UNITIL ENERGY SYSTEMS, INC.

CERTIFICATION TO NOTEHOLDERS

I hereby certify that the accompanying Balance Sheets as of December 31, 2020 and December 31, 2019, Statements of Earnings for the years ended December 31, 2020, 2019 and 2018, Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018, and Statements of Changes in Shareholder's Equity for the years ended December 31, 2020, 2019 and 2018, were, to the best of my knowledge and belief, properly prepared and are correct.

I also certify that the accompanying calculation worksheets, pursuant to Sections 10.1 and 10.5 of the applicable Unitil Energy Systems, Inc. Bond Agreements, were, to the best of my knowledge and belief, properly prepared and are correct.

I also certify that I have reviewed the provisions of the Unitil Energy System Inc.'s Bond Purchase Agreements, and to the best of my knowledge and belief the Company was, and remains in compliance with the provisions of these Agreements and no Event of Default exists or occurred during the period of the financial statements ending December 31, 2020 and up to the date of this certification.

Daniel J. Hurstak
Controller

March 22, 2021

Unitil Energy Systems, Inc.

(a) Ratio of Funded Indebtedness to Total Capitalization

The information below is being provided in accordance with Section 10.1 (a) of the Bond Purchase Agreements for Unitil Energy Systems, Inc.'s 4.18% First Mortgage Bonds, Series Q, due November 30, 2048 and 3.58% First Mortgage Bonds, Series R, due September 15, 2040.

		(Millions) As of December 31, 2020
Funded Indebtedness [1]	$	102.0
Total Capitalization	$	208.3
Funded Indebtedness / Total Capitalization [2]		49.0%

[1] **Funded Indebtedness is Total Capitalization less Common Stock Equity as of the balance sheet date.**

[2] **Per Section 10.1(a) of the Bond Purchase Agreements, Funded Indebtedness cannot exceed 65% of Total Capitalization.**

Unitil Energy Systems, Inc.

(a) Restrictions on Dividends

The information below is being provided in accordance with Section 10.1 (a) of the Bond Purchase Agreements for Unitil Energy Systems, Inc.'s 4.18% First Mortgage Bonds, Series Q, due November 30, 2048 and 3.58% First Mortgage Bonds, Series R, due September 15, 2040. As Section 11 (f) of the Bond Purchase Agreements contains cross-default provisions, the most restrictive calculation of the amount "Available for Dividends" is being provided here.

		(Millions) As of December 31, 2020
Stated Amount	$	70.0
Add: Equity Contribution - 2020		7.7
Add: Net Income - 2020		8.1
Subtotal	**$**	**85.8**
Less: Dividends Declared / Paid - 2020		6.8
Available for Dividends [1]	**$**	**79.0**

[1] Per Section 10.5 of the Bond Purchase Agreements, the Company may not declare or pay any dividend (other than dividends payable solely in shares of its own common stock) or make any other distributions of cash, property or assets on any shares of any class of its capital stock or apply any of its cash, property or assets (other than amounts equal to net proceeds received from the sale of common stock of the Company subsequent to the date of the Agreements) to the purchase or retirement of, or make any other distribution, through reduction of capital or otherwise, in respect of any shares of its capital stock in excess of the amount "Available for Dividends".

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Unitil Energy Systems, Inc.
Hampton, NH

We have audited the accompanying financial statements of Unitil Energy Systems, Inc. (the "Company") (a wholly-owned subsidiary of Unitil Corporation), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of earnings, changes in shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2020 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Unitil Energy Systems, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 22, 2021

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

UNITIL ENERGY SYSTEMS, INC.
For the Period Ended December 31, 2020

UNITIL ENERGY SYSTEMS, INC.
STATEMENTS OF EARNINGS
($ in Millions)

	Year Ended December 31,					
	2020		2019		2018	
Operating Revenues	**$**	**158.9**	$	161.8	$	157.6
Operating Expenses:						
Cost of Electric Sales		**96.7**		99.9		95.2
Operation and Maintenance		**21.3**		22.9		22.4
Depreciation and Amortization		**15.9**		15.3		14.9
Taxes Other Than Income Taxes		**7.2**		6.3		6.3
Total Operating Expenses		**141.1**		144.4		138.8
Operating Income		**17.8**		17.4		18.8
Interest Expense		**5.9**		6.3		5.9
Other Expense, net		**0.8**		0.6		1.2
Income Before Income Taxes		**11.1**		10.5		11.7
Provision for Income Taxes		**3.0**		2.9		3.2
Net Income Applicable to Common Stock	**$**	**8.1**	$	7.6	$	8.5

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

UNITIL ENERGY SYSTEMS, INC.
BALANCE SHEETS
($ in Millions)

	December 31, 2020	December 31, 2019
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	$ **2.6**	$ 1.5
Accounts Receivable – Net of Allowance for Doubtful Accounts of $0.6 and $0.2	**18.7**	16.3
Accrued Revenue	**12.2**	13.3
Materials and Supplies	**1.4**	1.4
Prepayments and Other	**2.0**	2.0
Total Current Assets	**36.9**	34.5
Utility Plant:		
Electric	**403.4**	363.4
Construction Work in Progress	**5.1**	16.0
Utility Plant	**408.5**	379.4
Less: Accumulated Depreciation	**115.0**	109.9
Net Utility Plant	**293.5**	269.5
Other Noncurrent Assets:		
Regulatory Assets	**44.0**	40.0
Operating Lease Right of Use Assets	**1.7**	1.4
Other Assets	**1.7**	1.6
Total Other Noncurrent Assets	**47.4**	43.0
TOTAL ASSETS	$ **377.8**	$ 347.0

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

UNITIL ENERGY SYSTEMS, INC.
BALANCE SHEETS
($ in Millions, except par value and shares data)

	December 31, 2020	December 31, 2019
LIABILITIES AND CAPITALIZATION:		
Current Liabilities:		
Accounts Payable	$ 14.6	$ 16.7
Short-Term Debt	8.2	13.1
Long-Term Debt, Current Portion	3.4	8.4
Due to Affiliates	4.5	5.0
Energy Supply Obligations	3.6	3.1
Regulatory Liabilities	1.9	2.0
Taxes Payable	0.1	2.0
Other Current Liabilities	4.7	4.6
Total Current Liabilities	41.0	54.9
Noncurrent Liabilities:		
Energy Supply Obligations	---	0.3
Deferred Income Taxes	26.3	22.5
Cost of Removal Obligations	22.9	21.5
Retirement Benefit Obligations	60.8	54.2
Regulatory Liabilities	16.6	16.6
Operating Leases, Less Current Portion	1.2	1.1
Other Noncurrent Liabilities	0.7	0.5
Total Noncurrent Liabilities	128.5	116.7
Capitalization:		
Long-term Debt, Less Current Portion	101.8	77.9
Stockholders' Equity:		
Common Stock, No Par Value		
Authorized - 250,000 shares		
Issued and Outstanding - 131,746 shares	62.1	54.4
Retained Earnings	44.2	42.9
Total Stockholders' Equity	106.3	97.3
Preferred Stock:		
Preferred Stock, Non-Redeemable, Non-Cumulative:		
6.00% Series, $100 Par Value	0.2	0.2
Total Stockholders' Equity	106.5	97.5
Total Capitalization	208.3	175.4
Commitments and Contingencies (Note 6)		
TOTAL LIABILITIES AND CAPITALIZATION	$ 377.8	$ 347.0

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

UNITIL ENERGY SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
($ in Millions)

	Year Ended December 31,		
	2020	2019	2018
Operating Activities:			
Net Income	**$ 8.1**	$ 7.6	$ 8.5
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:			
Depreciation and Amortization	**15.9**	15.3	14.9
Deferred Tax Provision	**3.0**	2.9	3.2
Changes in Working Capital:			
Accounts Receivable	**(2.4)**	3.0	0.7
Accrued Revenue and Energy Supply Obligations	**1.6**	(0.2)	2.6
Accounts Payable	**(2.1)**	(0.4)	1.3
Due to/from Affiliates	**(0.5)**	7.4	(0.7)
Regulatory Liabilities	**(0.1)**	(3.9)	2.2
Other Changes in Working Capital Items	**(2.1)**	1.6	(1.1)
Deferred Regulatory and Other Charges	**(2.5)**	(3.0)	(6.8)
Other, net	**2.5**	(6.7)	(1.3)
Cash Provided by Operating Activities	**21.4**	23.6	23.5
Investing Activities:			
Property, Plant, and Equipment Additions	**(35.3)**	(37.6)	(17.6)
Cash Used in Investing Activities	**(35.3)**	(37.6)	(17.6)
Financing Activities:			
(Repayment of) Proceeds from Short-Term Debt, net	**(4.9)**	13.1	(21.4)
Issuance of Long-Term Debt	**27.5**	---	30.0
Repayment of Long-Term Debt	**(8.5)**	(8.5)	(6.5)
Long-Term Debt Issuance Costs	**(0.2)**	---	---
Dividends Paid	**(6.6)**	(5.8)	(6.3)
Equity Contribution	**7.7**	12.0	---
Cash Provided by (Used in) Financing Activities	**15.0**	10.8	(4.2)
Net Increase (Decrease) in Cash and Cash Equivalents	**1.1**	(3.2)	1.7
Cash and Cash Equivalents at Beginning of Year	**1.5**	4.7	3.0
Cash and Cash Equivalents at End of Year	**$ 2.6**	$ 1.5	$ 4.7
Supplemental Cash Flow Information:			
Interest Paid	**$ 5.3**	$ 6.1	$ 5.7
Income Taxes Paid	**$ ---**	$ ---	$ 1.3
Non-cash Investing Activity:			
Capital Expenditures Included in Accounts Payable	**$ 0.3**	$ 0.1	$ 0.3
Right of Use Assets Obtained in Exchange for Lease Obligations	**$ 0.3**	$ 1.4	$ ---

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

UNITIL ENERGY SYSTEMS, INC.
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
($ in Millions)

	Common Equity	Retained Earnings	Total
Balance at January 1, 2018	$ 42.4	$ 38.3	**$ 80.7**
Net Income		8.5	**8.5**
Dividends Declared ($40.51 Per Common Share)		(5.3)	**(5.3)**
Balance at December 31, 2018	$ 42.4	$ 41.5	**$ 83.9**
Net Income		7.6	**7.6**
Dividends Declared ($47.02 Per Common Share)		(6.2)	**(6.2)**
Equity Contribution	12.0		**12.0**
Balance at December 31, 2019	$ 54.4	$ 42.9	**$ 97.3**
Net Income		8.1	**8.1**
Dividends Declared ($52.00 Per Common Share)		(6.8)	**(6.8)**
Equity Contribution	7.7		**7.7**
Balance at December 31, 2020	$ 62.1	$ 44.2	**$ 106.3**

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Unitil Energy Systems, Inc. (Unitil Energy or Company), a wholly-owned subsidiary of Unitil Corporation (Unitil), provides electric service in New Hampshire and is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC). Unitil Energy's accounting policies conform with Generally Accepted Accounting Principles in the United States of America (U.S. GAAP).

COVID-19 - In December 2019, a novel strain of coronavirus (COVID-19) emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, the virus spread to several other countries and infections have been reported globally. The extent to which the coronavirus affects the Company's financial condition, results of operations, and cash flows will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of the coronavirus, and the actions to contain the coronavirus or treat its effect, among others. In particular, the continued spread of the coronavirus could adversely affect the Company's business, including (i) by disrupting the Company's employees and contractors ability to provide ongoing services to Unitil Energy, (ii) by reducing customer demand for electricity, or (iii) by reducing the supply of electricity, which could have an adverse effect on the Company's financial condition, results of operations, and cash flows.

Transactions with Affiliates - In addition to its investment in Unitil Energy, Unitil Corporation has interests in two other distribution utility companies, one doing business in New Hampshire and Maine and one doing business in Massachusetts, an interstate natural gas transmission pipeline company, a service company (Unitil Service Corp.), a realty company, a power company, and a non-regulated company.

Transactions among Unitil Energy and other affiliated companies include professional and management services rendered by Unitil Service Corp. of approximately $16.0 million, $17.3 million and $16.4 million in 2020, 2019 and 2018, respectively. The Company's transactions with affiliated companies are subject to review by the NHPUC and the Federal Energy Regulatory Commission (FERC).

In 2020 and 2019, Unitil Energy received capital contributions of $7.7 million and $12.0 million, respectively, from Unitil.

Prior to May 1, 2003, Unitil Energy purchased all of its power supply from Unitil Power Corp. (Unitil Power) under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, Unitil Energy and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to Unitil Energy ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, Unitil Energy continues to pay contract release payments to Unitil Power for costs associated with the portfolio sale and its other ongoing power supply-related costs. As of December 31, 2020, the obligations related to these divestitures were $0.3 million and are recorded in Energy Supply Obligations on the Company's Balance Sheets with corresponding regulatory assets recorded in Accrued Revenue. Recovery of the contract release payments by Unitil Energy from its retail customers has been approved by the NHPUC.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, and requires 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. Actual results could differ from those estimates.

Fair Value - The Financial Accounting Standards Board (FASB) Codification defines fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the FASB Codification include:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3.

There have been no changes in the valuation techniques used during the current period.

Utility Revenue Recognition - Electric Operating Revenues consist of billed and unbilled revenue and revenue from rate adjustment mechanisms. Billed and unbilled revenue includes delivery revenue and pass-through revenue, recognized according to tariffs approved by the NHPUC which determines the amount of revenue the Company will record for these items. Revenue from rate adjustment mechanisms is recognized as accrued revenue and authorized by the NHPUC for recognition in the current period for future cash recoveries from, or credits to, customers.

Billed and unbilled revenue is recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenues are calculated. These unbilled revenues are estimated each month based on estimated customer usage by class and applicable customer rates, taking into account current and historical weather data, assumptions pertaining to metering patterns, billing cycle statistics, and other estimates and assumptions and are then reversed in the following month when billed to customers.

A majority of the Company's revenue from contracts with customers continues to be recognized on a monthly basis based on applicable tariffs and customer monthly consumption. Such revenue is recognized using the invoice practical expedient which allows an entity to recognize revenue in the amount that directly corresponds to the value transferred to the customer.

The Company's billed and unbilled revenue meets the definition of "revenues from contracts with customers" as defined in Accounting Standards Codification (ASC) 606. Revenue recognized in connection with rate adjustment mechanisms is consistent with the definition of alternative revenue programs in ASC 980-605-25-3, as the Company has the ability to adjust rates in the future as a result of past activities or completed events. The rate adjustment mechanisms meet the criteria within ASC 980-605-25-4. In cases where allowable costs are greater than operating revenues billed in the current period for the individual rate adjustment mechanism, additional operating revenue is recognized. In cases where allowable costs are less than operating revenues billed in the current period for the individual rate adjustment mechanism, operating revenue is reduced. ASC 606 requires the Company to disclose separately the amount of revenues from contracts with customers and from alternative revenue programs.

The following table presents revenue classified by the types of goods/services rendered and market/customer type.

Electric Operating Revenues ($ millions):	**Twelve Months Ended December 31, 2020**	**2019**	**2018**
Billed and Unbilled Revenue:			
Residential	$ 89.7	$ 85.6	$ 86.7
C&I	66.3	67.4	69.9
Other	2.8	3.6	4.4
Total Billed and Unbilled Revenue	158.8	156.6	161.0
Rate Adjustment Mechanism Revenue	0.1	5.2	(3.4)
Total Electric Operating Revenues	**$ 158.9**	**$ 161.8**	**$ 157.6**

Retirement Benefit Obligations - The Company co-sponsors the Unitil Corporation Retirement Plan (Pension Plan). The Pension Plan is closed to new non-union employees. The Pension Plan was closed to union employees covered under the collective bargaining agreement, entered into during 2012 between Unitil Energy and IBEW Local 1837, and hired subsequent to June 1, 2012. The Company also co-sponsors a non-qualified retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company and an employee 401(k) savings plan. Additionally, the Company co-sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The Company records on its balance sheets a liability for the underfunded status of its retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric rates. See Note 8 (Retirement Benefit Obligations).

Depreciation - Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's Financial Statements. Provisions for depreciation were equivalent to the following composite rates, based on the average depreciable property balances at the beginning and end of each year: 2020 - 3.48%, 2019 - 3.47% and 2018 - 3.48%. Depreciation expense for Unitil Energy was $12.7 million, $11.9 million and $11.4 million for the years ended December 31, 2020, 2019 and 2018, respectively.

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

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

Unitil Corporation and its subsidiaries, including Unitil Energy, file consolidated federal income tax returns as well as combined or separate state income tax returns. Federal and state income taxes paid by Unitil Corporation are collected from, or refunded to, Unitil Corporation's subsidiaries based on a tax sharing agreement between Unitil Corporation and each of its affiliated subsidiaries. The tax sharing agreement apportions taxes paid among Unitil Corporation and its subsidiaries as though each affiliate had filed a separate tax return.

Cash and Cash Equivalents - Cash and Cash Equivalents includes all cash and cash equivalents to which the Company has legal title. Cash equivalents include short-term investments with original maturities of three months or less and interest bearing deposits. Under the Independent System Operator – New England (ISO-NE) Financial Assurance Policy (Policy), the Company is required to provide assurance of its ability to satisfy its obligations to ISO-NE. Under this Policy, the Company provides cash deposits covering approximately 2-1/2 months of outstanding obligations. On December 31, 2020 and 2019, the Company had deposited $2.2 million and $1.5 million, respectively, to satisfy its ISO-NE Policy obligations. These amounts are included in Cash and Cash Equivalents on the Company's Balance Sheets.

Allowance for Uncollectible Accounts - The Company recognizes a provision for doubtful accounts that reflects the Company's estimate of expected credit losses for electric utility service accounts receivable. The allowance for doubtful accounts is calculated by applying a historical loss rate, which is adjusted for current conditions, customer trends, or other factors such as macroeconomic conditions, to customer account balances. The Company also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company is authorized by the NHPUC to recover the costs of its energy commodity portion of bad debts through rate mechanisms. Evaluating the adequacy of the allowance for doubtful accounts requires judgment about the assumptions used in the analysis. The Company's experience has been that the assumptions used in evaluating the adequacy of the allowance for doubtful accounts have proven to be reasonably accurate.

Accounts Receivable, Net includes $0.5 million and $0.2 million of the Allowance for Doubtful Accounts at December 31, 2020 and December 31, 2019, respectively. Unbilled Revenues, net (a component of Accrued Revenue) includes $0.1 million of the Allowance for Doubtful Accounts at December 31, 2020.

Accrued Revenue - Accrued Revenue includes the current portion of Regulatory Assets (see "Regulatory Accounting") and unbilled revenues (see "Utility Revenue Recognition") The following table shows the components of Accrued Revenue as of December 31, 2020 and 2019.

	December 31,	
Accrued Revenue ($ millions)	**2020**	2019
Regulatory Assets – Current	**$ 7.2**	$ 8.4
Unbilled Revenues	**5.0**	4.9
Total Accrued Revenue	**$ 12.2**	$ 13.3

Materials and Supplies - Materials and Supplies consist of distribution line construction and repair materials. It also consists of distribution substation repair materials. Materials and Supplies are stated at average cost and are issued from stock using the average cost of existing stock. Materials and Supplies are recorded when purchased and subsequently charged to expense or capitalized to property, plant, and equipment when installed. Materials and Supplies were $1.4 million and $1.4 million at December 31, 2020 and 2019, respectively.

Utility Plant - The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The average interest rates applied to AFUDC were 3.84%, 3.48% and 2.88% in 2020, 2019 and 2018, respectively. The costs of current repairs and minor replacements are charged to operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation. The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, cost of removal amounts to provide for future negative salvage value. At December 31, 2020 and 2019, the cost of removal amounts, which are recorded on the Company's Balance Sheets in Cost of Removal Obligations, were estimated to be $22.9 million and $21.5 million, respectively.

Regulatory Accounting - Unitil Energy's principal business is the distribution of electricity. The Company is subject to regulation by the NHPUC and the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the FASB Codification. The Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

Regulatory Assets consist of the following ($ millions)	December 31, 2020	2019
Retirement Benefits	$ 39.2	$ 34.2
Energy Supply & Other Rate Adjustment Mechanisms	5.7	6.8
Deferred Storm Charges	4.1	5.6
Other	2.2	1.8
Total Regulatory Assets	$ 51.2	$ 48.4
Less: Current Portion of Regulatory Assets (1)	7.2	8.4
Regulatory Assets – noncurrent	$ 44.0	$ 40.0

(1) Reflects amounts included in Accrued Revenue on the Company's Balance Sheets.

Regulatory Liabilities consist of the following ($ millions)	December 31, 2020	2019
Rate Adjustment Mechanisms	$ 1.9	$ 2.0
Income Taxes	16.6	16.6
Total Regulatory Liabilities	18.5	18.6
Less: Current Portion of Regulatory Liabilities	1.9	2.0
Regulatory Liabilities - noncurrent	$ 16.6	$ 16.6

Generally, the Company receives a return on investment on its Regulatory Assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's Financial Statements. The Company believes it is probable that it will recover its investments in long-lived assets, including regulatory assets.

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

Leases - The Company records assets and liabilities on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company has elected the practical expedient to not separate non-lease components from lease components and instead to account for both as a single lease component. The Company's accounting policy election for leases with a lease term of 12 months or less is to recognize the lease payments as lease expense on a straight-line basis over the lease term. The Company recognizes those lease payments in the Statements of Earnings on a straight-line basis over the lease term. See additional discussion in the "Leases" section of Note 2 (Debt and Financing Arrangements).

Derivatives - The Company enters into wholesale electric energy supply contracts to serve its customers. The Company's policy is to review each contract and determine whether the contract meets the criteria for classification as a derivative. As of December 31, 2020, the Company determined that none of its wholesale electric energy supply contracts met the criteria for recognition as a derivative instrument as the contracts qualify for the normal purchase and sale scope exemption in accordance with the FASB Codification guidance for derivative instruments.

Energy Supply Obligations - The following discussion and table summarize the nature and amounts of the items recorded as Energy Supply Obligations on the Company's Balance Sheets.

Power Supply Contract Divestitures - As a result of the restructuring of the utility industry in New Hampshire, Unitil Energy's customers have the opportunity to purchase their electric supply from third-party suppliers. In connection with the implementation of retail choice, Unitil Power, which formerly functioned as the wholesale power supply provider for Unitil Energy, divested its long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. Unitil Energy recovers in its rates all the costs associated with the divestiture of its power supply portfolios and has secured regulatory approval from the NHPUC for the recovery of power supply-related stranded costs. As of December 31, 2020, the obligations related to these divestitures were $0.3 million and are recorded in Energy Supply Obligations on the Company's Balance Sheets with corresponding regulatory assets recorded in Accrued Revenue.

Renewable Energy Portfolio Standards - Renewable Energy Portfolio Standards (RPS) require retail electricity suppliers, including public utilities, to demonstrate that required percentages of their sales are met with power generated from certain types of resources or technologies. Compliance is demonstrated by purchasing and retiring Renewable Energy Certificates (REC) generated by facilities approved by the state as qualifying for REC treatment. Unitil Energy purchases RECs in compliance with RPS legislation in New Hampshire for supply provided to default service customers. RPS compliance costs are a supply cost that is recovered in customer default service rates. Unitil Energy collects RPS compliance costs from customers throughout the year and demonstrates compliance for each calendar year on the following July 1. Due to timing differences between collection of revenue from customers and payment of REC costs to suppliers, Unitil Energy typically maintains accrued revenue for RPS compliance which is recorded in Accrued Revenue with a corresponding liability in Energy Supply Obligations on the Company's Balance Sheets.

Energy Supply Obligations consist of the following: ($ millions)	**December 31, 2020**	**December 31, 2019**
Current:		
Power Supply Contract Divestitures	**$ 0.3**	$ 0.3
Renewable Energy Portfolio Standards	**3.3**	2.8
Total Energy Supply Obligations – Current	**$ 3.6**	$ 3.1
Long-Term:		
Power Supply Contract Divestitures	**$ ---**	$ 0.3
Total Energy Supply Obligations	**$ 3.6**	$ 3.4

Off-Balance Sheet Arrangements - As of December 31, 2020, the Company does not have any significant arrangements that would be classified as Off-Balance Sheet Arrangements.

Concentrations of Credit Risk - Financial instruments that subject the Company to credit risk concentrations consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are held at financial institutions and at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. Accounts receivable may be affected by changes in economic conditions. However, the Company believes that the credit risk associated with accounts receivable is offset by the diversification of the Company's customer base. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents and accounts receivable.

Commitments and Contingencies - The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of December 31, 2020, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company's Financial Statements below. See Note 6 (Commitments and Contingencies).

Subsequent Events - The Company has evaluated all events or transactions through March 22, 2021, the date the Financial Statements were available to be issued. During this period, the Company did not have any material subsequent events that would result in adjustment to or disclosure in its Financial Statements.

NOTE 2: DEBT AND FINANCING ARRANGEMENTS

Long-Term Debt and Interest Expense

Substantially all property of the Company is subject to liens of indenture under which First Mortgage Bonds (FMB) have been issued. Certain of the Company's long-term debt agreements contain provisions, which, among other things, limit the incursion of additional long-term debt. In order to issue new FMB securities, customary covenants of the existing Unitil Energy Indenture Agreement must be met, including that Unitil Energy has sufficient available net bondable plant to issue the securities and projected earnings available for interest charges are equal to at least two times the annual interest requirement. The Unitil Energy agreements further require that if Unitil Energy defaults on any Unitil Energy FMB securities, it would constitute a default for all Unitil Energy FMB securities. The Unitil Energy default provisions are not triggered by the actions or defaults of other companies owned by Unitil Corporation. The Unitil Energy Indenture Agreement contains covenants restricting the ability of the Company to incur additional liens and to enter into sale and leaseback transactions, and restricting the ability of the Company to consolidate with, to merge with or into or to sell or otherwise dispose of all or substantially all of its assets.

On September 15, 2020, Unitil Energy issued $27.5 million of First Mortgage Bonds due September 15, 2040 at 3.58%. Unitil Energy used the net proceeds from this offering to repay short term debt and for general corporate purposes. Approximately $0.2 million of costs associated with this issuance have been recorded as a reduction to Long-Term Debt for presentation purposes on the Balance Sheets.

Details of long-term debt at December 31, 2020 and 2019 are shown in the following table:

Long-term Debt ($ millions)	December 31, 2020	2019
First Mortgage Bonds:		
5.24% Senior Secured Notes, Due March 2, 2020 [(1)]	$ ---	$ 5.0
8.49% Senior Secured Notes, Due October 14, 2024	3.0	4.5
6.96% Senior Secured Notes, Due September 1, 2028	16.0	18.0
8.00% Senior Secured Notes, Due May 1, 2031	15.0	15.0
6.32% Senior Secured Notes, Due September 15, 2036	15.0	15.0
3.58% Senior Secured Notes, Due September 15, 2040	27.5	---
4.18% Senior Secured Notes, Due November 30, 2048	30.0	30.0
Total Long-Term Debt	106.5	87.5
Less: Unamortized Debt Issuance Costs	1.3	1.2
Total Long-Term Debt, net of Unamortized Debt Issuance Costs	105.2	86.3
Less: Current Portion	3.4	8.4
Total Long-Term Debt, Less Current Portion	$ 101.8	$ 77.9

(1) The 5.24% Senior Secured Notes were fully paid off in the first quarter of 2020.

The aggregate amount of bond repayment requirements is $3.5 million in 2021; $5.0 million in 2022; $3.5 million in each of 2023, 2024 and 2025; and $87.5 million thereafter.

The fair value of the Company's long-term debt is estimated based on quoted market prices for the same or similar issues, or on current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's long-term debt at December 31, 2020 is estimated to be approximately $127.1 million, before considering any costs, including prepayment costs, to market the Company's debt. Currently, management believes that there is no active market in the Company's debt securities, which have all been sold through private placements. If there were an active market for the Company's debt securities, the fair value of the Company's long-term debt would be estimated based on quoted market prices for the same or similar issues, or on current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's long-term debt is estimated using Level 2 inputs (valuations based on quoted prices available in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived principally from market data.) In estimating the fair value of the Company's long-term debt, the assumed market yield reflects the Moody's Baa Utility Bond Average Yield. Costs, including prepayment costs, associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

Credit Arrangements

Unitil Energy's short-term borrowings are presently provided under a cash pooling and loan agreement between Unitil Corporation and its subsidiaries. Under the existing pooling and loan agreement, Unitil Corporation borrows, as required, from its banks on behalf of its subsidiaries. At December 31, 2020, Unitil

Corporation had unsecured committed bank lines of credit for short-term debt aggregating $120 million. The weighted average interest rates on all short-term borrowings were 1.7%, 3.4% and 3.3% during 2020, 2019 and 2018, respectively. Unitil Energy had short-term debt outstanding through bank borrowings of approximately $8.2 million and $13.1 million at December 31, 2020 and December 31, 2019, respectively.

Leases

The Company leases some of its vehicles, machinery and office equipment under operating lease arrangements.

Total rental expense under operating leases charged to operations for the years ended December 31, 2020, 2019 and 2018 amounted to $0.5 million, $0.4 million and $0.5 million respectively.

The balance sheet classification of the Company's lease obligations is presented in the following table:

	December 31,	
Lease Obligations (millions)	**2020**	**2019**
Operating Lease Obligations:		
Other Current Liabilities (current portion)	**$ 0.5**	$ 0.3
Operating Leases, Less Current Portion (noncurrent portion)	**1.2**	1.1
Total Lease Obligations	**$ 1.7**	$ 1.4

Cash paid for amounts included in the measurement of operating lease obligations for the twelve months ended December 31, 2020 and 2019 were $0.5 million and $0.4 million, respectively, and were included in Cash Provided by Operating Activities on the Statements of Cash Flows.

The following table is a schedule of future operating lease payment obligations as of December 31, 2020. The payments for operating leases consist of $0.5 million of current operating lease obligations, which are included in Other Current Liabilities and $1.2 million of noncurrent operating lease obligations, which are included in Operating Leases, Less Current Portion, on the Company's Balance Sheets as of December 31, 2020.

Lease Payments (000's) Year Ending December 31,	**Operating Leases**
2021	$ 548
2022	475
2023	386
2024	248
2025	93
2026-2030	70
Total Payments	**1,820**
Less: Interest	137
Amount of Lease Obligations Recorded on Balance Sheets	**$ 1,683**

Operating lease obligations are based on the net present value of the remaining lease payments over the remaining lease term. In determining the present value of lease payments, the Company used the interest rate stated in each lease agreement. As of December 31, 2020, the weighted average remaining lease term is 3.9 years and the weighted average operating discount rate used to determine the operating lease obligations was 4.1%. As of December 31, 2019, the weighted average remaining lease term is 4.1 years and the weighted average operating discount rate used to determine the operating lease obligations was 4.6%.

NOTE 3: RESTRICTION ON DIVIDENDS

Under the terms of the Indenture of Mortgage and Deed of Trust and the supplemental indentures thereto relating to Unitil Energy's First Mortgage Bonds, $79.0 million was available for dividends and similar distributions at December 31, 2020. Common dividends declared by Unitil Energy are paid exclusively to Unitil Corporation.

NOTE 4: NON-REDEEMABLE, NON-CUMULATIVE PREFERRED STOCK

The 6% Non-Redeemable, Non-Cumulative Preferred Stock ranks senior to Common Stock and the holders thereof are entitled in liquidation to receive $100 per share, plus accrued dividends. At December 31, 2020, the liquidation value of the Company's Preferred Stock was $0.2 million.

NOTE 5: ENERGY SUPPLY

Electric Supply:

Unitil Energy is a member of the New England Power Pool (NEPOOL) and participates in the Independent System Operator-New England (ISO-NE) markets for the purpose of facilitating wholesale electric power supply transactions, which are necessary to serve its electric customers with their supply of electricity.

Unitil Energy's customers are entitled to purchase their electric supply from competitive third-party suppliers. As of December 2020, nearly 77% of Unitil Energy's largest customers, representing 23% of the Company's electric kilowatt-hour (kWh) sales, are purchasing their electric power supply in the competitive market.

The percentage of residential customers purchasing electricity from a third party supplier is 8.3%, down 0.6% from 2019 and reflecting a downward trend from a high of 13% in 2015. Most residential and small commercial customers continue to purchase their electric supply through Unitil Energy under regulated energy rates and tariffs.

Regulated Electric Power Supply

In order to provide regulated electric supply service to its customers, Unitil Energy enters into load-following wholesale electric power supply contracts to purchase electric supply from various wholesale suppliers.

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

The NHPUC regularly reviews alternatives to its procurement policy, which may lead to future changes in this regulated power supply procurement structure.

Regional Electric Transmission and Power Markets

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

Electric Power Supply Divestiture

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

NOTE 6: COMMITMENTS AND CONTINGENCIES

Regulatory Matters - Overview - Unitil Energy distributes electricity to approximately 77,200 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, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil Energy recovers the cost of providing distribution service to its customers based on a representative test year, in addition to earning a return on its capital investment in utility assets. The Company's customers have the opportunity to purchase their electric supplies from third-party suppliers. Most small and medium-sized customers, however, continue to purchase such supplies through Unitil Energy as the provider of default service energy supply. Unitil Energy purchases electricity for default service from unaffiliated wholesale suppliers and recovers the actual costs of these supplies, without profit or markup, through reconciling, pass-through rate mechanisms that are periodically adjusted.

Unitil Energy provides electric distribution service to its customers pursuant to rates approved by the NHPUC. See "Base Rates" for a discussion of the Company's current rates. As the provider of last resort, Unitil Energy also provides its customers with electric power through Default Service at rates which reflect Unitil Energy's costs for wholesale supply with no profit or markup. Unitil Energy procures Default Service power for its larger commercial and industrial customers on a quarterly basis, and for its smaller commercial and residential customers through a portfolio of longer term contracts procured on a semi-annual basis. Unitil Energy recovers its costs for this service on a pass-through basis through reconciling rate mechanisms.

Tax Cuts and Jobs Act of 2017 - On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law. Among other things, the TCJA substantially reduced the corporate income tax rate to 21%, effective January 1, 2018. The NHPUC issued an order directing how the tax law changes were to be reflected in rates. Unitil Energy has complied with this order and has made the required changes to its rates as directed by the NHPUC.

On November 21, 2019, FERC issued Order No. 864, a final rule on Public Utility Transmission Rate Changes to Address Accumulated Deferred Income Taxes. The new rule requires public utilities with formula transmission rates to revise their formula rates to include a transparent methodology to address the TCJA and future tax law changes on customer rates by accounting for "excess" or "deficient" Accumulated Deferred Income Taxes (ADIT). FERC also required transmission providers with stated rates to account for TCJA's effect on ADIT in their next rate case. The Company is complying with the new rule and there is no material effect on its financial position, operating results, or cash flows.

Base Rates - On April 20, 2017 the NHPUC issued its final order effective May 1, 2017, providing for a permanent increase of $4.1 million followed by two annual rate step adjustments to recover the revenue requirements associated with certain capital expenditures. On April 30, 2018, the NHPUC approved Unitil Energy's first step increase, effective May 1, 2018. On April 22, 2019, the NHPUC approved Unitil Energy's second and final step adjustment, providing a revenue increase of approximately $340,000, effective May 1, 2019.

Financial Effects of COVID-19 Pandemic - The NHPUC has opened a proceeding to consider the revenue and cost effects on the regulated gas and electric utilities within their respective jurisdictions of the requirement to continue the availability of gas, electric and water service to customers during the COVID-19 pandemic. Among the effects under investigation are the revenue effects associated with service disconnection moratoriums, the waiver of certain fees and expanded customer payments arrangements; the increased cost of customer accounts that cannot be collected, including the cost of bad debt reserves and increased working capital costs; and increased operating and maintenance costs incurred for employees to work safely and protect the public. Unitil Energy is an active participant in these proceedings, and is in full compliance with all regulatory orders governing service shut-off moratoriums and other customer service protection measures. These matters remain pending.

Reconciliation Filings - Unitil Energy has a number of regulatory reconciling accounts which require annual or semi-annual filings with the NHPUC to reconcile costs and revenues and seek approval of any rate changes. These filings include: annual electric reconciliation filings for a number of items, including default service, stranded cost charges and transmission charges; costs associated with energy efficiency programs in New Hampshire as directed by the NHPUC; recovery of the ongoing costs of storm repairs incurred by Unitil Energy; and the actual wholesale energy costs for electric power incurred by Unitil Energy. Unitil Energy has been, and remains in full compliance with all directives and orders regarding these filings. The Company considers these to be routine regulatory proceedings and there are no material issues outstanding.

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

Market Risk - Although the Company is subject to commodity price risk as part of its traditional operations, the current regulatory framework within which the Company operates allows for full collection of approved fuel costs in rates. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, the Company has divested its commodity-related contracts and therefore, has further reduced its exposure to commodity risk.

NOTE 7: INCOME TAXES

Provisions for Federal and State Income Taxes reflected as operating expenses in the accompanying consolidated statements of earnings for the years ended December 31, 2020, 2019 and 2018 are shown in the following table:

	(000's)		
	2020	2019	2018
Current Income Tax Provision			
Federal	**$ —**	$ —	$ —
State	**—**	—	—
Total Current Income Taxes	**—**	—	—
Deferred Income Tax Provision			
Federal	**2,169**	2,040	2,477
State	**861**	811	730
Total Deferred Income Taxes	**3,030**	2,851	3 207
Total Income Tax Expense	**$ 3,030**	$ 2,851	$ 3,207

The differences between the Company's provisions for Income Taxes and the provisions calculated at the statutory federal tax rate, expressed in percentages, are shown in the following table:

	2020	2019	2018
Statutory Federal Income Tax Rate	**21%**	**21%**	21%
Income Tax Effects of:			
State Income Taxes, net	**6**	**6**	6
Utility Plant Differences	**—**	**—**	—
Effective Income Tax Rate	**27%**	**27%**	27%

Temporary differences which gave rise to deferred tax assets and liabilities in 2020 and 2019, are shown in the following table:

Temporary Differences (000's)		**2020**		2019
Deferred Tax Assets				
Retirement Benefit Obligations	**$**	**16,164**	$	14,592
Net Operating Loss Carryforwards		**---**		2,520
Other, net		**150**		142
Total Deferred Tax Assets	**$**	**16,314**	$	17,254
Deferred Tax Liabilities				
Utility Plant Differences	**$**	**40,134**	$	38,429
Regulatory Assets & Liabilities		**2,104**		827
Other, net		**337**		468
Total Deferred Tax Liabilities		**42,575**		39,724
Net Deferred Tax Liabilities	**$**	**26,261**	$	22,470

In March 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. The CARES Act included several tax changes as part of its economic package. These changes principally related to expanded Net Operating Loss (NOL) carryback periods, increases to interest deductibility limitations, and accelerated Alternative Minimum Tax (AMT) refunds. The Company has evaluated these items and determined that these items do not have a material impact on the Company's financial statements as of December 31, 2020. Additionally, the CARES Act enacted the Employment Retention Credit (ERC) to incentivize companies to retain employees. The ERC is a 50% credit on employee wages for employees that are retained and cannot perform their job duties at 100% capacity as a result of coronavirus pandemic restrictions. The ERC is taken as a credit on employment tax form 941. In the third quarter of 2020, the Company recorded an ERC of $32.5 thousand as a reduction to employment tax expense which is recorded as a reduction to Taxes other than Income Taxes in the consolidated statement of earnings.

In December 2020, the Consolidated Appropriations Act, 2021 (CAA) was signed into law. The CAA included additional funding through tax credits as part of its economic package for 2021. The Company evaluated these items in its tax computation as of December 31, 2020 and determined that these items do not have a material impact on the Company's financial statements as of December 31, 2020.

In December 2017, the TCJA, which included a reduction to the corporate federal income tax rate to 21% effective January 1, 2018, was signed into law. In accordance with GAAP Accounting Standard 740, the Company revalued its Accumulated Deferred Income Taxes (ADIT) at the new 21% tax rate at which the ADIT will be reversed in future periods. As of December 31, 2020 and December 31, 2019 the Company had recorded a net Regulatory Liability in the amount of $16.6 million and $16.6 million, respectively, as a result of the ADIT revaluation.

Based on communications received by the Company from its state regulators in rate cases and other regulatory proceedings in the first quarter of 2018 and as prescribed in the TCJA, the recent FERC guidance and IRS normalization rules; the benefit of these excess ADIT amounts will be subject to flow back to customers in future utility rates according to the Average Rate Assumption Method (ARAM). ARAM reconciles excess ADIT at the reversal rate of the underlying book/tax temporary timing differences. The Company estimates the ARAM flow back period to be approximately twenty years, for protected and unprotected excess ADIT. New Hampshire liabilities will begin to flow back once rate proceedings have finalized in that jurisdiction.

The Company evaluated its tax positions at December 31, 2020 in accordance with the FASB Codification, and has concluded that no adjustment for recognition, derecognition, settlement and foreseeable future events to any tax liabilities or assets as defined by the FASB Codification is required. The Company remains subject to examination by Federal and New Hampshire tax authorities for the tax periods ended December 31, 2017; December 31, 2018; and December 31, 2019. Income tax filings for the year ended December 31, 2019 have been filed with the New Hampshire Department of Revenue Administration.

NOTE 8: RETIREMENT BENEFIT OBLIGATIONS

The Company co-sponsors the following retirement benefit plans to provide certain pension and postretirement benefits for its retirees and current employees as follows:

- The Unitil Corporation Retirement Plan (Pension Plan) - The Pension Plan is a defined benefit pension plan. Under the Pension Plan, retirement benefits are based upon an employee's level of compensation and length of service. The Pension Plan is closed to new non-union employees. The Pension Plan was closed to union employees covered under the collective bargaining agreement, entered into during 2012 between Unitil Energy and IBEW Local 1837, and hired subsequent to June 1, 2012.

- The Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan) - The PBOP Plan provides health care and life insurance benefits to retirees. The Company has established Voluntary Employee Benefit Trusts (VEBT), into which it funds contributions to the PBOP Plan.

- The Unitil Corporation Supplemental Executive Retirement Plan (SERP) - The SERP is a non-qualified retirement plan, with participation limited to executives selected by the Board of Directors.

The following table includes the key assumptions used in determining the Company's benefit plan costs and obligations:

Used to Determine Plan costs for years ended December 31:	**2020**	2019	2018
Discount Rate	**3.25%**	4.25%	3.60%
Rate of Compensation Increase	**3.00%**	3.00%	3.00%
Expected Long-term Rate of Return on Plan Assets	**7.40%**	7.50%	7.75%
Health Care Cost Trend Rate Assumed for Next Year	**7.00%**	7.00%	7.50%
Ultimate Health Care Cost Trend Rate	**4.50%**	4.50%	4.50%
Year that Ultimate Health Care Cost Trend Rate is reached	**2029**	2024	2024

UNITIL ENERGY SYSTEMS, INC.
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December 31, 2020, 2019 and 2018

Used to Determine Benefit Obligations at December 31:	**2020**	2019	2018
Discount Rate	**2.50%**	3.25%	4.25%
Rate of Compensation Increase	**3.00%**	3.00%	3.00%
Health Care Cost Trend Rate Assumed for Next Year	**6.60%**	7.00%	7.00%
Ultimate Health Care Cost Trend Rate	**4.50%**	4.50%	4.50%
Year that Ultimate Health care Cost Trend Rate is reached	**2029**	2029	2024

The Discount Rate assumptions used in determining retirement plan costs and retirement plan obligations are based on an assessment of current market conditions using high quality corporate bond interest rate indices and pension yield curves. The Rate of Compensation Increase assumption used in each of 2020, 2019 and 2018 was 3.00%, based on the expected long-term increase in compensation costs for personnel covered by the plans.

The following table provides the components of the Company's retirement plan costs (000's):

	Pension Plan			PBOP Plan			SERP		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
Service Cost	**$ 892**	$ 830	$ 903	**$ 715**	$ 565	$ 724	**$ 80**	$ 70	$ 134
Interest Cost	**2,053**	2,319	2,070	**989**	1,060	1,035	**155**	160	111
Expected Return on Plan Assets	**(3,207)**	(3,030)	(2,741)	**(462)**	(356)	(345)	**---**	---	---
Prior Service Cost Amortization	**---**	---	2	**485**	484	484	**16**	16	52
Actuarial Loss Amortization	**2,374**	1,629	2,230	**325**	102	495	**291**	177	133
Sub-total	**2,112**	1,748	2,464	**2,052**	1,855	2,393	**542**	423	430
Amounts Capitalized and Deferred	**(1,052)**	(856)	(1,239)	**(1,161)**	(1,020)	(1,302)	**(159)**	(117)	(114)
NPBC Recognized	**$ 1,060**	$ 892	$ 1,225	**$ 891**	$ 835	$ 1,091	**$ 383**	$ 306	$ 316

The following table represents information on the plans' assets, projected benefit obligations (PBO), and funded status (000's):

	Pension Plan		PBOP Plan		SERP	
	2020	2019	**2020**	2019	**2020**	2019
Change in Plan Assets:						
Plan Assets at Beginning of Year	**$ 49,751**	$ 44,070	**$ 7,701**	$ 6,211	**$ ---**	$ ---
Actual Return on Plan Assets	**4,141**	6,171	**839**	931	**---**	---
Employer Contributions	**1,282**	1,889	**1,284**	1,169	**184**	172
Participant Contributions	**---**	---	**87**	41	**---**	---
Benefits Paid	**(2,078)**	(2,379)	**(951)**	(651)	**(184)**	(172)
Plan Assets at End of Year	**$ 53,096**	$ 49,751	**$ 8,960**	$ 7,701	**$ ---**	$ ---
Change in PBO:						
PBO at Beginning of Year	**$ 72,056**	$ 63,851	**$ 33,372**	$ 28,455	**$ 6,454**	$ 5,242
Service Cost	**892**	830	**715**	565	**80**	70
Interest Cost	**2,053**	2,319	**989**	1,060	**155**	160
Participant Contributions	**---**	---	**87**	41	**---**	---
Plan Amendments	**---**	---	**---**	---	**---**	64
Benefits Paid	**(2,078)**	(2,379)	**(951)**	(651)	**(184)**	(172)
Actuarial (Gain) or Loss	**6,714**	7,435	**2,157**	3,902	**567**	1,090
PBO at End of Year	**$ 79,637**	$ 72,056	**$ 36,369**	$ 33,372	**$ 7,072**	$ 6,454
Funded Status: Assets vs PBO	**$ (26,541)**	$ (22,305)	**$ (27,409)**	$ (25,671)	**$ (7,072)**	$ (6,454)

The increases in the PBO for the Pension and PBOP plans as of December 31, 2020 compared to December 31, 2019 reflects a decrease in the assumed discount rate as of December 31, 2020.

The funded status of the Pension, PBOP and SERP Plans is calculated based on the difference between the benefit obligation and the fair value of plan assets and is recorded on the balance sheets as an asset or a liability. Because the Company recovers the retiree benefit costs from customers through rates, regulatory assets are recorded in lieu of an adjustment to Accumulated Other Comprehensive Income/ (Loss).

The Company has recorded on its Balance Sheets a liability for the underfunded status of its retirement benefit obligations based on the projected benefit obligation. The Company has recognized Regulatory Assets, net of tax, of $39.2 million and $34.2 million at December 31, 2020 and 2019, respectively, to recognize the future collection of these plan obligations in electric rates.

The Accumulated Benefit Obligation (ABO) is required to be disclosed for all plans where the ABO is in excess of plan assets. The difference between the PBO and the ABO is that the PBO includes projected compensation increases. The ABO for the Pension Plan was $73.5 million and $66.0 million as of December 31, 2020 and 2019, respectively. The ABO for the SERP was $5.9 million and $4.9 million as of December 31, 2020 and 2019, respectively. For the PBOP Plan, the ABO and PBO are the same.

The Company expects to continue to make contributions to its Pension Plan in 2021 and future years at minimum required and discretionary funding levels consistent with the amounts recovered in rates for these Pension Plan costs.

The following table represents employer contributions, participant contributions and benefit payments ($000's).

	Pension Plan			PBOP Plan			SERP		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
Employer Contributions	**$ 1,282**	$ 1,889	$ 4,742	**$ 1,284**	$ 1,169	$ 1,130	**$ 184**	$ 172	$ 110
Participant Contributions	**$ ---**	$ ---	$ ---	**$ 87**	$ 41	$ 51	**$ ---**	$ ---	$ --
Benefit Payments	**$ 2,078**	$ 2,379	$ 1,800	**$ 951**	$ 651	$ 803	**$ 184**	$ 172	$ 110

The following table represents estimated future benefit payments ($000's).

Estimated Future Benefit Payments	Pension	PBOP	SERP
2021	$ 2,449	$ 1,050	$ 179
2022	2,550	1,069	179
2023	2,713	1,163	179
2024	2,859	1,251	178
2025	3,077	1,335	333
2026 - 2030	$ 18,235	$ 7,418	$ 1,763

The Expected Long-Term Rate of Return on Pension Plan assets assumption used by the Company is developed based on input from actuaries and investment managers. The Company's Expected Long-Term Rate of Return on Pension Plan assets is based on target investment allocation of 56% in common stock equities, 39% in fixed income securities and 5% in real estate securities. The Company's Expected Long-Term Rate of Return on PBOP Plan assets is based on target investment allocation of 55% in common stock equities and 45% in fixed income securities. The actual investment allocations are shown in the following tables.

Pension Plan	**Target Allocation**	**Actual Allocation at December 31,**		
	2021	**2020**	**2019**	**2018**
Equity Funds	56%	**58%**	54%	49%
Debt Funds	39%	**37%**	36%	40%
Real Estate Fund	5%	**4%**	9%	10%
Other(1)	---	**1%**	1%	1%
Total		**100%**	100%	100%

(1) Represents investments being held in cash equivalents as of December 31, 2020, December 31, 2019 and 2018 pending payment of benefits.

PBOP Plan	**Target Allocation**	**Actual Allocation at December 31,**		
	2021	**2020**	**2019**	**2018**
Equity Funds	55%	**55%**	56%	53%
Debt Funds	45%	**45%**	44%	47%
Total		**100%**	100%	100%

The combination of these target allocations and expected returns resulted in the overall assumed long-term rate of return of 7.40% for 2020. The Company evaluates the actuarial assumptions, including the expected rate of return, at least annually. The desired investment objective is a long-term rate of return on assets that is approximately 5 – 6% greater than the assumed rate of inflation as measured by the Consumer Price Index. The target rate of return for the Plans has been based upon an analysis of historical returns supplemented with an economic and structural review for each asset class.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2020 and 2019. See the "Fair Value" section of Note 1 (Summary of Significant Accounting Policies) for a discussion of the Company's fair value accounting policy.

<u>Equity and Fixed Income Funds</u>
These investments are valued based on quoted prices from active markets. These securities are categorized in Level 1 as they are actively traded and no valuation adjustments have been applied.

<u>Cash Equivalents</u>
These investments are valued at cost, which approximates fair value, and are categorized in Level 1.

<u>Real Estate Fund</u>
These investments are valued at net asset value (NAV) per unit based on a combination of market- and income-based models utilizing market discount rates, projected cash flows and the estimated value into perpetuity. In accordance with FASB Codification Topic 820, "Fair Value Measurement", these investments have not been classified in the fair value hierarchy. The fair value amounts presented in the following tables for the Real Estate Fund are intended to permit reconciliation of the fair value hierarchy to the "Plan Assets at End of Year" line item shown in the "Change in Plan Assets" table above.

Assets measured at fair value on a recurring basis for the Pension Plan as of December 31, 2020 and 2019 are as follows ($000's):

	Fair Value Measurements at Reporting Date Using			
Description	Balance as of December 31,	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020				
Pension Plan Assets:				
Equity Funds	$ 30,815	$ 30,815	$ ---	$ ---
Fixed Income Funds	19,537	19,537	---	---
Total Mutual Funds	50,352	50,352	---	---
Cash Equivalents	494	494	---	---
Total Assets in the Fair Value Hierarchy	$ 50,846	$ 50,846	$ ---	$ ---
Real Estate Fund – Measured at Net Asset Value	2,250			
Total Assets	$ 53,096			
2019				
Pension Plan Assets:				
Equity Funds	$ 27,237	$ 27,237	$ ---	$ ---
Fixed Income Funds	17,795	17,795	---	---
Total Mutual Funds	45,032	45,032	---	---
Cash Equivalents	297	297	---	---
Total Assets in the Fair Value Hierarchy	$ 45,329	$ 45,329	$ ---	$ ---
Real Estate Fund – Measured at Net Asset Value	4,422			
Total Assets	$ 49,751			

Assets measured at fair value on a recurring basis for the PBOP Plan as of December 31, 2020 and 2019 are as follows ($000's):

			Fair Value Measurements at Reporting Date Using					
Description		**Balance as of December 31,**		**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**		**Significant Unobservable Inputs (Level 3)**
2020								
PBOP Plan Assets:								
Mutual Funds:								
Fixed Income Funds	$	4,014	$	4,014	$	---	$	---
Equity Funds		4,946		4,946		---		---
Total Assets	$	8,960	$	8,960	$	---	$	---
2019								
PBOP Plan Assets:								
Mutual Funds:								
Fixed Income Funds	$	3,356	$	3,356	$	---	$	---
Equity Funds		4,345		4,345		---		---
Total Assets	$	7,701	$	7,701	$	---	$	---

Employee 401(k) Tax Deferred Savings Plan - The Company co-sponsors the Unitil Corporation Tax Deferred Savings and Investment Plan (the 401(k) Plan) under Section 401(k) of the Internal Revenue Code and covering substantially all of the Company's employees. Participants may elect to defer current compensation by contributing to the plan. Employees may direct, at their sole discretion, the investment of their savings plan balances (both the employer and employee portions) into a variety of investment options, including a Company common stock fund.

The Company's share of contributions to the 401(k) Plan was $779,500, $744,300 and $686,000 for the years ended December 31, 2020, 2019, and 2018, respectively.

UNITIL ENERGY SYSTEMS, INC.
WEIGHTED AVERAGE COST OF DEBT
Proformed for the Issuance and Sale of $27,500,000 First Mortgage Bonds

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Description of Debt	Interest Rate	Maturity Date	Term	Date Issued	Face Value	Outstanding Amount	Issuance Costs	Net Proceeds Ratio [(6)-(8)/(6)]	Unamortized Issuance Costs	Net Proceeds Outstanding (7)-(10)	Annual Issuance Cost	Annual Interest Cost (2)*(7)	Total Annual Cost (12)+(13)	Cost Rate Based on Net Proceeds (14)/[(7)-(10)]
Existing Debt														
Long Term Debt														
FMB Series I	8.49%	10/14/2024	30 Yrs	10/14/1994	$ 6,000,000	$ 1,200,000	$ 141,750	97.64%	$ 18,034	$ 1,181,966	$ 4,756	$ 101,880	$ 106,636	9.02%
FMB Series J	6.96%	9/1/2028	30 Yrs	9/1/1998	10,000,000	8,000,000	343,727	96.56%	88,011	7,911,989	11,480	556,800	568,280	7.18%
FMB Series K	8.00%	5/1/2031	30 Yrs	5/1/2001	7,500,000	7,500,000	236,989	96.84%	50,381	7,449,619	4,876	600,000	604,876	8.12%
FMB Series L	8.49%	10/14/2024	30 Yrs	10/14/1994	9,000,000	1,800,000	193,809	97.85%	24,599	1,775,401	6,488	152,820	159,308	8.97%
FMB Series M	6.96%	9/1/2028	30 Yrs	9/1/1998	10,000,000	8,000,000	230,507	97.69%	59,076	7,940,924	7,706	556,800	564,506	7.11%
FMB Series N	8.00%	5/1/2031	30 Yrs	5/1/2001	7,500,000	7,500,000	111,917	98.51%	40,280	7,459,720	3,898	600,000	603,898	8.10%
FMB Series O	6.32%	9/15/2036	30 Yrs	9/26/2006	15,000,000	15,000,000	280,242	98.13%	146,737	14,853,263	9,341	948,000	957,341	6.45%
FMB Series Q	4.18%	11/30/2048	30 Yrs	11/30/2018	30,000,000	30,000,000	535,964	98.21%	498,784	29,501,216	17,867	1,254,000	1,271,867	4.31%
12th Supplemental Indenture		12/1/2026	24 Yrs	12/1/2002			464,633		158,265	(158,265)	21,582		21,582	
Total Long Term Debt					$ 95,000,000	$ 79,000,000	$ 2,539,538		$ 1,084,167	$ 77,915,833	$ 87,993	$ 4,770,300	$ 4,858,293	6.24%

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Pro Forma Debt														
Long Term Debt														
FMB Series I	8.49%	10/14/2024	30 Yrs	10/14/1994	$ 6,000,000	$ 1,200,000	$ 141,750	97.64%	$ 18,034	$ 1,181,966	$ 4,756	$ 101,880	$ 106,636	9.02%
FMB Series J	6.96%	9/1/2028	30 Yrs	9/1/1998	10,000,000	8,000,000	343,727	96.56%	88,011	7,911,989	11,480	556,800	568,280	7.18%
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FMB Series L	8.49%	10/14/2024	30 Yrs	10/14/1994	9,000,000	1,800,000	193,809	97.85%	24,599	1,775,401	6,488	152,820	159,308	8.97%
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12th Supplemental Indenture		12/1/2026	24 Yrs	12/1/2002			464,633		158,265	(158,265)	21,582		21,582	
New FMB*	3.58%				27,500,000	27,500,000	173,526	99.37%	170,634	27,329,366	8,676	984,500	993,176	3.63%
Total Long Term Debt					$ 122,500,000	$ 106,500,000	$ 2,713,063		$ 1,254,801	$ 105,245,199	$ 96,669	$ 5,754,800	$ 5,851,469	5.56%

Weighted Average Cost of Capital

	Actual (12/31/20)				
	Amount	Percent of Total	Cost Rate	Weighted Cost Rate	Adjustment Amount
Common Equity	$ 106,351,928	48%	9.50%	4.57%	$ -
Long Term Debt	106,500,000	48%	5.56%	2.68%	-
Short Term Debt[1]	8,176,368	4%	1.27%	0.05%	-
Total	$ 221,028,295			7.30%	$ -

1 Short Term Debt Cost Rate is based on December 31, 2020 interest rate