

MIDDLESEX WATER CO
Form 10-Q
May 07, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark
One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 0-422

MIDDLESEX WATER COMPANY

(Exact name of registrant as specified in its charter)

New Jersey **22-1114430**

(State of incorporation) (IRS employer identification no.)

1500 Ronson Road, Iselin, New Jersey 08830

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(Address of principal executive offices, including zip code)

(732) 634-1500

(Registrant's telephone number, including area code)

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 during the preceding 12 months (or such shorter period that the registrant was required to submit and post 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.

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

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

Yes No

The number of shares outstanding of each of the registrant's classes of common stock, as of April 30, 2013: Common Stock, No Par Value: 15,819,812 shares outstanding.

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MIDDLESEX WATER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands except per share amounts)

| | Three Months Ended March 31, | |
|--|------------------------------|-----------|
| | 2013 | 2012 |
| Operating Revenues | \$ 27,038 | \$ 23,546 |
| Operating Expenses: | | |
| Operations and Maintenance | 15,430 | 14,375 |
| Depreciation | 2,709 | 2,548 |
| Other Taxes | 3,034 | 2,746 |
| Total Operating Expenses | 21,173 | 19,669 |
| Operating Income | 5,865 | 3,877 |
| Other Income (Expense): | | |
| Allowance for Funds Used During Construction | 38 | 136 |
| Other Income | 97 | 192 |
| Other Expense | (10) | (140) |
| Total Other Income, net | 125 | 188 |
| Interest Charges | 1,155 | 1,354 |
| Income before Income Taxes | 4,835 | 2,711 |
| Income Taxes | 1,658 | 904 |
| Net Income | 3,177 | 1,807 |
| Preferred Stock Dividend Requirements | 52 | 52 |
| Earnings Applicable to Common Stock | \$ 3,125 | \$ 1,755 |
| Earnings per share of Common Stock: | | |
| Basic | \$ 0.20 | \$ 0.11 |
| Diluted | \$ 0.20 | \$ 0.11 |
| Average Number of Common Shares Outstanding: | | |
| Basic | 15,806 | 15,692 |

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| | | |
|--------------------------------------|-----------|-----------|
| Diluted | 16,069 | 15,955 |
| Cash Dividends Paid per Common Share | \$ 0.1875 | \$ 0.1850 |

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

| | | March 31, 2013 | December 31, 2012 |
|---|---|----------------------|-------------------------|
| ASSETS | | | |
| UTILITY PLANT: | Water Production | \$ 130,206 | \$ 129,840 |
| | Transmission and Distribution | 343,461 | 343,074 |
| | General | 54,857 | 54,830 |
| | Construction Work in Progress | 11,682 | 7,834 |
| | TOTAL | 540,206 | 535,578 |
| | Less Accumulated Depreciation | 102,561 | 100,360 |
| | UTILITY PLANT - NET | 437,645 | 435,218 |
| CURRENT ASSETS: | | | |
| | Cash and Cash Equivalents | 4,508 | 3,025 |
| | Accounts Receivable, net | 11,617 | 12,447 |
| | Unbilled Revenues | 5,455 | 5,483 |
| | Materials and Supplies (at average cost) | 1,976 | 1,403 |
| | Prepayments | 1,741 | 2,255 |
| | TOTAL CURRENT ASSETS | 25,297 | 24,613 |
| DEFERRED CHARGES AND OTHER ASSETS: | | | |
| | Unamortized Debt Expense | 3,615 | 3,606 |
| | Preliminary Survey and Investigation Charges | 5,009 | 5,117 |
| | Regulatory Assets | 60,113 | 72,831 |
| | Operations Contracts, Developer and Other Receivables | 598 | 992 |
| | Restricted Cash | 2,634 | 9,019 |
| | Non-utility Assets - Net | 10,825 | 9,882 |
| | Other | 408 | 448 |
| | TOTAL DEFERRED CHARGES AND OTHER ASSETS | 83,202 | 101,895 |
| | TOTAL ASSETS | \$546,144 | \$561,726 |
| CAPITALIZATION AND LIABILITIES | | | |
| CAPITALIZATION: | | | |
| | Common Stock, No Par Value | \$ 144,056 | \$ 143,572 |
| | Retained Earnings | 38,222 | 38,060 |
| | TOTAL COMMON EQUITY | 182,278 | 181,632 |
| | Preferred Stock | 3,353 | 3,353 |
| | Long-term Debt | 130,528 | 131,467 |
| | TOTAL CAPITALIZATION | 316,159 | 316,452 |
| CURRENT LIABILITIES: | | | |
| | Current Portion of Long-term Debt | 5,122 | 11,130 |
| | Notes Payable | 27,450 | 27,950 |
| | Accounts Payable | 4,526 | 3,808 |

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| | | |
|---|---------------|---------------|
| Accrued Taxes | 11,235 | 9,266 |
| Accrued Interest | 1,269 | 955 |
| Unearned Revenues and Advanced Service Fees | 752 | 756 |
| Other | 1,416 | 2,067 |
| TOTAL CURRENT LIABILITIES | 51,770 | 55,932 |

COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)

| | | | |
|--------------------------------------|--|------------------|------------------|
| DEFERRED CREDITS | Customer Advances for Construction | 22,486 | 21,990 |
| AND OTHER LIABILITIES: | Accumulated Deferred Investment Tax Credits | 1,048 | 1,068 |
| | Accumulated Deferred Income Taxes | 40,622 | 41,776 |
| | Employee Benefit Plans | 43,915 | 54,768 |
| | Regulatory Liability - Cost of Utility Plant Removal | 9,015 | 8,811 |
| | Other | 972 | 973 |
| | TOTAL DEFERRED CREDITS AND OTHER LIABILITIES | 118,058 | 129,386 |
| CONTRIBUTIONS IN AID OF CONSTRUCTION | | 60,157 | 59,956 |
| | TOTAL CAPITALIZATION AND LIABILITIES | \$546,144 | \$561,726 |

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$3,177 | \$1,807 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 2,866 | 2,620 |
| Provision for Deferred Income Taxes and Investment Tax Credits | 711 | 514 |
| Equity Portion of Allowance for Funds Used During Construction (AFUDC) | (24) | (82) |
| Cash Surrender Value of Life Insurance | (59) | (68) |
| Stock Compensation Expense | 77 | 174 |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | 1,224 | 995 |
| Unbilled Revenues | 28 | 255 |
| Materials & Supplies | (573) | 20 |
| Prepayments | 514 | 501 |
| Accounts Payable | 718 | (880) |
| Accrued Taxes | 1,969 | 2,297 |
| Accrued Interest | 314 | (722) |
| Employee Benefit Plans | (94) | 100 |
| Unearned Revenue & Advanced Service Fees | (4) | (50) |
| Other Assets and Liabilities | (589) | (334) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 10,255 | 7,147 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Utility Plant Expenditures, Including AFUDC of \$14 in 2013, \$54 in 2012 | (4,506) | (6,433) |
| Restricted Cash | 98 | 742 |
| Investment in Joint Venture | (750) | — |
| NET CASH USED IN INVESTING ACTIVITIES | (5,158) | (5,691) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Redemption of Long-term Debt | (6,887) | (844) |
| Proceeds from Issuance of Long-term Debt | 11 | 576 |
| Net Short-term Bank Borrowings | (500) | (1,000) |
| Restricted Cash | 6,070 | — |
| Proceeds from Issuance of Common Stock | 407 | 402 |
| Payment of Common Dividends | (2,963) | (2,902) |
| Payment of Preferred Dividends | (52) | (52) |

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| | | |
|--|----------|---------|
| Construction Advances and Contributions-Net | 300 | 112 |
| NET CASH USED IN FINANCING ACTIVITIES | (3,614) | (3,708) |
| NET CHANGES IN CASH AND CASH EQUIVALENTS | 1,483 | (2,252) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 3,025 | 3,106 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$4,508 | \$854 |

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:

| | | |
|---|-------|-------|
| Utility Plant received as Construction Advances and Contributions | \$397 | \$298 |
| Long-term Debt Deobligation | \$64 | \$— |

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

| | | |
|--------------------------------|---------|---------|
| Cash Paid During the Year for: | | |
| Interest | \$932 | \$2,187 |
| Interest Capitalized | \$14 | \$54 |
| Income Taxes | \$1,130 | \$— |

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CAPITAL STOCK

AND LONG-TERM DEBT

(Unaudited)

(In thousands)

| | | March 31, 2013 | December 31, 2012 |
|--|---------------|-------------------|----------------------|
| Common Stock, No Par Value | | | |
| Shares Authorized - | 40,000 | | |
| Shares Outstanding - | 2013 - 15,814 | \$ 144,056 | \$ 143,572 |
| | 2012 - 15,795 | | |
| Retained Earnings | | 38,222 | 38,060 |
| TOTAL COMMON EQUITY | | \$ 182,278 | \$ 181,632 |
| Cumulative Preferred Stock, No Par Value: | | | |
| Shares Authorized - | 134 | | |
| Shares Outstanding - | 32 | | |
| Convertible: | | | |
| Shares Outstanding, \$7.00 Series - 14 | | 1,457 | 1,457 |
| Shares Outstanding, \$8.00 Series - 7 | | 816 | 816 |
| Nonredeemable: | | | |
| Shares Outstanding, \$7.00 Series - 1 | | 80 | 80 |
| Shares Outstanding, \$4.75 Series - 10 | | 1,000 | 1,000 |
| TOTAL PREFERRED STOCK | | \$ 3,353 | \$ 3,353 |
| Long-term Debt: | | | |
| 8.05%, Amortizing Secured Note, due December 20, 2021 | | \$ 2,129 | \$ 2,169 |
| 6.25%, Amortizing Secured Note, due May 19, 2028 | | 6,370 | 6,475 |
| 6.44%, Amortizing Secured Note, due August 25, 2030 | | 4,877 | 4,947 |
| 6.46%, Amortizing Secured Note, due September 19, 2031 | | 5,157 | 5,227 |
| 4.22%, State Revolving Trust Note, due December 31, 2022 | | 506 | 506 |
| 3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025 | | 3,396 | 3,413 |
| 3.49%, State Revolving Trust Note, due January 25, 2027 | | 586 | 602 |
| 4.03%, State Revolving Trust Note, due December 1, 2026 | | 784 | 784 |
| 4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021 | | 388 | 388 |
| 0.00%, State Revolving Fund Bond, due August 1, 2021 | | 313 | 320 |
| 3.64%, State Revolving Trust Note, due July 1, 2028 | | 347 | 347 |
| 3.64%, State Revolving Trust Note, due January 1, 2028 | | 116 | 116 |
| 3.45%, State Revolving Trust Note, due August 1, 2031 | | 408 | 397 |
| 6.59%, Amortizing Secured Note, due April 20, 2029 | | 5,610 | 5,697 |
| 7.05%, Amortizing Secured Note, due January 20, 2030 | | 4,209 | 4,271 |

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| | | |
|--|------------|------------|
| 5.69%, Amortizing Secured Note, due January 20, 2030 | 8,632 | 8,761 |
| 3.75%, State Revolving Trust Note, due July 1, 2031 | 2,615 | 2,615 |
| 3.75%, State Revolving Trust Note, due November 30, 2030 | 1,388 | 1,388 |
| First Mortgage Bonds: | | |
| 0.00%, Series X, due September 1, 2018 | 316 | 322 |
| 4.25% to 4.63%, Series Y, due September 1, 2018 | 355 | 355 |
| 0.00%, Series Z, due September 1, 2019 | 766 | 782 |
| 5.25% to 5.75%, Series AA, due September 1, 2019 | 955 | 955 |
| 0.00%, Series BB, due September 1, 2021 | 1,064 | 1,085 |
| 4.00% to 5.00%, Series CC, due September 1, 2021 | 1,275 | 1,275 |
| 5.10%, Series DD, due January 1, 2032 | — | 6,000 |
| 0.00%, Series EE, due August 1, 2023 | 4,296 | 4,386 |
| 3.00% to 5.50%, Series FF, due August 1, 2024 | 5,755 | 5,755 |
| 0.00%, Series GG, due August 1, 2026 | 1,242 | 1,262 |
| 4.00% to 5.00%, Series HH, due August 1, 2026 | 1,560 | 1,560 |
| 0.00%, Series II, due August 1, 2024 | 1,038 | 1,060 |
| 3.40% to 5.00%, Series JJ, due August 1, 2027 | 1,235 | 1,235 |
| 0.00%, Series KK, due August 1, 2028 | 1,410 | 1,435 |
| 5.00% to 5.50%, Series LL, due August 1, 2028 | 1,570 | 1,570 |
| 0.00%, Series MM, due August 1, 2030 | 1,704 | 1,801 |
| 3.00% to 4.375%, Series NN, due August 1, 2030 | 1,910 | 1,910 |
| 0.00%, Series OO, due August 1, 2031 | 2,809 | 2,860 |
| 2.00% to 5.00%, Series PP, due August 1, 2031 | 915 | 915 |
| 5.00%, Series QQ, due October 1, 2023 | 9,915 | 9,915 |
| 3.80%, Series RR, due October 1, 2038 | 22,500 | 22,500 |
| 4.25%, Series SS, due October 1, 2047 | 23,000 | 23,000 |
| SUBTOTAL LONG-TERM DEBT | 133,421 | 140,361 |
| Add: Premium on Issuance of Long-term Debt | 2,229 | 2,236 |
| Less: Current Portion of Long-term Debt | (5,122) | (11,130) |
| TOTAL LONG-TERM DEBT | \$ 130,528 | \$ 131,467 |

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Recent Developments

Middlesex Water Company (Middlesex or the Company) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Tidewater Environmental Services, Inc. (TESI), Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy) Inc. (USA-PA), and Twin Lakes Utilities, Inc. (Twin Lakes). Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh) are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

The consolidated notes within the 2012 Annual Report on Form 10-K (the 2012 Form 10-K) are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of March 31, 2013 and the results of operations and cash flows for the three month periods ended March 31, 2013, and 2012. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2012, has been derived from the Company's audited financial statements for the year ended December 31, 2012 included in the 2012 Form 10-K. Certain reclassifications have been made to prior year financial statements to conform with current year presentation.

Borough of Sayreville, New Jersey and Hess Corporation

Middlesex has received notification from the Borough of Sayreville, New Jersey (Sayreville), one of Middlesex's wholesale contract customers, that Sayreville will not be renewing its contract for the purchase of water from Middlesex. In accordance with the terms, this contract will remain in effect through August 12, 2013. Middlesex is exploring options with Sayreville for its ongoing emergency water supply requirements. Gross operating revenues from water sales to Sayreville amounted to \$1.9 million in 2012. In addition, Hess Corporation (Hess), Middlesex's largest retail water customer, ceased its oil refining operations at its Port Reading, New Jersey facility in February 2013. Revenues from Hess amounted to \$2.6 million in 2012. Revenue reductions from either of these customers may accelerate the need for Middlesex to file a base rate increase petition with the New Jersey Board of Public Utilities (NJBPUB).

Recent Accounting Guidance

In the first quarter of 2013, there was no new adopted or proposed accounting guidance that could have a material impact on the Company's financial statements.

Note 2 – Rate Matters

Middlesex - In April 2013, the NJBPU approved a Middlesex petition to establish a Purchased Water Adjustment Clause and implement a tariff rate sufficient to recover increased costs of \$0.1 million to purchase untreated water from the New Jersey Water Supply Authority (NJWSA) and treated water from a non-affiliated regulated water utility.

In November 2012, Middlesex filed a petition with the NJBPU seeking approval of foundational information (Foundational Filing) that would allow for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC is a rate-mechanism that allows water utilities to recover investment in capital improvements to their water distribution system made between base rate proceedings. In February 2013, the Foundational Filing was approved by the NJBPU, which allows Middlesex to implement a DSIC rate in September 2013 to recover costs for qualifying projects that are placed in service in the six-month post-approval period. The DSIC rate is allowed to increase in three subsequent six month periods for any additional qualifying projects placed in service during those time periods. The maximum annual revenue allowed to be recovered under the approved Foundational Filing is \$1.4 million.

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Pinelands - In March 2013, the NJBPU approved a combined \$0.2 million increase in Pinelands Water and Pinelands Wastewater's annual base revenues. In its initial request, filed in August 2012, Pinelands had sought an increase of \$0.3 million on a combined basis. The rate increase for the water service, which is approximately 50% of the approved increase, will be phased-in over one year.

TESI – In November 2012, TESI filed an application with the Delaware Public Service Commission (DEPSC) seeking approval to purchase all of the utility assets of the 600 customer wastewater system serving the residents of the Plantations development (the Plantations) in Rehoboth Beach, Delaware. The application also requests the transfer of the wastewater franchise from the current owner to TESI. In connection with this transaction, TESI also filed an application with DEPSC seeking an approximate \$0.1 million increase in the Plantations' residents base wastewater rates. TESI's willingness to purchase the Plantation's wastewater system is contingent upon several requirements being met to TESI's satisfaction, including, among other things, the DEPSC's approval of both applications and a rate decision by the DEPSC that provides TESI a reasonable opportunity to earn its authorized return from the date of acquisition. Evidentiary hearings have been scheduled for early June 2013. We cannot predict whether the DEPSC will ultimately approve or deny the application. A decision by the DEPSC is not expected until the third quarter of 2013.

Note 3 – Capitalization

Common Stock

During the three months ended March 31, 2013 and 2012, there were 20,991 common shares (approximately \$0.4 million) and 21,449 common shares (approximately \$0.4 million), respectively, issued under the Company's Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan.

Long-term Debt

In January 2013, the NJBPU approved Middlesex's request to borrow up to \$4.0 million through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund (SRF) loan program. Middlesex expects to close on this borrowing in May 2013. Proceeds will be used for the Middlesex 2013 RENEW Program, which is our initiative to clean and cement all unlined mains in the Middlesex system.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the condensed consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and notes payable approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt relating to First Mortgage Bonds (Bonds) and SRF Notes is based on quoted market prices

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for similar issues. Under the fair value hierarchy, the fair value of cash and cash equivalents is classified as a Level 1 measurement and the fair value of notes payable and the Bonds and SRF Notes in the table below are classified as Level 2 measurements. The carrying amount and fair market value of the Company's bonds were as follows:

| | March 31, 2013 | | December 31, 2012 | |
|----------------------|-----------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| First Mortgage Bonds | \$85,590 | \$87,714 | \$91,938 | \$93,556 |
| SRF Bonds | \$701 | \$705 | \$708 | \$712 |

For other long-term debt for which there was no quoted market price, it was not practicable to estimate their fair value. The carrying amount of these instruments was \$47.1 million at March 31, 2013 and \$47.7 million at December 31, 2012. Customer advances for construction have a carrying amount of \$22.5 million and \$22.0 million, respectively, at March 31, 2013 and December 31, 2012. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Index**Note 4 – Earnings Per Share**

Basic earnings per share (EPS) are computed on the basis of the weighted average number of shares outstanding during the period presented. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and the Convertible Preferred Stock \$8.00 Series.

| | (In Thousands Except per Share Amounts) | | | |
|--|---|--------|----------|--------|
| | Three Months Ended March 31, | | | |
| | 2013 | | 2012 | |
| | Income | Shares | Income | Shares |
| Basic: | | | | |
| Net Income | \$ 3,177 | 15,806 | \$ 1,807 | 15,692 |
| Preferred Dividend | (52) | | (52) | |
| Earnings Applicable to Common Stock | \$ 3,125 | 15,806 | \$ 1,755 | 15,692 |
| Basic EPS | \$ 0.20 | | \$ 0.11 | |
| Diluted: | | | | |
| Earnings Applicable to Common Stock | \$ 3,125 | 15,806 | \$ 1,755 | 15,692 |
| \$7.00 Series Preferred Dividend | 24 | 167 | 24 | 167 |
| \$8.00 Series Preferred Dividend | 14 | 96 | 14 | 96 |
| Adjusted Earnings Applicable to Common Stock | \$ 3,163 | 16,069 | \$ 1,793 | 15,955 |
| Diluted EPS | \$ 0.20 | | \$ 0.11 | |

Note 5 – Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey, Delaware and Pennsylvania. This segment also includes regulated wastewater systems in New Jersey and Delaware. The Company is subject to regulations as to its rates, services and other matters by New Jersey, Delaware and Pennsylvania with respect to utility services within these states. The other segment is primarily comprised of non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

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| | (In Thousands) | |
|-------------------------------|--------------------|----------|
| | Three Months Ended | |
| | March 31, | |
| Operations by Segments: | 2013 | 2012 |
| Revenues: | | |
| Regulated | \$23,424 | \$20,858 |
| Non – Regulated | 3,736 | 2,758 |
| Inter-segment Elimination | (122) | (70) |
| Consolidated Revenues | \$27,038 | \$23,546 |
| Operating Income: | | |
| Regulated | \$5,338 | \$3,503 |
| Non – Regulated | 527 | 374 |
| Consolidated Operating Income | \$5,865 | \$3,877 |
| Net Income: | | |
| Regulated | \$2,910 | \$1,587 |
| Non – Regulated | 267 | 220 |
| Consolidated Net Income | \$3,177 | \$1,807 |
| Capital Expenditures: | | |
| Regulated | \$4,401 | \$6,039 |
| Non – Regulated | 105 | 394 |
| Total Capital Expenditures | \$4,506 | \$6,433 |

| | As of | As of |
|---------------------------|-------------|--------------|
| | March 31, | December 31, |
| | <u>2013</u> | <u>2012</u> |
| Assets: | | |
| Regulated | \$545,108 | \$560,165 |
| Non – Regulated | 11,089 | 11,674 |
| Inter-segment Elimination | (10,053) | (10,113) |
| Consolidated Assets | \$546,144 | \$561,726 |

Note 6 – Short-term Borrowings

As of March 31, 2013, the Company has established lines of credit aggregating \$60.0 million. At March 31, 2013, the outstanding borrowings under these credit lines were \$27.5 million at a weighted average interest rate of 1.39%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$27.9 million and \$23.8 million at 1.40% and 1.31% for the three months ended March 31, 2013 and 2012, respectively.

The maturity dates for the \$27.5 million outstanding as of March 31, 2013 are all in April 2013 and are extendable at the discretion of the Company.

Interest rates for short-term borrowings under the lines of credit are below the prime rate with no requirement for compensating balances.

Note 7 – Commitments and Contingent Liabilities

Contract Operations - USA-PA operates the City of Perth Amboy, New Jersey's water and wastewater systems under a 20-year agreement, which expires in 2018. In connection with the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater collection system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

Index*Water Supply*

Middlesex has an agreement with the NJWSA for the purchase of untreated water through November 30, 2023, which provides for an average purchase of 27 million gallons a day (mgd). Pricing is set annually by the NJWSA through a public rate making process. The agreement has provisions for additional pricing in the event Middlesex overdrafts or exceeds certain monthly and annual thresholds.

Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement, which expires February 27, 2016, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

| | (In Thousands) | |
|-----------------|--------------------|----------|
| | Three Months Ended | |
| | March 31, | |
| | 2013 | 2012 |
| Purchased Water | | |
| Treated | \$ 761 | \$ 719 |
| Untreated | 606 | 612 |
| Total Costs | \$ 1,367 | \$ 1,331 |

Construction

The Company has budgeted approximately \$22.7 million on its construction program in 2013. The actual amount and timing of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain projects.

Litigation

The Company is a defendant in lawsuits in the normal course of business. We believe the resolution of pending claims and legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

Change in Control Agreements

The Company has Change in Control Agreements with certain of its officers that provide compensation and benefits in the event of termination of employment in connection with a change in control of the Company.

Note 8 – Employee Benefit Plans

Pension Benefits

The Company's Pension Plan covers substantially all employees hired prior to March 31, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution into a self-directed retirement account at the discretion of the Company, based upon a percentage of the participants' compensation. In order to be eligible for contribution, the participating employee must be employed by the Company on December 31st of the year to which the award relates. For the three months ended March 31, 2013 and 2012, the Company made Pension Plan cash contributions of \$0.6 million and \$0.8 million, respectively. The Company expects to make additional Pension Plan cash contributions of approximately \$2.7 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company officers and currently pays \$0.3 million in annual benefits to the retired participants.

Index*Other Postretirement Benefits*

The Company's postretirement plan other than pensions (Other Benefits Plan) covers substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. Effective January 1, 2013, the Company has amended a provision of the Other Benefits Plan increasing the level of retiree contributions required towards the insurance premiums. Eligible employees retiring in 2013 and beyond will contribute a higher percentage towards their healthcare premiums. The amendment resulted in a \$10.2 million decrease in the Company's Employee Benefit Plans' Liability, and related Regulatory Asset, as of January 1, 2013. For the three months ended March 31, 2013 and 2012, the Company made Other Benefits Plan cash contributions of \$0.7 million and \$0.8 million, respectively. The Company expects to make additional Other Benefits Plan cash contributions of approximately \$1.5 million over the remainder of the current year.

The following tables set forth information relating to the Company's periodic costs for its employee retirement benefit plans:

| | (In Thousands) | | | |
|--|------------------------------|-------|----------------|---------|
| | Pension Benefits | | Other Benefits | |
| | Three Months Ended March 31, | | | |
| | 2013 | 2012 | 2013 | 2012 |
| Service Cost | \$575 | \$550 | \$334 | \$446 |
| Interest Cost | 617 | 604 | 399 | 467 |
| Expected Return on Assets | (724) | (615) | (406) | (314) |
| Amortization of Unrecognized Losses | 408 | 387 | 516 | 441 |
| Amortization of Unrecognized Prior Service Cost (Credit) | 2 | 2 | (432) | — |
| Amortization of Transition Obligation | — | — | — | 34 |
| Net Periodic Benefit Cost | \$878 | \$928 | \$411 | \$1,074 |

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Middlesex Water Company (Middlesex or the Company) included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Forward-Looking Statements

Certain statements contained in this periodic report and in the documents incorporated by reference constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The Company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to expected financial condition, performance, prospects and earnings of the Company;
- statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters, including the recovery of certain costs recorded as regulatory assets;
- statements as to the Company's expected liquidity needs during the upcoming fiscal year and beyond and statements as to the sources and availability of funds to meet its liquidity needs;
- statements as to expected customer rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- statements as to financial projections;
- statements as to the expected amount of cash contributions to fund the Company's retirement benefit plans, anticipated discount rates and rates of return on retirement benefit plan assets;
- statements as to the ability of the Company to pay dividends;
- statements as to the Company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- statements as to the safety and reliability of the Company's equipment, facilities and operations;
- statements as to the Company's plans to renew municipal franchises and consents in the territories it serves;
- statements as to trends; and
- statements regarding the availability and quality of our water supply.

These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from anticipated results and outcomes include, but are not limited to:

- the effects of general economic conditions;
- increases in competition in the markets served by the Company;
- the ability of the Company to control operating expenses and to achieve efficiencies in its operations;
- the availability of adequate supplies of water;
- actions taken by government regulators, including decisions on rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- the existence of financially attractive acquisition candidates and the risks involved in pursuing those acquisitions;
- acts of war or terrorism;
- significant changes in the pace of housing development in Delaware;

- the availability and cost of capital resources;
- the ability to translate Preliminary Survey & Investigation charges into viable projects; and
- other factors discussed elsewhere in this quarterly report.

Many of these factors are beyond the Company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak to the Company's understanding as of the date of this report. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

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For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Overview

Middlesex Water Company (Middlesex) has operated as a water utility in New Jersey since 1897, in Delaware through our wholly-owned subsidiary, Tidewater Utilities, Inc. (Tidewater), since 1992 and in Pennsylvania through our wholly-owned subsidiary, Twin Lakes Utilities, Inc. (Twin Lakes), since 2009. We are in the business of collecting, treating and distributing water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate two New Jersey municipal water and wastewater systems under contract and provide regulated wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services, as to the quality of water service we provide and as to certain other matters in New Jersey, Delaware and Pennsylvania. Only our Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy), Inc. (USA-PA) and White Marsh Environmental Services, Inc. (White Marsh) subsidiaries are not regulated utilities.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 60,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 300,000. We also have an investment in a joint venture, Ridgewood Green RME, LLC, that is constructing, and will own and operate, facilities to optimize the production of electricity at the Village of Ridgewood, New Jersey wastewater treatment plant and other municipal facilities (full operation of the facilities is expected to begin in the second quarter of 2013). In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey (Perth Amboy). Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), provide water and wastewater services to residents in Southampton Township, New Jersey.

USA offers residential customers in New Jersey and Delaware water service line and sewer lateral maintenance programs (LineCare). USA entered into a marketing agreement (the Agreement), expiring in 2021, with HomeServe USA (HomeServe), a leading provider of home maintenance service programs to service, develop and grow USA's LineCare customer base. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts. On July 1, 2012, USA began service to the Borough of Avalon, New Jersey (Avalon) under a ten-year operations and maintenance contract for the Avalon water utility, sewer utility and storm water system. In addition to performing the day to day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC (Southern Shores), provide water services to approximately 37,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's

subsidiary, White Marsh, services an additional 4,600 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. (TESI) subsidiary provides wastewater services to approximately 2,400 residential retail customers. We expect our regulated wastewater operations in Delaware will eventually become a more significant component of our operations.

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Our Pennsylvania subsidiary, Twin Lakes, provides water services to approximately 100 retail customers in the Township of Shohola, Pike County, Pennsylvania.

The majority of our revenue is generated from retail and contract water services to customers in our service areas. We record water service revenue as such service is rendered and include estimates for amounts unbilled at the end of the period for services provided after the last billing cycle. Fixed service charges are billed in advance by our subsidiary, Tidewater, and are recognized in revenue as the service is provided.

Our ability to increase operating income and net income is based significantly on four factors: weather, adequate and timely rate relief, effective cost management, and customer growth. These factors are evident in the discussions below which compare our results of operations with prior periods.

Recent Developments

Rate Matters

Middlesex - In April 2013, the New Jersey Board of Public Utilities (NJBPU) approved a Middlesex petition to establish a Purchased Water Adjustment Clause (PWAC) and implement a tariff rate sufficient to recover increased costs of \$0.1 million to purchase untreated water from the New Jersey Water Supply Authority (NJWSA) and treated water from a non-affiliated regulated water utility.

In November 2012, Middlesex filed a petition with the NJBPU seeking approval of foundational information (Foundational Filing) that would allow for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC is a rate-mechanism that allows water utilities to recover investment in capital improvements to their water distribution system made between base rate proceedings. In February 2013, the Foundational Filing was approved by the NJBPU, which allows Middlesex to implement a DSIC rate in September 2013 to recover costs for qualifying projects that are placed in service in the six-month post-approval period. The DSIC rate is allowed to increase in three subsequent six month periods for any additional qualifying projects placed in service during those time periods. The maximum annual revenues allowed to be recovered under the approved Foundational Filing is \$1.4 million.

Pinelands - In March 2013, the NJBPU approved a combined \$0.2 million increase in Pinelands Water and Pinelands Wastewater's annual base revenues. In its initial request, filed in August 2012, Pinelands had sought an increase of \$0.3 million on a combined basis. The rate increase for the water service, which is approximately 50% of the approved increase, will be phased-in over one year.

TESI – In November 2012, TESI filed an application with the Delaware Public Service Commission (DEPSC) seeking approval to purchase all of the utility assets of the 600 customer wastewater system serving the residents of the Plantations development (the Plantations) in Rehoboth Beach, Delaware. The application also requests the transfer of the wastewater franchise from the current owner to TESI. In connection with this transaction, TESI also filed an application with DEPSC seeking an approximate \$0.1 million increase in the Plantations' residents base wastewater rates. TESI's willingness to purchase the Plantation's wastewater system is contingent upon several requirements being met to TESI's satisfaction including, among other things, the DEPSC's approval of both applications and a rate decision by the DEPSC that provides TESI a reasonable opportunity to earn its authorized return from the date of acquisition. Evidentiary hearings have been scheduled for early June 2013. We cannot predict whether the DEPSC will ultimately approve or deny the application. A decision by the DEPSC is not expected until the third quarter of 2013.

Outlook

Revenues for 2013 are expected to be favorably impacted by the full year effect of approved 2012 and 2013 base rate increases for Middlesex, Tidewater, TESI, Southern Shores, Twin Lakes, Pinelands Water and Pinelands Wastewater. Also expected to contribute to additional revenues in 2013 are the Tidewater DSIC and the Middlesex PWAC and DSIC.

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Middlesex has received notification from the Borough of Sayreville, New Jersey (Sayreville), one of Middlesex's wholesale contract customers, that Sayreville will not be renewing its contract for the purchase of water from Middlesex. In accordance with the terms, this contract will remain in effect through August 12, 2013. Middlesex is exploring options with Sayreville for its ongoing emergency water supply requirements. Gross operating revenues from water sales to Sayreville amounted to \$1.9 million in 2012. In addition, Hess Corporation (Hess), Middlesex's largest retail water customer, ceased its oil refining operations at its Port Reading, New Jersey facility in February 2013. Revenues from Hess amounted to \$2.6 million in 2012. Revenue reductions from either of these customers are expected to accelerate the need for Middlesex to file a base rate increase petition with the NJBPU in 2013.

Effective January 1, 2013, the Company has amended a provision of its postretirement medical plan (Other Benefits Plan) increasing the level of retiree contributions required towards the insurance premiums. Eligible employees retiring in 2013 and beyond will contribute a higher percentage towards their postretirement healthcare premiums. This amendment, combined with somewhat improved performance in 2012 on our investment of retirement plan funds, is expected to lower employee benefit plan expenses by approximately \$2.8 million in 2013, as compared to 2012. In addition, we expect our cash contributions to our Other Benefits Plan to decrease to \$2.2 million in 2013 from \$3.9 million in 2012. See Note 8 of the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion of our Employee Benefit Plans.

Ongoing economic conditions continue to negatively impact our customers' water consumption, particularly the level of water usage by our commercial and industrial customers in our Middlesex system. We are unable to determine when these customers' water demands may fully return to previous levels, or if a reduced level of demand will continue indefinitely. We were given appropriate recognition for a portion of this decrease in customer consumption in Middlesex's July 2012 rate increase.

Revenues and earnings are influenced by weather. Changes in usage patterns, as well as increases in capital expenditures and operating costs, are the primary factors in determining the need for rate increase requests. We continue to implement plans to streamline operations and reduce operating costs.

As a result of ongoing challenging economic conditions impacting the pace of new residential home construction, there may be an increase in the amount of preliminary survey and investigation (PS&I) costs that will not be currently recoverable in rates. If it is determined that recovery is unlikely, the applicable PS&I costs will be charged against income in the period of determination.

Our strategy is focused on four key areas:

- Serve as a trusted and continually-improving provider of safe, reliable and cost-effective water, wastewater and related services;

· Provide a comprehensive suite of water and wastewater solutions in the continually-developing Delaware market that results in profitable growth;

· Pursue profitable growth in our core states of New Jersey and Delaware, as well as additional states; and

· Invest in products, services and other viable opportunities that complement our core competencies.

Index**Operating Results by Segment**

The discussion of the Company's operating results is on a consolidated basis and includes significant factors by subsidiary. The Company has two operating segments, Regulated and Non-Regulated.

The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated-USA, USA-PA, and White Marsh.

Results of Operations – Three Months Ended March 31, 2013

| | (In Thousands) | | | | | |
|-------------------------------------|-------------------------------------|----------------------|--------------|------------------|----------------------|--------------|
| | <u>Three Months Ended March 31,</u> | | | | | |
| | <u>2013</u> | | | <u>2012</u> | | |
| | <u>Regulated</u> | <u>Non-Regulated</u> | <u>Total</u> | <u>Regulated</u> | <u>Non-Regulated</u> | <u>Total</u> |
| Revenues | \$23,392 | \$ 3,646 | \$27,038 | \$20,841 | \$ 2,705 | \$23,546 |
| Operations and maintenance expenses | 12,447 | 2,983 | 15,430 | 12,156 | 2,219 | 14,375 |
| Depreciation | 2,664 | 45 | 2,709 | 2,512 | 36 | 2,548 |
| Other taxes | 2,943 | 91 | 3,034 | 2,670 | 76 | 2,746 |
| Operating income | 5,338 | 527 | 5,865 | 3,503 | 374 | 3,877 |
| Other income, net | 125 | — | 125 | 141 | 47 | 188 |
| Interest expense | 1,131 | 24 | 1,155 | 1,332 | 22 | 1,354 |
| Income taxes | 1,422 | 236 | 1,658 | 725 | 179 | 904 |
| Net income | \$2,910 | \$ 267 | \$3,177 | \$1,587 | \$ 220 | \$1,807 |

Operating Revenues

Operating revenues for the three months ended March 31, 2013 increased \$3.5 million from the same period in 2012. This increase was primarily related to the following factors:

- Middlesex System revenues increased \$2.0 million, primarily due to the July 2012 base water rate increase:
 - o Sales to General Metered Service customers increased by \$1.6 million; and
 - o Contract Sales to Municipalities increased by \$0.4 million;

Tidewater System revenues increased \$0.5 million, primarily due to increased fees for new customer connections to our water system and the June 2012 implementation of the final component of the base rate increase. Interim rates had been in effect since November 2011;

USA's revenues increased \$0.7 million, primarily due to revenues earned under our contract to operate the Avalon water utility, sewer utility and storm water system, which commenced in July 2012;

USA-PA's revenues increased \$0.2 million, primarily from scheduled increases in the fixed fees paid under contract with the City of Perth Amboy; and

TESI's revenues increased \$0.1 million, primarily due to the June 2012 base rate increase.

Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended March 31, 2013 increased \$1.1 million from the same period in 2012. This increase was primarily related to the following factors:

Labor costs increased \$0.3 million due to lower capitalized payroll, increased overtime expended on emergency repairs and higher average labor rates. These increases were partially offset by a workforce reduction in our Delaware operations in March 2012;

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Variable production costs increased \$0.2 million, primarily due to higher water treatment costs; Water main break costs increased \$0.1 million, as we experienced a higher number of main breaks in 2013 as compared to 2012; Expenditures for USA's contract operations serving Avalon, commencing July 1, 2012, resulted in a \$0.1 million increase in labor costs, a \$0.1 million increase in other contract operation costs and a \$0.4 million increase in direct costs for billable supplemental services; Employee benefit expenses increased \$0.4 million due primarily to lower capitalized benefits and premium increases for healthcare insurance coverage. These increases were completely offset by lower costs of \$0.6 million due to the amendment of the Other Benefits Plan for future retiree contributions; and Operation and maintenance expenses for all other categories increased \$0.1 million.

Depreciation

Depreciation expense for the three months ended March 31, 2013 increased \$0.2 million from the same period in 2012 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the three months ended March 31, 2013 increased \$0.3 million from the same period in 2012, primarily due to increased revenue related taxes on higher taxable revenues in our Middlesex system.

Interest Charges

Interest charges for the three months ended March 31, 2013 decreased \$0.2 million from the same period in 2012, primarily due to lower average interest rates on long-term debt, resulting from Middlesex's refinancing of \$57.5 million of First Mortgage Bonds in the fourth quarter of 2012.

Other Income, net

Other Income, net for the three months ended March 31, 2013 decreased \$0.1 million from the same period in 2012, primarily due to lower Allowance for Funds Used During Construction, resulting from lower average construction work in progress balances.

Income Taxes

Income taxes for the three months ended March 31, 2013 increased \$0.8 million from the same period in 2012, due to increased operating income in 2013 as compared to 2012.

Net Income and Earnings Per Share

Net income for the three months ended March 31, 2013 increased \$1.4 million from the same period in 2012. Basic and diluted earnings per share increased to \$0.20 for the three months ended March 31, 2013, as compared to \$0.11 for the three months ended March 31, 2012.

Liquidity and Capital Resources

Operating Cash Flows

Cash flows from operations are largely based on four factors: weather, adequate and timely rate increases, effective cost management and customer growth. The effect of those factors on net income is discussed in “Results of Operations.”

For the three months ended March 31, 2013, cash flows from operating activities increased \$3.1 million to \$10.3 million. Increased net income resulting from rate increases that went into effect in 2012 were the primary reason for the increase in cash flow. The \$10.3 million of net cash flow from operations enabled us to fund all of our utility plant expenditures internally for the period.

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Capital Expenditures and Commitments

To fund our capital program, we use internally generated funds, short-term and long-term debt borrowings and, when market conditions are favorable, proceeds from sales of common stock under our Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP) and common stock offerings. See below for a more detailed discussion regarding the funding of our capital program.

The capital investment program for 2013 is currently estimated to be \$22.7 million. Through March 31, 2013, we have expended \$4.5 million and expect to incur approximately \$18.2 million for capital projects for the remainder of 2013.

We currently project that we may expend approximately \$50.3 million for capital projects in 2014 and 2015. The actual amount and timing of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain capital projects.

To fund our capital program for the remainder of 2013, we plan on utilizing:

Internally generated funds

Proceeds from the sale of common stock through the DRP

Funds available and held in trust under existing New Jersey and Delaware State Revolving Fund (SRF) loans (currently, \$1.4 million and \$0.7 million, respectively) and, once the pending New Jersey SRF loan transaction scheduled to close in late May 2013 is complete, up to \$4.0 million of proceeds from the 2013 New Jersey SRF Program. The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks.

Short-term borrowings, if necessary, through \$60.0 million of available lines of credit with several financial institutions. As of March 31, 2013, the outstanding borrowings under these credit lines were \$27.5 million.

Recent Accounting Pronouncements – See Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures of Market Risk

We are exposed to market risk associated with changes in interest rates and commodity prices. The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage

Bonds, which have final maturity dates ranging from 2018 to 2047. Over the next twelve months, approximately \$5.1 million of the current portion of 36 existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

Our risks associated with commodity price increases for chemicals, electricity and other commodities are reduced through contractual arrangements and the ability to recover price increases through rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, financial position and cash flows.

We are exposed to credit risk for both our Regulated and Non-Regulated business segments. Our Regulated operations serve residential, commercial, industrial and municipal customers while our Non-Regulated operations engage in business activities with developers, government entities and other customers. Our primary credit risk is exposure to customer default on contractual obligations and the associated loss that may be incurred due to the non-payment of customer accounts receivable balances. Our credit risk is managed through established credit and collection policies which are in compliance with applicable regulatory requirements and involve monitoring of customer exposure and the use of credit risk mitigation measures such as letters of credit or prepayment arrangements. Our credit portfolio is diversified with no significant customer or industry concentrations. In addition, our Regulated businesses are generally able to recover all prudently incurred costs including uncollectible customer accounts receivable expenses and collection costs through rates.

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The Company's postretirement benefit plan assets are exposed to the market prices of debt and equity securities. Changes to the Company's postretirement benefit plan assets' value can impact the Company's postretirement benefit plan expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover postretirement benefit plan costs through rates.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities and Exchange Act of 1934 (the Exchange Act), an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Report. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The information about risk factors does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

31.2 Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.

32.1 Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.2 Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

101.INSXBRL Instance Document

101.SCHXBRL Schema Document

101.CALXBRL Calculation Linkbase Document

101.LABXBRL Labels Linkbase Document

101.PREXBRL Presentation Linkbase Document

101.DEF XBRL Definition Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MIDDLESEX WATER
COMPANY

By: /s/A. Bruce O'Connor
A. Bruce O'Connor
Vice President and
Chief Financial Officer
(Principal Accounting Officer)

Date: May 7, 2013