

UNITIL CORP
Form 10-Q
October 22, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2015

Commission File Number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire
(State or other jurisdiction of

incorporation or organization)

02-0381573
(I.R.S. Employer

Identification No.)

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

03842-1720
(Zip Code)

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

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 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. (Check one):

Large Accelerated filer ☐

Accelerated filer ☒

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Non-accelerated filer ☐ (Do not check if a smaller reporting company)

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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 19, 2015
Common Stock, No par value	13,983,403 Shares

Table of Contents

UNITIL CORPORATION AND SUBSIDIARY COMPANIES

FORM 10-Q

For the Quarter Ended September 30, 2015

Table of Contents

	Page No.
Part I. Financial Information	
Item 1. Financial Statements Unaudited	
<u>Consolidated Statements of Earnings Three and Nine Months Ended September 30, 2015 and 2014</u>	19
<u>Consolidated Balance Sheets, September 30, 2015, September 30, 2014 and December 31, 2014</u>	20-21
<u>Consolidated Statements of Cash Flows Nine Months Ended September 30, 2015 and 2014</u>	22
<u>Consolidated Statements of Changes in Common Stock Equity Nine Months Ended September 30, 2015 and 2014</u>	23
<u>Notes to Consolidated Financial Statements</u>	24-47
Item 2. <u>Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations</u>	3-18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	47
Item 4. <u>Controls and Procedures</u>	47
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	47
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
Item 3. <u>Defaults Upon Senior Securities</u>	Inapplicable
Item 4. <u>Mine Safety Disclosures</u>	Inapplicable
Item 5. <u>Other Information</u>	48
Item 6. <u>Exhibits</u>	49
<u>Signatures</u>	51
<u>Exhibits</u>	52

Table of Contents

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, 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 Company's future operations, 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 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 counterparties obligations (including those of its insurers and lenders);

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

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

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

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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;

Table of Contents

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.

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. 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.

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
OVERVIEW

Unitil Corporation (Unitil or the Company) is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is 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 throughout its service areas in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities:

- i) Unitil Energy Systems, Inc. (Unitil Energy), which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the capital city of Concord, New Hampshire;
- ii) Fitchburg Gas and Electric Light Company (Fitchburg), which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and
- iii) Northern Utilities, Inc. (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.

Unitil Energy, Fitchburg and Northern Utilities are collectively referred to as the distribution utilities. Together, the distribution utilities serve approximately 102,700 electric customers and 77,900 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite State Gas Transmission, Inc. (Granite State) an interstate natural gas transmission pipeline company, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State 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.

Table of Contents

Unitil had an investment in Net Utility Plant of \$782.4 million at September 30, 2015. Unitil's total operating revenue 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 directly affected by changes in the cost of purchased electricity and natural gas. Earnings from Unitil's utility operations are primarily derived from the return on investment in the utility assets of the three distribution utilities and Granite State.

Unitil also conducts non-regulated operations principally through Usource Inc. and Usource L.L.C. (collectively, Usource), which is wholly-owned by Unitil Resources Inc., a wholly-owned subsidiary of Unitil. Usource provides energy brokering and advisory services to commercial and industrial customers primarily in the northeastern United States. As an energy broker and advisor, Usource assists its clients with the procurement and contracting for electricity and natural gas in competitive energy markets.

The Company's other subsidiaries include Unitil Service Corp., which provides, at cost, a variety of administrative and professional services to Unitil's affiliated companies, Unitil Realty Corp. (Unitil Realty), which owns and manages Unitil's corporate office building and property located in Hampton, New Hampshire and Unitil Power Corp., which formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries.

RATES AND REGULATION

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 New Hampshire Public Utilities Commission (NHPUC); Fitchburg is subject to regulation by the Massachusetts Department of Public Utilities (MDPU); and Northern Utilities is regulated by the NHPUC and the Maine Public Utilities Commission (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. As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, Unitil's customers, with the exception of Northern Utilities' residential 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.

Table of Contents

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

Rate Case Activity

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

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

Northern Utilities Pipeline Refund On February 19, 2015 the FERC issued Opinion No. 524-A, the final order in Portland Natural Gas Transmission's (PNGTS) Section 4 rate case, requiring PNGTS to issue refunds to shippers. Northern Utilities received a pipeline refund of \$22.0 million on April 15, 2015. As a gas supply-related refund, the entire amount refunded will be credited to Northern Utilities' customers. In New Hampshire, the refund will be credited to all customers over a three year period as directed by the NHPUC. In Maine, the refund has been divided into two parts, as directed by the MPUC. Maine retail customers who purchase their gas directly from Northern Utilities will be credited their portion of the refund over a three year period. The second part of the refund was paid on October 5, 2015 as a one-time lump sum payment directly to marketers who transport gas on Northern Utilities' distribution system. The Company has recorded current and noncurrent Regulatory Liabilities of \$11.1 million and \$10.9 million, respectively, on its Consolidated Balance Sheets as of September 30, 2015.

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

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

Table of Contents

agreement under which it will continue to be permitted to file annually, each June, for a rate adjustment to recover the revenue requirements associated with specified capital investments in gas transmission projects up to a cost cap. The FERC approval of the second amended settlement included a rate increase of \$0.4 million, effective August 1, 2015.

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

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

RESULTS OF OPERATIONS

The following section of MD&A compares the results of operations for each of the two fiscal periods ended September 30, 2015 and September 30, 2014 and should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and the accompanying Notes to unaudited Consolidated Financial Statements included in Part I, Item 1 of this report, which are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

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

Earnings Overview

The Company's Net Income was \$1.7 million, or \$0.12 per share, for the third quarter of 2015, an increase of \$0.1 million, or \$0.01 per share, compared to the third quarter of 2014. For the nine months ended September 30, 2015, the Company reported Net Income of \$17.0 million, an 11.1% increase over Net Income of \$15.3 in the same nine-month period in 2014. Earnings Per Share (EPS) for the nine months ended September 30, 2015 were \$1.22, an increase of \$0.12 per share, compared to EPS of \$1.10 for the same period of 2014. The Company's earnings for 2015 were driven by increases in natural gas and electric sales and margins, partially offset by higher net operating expenses.

Natural gas sales margins were \$16.2 million and \$73.1 million in the three and nine months ended September 30, 2015, respectively, resulting in increases of \$1.0 million and \$5.1 million,

Table of Contents

respectively, compared to the same periods in 2014. The increases in the third quarter and nine month period reflect higher natural gas distribution rates and higher unit sales volumes. For the nine months ended September 30, 2015, gas therm sales increased 4.0%, compared to the same period in 2014. The increase in gas therm sales in the Company's utility service territories was driven by the colder winter weather in the first quarter of 2015, compared to 2014 coupled with strong growth in the number of customers. Based on weather data collected in the Company's service areas, there were 2.7% more Heating Degree Days (HDD) in the first nine months of 2015 compared to the same period in 2014 and 13.3% more HDD than normal. Estimated weather-normalized gas therm sales were up 3.3% in the first nine months of 2015 compared to the same period in 2014. As of September 30, 2015, the number of total natural gas customers served has increased by 1.4% in the last twelve months.

Electric sales margins were \$22.2 million and \$63.9 million in the three and nine months ended September 30, 2015, respectively, resulting in a decrease of \$0.4 million and an increase of \$3.2 million, respectively, compared to the same periods in 2014. For the third quarter, the decrease reflects lower electric demand sales. For the nine month period, the increase in electric sales margin primarily reflects higher electric distribution rates and total electric unit sales. Electric kilowatt-hour (kWh) sales increased 1.1% and 0.5% in the three and nine month periods ended September 30, 2015 compared to the same periods in 2014.

Operation and Maintenance (O&M) expenses decreased \$0.1 million and increased \$0.7 million for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The decrease in the three month period reflects lower utility operating expenses of \$0.9 million and lower professional fees of \$0.4 million, partially offset by higher compensation and benefit costs of \$1.2 million. The increase in O&M expenses in the nine month period reflects higher compensation and benefit costs of \$2.4 million, partially offset by lower professional fees of \$1.1 million and lower all other utility O&M costs, net of \$0.6 million.

Depreciation and Amortization expense increased \$0.6 million and \$2.9 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. These increases reflect higher depreciation on normal utility plant assets in service, higher amortization of major storm restoration costs and an increase in all other amortization. The increase in the nine month period includes higher amortization of major storm restoration costs of \$0.7 million, which is currently recovered in electric rates and reflected in electric sales margin.

Taxes Other Than Income Taxes increased \$0.3 million and \$0.2 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014, primarily reflecting higher local property tax expense.

Interest Expense, net increased \$0.5 million and \$1.8 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014, reflecting higher levels of long-term debt and lower interest income on regulatory assets.

Income Taxes decreased \$0.6 million and increased \$1.3 million for the three and nine months ended September 30, 2015 compared to the same periods in 2014. The decrease reflects research and development tax credits recognized by the Company in the third quarter of 2015, as well as lower pretax earnings in the third quarter of 2015 compared to the same period in 2014. The increase in the nine month period reflects higher pre-tax earnings.

Usource, the Company's non-regulated energy brokering business, recorded revenues of \$1.6 million and \$4.7 million for the three and nine months ended September 30, 2015, respectively, representing increases of \$0.1 million and \$0.2 million, respectively, compared to the same periods in 2014.

Table of Contents

At its January 2015, April 2015, July 2015 and October 2015 meetings, Unitil's Board of Directors declared quarterly dividends on the Company's common stock of \$0.35 per share, resulting in an increase in the effective annual dividend rate to \$1.40 per share from \$1.38 per share. These dividend declarations continue an unbroken record of quarterly dividend payments since trading began in Unitil's common stock.

A more detailed discussion of the Company's results of operations for the three and nine months ended September 30, 2015 is presented below.

Gas Sales, Revenues and Margin

Therm Sales Unitil's total therm sales of natural gas increased 4.0% in both of the three and nine month periods ended September 30, 2015, respectively, compared to the same periods in 2014. In the third quarter of 2015, sales to Residential customers decreased 3.7% compared to the same period in 2014, reflecting warmer late summer and early fall weather in 2015 compared to 2014. Sales to Commercial and Industrial (C&I) customers increased 4.9% in the third quarter of 2015 compared to the same period in 2014, reflecting increased usage by large C&I customers for production purposes and growth in the number of customers served. For the nine months ended September 30, 2015, sales to Residential and C&I customers increased 5.2% and 3.6%, respectively, compared to the same period in 2014. The increase in gas therm sales in the Company's utility service territories was driven by the colder winter weather in the first quarter of 2015 compared to 2014 coupled with strong growth in the number of customers. Based on weather data collected in the Company's service areas, there were 2.7% more HDD in the first nine months of 2015 compared to the same period in 2014 and 13.3% more HDD than normal. Estimated weather-normalized gas therm sales were up 3.3% in the first nine months of 2015 compared to the same period in 2014. As of September 30, 2015, the number of total natural gas customers served has increased by 1.4% in the last twelve months.

The following table details total firm therm sales for the three and nine months ended September 30, 2015 and 2014, by major customer class:

Therm Sales (millions)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	Change	% Change	2015	2014	Change	% Change
Residential	2.6	2.7	(0.1)	(3.7%)	36.3	34.5	1.8	5.2%
Commercial / Industrial	23.4	22.3	1.1	4.9%	133.6	128.9	4.7	3.6%
Total	26.0	25.0	1.0	4.0%	169.9	163.4	6.5	4.0%

Table of Contents

Gas Operating Revenues and Sales Margin The following table details total Gas Operating Revenues and Sales Margin for the three and nine months ended September 30, 2015 and 2014:

Gas Operating Revenues and Sales Margin (millions)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change	2015	2014	\$ Change	% Change
Gas Operating Revenue:								
Residential	\$ 7.7	\$ 7.6	\$ 0.1	1.3%	\$ 58.8	\$ 55.9	\$ 2.9	5.2%
Commercial / Industrial	14.0	13.3	0.7	5.3%	90.8	83.4	7.4	8.9%
Total Gas Operating Revenue	\$ 21.7	\$ 20.9	\$ 0.8	3.8%	\$ 149.6	\$ 139.3	\$ 10.3	7.4%
Cost of Gas Sales	\$ 5.5	\$ 5.7	\$ (0.2)	(3.5%)	\$ 76.5	\$ 71.3	\$ 5.2	7.3%
Gas Sales Margin	\$ 16.2	\$ 15.2	\$ 1.0	6.6%	\$ 73.1	\$ 68.0	\$ 5.1	7.5%

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

Natural gas sales margins were \$16.2 million and \$73.1 million in the three and nine months ended September 30, 2015, respectively, resulting in increases of \$1.0 million and \$5.1 million, respectively, compared to the same periods in 2014. The increase in the third quarter reflects higher natural gas distribution rates of \$0.7 million and higher unit sales volumes of \$0.3 million related to customer growth. For the nine month period, approximately \$3.2 million of the increase reflects higher natural gas distribution rates and \$1.9 million of the increase reflects higher unit sales volumes related to colder than normal winter weather and customer growth.

The increase in Total Gas Operating Revenues of \$0.8 million in the third quarter of 2015 reflects higher gas base rates and sales volumes, partially offset by lower costs of gas sales.

The increase in Total Gas Operating Revenues of \$10.3 million in the first nine months of 2015 reflects higher gas base rates, higher sales volumes and higher costs of gas sales, which are tracked and reconciled to costs that are passed through directly to customers.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales Unitil's total electric kWh sales increased 1.1% and 0.5%, respectively in the three and nine month periods ended September 30, 2015 compared to the same periods in 2014. Sales to Residential customers increased 1.0% and decreased 0.8% in the three and nine month periods ended September 30, 2015, respectively, compared to the same periods in 2014. The increased Residential sales in the three month period reflect warmer summer weather in 2015 compared to 2014, while the decrease in the nine month period reflects lower average usage in

Table of Contents

2015 compared to 2014. Sales to C&I customers increased 1.1% and 1.4% in the three and nine month periods ended September 30, 2015, respectively, compared to the same periods in 2014, driven by the warmer summer weather and the addition of new customers. As discussed above, sales margin derived from RDM decoupled unit sales (representing approximately 27% of total annual kWh sales volume) is not sensitive to changes in electric kWh sales.

The following table details total kWh sales for the three and nine months ended September 30, 2015 and 2014 by major customer class:

kWh Sales (millions)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	Change	% Change	2015	2014	Change	% Change
Residential	185.5	183.6	1.9	1.0%	528.4	532.5	(4.1)	(0.8%)
Commercial / Industrial	274.8	271.8	3.0	1.1%	765.0	754.3	10.7	1.4%
Total	460.3	455.4	4.9	1.1%	1,293.4	1,286.8	6.6	0.5%

Electric Operating Revenues and Sales Margin The following table details total Electric Operating Revenues and Sales Margin for the three and nine month periods ended September 30, 2015 and 2014:

Electric Operating Revenues and Sales Margin (millions)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change	2015	2014	\$ Change	% Change
Electric Operating Revenue:								
Residential	\$ 29.3	\$ 29.2	\$ 0.1	0.3%	\$ 99.6	\$ 87.4	\$ 12.2	14.0%
Commercial / Industrial	22.1	25.0	(2.9)	(11.6%)	70.5	74.8	(4.3)	(5.7%)
Total Electric Operating Revenue	\$ 51.4	\$ 54.2	\$ (2.8)	(5.2%)	\$ 170.1	\$ 162.2	\$ 7.9	4.9%
Cost of Electric Sales	\$ 29.2	\$ 31.6	\$ (2.4)	(7.6%)	\$ 106.2	\$ 101.5	\$ 4.7	4.6%
Electric Sales Margin	\$ 22.2	\$ 22.6	\$ (0.4)	(1.8%)	\$ 63.9	\$ 60.7	\$ 3.2	5.3%

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

Electric sales margins were \$22.2 million and \$63.9 million in the three and nine months ended September 30, 2015, respectively, resulting in a decrease of \$0.4 million and an increase of

Table of Contents

\$3.2 million, respectively, compared to the same periods in 2014. For the third quarter, the decrease reflects lower electric demand sales. For the nine month period, the increase reflects higher electric distribution rates and higher total electric unit sales.

The decrease in Total Electric Operating Revenues of \$2.8 million in the third quarter of 2015 reflects lower electric demand sales and lower costs of electric sales, which are tracked and reconciled to costs that are passed through directly to customers.

The increase in Total Electric Operating Revenues of \$7.9 million in the first nine months of 2015 reflects higher electric distribution rates, higher electric sales volumes and higher costs of electric sales, which are tracked and reconciled to costs that are passed through directly to customers.

Operating Revenue Other

The following table details total Other Revenue for the three and nine months ended September 30, 2015 and 2014:

Other Revenue (000 \$)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015	2014	\$ Change	% Change	2015	2014	\$ Change	% Change
Other	\$ 1.6	\$ 1.5	\$ 0.1	6.7%	\$ 4.7	\$ 4.5	\$ 0.2	4.4%
Total Other Revenue	\$ 1.6	\$ 1.5	\$ 0.1	6.7%	\$ 4.7	\$ 4.5	\$ 0.2	4.4%

Total Other Operating Revenue is comprised of revenues from the Company's non-regulated energy brokering business, Usource. Usource's revenues increased \$0.1 million and \$0.2 million in the three and nine month periods ended September 30, 2015, respectively, compared to the same periods in 2014. Usource's revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

Operating Expenses

Cost of Gas Sales Cost of Gas Sales includes the cost of natural gas purchased and manufactured to supply the Company's total gas supply requirements and spending on energy efficiency programs. Cost of Gas Sales decreased \$0.2 million, or 3.5%, and increased \$5.2 million, or 7.3%, in the three and nine months ended September 30, 2015, compared to the same periods in 2014. The decrease in the three month period reflects lower wholesale natural gas prices partially offset by higher sales of natural gas and a decrease in the amount of natural gas purchased by customers directly from third-party suppliers. The increase in the nine month period reflects higher sales of natural gas and a decrease in the amount of natural gas purchased by customers directly from third-party suppliers, partially offset by lower wholesale natural gas prices. The Company reconciles and recovers the approved Cost of Gas Sales in its rates at cost on a pass through basis and therefore changes in approved expenses do not affect earnings.

Cost of Electric Sales Cost of Electric Sales includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs, and spending on energy efficiency programs. Cost of Electric Sales decreased \$2.4 million, or 7.6%, and increased \$4.7 million, or 4.6%, in the three and nine months ended September 30, 2015,

Table of Contents

respectively, compared to the same periods in 2014. The decrease in the three month period reflects an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher wholesale electricity prices and higher electric sales. The increase in the nine month period reflects higher wholesale electricity prices and higher electric sales, partially offset by an increase in the amount of electricity purchased by customers directly from third-party suppliers. The Company reconciles and recovers the approved Cost of Electric Sales in its rates at cost and therefore changes in approved expenses do not affect earnings.

Operation and Maintenance (O&M) O&M expense includes gas and electric utility operating costs, and the operating cost of the Company's corporate and other business activities. Total O&M expenses decreased \$0.1 million, or 0.6%, and increased \$0.7 million, or 1.4%, for the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The decrease in the three month period reflects lower utility operating expenses of \$0.9 million and lower professional fees of \$0.4 million, partially offset by higher compensation and benefit costs of \$1.2 million. The increase in O&M expenses in the nine month period reflects higher compensation and benefit costs of \$2.4 million, partially offset by lower professional fees of \$1.1 million and lower all other utility O&M costs, net of \$0.6 million.

Depreciation and Amortization Depreciation and Amortization expense increased \$0.6 million, or 5.6%, and \$2.9 million, or 9.3%, in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014. The increase in the three month period reflects higher depreciation on normal utility plant assets in service. The increase in the nine month period reflects higher depreciation of \$1.8 million on normal utility plant assets in service, higher amortization of major storm restoration costs of \$0.7 million and an increase in all other amortization of \$0.4 million. The increase in the amortization of major storm restoration costs of \$0.7 million is currently recovered in electric rates and reflected in electric sales margin.

Taxes Other Than Income Taxes Taxes Other Than Income Taxes increased \$0.3 million, or 7.1%, and \$0.2 million, or 1.6%, in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014, primarily reflecting higher local property tax expense.

Other Expense, net Other Expense, net decreased \$0.1 million in each of the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014.

Income Taxes Federal and State Income Taxes decreased \$0.6 million and increased \$1.3 million for the three and nine months ended September 30, 2015 compared to the same periods in 2014. The decrease reflects research and development tax credits recognized by the Company in the third quarter of 2015, as well as lower pretax earnings in the third quarter of 2015 compared to the same period in 2014. The increase in the nine month period reflects higher pre-tax earnings.

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

Unitil's utility subsidiaries operate a number of reconciling rate mechanisms to recover specifically identified costs on a pass through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the distribution utilities' rate tariffs, interest is accrued on these balances and will produce either interest income or interest expense. Consistent with regulatory precedent, interest income is

Table of Contents

recorded on an under-collection of costs which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

Interest Expense, net (Millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change
Interest Expense						
Long-term Debt	\$ 5.5	\$ 5.0	\$ 0.5	\$ 16.6	\$ 15.1	\$ 1.5
Short-term Debt	0.1	0.3	(0.2)	0.6	0.9	(0.3)
Regulatory Liabilities	0.2	0.1	0.1	0.7	0.4	0.3
Subtotal Interest Expense	5.8	5.4	0.4	17.9	16.4	1.5
Interest (Income)						
Regulatory Assets		(0.2)	0.2	0.1	(0.5)	0.6
AFUDC ⁽¹⁾ and Other	(0.3)	(0.2)	(0.1)	(0.7)	(0.4)	(0.3)
Subtotal Interest (Income)	(0.3)	(0.4)	0.1	(0.6)	(0.9)	0.3
Total Interest Expense, net	\$ 5.5	\$ 5.0	\$ 0.5	\$ 17.3	\$ 15.5	\$ 1.8

⁽¹⁾ AFUDC Allowance for Funds Used During Construction.

Interest Expense, net increased \$0.5 million and \$1.8 million in the three and nine months ended September 30, 2015, respectively, compared to the same periods in 2014, reflecting higher levels of long-term debt and lower net interest income on regulatory assets.

CAPITAL REQUIREMENTS**Sources of Capital**

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

On October 15, 2014, Northern Utilities completed a private placement of \$50 million aggregate principal amount of 4.42% Senior Unsecured Notes due October 15, 2044 to institutional investors. The proceeds from the offering were used to repay short-term debt and for general corporate purposes.

The Company and its subsidiaries are individually and collectively members of the Unitil Cash Pool (the "Cash Pool"). The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool allows for an efficient exchange of cash among the Company and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on actual interest costs from lenders under the Company's revolving credit facility. At September 30, 2015, September 30, 2014 and December 31, 2014, the Company and all of its subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

Table of Contents

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

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

The Credit Facility contains customary terms and conditions for credit facilities of this type, including affirmative and negative covenants. There are restrictions on, among other things, Unitil's and its subsidiaries' ability to permit liens or incur indebtedness, and restrictions on Unitil's ability to merge or consolidate with another entity or change its line of business. The affirmative and negative covenants under the Credit Facility shall apply to Unitil until the Credit Facility terminates and all amounts borrowed under the Credit Facility are paid in full (or with respect to letters of credit, they are cash collateralized). The only financial covenant in the Credit Facility provides that Unitil's Funded Debt to Capitalization (as each term is defined in the Credit Facility) cannot exceed 65% tested on a quarterly basis. At September 30, 2015, September 30, 2014 and December 31, 2014, the Company was in compliance with the covenants contained in the Credit Facility in effect on that date. (See also "Credit Arrangements" in Note 4.)

On December 23, 2014, Standard & Poor's Ratings Services assigned its BBB+ issuer credit rating to Unitil Corporation and its utility subsidiaries, Fitchburg, Unitil Energy and Northern Utilities.

In April 2014, Unitil Service Corp. entered into a financing arrangement for various information systems and technology equipment. The financing arrangement is structured as a capital lease obligation with maximum availability of \$15 million. As of September 30, 2015, Unitil Service Corp. has received funding under this financing arrangement in the amount of \$11.4 million, which was used to fund project costs.

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

The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company's policy is to limit the duration of these guarantees. As of September 30, 2015, there were approximately \$13.6 million of guarantees outstanding and the longest term guarantee extends through August 2016.

Table of Contents

Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was \$9.9 million, \$13.6 million and \$15.1 million of natural gas storage inventory at September 30, 2015, September 30, 2014 and December 31, 2014, respectively, related to these asset management agreements. The amount of natural gas inventory released in September 2015 and payable in October 2015 is \$0.1 million and is recorded in Accounts Payable at September 30, 2015. The amount of natural gas inventory released in September 2014 and payable in October 2014 was \$0.2 million and was recorded in Accounts Payable at September 30, 2014. The amount of natural gas inventory released in December 2014 and payable in January 2015 was \$1.0 million and was recorded in Accounts Payable at December 31, 2014.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of September 30, 2015, the principal amount outstanding for the 8% Unitil Realty notes was \$1.3 million. On December 15, 2008, the Company entered into a guarantee for the payment of principal, interest and other amounts payable on the \$10.0 million Granite State notes due 2018. As of September 30, 2015, the principal amount outstanding for the 7.15% Granite State notes was \$10.0 million.

Off-Balance Sheet Arrangements

The Company and its subsidiaries do not currently use and are not dependent on the use of, off-balance sheet financing arrangements such as securitization of receivables or obtaining access to assets or cash through special purpose entities or variable interest entities. Unitil's subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements.

Cash Flows

Unitil's utility operations, taken as a whole, are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The tables below summarize the major sources and uses of cash (in millions) for the nine months ended September 30, 2015 compared to the same period in 2014.

	Nine Months Ended September 30,	
	2015	2014
Cash Provided by Operating Activities	\$ 110.9	\$ 82.6

Cash Provided by Operating Activities Cash Provided by Operating Activities was \$110.9 million in the nine months ended September 30, 2015, an increase of \$28.3 million compared to the same period in 2014.

Cash flow from net income, adjusted for the total of non-cash charges to depreciation, amortization and deferred taxes, was \$54.7 million in 2015, unchanged from 2014. The increase in net income in the nine months ended September 30, 2015 compared to the same period in 2014 is primarily attributable to increases in natural gas and electric sales margins as a result of base rate relief and higher gas unit sales from colder weather and customer growth. The increase in depreciation and amortization in 2015 compared to 2014 reflects higher utility depreciation from higher net utility plant in service and higher amortization from major storm restoration costs. The

Table of Contents

decrease in the deferred tax provision in 2015 compared to 2014 is primarily due to a deferred tax asset recorded in the second quarter of 2015 as a result of the \$22.0 million pipeline refund from Portland Natural Gas Transmission System (PNGTS) (See Note 6).

Changes in working capital items resulted in a \$43.5 million source of cash in 2015 compared to a \$23.6 million source of cash in 2014, representing an increase of \$19.9 million. Sources of cash for Regulatory Liabilities were higher by \$16.1 million in 2015 compared to 2014 driven by the current portion of the pipeline refund from PNGTS. Similarly, Taxes Payable were higher by \$4.9 million in 2015 compared to 2014 driven by the pipeline refund. All other changes in working capital reflect normal variations from year-to-year.

Changes in Deferred Regulatory and Other Charges resulted in an increase in sources of cash of \$8.8 million in 2015 compared to 2014 primarily driven by the long-term portion of the PNGTS refund of \$10.9 million. The change in Other, net in 2015 compared to 2014 was (\$0.4) million.

	Nine Months Ended September 30,	
	2015	2014
Cash (Used in) Investing Activities	\$ (70.9)	\$ (60.7)

Cash (Used in) Investing Activities Cash (Used in) Investing Activities was (\$70.9) million in the nine months ended September 30, 2015 compared to (\$60.7) million in 2014. The actual capital spending in both 2015 and 2014 is representative of distribution utility capital expenditures for electric and gas utility system additions. The Company's projected capital spending range for 2015 is \$95 million to \$100 million.

	Nine Months Ended September 30,	
	2015	2014
Cash (Used in) Financing Activities	\$ (39.5)	\$ (21.2)

Cash (Used in) Financing Activities Cash (Used in) Financing Activities was (\$39.5) million in the nine months ended September 30, 2015 compared to (\$21.2) million in 2014. The higher cash used in financing activities in 2015 is primarily a result of greater repayment of Short-Term Debt of \$8.7 million, a decrease in Capital Lease financing of \$1.5 million, and a net decrease in Exchange Gas Financing of \$7.9 million.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different

Table of Contents

estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. For a complete discussion of the Company's significant accounting policies, refer to the Note 1 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on January 28, 2015.

LABOR RELATIONS

As of September 30, 2015, the Company and its subsidiaries had 500 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of September 30, 2015, a total of 161 employees of certain of the Company's subsidiaries were represented by labor unions. The following table details by subsidiary the employees covered by a collective bargaining agreement (CBA) as of September 30, 2015:

	Employees Covered	CBA Expiration
Fitchburg	44	05/31/2019
Northern Utilities NH Division	34	06/05/2017
Northern Utilities ME Division/Granite State	39	03/31/2017
Unitil Energy	39	05/31/2018
Unitil Service	5	05/31/2016

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

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding was \$25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately \$250,000. The average interest rates on the Company's short-term borrowings for the three months ended September 30, 2015 and September 30, 2014 were 1.50% and 1.55%, respectively. The average interest rates on the Company's short-term borrowings for the nine months ended September 30, 2015 and September 30, 2014 were 1.55% and 1.55%, respectively. The average interest rate on the Company's short-term borrowings for the twelve months ended December 31, 2014 was 1.60%.

Table of Contents

COMMODITY PRICE RISK

Although Unitil's three distribution utilities are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for the reconciliation and collection of approved purchased electricity and gas costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above and below in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

REGULATORY MATTERS

Please refer to Note 6 to the Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of Regulatory Matters.

ENVIRONMENTAL MATTERS

Please refer to Note 7 to the Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of Environmental Matters.

Table of Contents

UNITIL CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Millions except per share data)

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Operating Revenues				
Gas	\$ 21.7	\$ 20.9	\$ 149.6	\$ 139.3
Electric	51.4	54.2	170.1	162.2
Other	1.6	1.5	4.7	4.5
Total Operating Revenues	74.7	76.6		