

# Unitil Corporation Earnings Conference Call Fourth Quarter 2016

Financial and Other Information – February 2, 2017





# Safe Harbor Provision

This presentation contains “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding Unitil Corporation’s (“Unitil”) financial condition, results of operations, capital expenditures, business strategy, regulatory strategy, market opportunities, and other plans and objectives. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential” or “continue”, the negative of such terms, or other comparable terminology.

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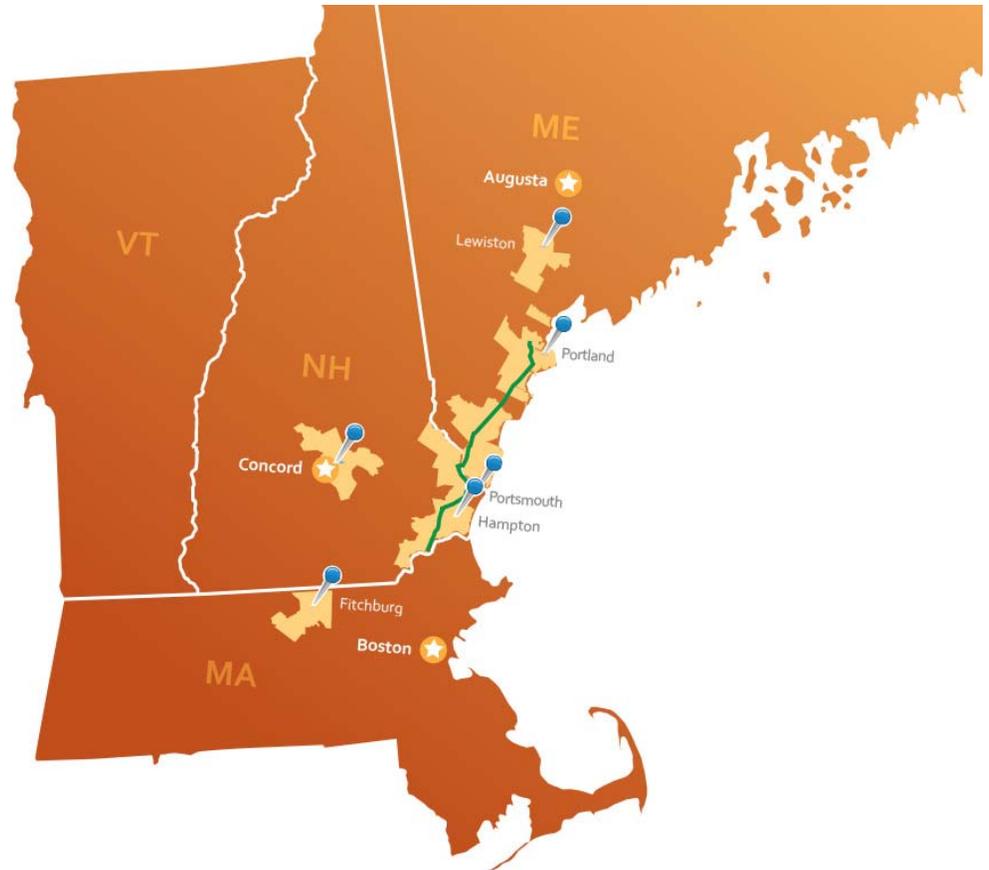
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Our mission is to provide energy for life—safely, reliably, cost-effectively and responsibly—to a growing number of customers with a high-performing workforce

# Unitil Corporation

- Natural gas and electric utility operations in Maine, New Hampshire and Massachusetts
- Serving approximately 184,200 gas and electric customers



# 2016 Financial Results

- 2016 Net Income of \$27.1 million, or \$1.94 per share
  - Increase of \$0.8 million, or \$0.05 per share, compared to 2015
  - Reflects customer growth, effective regulatory agenda and cost management
- Fourth quarter 2016 Net Income of \$10.2 million, or \$0.73 per share
  - Increase of \$0.9 million, or \$0.06 per share, compared to 2015
  - Earnings in fourth quarter reflect growth and colder weather than the same period in the prior year

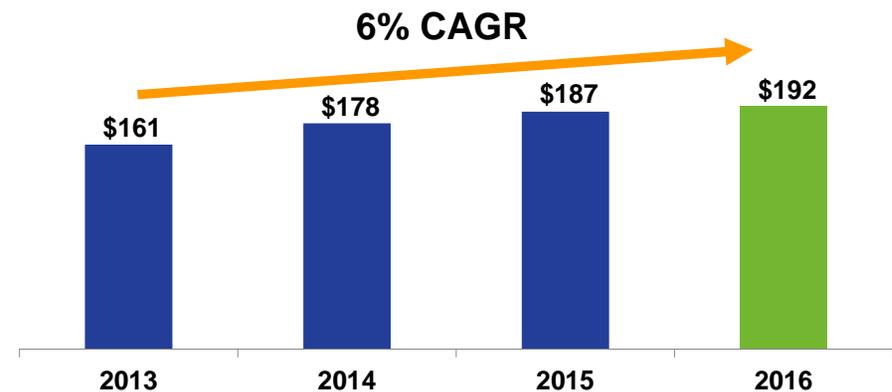
	Three Months Ended December 31,		Twelve Months Ended December 31,	
(in millions excluding EPS)	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net Income	\$10.2	\$9.3	\$27.1	\$26.3
Earnings Per Share	\$0.73	\$0.67	\$1.94	\$1.89

# 2016 Year in Review

- Added over 2,200 customers in 2016
  - 1,200 gas and 1,000 electric
- Recently increased annual dividend to \$1.44 per share
  - Third consecutive annual increase
- Robust service area demographics with years of growth
- Record earnings and sales margin achieved in 2016

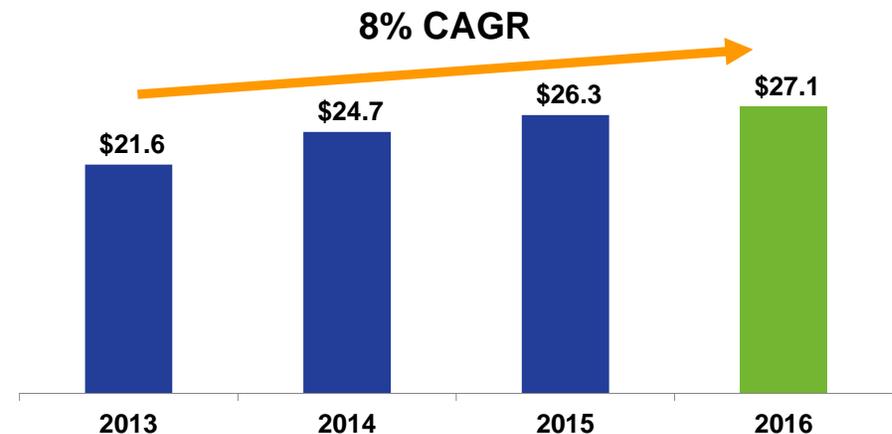
## Gas & Electric Sales Margin

(\$ in millions)



## Net Income

(\$ in millions)

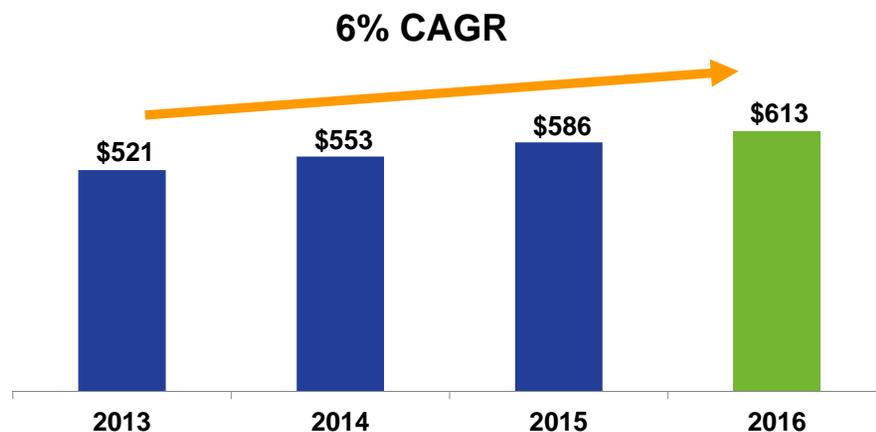


# Rate Base Growth and Capital Spending

- 6% annual utility rate base growth
  - Gas distribution expansion and infrastructure replacement and upgrade projects
  - Electric growth investments including two major substations, grid modernization and solar generation
- Total capital budget of \$102 million in 2017
  - ~50% recoverable under capital trackers
  - Additional 30% will be spent on growth projects that add new customers, revenue and expand system for future growth

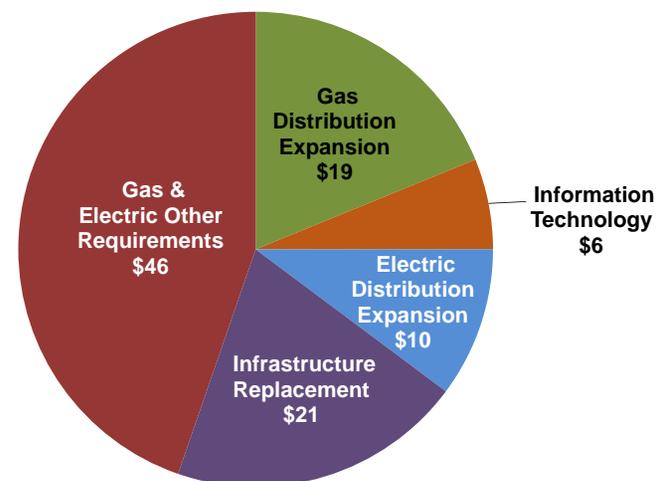
## Gas & Electric Rate Base

(\$ in millions)



## 2017 Capital Spending (\$102 million)

(\$ in millions)



# Gas Operations Highlights

- Committed to investing in service areas and expanding customer base
- Historical weather-normalized sales (excluding decoupled sales) increased 22% between calendar years 2008 and 2016

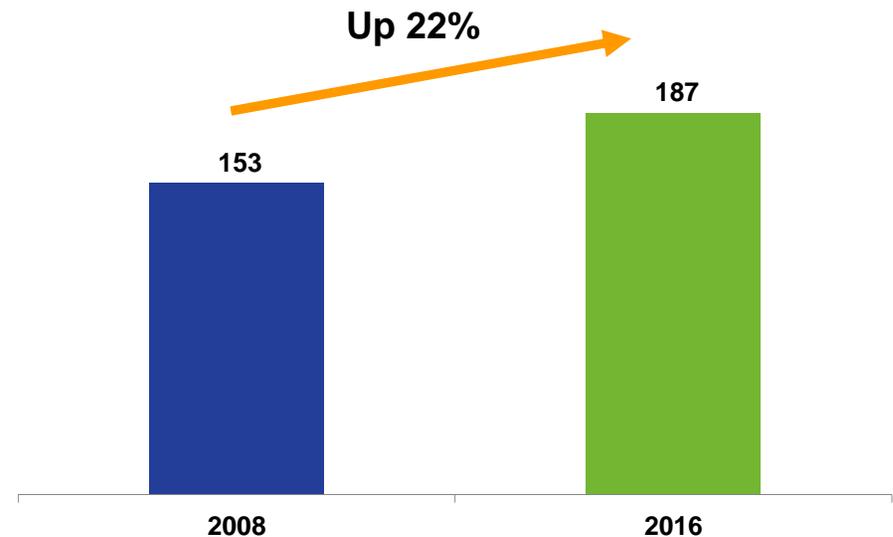
## Gas Customers: Dec 2008 - Dec 2016

Up ~15%



## Historical Weather-Normalized Sales\*

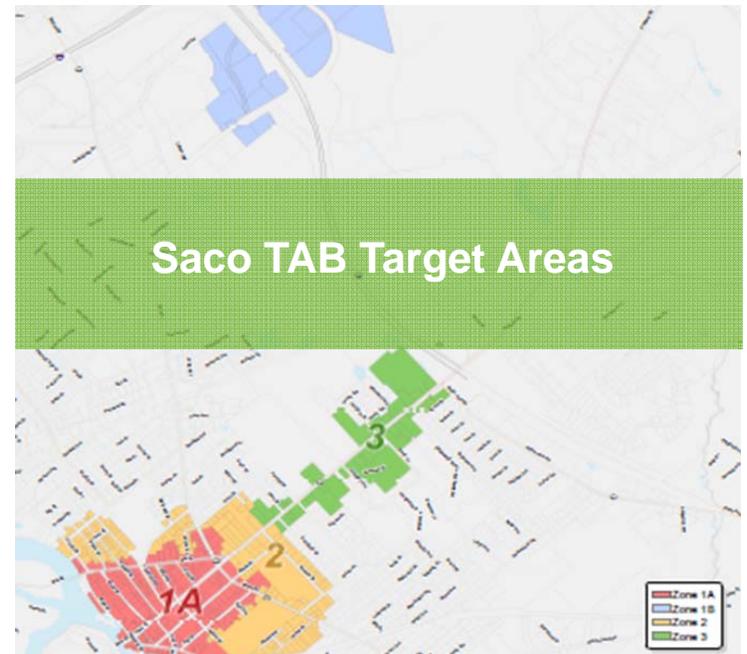
(In millions)



\*Excludes decoupled gas sales; 2008 sales are pro-forma full year for the Northern Utilities acquisition

# Gas Investments

- On-the-main opportunity
  - ~50,000 potential customers (60% penetration rate)
- System expansion projects
  - 2010-2016: added nearly 100 miles of mains
- Targeted Area Buildout (TAB)
  - Saco, ME pilot program ahead of target
    - Market potential of 1,000 customers
  - Sanford, ME
    - Phase 1 to new anchor customer in 2017
    - Market potential of over 2,000 customers



## Gas Infrastructure Replacement

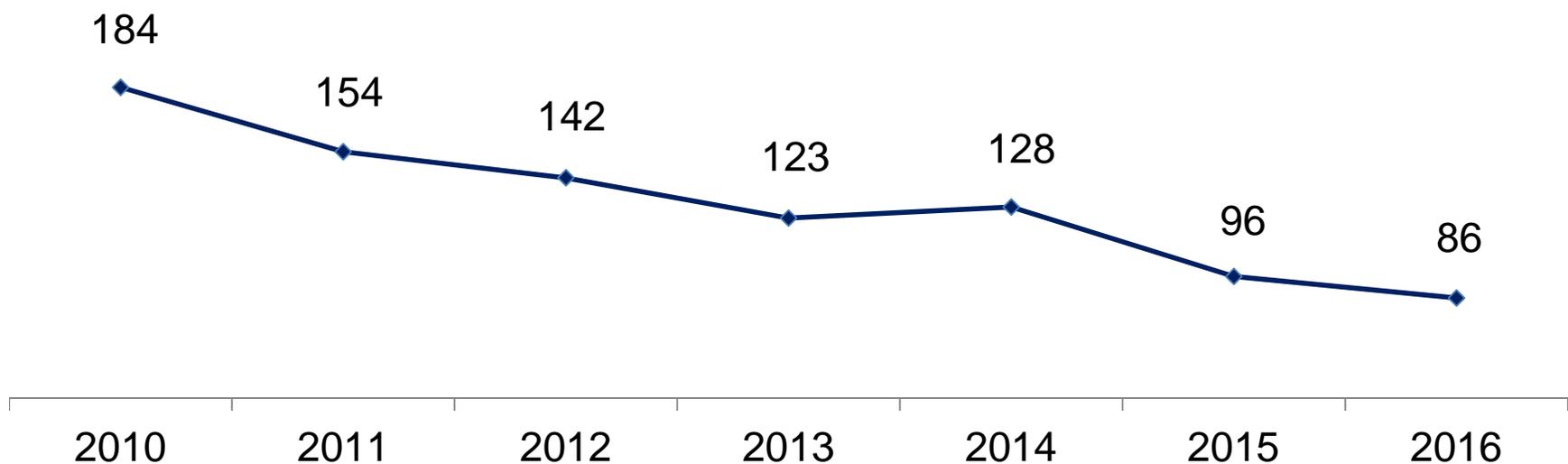
New Hampshire	Maine	Massachusetts
~7 miles in 2017	~45 miles scheduled 2017 - 2024	~3 miles scheduled annually
Project completion expected end of 2017– entire system will be modern	Project completion expected end of 2024 – entire system will be modern	Project completion expected end of 2035 – entire system will be modern

# Electric Operations Highlights

- Electric reliability
  - All-time best annual reliability performance in 2016
  - Vegetation management storm resiliency programs in place across electric operations
- Service quality
  - Met or exceeded all customer service quality metrics

## Electric Outages – System Average Interruption Duration Index (SAIDI)

(Minutes/Year)



# Electric Investments

Construction of two major electric substations in New Hampshire to provide capacity and enhance reliability

- First substation online April 2016
- Second substation expected to be online early 2017
- Combined investment of \$26 million

Received regulatory approval for 1.3 MW solar facility in Fitchburg, Massachusetts on existing remediated former manufactured gas plant site

- Investment of \$3.5 million

Regulatory initiatives in Massachusetts and New Hampshire supporting new investment in the distribution system

- 10 year preliminary planned spending of \$24 million in Massachusetts
- New Hampshire plan under development

## Substation Projects



## Solar

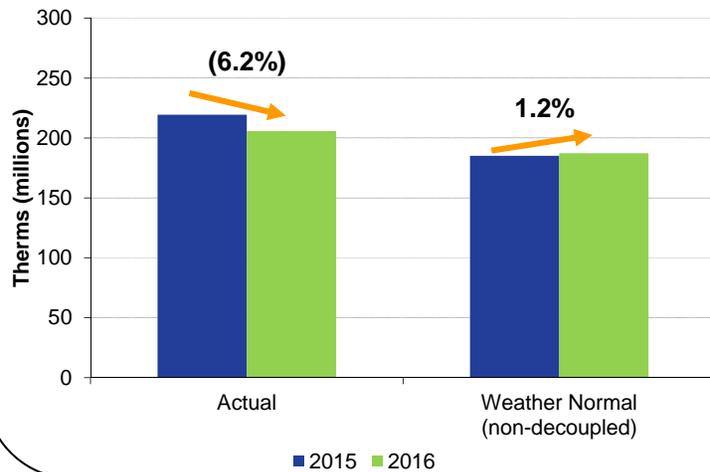


## Grid Modernization



# Gas Units Sales & Margin

## Natural Gas Sales



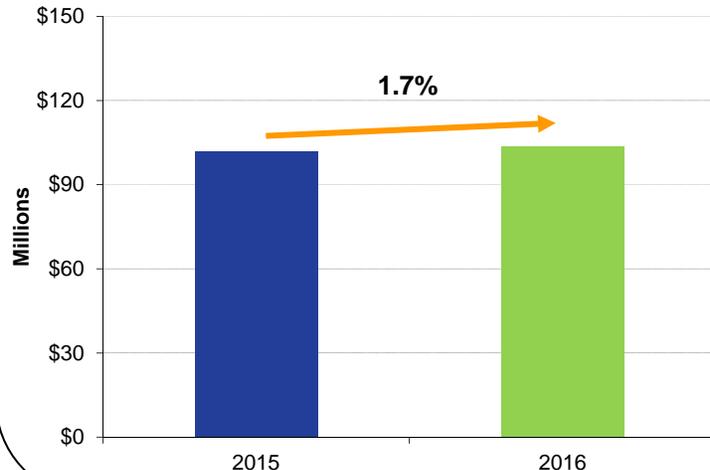
### Change

### Key Performance Drivers

#### Unit Sales down 6.2%

- ↓ 8% fewer Heating Degree Days (HDD) than prior year and 6% fewer HDD than normal
- ↑ Growth in residential / C&I customers – 1,200 year-over-year
- ↑ Non-decoupled weather-normalized sales up 1.2% due to customer growth / Large C&I sales up 3.3%

## Natural Gas Sales Margin



### Change

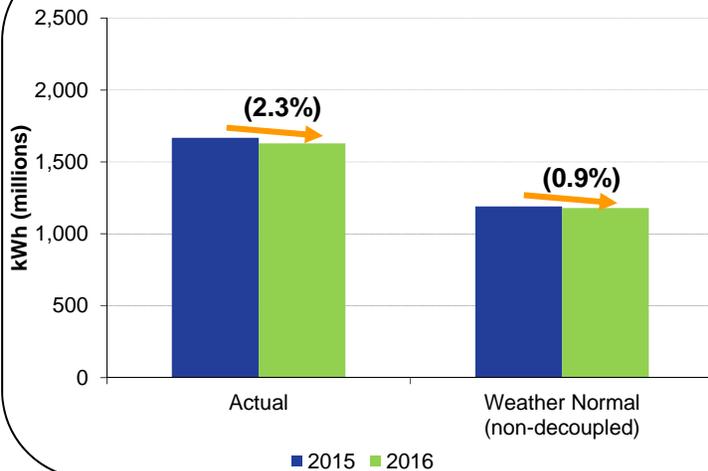
### Key Performance Drivers

#### Sales Margin up \$1.7 million

- ↓ (\$3.3) million unfavorable impact from warmer weather
- ↑ \$1.3 million favorable impact from customer growth
- ↑ \$3.7 million favorable impact from higher base rates

# Electric Units Sales & Margin

**Electric Sales**



**Change**

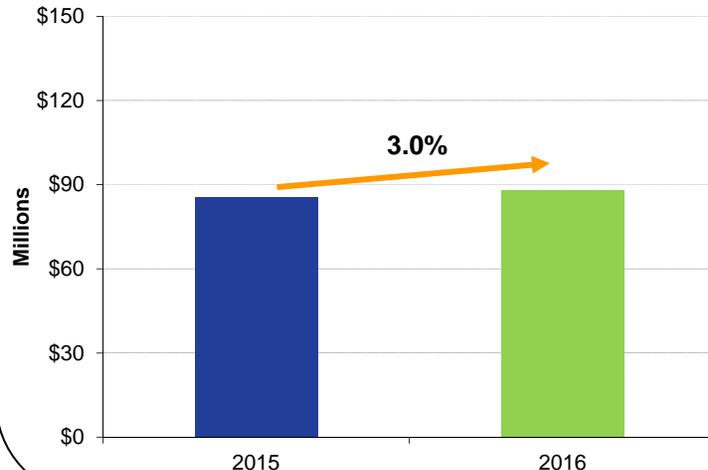
**Key Performance Drivers**

**Unit Sales down 2.3%**



- Heating degree days down compared to prior year
- Cooling degree days up compared to prior year
- Growth in residential / C&I customers – 1,000 year-over-year

**Electric Sales Margin**



**Change**

**Key Performance Drivers**

**Sales Margin up \$2.6 million**



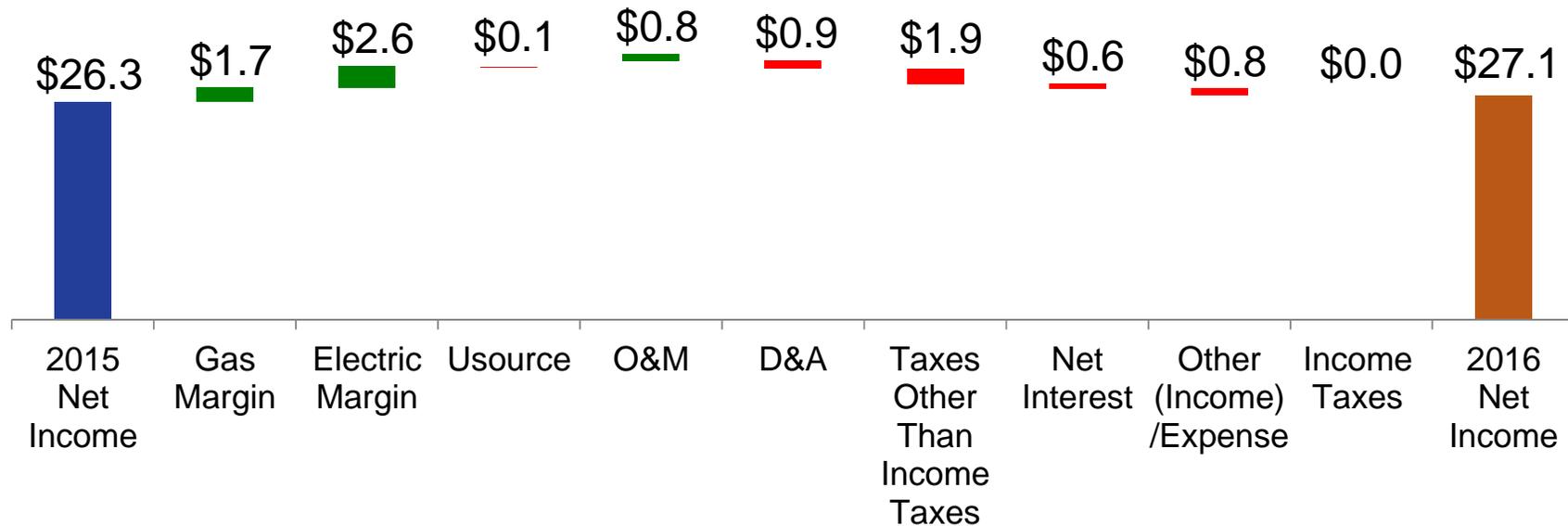
- (\$0.5) million unfavorable impact from warmer winter weather being offset by hotter summer weather
- \$3.1 million favorable impact from higher rates

# 2016 Variance Analysis

- Gas Margin up \$1.7 million, or 1.7%, reflecting higher distribution rates and customer growth
- Electric Margin up \$2.6 million, or 3.0%, reflecting higher distribution rates and customer growth
- Usource Margin down \$0.1 million, or 1.6%
- O&M decrease of \$0.8 million, or 1.2%, reflecting lower utility operating costs and professional fees
- D&A increase of \$0.9 million reflects higher utility plant in service
- Taxes other than income taxes increase of \$1.9 million primarily reflects higher local property tax expense
- Net Interest increase of \$0.6 million reflects higher levels of short-term debt
- Other Expense increase of \$0.8 million due to Q4 2015 sale of operations center

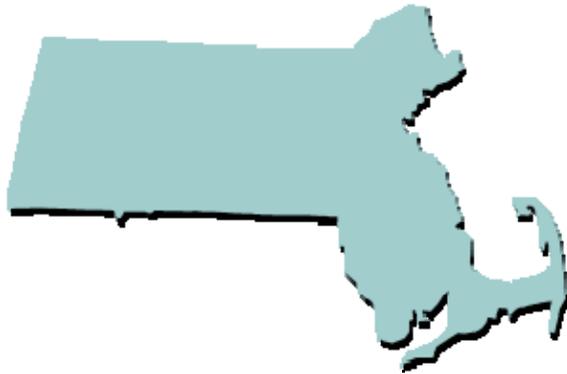
## Variance Analysis

(\$ in millions)



# Rate Case Updates

## Massachusetts



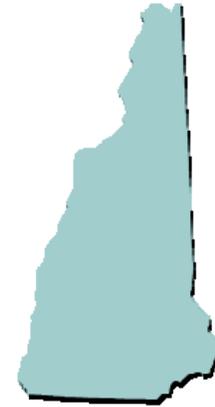
### Fitchburg Electric

- Rates effective May 1, 2016
- \$2.1 million revenue increase
- Annual capital tracker cost recovery mechanism approved for electric division, first rate adjustment effective Jan 1, 2017

### Fitchburg Gas

- Rates effective May 1, 2016
- \$1.6 million revenue increase
- Annual complementary pipe replacement cost tracker already in place for gas division

## New Hampshire



### Unitil Energy

- Electric base rate increase request of \$6.3 million
- \$2.4 million of temp rates approved effective July 1, 2016
- Capital structure reflects 51% equity ratio and a 10.3% requested ROE
- Multi-year rate plan requested for recovery of capital expenditures
- Settlement discussions underway 15

Capital structure reflects 52% equity ratio and an ROE of 9.8%

# 2016 Return on Equity

## Subsidiary 2016 Return on Equity

(\$ in millions) Company	Weighted Average Common Equity	12/16 LTM ROE <sup>(1)</sup>
Northern Utilities (New Hampshire)	\$129.4	8.4%
Northern Utilities (Maine)		
Unitil Energy	\$76.9	8.8%
Fitchburg (Electric)		
Fitchburg (Gas)	\$72.1	9.0%
Granite State	\$13.2	11.2%
Unitil Corporation	\$285.7	9.5%

(1) ROE calculated by dividing last twelve months GAAP Net Income to Common by Weighted Average Common Equity

**Authorized ROE Range of 9.5%-9.8%**

## Rate Plans and Cost Trackers

### Northern Utilities (Maine Gas)

- Capital tracker adjustment of ~\$1.5 million effective May 1, 2016
- Capital tracker adjustment of ~\$1 million estimated May 1, 2017

### Unitil Energy (New Hampshire Electric)

- Recently filed \$6.3 million base rate case and long-term rate plan; \$2.4 million temporary rates effective July 1, 2016; final order expected Q2 2017

### Fitchburg (Massachusetts Electric)

- \$2.1 million base rate increase effective May 1, 2016
- Long-term capital tracker to provide estimated rate adjustments of ~\$0.3 million effective January 1 annually

### Fitchburg (Massachusetts Gas)

- \$1.6 million base rate increase effective May 1, 2016
- Long-term pipe replacement capital tracker provides estimated rate adjustments of ~\$0.6 million effective May 1 annually

### Granite State (FERC Pipeline)

- Capital tracker adjustment of ~\$0.3 million effective August 1, 2016
- Capital tracker adjustment of ~\$0.3-\$0.4 million estimated August 1, 2017

# Key Investment Highlights



- Regulated local distribution utility business model
- Diversified natural gas and electric sales
- Growing operations and customer base
  - Regulated rate base growth
  - Robust natural gas system expansion
  - Constructive rate plans and cost trackers
- Dividend strength
- Experienced management team