approximately 39% was derived from residential firm sales and 61% from commercial/industrial firm sales.

Natural gas is supplied and distributed by Fitchburg to approximately 15,600 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

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companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. Fitchburg's 2013 gas operating revenue was \$31.1 million, of which approximately 52% was derived from residential firm sales and 48% from commercial/industrial 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 \$5.6 million for 2013. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, 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 \$190.7 million for 2013, which represents about 52% 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 73,800 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 2013 electric operating revenue was \$136.7 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 supplied and distributed by Fitchburg to approximately 28,600 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 2013 electric operating revenue was \$54.0 million, of which approximately 53% was derived from residential sales and 47% 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 \$5.8 million in 2013.

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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 operations, effective January 1, 2014. The settlement agreement also provided that the Company shall be allowed to implement a Targeted Infrastructure Replacement Adjustment (TIRA) to provide for annual adjustments to distribution base rates to recover costs associated with the Company's investments in targeted operational and safety-related infrastructure replacement and upgrade projects. The TIRA will have an initial term of four years, and covers expenditures in each of the Calendar Years 2013, 2014, 2015, and 2016.

Northern Utilities Base Rates New Hampshire In April 2013, Northern Utilities' New Hampshire operations filed a rate case with the New Hampshire Public Utilities Commission (NHPUC) requesting approval to increase its natural gas distribution base rates by \$5.2 million in gas distribution base revenue or approximately 9.4 percent over test year operating revenue. The filing included a proposed multi-year rate plan that included cost tracking mechanisms to recover future capital costs associated with Northern Utilities' infrastructure replacements and safety and reliability improvements to the natural gas distribution system. Northern Utilities has been authorized to implement temporary rates to collect a \$2.5 million increase (annualized) in gas distribution revenue, effective July 1, 2013. The Company is currently in settlement discussions with the NHPUC and expects a final rate order from the NHPUC in the first half of 2014. Once permanent rates are approved by the NHPUC, they will be reconciled to the date temporary rates were established, July 1, 2013.

Unitil Energy Base Rates Unitil Energy's second step increase of \$2.8 million went into effect on May 1, 2013, which included rate increases to recover capital improvements, increased spending for its vegetation management and reliability enhancement programs and an increase in its storm reserve fund. 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. Unitil Energy's first step increase was approved as filed, effective May 1, 2012.

Granite State Base Rates In June 2013, Granite State submitted to the FERC its latest incremental annual rate adjustment, in the amount of \$0.4 million, with rates effective August 1, 2013. The FERC approved the increase on July 30, 2013. Granite State has in place a FERC approved rate settlement agreement under which it is permitted each June to file a limited Section 4 rate case that includes incremental annual rate adjustments to recover the revenue requirements for certain specified future capital cost additions to gas transmission plant projects.

Fitchburg Electric Base Rates Filed In July 2013, Fitchburg filed a rate case with the Massachusetts Department of Public Utilities (MDPU) requesting approval to increase its electric distribution rates. The Company requested an increase of \$6.7 million in electric base revenue or approximately 11.5 percent over test year operating revenue. Included in the amount of this annual increase is approximately \$2.1 million for the recovery over a three year period of extraordinary storm costs incurred by the Company related to three severe storms, Tropical Storm Irene, the October 2011 snowstorm and Superstorm Sandy. The filing includes a proposed modified revenue decoupling mechanism by means of an annual

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revenue adjustment mechanism by either a capital cost tracker mechanism or a multi-year rate plan featuring a revenue cap index. The filing also includes a proposal to establish a major storm reserve fund to address the costs of future major storms by collecting \$2.8 million per year through a reconciling storm

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recovery adjustment factor beginning January 1, 2015. The rate case filing is subject to regulatory review with hearings scheduled throughout January 2014 and approval with final rate orders expected in the second quarter of 2014.

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 MDPUC; 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, in addition to earning 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* 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

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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.

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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 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 100,000 million British Thermal Units (MMbtu) per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.4 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 of one year or less, as well as from producers and marketers on the spot market. Fitchburg arranges for gas delivery to its system through its own long-term contracts with Tennessee Gas Pipeline, 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 and seasonal transportation and 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, Inc. (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's 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 2013, 69% of Unitil's largest New Hampshire customers, representing 23% of total New Hampshire electric energy sales, and 78% of Unitil's largest Massachusetts customers, representing 31% of total Massachusetts electric energy sales, are purchasing their electric power supply in the competitive market. However, most residential and small commercial customers continue to purchase their electric supply through Unitil's distribution utilities under regulated energy rates and tariffs. We believe that the concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

Regulated Electric Power Supply

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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. On July 31, 2012, the NHPUC approved Unitil Energy's request to modify its Default Service solicitation to a process where 100% of the Default Service requirements are acquired for six months. Unitil Energy completed the transition to this procurement strategy in late 2013. Currently, Unitil Energy Default Service power supply contracts for small, medium and large customers are acquired every six months, are 12 months in duration and provide 100% of the supply requirements.

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Fitchburg has power supply contracts with various wholesale suppliers for the provision of Basic Service energy 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, Until Energy and Until 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, Until Power, which formerly functioned as the wholesale power supply provider for Until Energy, and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Until 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 its pro-rata share of 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 in the Commonwealth, and the MDPU's regulations implementing the legislation. The facility associated with one of these contracts has been constructed and is operating. The other contracts are pending approval by the MDPU as well as subsequent facility construction and operation. These facilities are anticipated to begin operation by the end of 2016. Fitchburg will recover its 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, 2013, 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

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mid-1800s through the mid-1900s. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. 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, Somersworth, Portsmouth, Lewiston and Scarborough sites. The site in Portland has been investigated and remedial activities are ongoing with the most recent phase completed in December 2013. Although Northern Utilities recently finalized a long-term lease on the Portland property, the State of Maine has announced its intention to acquire the site in the short-term for the expansion of the adjacent marine terminal. Future operation, maintenance and remedial costs have been accrued, although there will be uncertainty regarding future costs pending either State acquisition or until all remedial activities are completed.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

Fitchburg's Manufactured Gas Plant Site Fitchburg is in the process of seeking regulatory approval to implement a permanent remediation solution at the former MGP site at Sawyer Passway, located in Fitchburg, Massachusetts. 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 MDPUC. 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.

EMPLOYEES

As of December 31, 2013, the Company and its subsidiaries had 477 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of December 31, 2013, a total of 158 employees of certain of the Company's subsidiaries were represented by labor unions. There are 45 union employees of Fitchburg covered by a collective bargaining agreement (CBA) which expires on May 31, 2019; 34 union employees of Northern Utilities' New Hampshire division covered by a separate CBA which expires on June 5, 2014; 37 union employees of Northern Utilities' Maine division and Granite State covered by a separate CBA which expires on March 31, 2017; 37 union employees of Unitil Energy Systems

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covered by a separate CBA which expires on May 31, 2018 and 5 union employees of Unitil Service Corp. covered by a separate CBA which expires on May 31, 2016. The agreements 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 its website, the Company makes available, free of charge, its Securities and Exchange Commission (SEC) filings, 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. These reports are made available free of charge through the Investors section of Unitil's website.

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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.

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 Tuesday, April 22, 2014, at 10:30 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

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

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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.

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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 power to impose financial penalties and other sanctions on the Company, which could adversely affect the Company's financial condition or results of operations.

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, 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 or 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 or 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 or 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 or results of operations could be adversely affected.

In addition, certain regulatory authorities have the power 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 or results of operations.

Severe weather events have struck, and may strike, the New England region, causing extensive damage to the Company's utility operations and the loss of service to significant numbers of the Company's customers. If the Company is unable to recover a significant amount of storm costs in its rates, or if the Company's recovery of storm costs in its rates is significantly delayed, then the Company's financial condition or results of operations could be adversely affected.

The New England region in which the Company operates has been and will likely continue to be struck from time to time by severe weather events, including snow, wind and ice storms. These storms have in the past caused extensive damage to the Company's utility operations and loss of service to the Company's customers, and future severe weather events are likely to do so as well. If the Company cannot recover a significant amount of storm costs in its rates, or if the recovery of these costs is significantly delayed, then the Company's financial condition and results of operations could be adversely affected. Please see the sections entitled *Regulatory Matters* in Item 7 (Management's Discussion and Analysis of

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Financial Condition and Results of Operation) and *Regulatory Matters* in Note 8 (Commitments and Contingencies) to the Company's Consolidated Financial Statements for a more detailed discussion of the effects of severe weather events on the Company's financial condition and results of operations.

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As a result of electric industry restructuring, the Company has a significant amount of stranded electric generation and power supply related supply costs. If the Company is unable to recover a significant amount of stranded costs in its rates, or if the Company's recovery of stranded costs in its rates is significantly delayed, then the Company's financial condition or results of operations could be adversely affected.

The stranded electric generation and power supply related supply costs resulting from the implementation of electric industry restructuring mandated by the states of New Hampshire and Massachusetts are recovered by the Company on a pass-through basis through periodically reconciled rates. Any unrecovered balance of stranded costs is deferred for future recovery as a regulatory asset. Such regulatory assets are subject to periodic regulatory review and approval for recovery in future periods.

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. The remaining balance of these assets, to be recovered principally over the next year, is \$12.7 million as of December 31, 2013, including \$10.2 million recorded in Current Assets as Accrued Revenue on the Company's Consolidated Balance Sheet. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

If the Company is unable to recover a significant amount of such stranded costs in its rates, or if the Company's recovery of such stranded costs in its rates is significantly delayed, then the Company's financial condition or results of operations could be adversely affected. Please see the sections entitled *Regulatory Matters Overview* in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) and *Regulatory Matters Overview* in Note 8 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements for a more detailed discussion of the effect of various regulatory matters on the Company and its subsidiaries.

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 or 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 territory directly affects the Company's business. As a result, adverse changes in the economy may adversely affect the Company's financial condition or results of operations.

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 or 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 debt under its current credit facility, as needed. 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 or 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 or results or 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 obligations. If the Company is unable to recover a significant amount of pension obligation costs in its rates, or if the Company's recovery of pension obligation costs in its rates is significantly delayed, then the Company's financial condition or results of operations could be adversely affected.

The amount of cash contributions the Company is required to make in respect of its pension 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 its pension 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 a such costs in rates or if such recovery is significantly delayed. Please see the section entitled *Critical Accounting Policies - Pension Benefit Obligations* in 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.

Increases in interest rates could increase the Company's interest expense and adversely affect the Company's financial condition or results of operations.

The Company and its utility subsidiaries have ongoing capital expenditure and cash funding requirements, which they frequently fund by issuing short-term debt and long-term debt.

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 or results of operations. As of December 31, 2013, the Company had approximately \$60.2 million in short-term debt outstanding under its revolving credit facility.

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 or results of operations. See the sections entitled *Liquidity, Commitments and Capital Requirements* in 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 the effects of changes in interest rates on the Company.

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 or results of operations.

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 or results of operations.

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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 or results of operations. See the sections entitled *Liquidity, Commitments and Capital Requirements* in 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.

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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 or 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 60% 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 or 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.

In addition, the Company's results of operations generally reflect seasonality. In particular, the Company expects that results of operations will be positively affected during the first and fourth quarters, when sales of natural gas are typically higher (due to heating-related requirements), and negatively affected during the second and third quarters, when gas operating and maintenance expenses usually exceed sales margins in the period.

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

Milder winter and summer temperatures that may be due to long-term global climate change could cause a decrease in the amount of natural gas and electricity sold by the Company. Conversely, colder winter temperatures and warmer summer temperatures that may be due to long-term global climate change could cause an increase in the amount of natural gas and electricity sold by the Company.

In addition, extreme weather events (such as hurricanes and severe winter storms) that may be related to long-term global climate change could damage facilities or result in increased service interruptions and outages and increase the Company's operations and maintenance costs. If the Company is unable to recover a significant amount of such costs in its rates, or if the Company's recovery of such costs in its rates is significantly delayed, then the Company's financial condition or results or operations may be adversely affected.

The Company is unable to predict the impacts on its financial condition and results or operations due to changes in weather that may be related to long-term global climate change.

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:

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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.

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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.

The Company's current annual dividend is \$1.38 per share of common stock, payable quarterly. However, the Company's Board of Directors reviews Unitil's dividend policy periodically in light of the factors referred to above, and the Company cannot assure the amount of dividends, if any, that may be paid in the future.

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 and results of operations.

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 and 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.

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 or 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 or 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

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occur in the future. Such events could inhibit the Company's ability to provide electric or natural gas distribution services to its customers for an extended period, which could adversely affect the Company's financial condition and results of operations.

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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 to establish a Smart Grid to monitor and manage the nation's interconnected electric transmission grids. 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, 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 conditions, results of operations, and cash flows.

In addition, in the ordinary course of its business, the Company collects and retains sensitive information 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 could subject the Company to penalties for violation of applicable privacy laws or claims from third parties and could harm the Company's reputation.

Public utility companies are subject to adverse publicity and reputational risks, which make them vulnerable to negative customer perception and increased regulatory oversight or other sanctions.

Utility companies, including the Company's distribution utility subsidiaries, have a large consumer customer base and, as a result, are subject to public criticism focused on the reliability of their distribution services and the speed with which they are able to respond to outages caused by storm damage or other unanticipated events. Adverse publicity of this nature may render legislatures, public utility commissions and other regulatory authorities and government officials, less likely to view public utility companies in a favorable light, and may cause the Company to be susceptible to less favorable legislative and regulatory outcomes or increased regulatory oversight. Unfavorable regulatory outcomes can include more stringent laws and regulations governing the Company's operations, such as reliability and customer service quality standards or vegetation management requirements, as well as fines, penalties or other sanctions or requirements. The imposition of any of the foregoing could have a material negative impact on the Company's results of operations, cash flow and financial condition.

The Company's business could be adversely affected if it is unable to retain its existing customers or attract new customers.

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The success of the Company's business depends, in part, on its ability to maintain and increase its customer base. The Company's failure to maintain or increase its customer base could adversely affect its financial condition and results of operations.

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The Company's energy brokering 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.

The Company's non-regulated energy brokering business 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. The Company'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.

Our stock price may decline when our results decline or when events occur that are adverse to us or our industry.

You can expect the market price of our common stock to decline when our results of operations decline or at any time when events actually or potentially adverse to us or the natural gas and electric industry occur.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2013, 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.

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

Natural Gas Operations

Description	Northern Utilities		Fitchburg	Granite State	Total
	NH	ME			
Underground Natural Gas Mains Miles	514	536	274		1,324
Natural Gas Transmission Pipeline Miles				86	86
Service Pipes	21,854	19,985	10,949		52,788

Electric Operations

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Description	Unitil Energy	Fitchburg	Total
Primary Transmission and Distribution Pole Miles Overhead	1,266	442	1,708
Conduit Distribution Bank Miles Underground	210	60	270
Transmission and Distribution Substations	33	16	49
Capacity of Substations	215,100 kVa	441,700 kVa	656,800 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 a liquid natural gas (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.

Northern Utilities' gas mains are primarily made up of polyethylene plastic (74%), coated and wrapped cathodically protected steel (18%), cast/wrought iron (5%), and unprotected bare and coated steel (3%). Fitchburg's gas mains are primarily made up of steel (49%), polyethylene plastic (27%), and cast iron (24%).

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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 the Company's financial position.

In early 2009, a putative class action complaint was filed against Unitil Corporation's (the Company) Massachusetts based utility, Fitchburg Gas and Electric Light Company (Fitchburg), in Massachusetts' Worcester Superior Court (the Court), (captioned Bellerman 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. On September 4, 2009, the Court issued its order on the Company's Motion to Dismiss the Complaint, granting it in part and denying it in part. 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. As a result of this decision, the lawsuit would now proceed with only the twelve named plaintiffs seeking damages; however, the plaintiffs have appealed this decision to the Massachusetts Supreme Judicial Court (the SJC). The SJC has accepted the matter for review. The Town of Lunenburg has also filed a separate action in Massachusetts Worcester County Superior Court arising out of the December 2008 ice storm. The parties to this action have agreed to put this matter on hold pending the decision of the Supreme Judicial Court in Bellerman. The Company continues to believe these suits are without merit and will continue to defend itself vigorously.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Shareholder 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, 2013, there were 1,518 shareholders of record of our common stock.

Common Stock Data

Dividends per Common Share	2013	2012
1st Quarter	\$ 0.345	\$ 0.345
2nd Quarter	0.345	0.345
3rd Quarter	0.345	0.345
4th Quarter	0.345	0.345
Total for Year	\$ 1.38	\$ 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	2013		2012	
	High/Ask	Low/Bid	High/Ask	Low/Bid
1st Quarter	\$ 28.31	\$ 26.01	\$ 29.00	\$ 26.25
2nd Quarter	\$ 30.82	\$ 27.65	\$ 27.40	\$ 24.76
3rd Quarter	\$ 32.07	\$ 27.78	\$ 27.98	\$ 26.23
4th Quarter	\$ 31.94	\$ 29.00	\$ 27.51	\$ 24.15

Information regarding securities authorized for issuance under our equity compensation plans, as of December 31, 2013, 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
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	in column (a)		
Equity compensation plans approved by security holders			
Second Amended and Restated 2003 Stock Plan⁽¹⁾	N/A	N/A	492,436
Equity compensation plans not approved by security holders			
N/A	N/A	N/A	N/A
Total	N/A	N/A	492,436

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

- ⁽¹⁾ The Second Amended and Restated 2003 Stock Plan, formerly known as the Restricted Stock Plan (the Plan), was approved by shareholders in April 2003, 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 187,085 shares of restricted stock have been awarded to Plan participants through December 31, 2013, of which 2,021 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, 2008 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, 2008.

Comparative Five-Year Total Returns

NOTE:

- ⁽¹⁾ The graph above assumes \$100 invested on December 31, 2008, 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**

Holders of record of the Company's common stock, no par value, and the Company's employees who hold shares of the Company's common stock through the Company's Tax Deferred Savings and Investment Plan are eligible to participate in the Company's Dividend Reinvestment and Stock Purchase Plan (DRSPP). Pursuant to the DRSPP, participants may automatically reinvest dividends on the Company's common stock and/or invest cash payments in shares of the Company's common stock. The Company recently discovered that it was not eligible to use the registration statement on Form S-3 that it previously filed with the SEC to register the shares of its common stock to be issued under the DRSPP when it continued to sell shares to participants in the DRSPP during 2013. During 2013, the Company sold a total of approximately 22,403 shares of common stock to participants in the DRSPP for an aggregate of \$652,083. These sales were not registered under the Securities Act of 1933, as amended, and may not have been made pursuant to an exemption from registration under the Securities Act of 1933, as amended. The Company used, or will use, the proceeds from these sales for general corporate purposes.

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 by the Company on March 28, 2013, 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 \$91,800 in value of shares have been purchased or, if sooner, on March 28, 2014.

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, 2013.

		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
10/1/13	10/31/13	2,044	\$ 29.34	2,044	\$ 16,079
11/1/13	11/30/13				\$ 16,079
12/1/13	12/31/13	260	\$ 29.91	260	\$ 8,303
Total		2,304	\$ 29.40	2,304	

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

For the Years Ended December 31,	2013	2012	2011	2010	2009
(all data in millions except shares, % and per share data)					
Consolidated Statements of Earnings:					
Operating Revenue	\$ 366.9	\$ 353.1	\$ 352.8	\$ 358.4	\$ 367.0
Operating Income	53.5	47.5	47.2	32.5	31.5
Interest Expense, net	18.8	18.1	20.4	18.1	15.8
Other Expense (Income), net	0.4	0.2	0.4	0.3	0.3
Income Before Income Taxes	34.3	29.2	26.4	14.1	15.4
Income Taxes	12.7	11.0	10	4.5	5.4
Net Income	21.6	18.2	16.4	9.6	10.0
Dividends on Preferred Stock		0.1	0.1	0.1	0.1
Earnings Applicable to Common Shareholders	\$ 21.6	\$ 18.1	\$ 16.3	\$ 9.5	\$ 9.9
Balance Sheet Data (as of December 31,):					
Utility Plant (Original Cost)	\$ 909.1	\$ 833.2	\$ 776.9	\$ 728.4	\$ 682.7
Total Assets	\$ 920.6	\$ 892.3	\$ 856.1	\$ 806.8	\$ 766.0
Capitalization:					
Common Stock Equity	\$ 265.0	\$ 260.4	\$ 191.7	\$ 189.0	\$ 193.1
Preferred Stock	0.2	0.2	2.0	2.0	2.0
Long-Term Debt, less current portion	284.8	287.3	287.8	288.3	248.9
Total Capitalization	\$ 550.0	\$ 547.9	\$ 481.5	\$ 479.3	\$ 444.0
Current Portion of Long-Term Debt	\$ 2.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.4
Short-term Debt	\$ 60.2	\$ 49.4	\$ 87.9	\$ 66.8	\$ 64.5
Capital Structure Ratios (as of December 31,):					
Common Stock Equity	48%	47%	40%	39%	43%
Preferred Stock	1%	1%	1%	1%	1%
Long-Term Debt	51%	52%	59%	60%	56%
Earnings Per Share Data:					
Earnings Per Average Share	\$ 1.57	\$ 1.43	\$ 1.50	\$ 0.88	\$ 1.03
Common Stock Data:					
Shares of Common Stock (Diluted Weighted Average Outstanding, 000 s)	13,775	12,672	10,883	10,824	9,647
Dividends Paid Per Share	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38	\$ 1.38
Book Value Per Share (Year-End)	\$ 19.14	\$ 18.90	\$ 17.50	\$ 17.35	\$ 17.83

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Electric and Gas Sales:

Electric Distribution Sales (Millions kWh)	1,668.3	1,653.8	1,682.1	1,691.1	1,618.8
Firm Natural Gas Distribution Sales (Millions Therms)	200.7	181.3	186.9	172.9	178.7

Customers Served (Year-End):

Electric:

Residential	87,692	87,062	86,780	86,344	86,055
Commercial & Industrial	14,701	14,612	14,574	14,514	14,443

Total Electric	102,393	101,674	101,354	100,858	100,498
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Natural Gas:

Residential	57,616	56,745	55,663	54,944	54,208
Commercial & Industrial	18,304	16,977	16,232	15,807	15,763

Total Natural Gas	75,920	73,722	71,895	70,751	69,971
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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 178,300 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 102,400 electric customers and 75,900 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 \$665.6 million at December 31, 2013. Unitil's total revenue was \$366.9 million in 2013, 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 \$5.8 million in 2013. 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.

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 operations, effective January 1, 2014. The settlement agreement also provided that the Company shall be allowed to implement a Targeted Infrastructure Replacement Adjustment (TIRA) to provide for annual adjustments to distribution base rates to recover costs associated with the Company's investments in targeted operational and safety-related infrastructure replacement and upgrade projects. The TIRA will have an initial term of four years, and covers expenditures in each of the Calendar Years 2013, 2014, 2015, and 2016.

Northern Utilities Base Rates New Hampshire In April 2013, Northern Utilities New Hampshire operations filed a rate case with the New Hampshire Public Utilities Commission (NHPUC)

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requesting approval to increase its natural gas distribution base rates by \$5.2 million in gas distribution base revenue or approximately 9.4 percent over test year operating revenue. The filing included a proposed multi-year rate plan that included cost tracking mechanisms to recover future capital costs associated with Northern Utilities' infrastructure replacements and safety and reliability improvements to the natural gas distribution system. Northern Utilities has been authorized to implement temporary rates to collect a \$2.5 million increase (annualized) in gas distribution revenue, effective July 1, 2013. The Company is currently in settlement discussions with the NHPUC and expects a final rate order from the NHPUC in the first half of 2014. Once permanent rates are approved by the NHPUC, they will be reconciled to the date temporary rates were established, July 1, 2013.

Unitil Energy Base Rates Unitil Energy's second step increase of \$2.8 million went into effect on May 1, 2013, which included rate increases to recover capital improvements, increased spending for its vegetation management and reliability enhancement programs and an increase in its storm reserve fund. 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. Unitil Energy's first step increase was approved as filed, effective May 1, 2012.

Granite State Base Rates In June 2013, Granite State submitted to the FERC its latest incremental annual rate adjustment, in the amount of \$0.4 million, with rates effective August 1, 2013. The FERC approved the increase on July 30, 2013. Granite State has in place a FERC approved rate settlement agreement under which it is permitted each June to file a limited Section 4 rate case that includes incremental annual rate adjustments to recover the revenue requirements for certain specified future capital cost additions to gas transmission plant projects.

Fitchburg Electric Base Rates Filed In July 2013, Fitchburg filed a rate case with the Massachusetts Department of Public Utilities (MDPU) requesting approval to increase its electric distribution rates. The Company requested an increase of \$6.7 million in electric base revenue or approximately 11.5 percent over test year operating revenue. Included in the amount of this annual increase is approximately \$2.1 million for the recovery over a three year period of extraordinary storm costs incurred by the Company related to three severe storms, Tropical Storm Irene, the October 2011 snowstorm and Superstorm Sandy. The filing includes a proposed modified revenue decoupling mechanism by means of an annual revenue adjustment mechanism by either a capital cost tracker mechanism or a multi-year rate plan featuring a revenue cap index. The filing also includes a proposal to establish a major storm reserve fund to address the costs of future major storms by collecting \$2.8 million per year through a reconciling storm recovery adjustment factor beginning January 1, 2015. The rate case filing is subject to regulatory review with hearings scheduled throughout January 2014 and approval with final rate orders expected in the second quarter of 2014.

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 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, in addition to earning a return on their capital investment in utility assets. In addition,

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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.

On August 1, 2011, the MDPU issued an order approving revenue decoupling mechanisms (RDM) for the electric and natural gas divisions of Fitchburg. Revenue decoupling is the term given to the elimination of the dependency of a utility's distribution revenue on the volume of its electricity or natural gas sales. One of the primary purposes of decoupling is to eliminate the disincentive a utility otherwise has to encourage and promote energy conservation programs designed to reduce energy usage. Under the RDM, the Company will recognize, in its Consolidated Statements of Earnings from August 1, 2011 forward, distribution revenues for Fitchburg based on established revenue targets. The established revenue targets for the gas division may be subject to periodic adjustments to account for customer growth and special contracts, for which RDM does not apply. The difference between distribution revenue amounts billed to customers and the targeted amounts is recognized as increases or decreases in Accrued Revenue which form the basis for future reconciliation adjustments in periodically resetting rates for future cash recoveries from, or credits to, customers. The Company estimates that RDM applies to approximately 27% and 11% of its annual electric and natural gas sales volumes, respectively. As a result, the sales margins resulting from those sales are no longer sensitive to weather and economic factors. The Company's other electric and natural gas distribution utilities are not subject to RDM.

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.

On May 16, 2012, the Company sold 2,760,000 shares of its common stock at a price of \$25.25 per share in a registered public offering. The Company used the net proceeds of approximately \$65.7 million from this offering to make equity capital contributions to its regulated utility subsidiaries, repay short-term debt and for general corporate purposes. Overall, the results of operations and earnings reflect the higher number of average shares outstanding year over year.

Net Income and EPS Overview

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2013 Compared to 2012 The Company's Earnings Applicable to Common Shareholders were \$21.6 million and \$1.57 per share for the year ended December 31, 2013, an improvement of \$3.5 million and \$0.14 per share compared to 2012. Results for 2013 were driven by increases in natural gas and electric sales margins, partially offset by higher utility operating costs. Also, earnings per share reflect the sale of 2,760,000 common shares on May 16, 2012, discussed above.

Natural gas sales margins were \$85.2 million in 2013, an increase of \$9.0 million compared to 2012. Natural gas sales margins in 2013 were positively affected by higher therm unit sales, a growing customer base and higher base distribution rates. Therm sales of natural gas increased 10.7% in 2013 compared to

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2012, driven by the colder winter weather in 2013 compared to 2012 coupled with strong growth in the number of new residential and commercial and industrial (C&I) customers. Based on weather data collected in the Company's service areas, there were 16% more Heating Degree Days in 2013 compared to 2012. Weather-normalized gas therm sales, excluding decoupled sales, in 2013 are estimated to be up 4.2% compared to 2012. Approximately 11% of Unitil's natural gas therm sales are decoupled and changes in these sales due to the weather do not affect sales margins.

Electric sales margins were \$76.2 million in 2013, an increase of \$4.3 million compared to 2012, reflecting higher electric kilowatt-hour (kWh) sales and higher electric base distribution rates. Electric kWh sales increased 0.9% in 2013 compared to 2012, driven by the colder winter weather in 2013 compared to 2012 coupled with the addition of new residential and C&I customers. Electric sales margins in 2013 also reflect higher recovery of \$1.3 million of vegetation management and electric reliability enhancement expenditures as well as an increase of \$0.7 million in the recovery of major storm restoration costs, which are offset by a corresponding increase in operating expenses, discussed below.

Approximately 27% of Unitil's electric kWh sales are decoupled and changes in these sales due to the weather do not affect sales margins.

Total Operation & Maintenance (O&M) expenses increased \$4.0 million in 2013 compared to 2012. The change in O&M expenses reflects higher utility operating costs of \$1.9 million, higher compensation and benefit costs of \$1.0 million, higher professional fees of \$0.9 million and higher all other O&M expenses, net of \$0.2 million. The increase in utility operating costs includes \$1.3 million in new spending on vegetation management programs which is recovered through cost tracker rate mechanisms that result in a corresponding and offsetting increase in revenue and margin in the period.

Depreciation and Amortization expense increased \$2.6 million in 2013 compared to 2012, reflecting higher depreciation of \$1.6 million on normal utility plant additions, higher amortization of major storm restoration costs of \$0.7 million and an increase in all other amortization of \$0.3 million. The increase in major storm restoration cost amortization is also recovered in current electric rates.

Taxes Other Than Income Taxes increased \$1.0 million in 2013 compared to 2012, reflecting higher local property taxes on higher levels of utility plant in service.

Other Expense (Income), net increased \$0.2 million in 2013 compared to 2012.

Interest Expense, net increased \$0.7 million in 2013 compared to 2012 reflecting lower net interest income on regulatory assets, partially offset by lower average rates on lower short-term borrowings.

Usource, the Company's non-regulated energy brokering business, recorded revenues of \$5.8 million in 2013, an increase of \$0.3 million compared to 2012. 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 \$1.7 million in 2013 due to higher pre-tax earnings in 2013 compared to 2012.

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In 2013, Unitil's annual common dividend was \$1.38, representing an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January 2014 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company's common stock of \$0.345 per share.

2012 Compared to 2011 The Company's Earnings Applicable to Common Shareholders were \$18.1 million for the year ended December 31, 2012, an increase of \$1.8 million, or 11%, over the \$16.3 million the Company earned in 2011. Earnings per common share (EPS) were \$1.43 for 2012 compared to \$1.50 per share in 2011. As discussed above, the 2012 EPS reflect the higher number of average shares outstanding year over year. The results for 2012 were positively affected by higher natural gas and electric sales margins due to higher distribution rates and new customer growth. Margins were negatively affected in 2012 by the effect on sales of fluctuations in seasonal weather conditions year over year. The Company estimates that the mild weather in 2012 negatively impacted earnings for the gas division by about \$1.6

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million, or \$0.13 per share, and the electric division by about \$0.1 million, or \$0.01 per share. According to the National Oceanic and Atmospheric Administration, 2012 was the warmest year on record for the northeast region of the United States, in which the Company's service areas are located.

A more detailed discussion of the Company's 2013 and 2012 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 10.7% in 2013 compared to 2012. Sales to residential and C&I customers increased 14.4% and 9.8%, respectively, in 2013 compared to 2012. The increase in gas therm sales in the Company's utility service areas was driven by the colder winter weather in 2013 compared to 2012 coupled with strong growth in the number of new residential and C&I customers. Based on weather data collected in the Company's service areas, there were 16% more Heating Degree Days in 2013 compared to 2012. Weather-normalized gas therm sales, excluding decoupled sales, in 2013 are estimated to be up 4.2% compared to 2012. Approximately 11% of the Company's total therm sales of natural gas are decoupled and changes in these sales do not affect sales margins. Under revenue decoupling for Fitchburg, distribution revenues, which are included in sales margin, have been recognized in the Company's Consolidated Statements of Earnings from August 1, 2011 forward, on established revenue targets and are no longer dependent on sales volumes.

Unitil's total therm sales of natural gas decreased 3.0% in 2012 compared to 2011. The decrease in gas therm sales in the Company's utility service areas reflects the effect of milder winter weather in 2012 compared to 2011. Based on weather data collected in the Company's service areas, there were 11% and 16% fewer Heating Degree Days in 2012 compared to 2011 and normal, respectively. Weather-normalized gas therm sales (excluding decoupled sales) in 2012 are estimated to be 3.3% higher compared to 2011. The increase in weather-normalized gas therm sales reflects the addition of new residential and C&I customers during the year.

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

Therm Sales (millions)	2013	2012	2011	Change			
				2013 vs. 2012		2012 vs. 2011	
	Therms	%	Therms	%	Therms	%	
Residential	39.8	34.8	37.7	5.0	14.4%	(2.9)	(7.7%)
Commercial / Industrial	160.9	146.5	149.2	14.4	9.8%	(2.7)	(1.8%)
Total Therm Sales	200.7	181.3	186.9	19.4	10.7%	(5.6)	(3.0%)