MIDDLESEX WATER CO
Form 10-Q
August 03, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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

(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 þ 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 þ 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 þ 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 þ

The number of shares outstanding of each of the registrant's classes of common stock, as of July 31, 2015: Common Stock, No Par Value: 16,164,099 shares outstanding.

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MIDDLESEX WATER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands except per share amounts)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating Revenues	$ 31,666	$ 29,190	$ 60,446	$ 56,363
Operating Expenses:				
Operations and Maintenance	16,229	14,563	32,317	30,000
Depreciation	2,982	2,837	5,930	5,652
Other Taxes	3,220	3,043	6,280	5,997
Total Operating Expenses	22,431	20,443	44,527	41,649
Operating Income	9,235	8,747	15,919	14,714
Other Income (Expense):				
Allowance for Funds Used During Construction	103	66	185	133
Other Income	43	135	82	146
Other Expense	(18)	(155)	(83)	(175)
Total Other Income, net	128	46	184	104
Interest Charges	1,496	1,515	2,554	2,618
Income before Income Taxes	7,867	7,278	13,549	12,200
Income Taxes	2,778	2,550	4,825	4,303
Net Income	5,089	4,728	8,724	7,897
Preferred Stock Dividend Requirements	36	36	72	79
Earnings Applicable to Common Stock	$ 5,053	$ 4,692	$ 8,652	$ 7,818
Earnings per share of Common Stock:				
Basic	$ 0.31	$ 0.29	$ 0.54	$ 0.49
Diluted	$ 0.31	$ 0.29	$ 0.53	$ 0.49

Average Number of

Common Shares Outstanding :				
Basic	16,149	16,018	16,141	15,996
Diluted	16,305	16,199	16,297	16,190
Cash Dividends Paid per Common Share	$ 0.1925	$ 0.1900	$ 0.3850	$ 0.3800

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

		June 30, 2015	December 31, 2014
ASSETS			
UTILITY PLANT:	Water Production	$140,271	$138,242
	Transmission and Distribution	386,015	378,154
	General	59,666	58,851
	Construction Work in Progress	9,527	8,145
	TOTAL	595,479	583,392
	Less Accumulated Depreciation	121,935	117,986
	UTILITY PLANT - NET	473,544	465,406
CURRENT ASSETS:	Cash and Cash Equivalents	5,774	2,673
	Accounts Receivable, net	10,481	10,012
	Unbilled Revenues	7,592	5,937
	Materials and Supplies (at average cost)	2,323	2,253
	Prepayments	2,880	1,989
	TOTAL CURRENT ASSETS	29,050	22,864
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	3,376	3,474
	Preliminary Survey and Investigation Charges	2,102	2,211
	Regulatory Assets	64,875	66,216
	Operations Contracts, Developer and Other Receivables	3,260	3,313
	Restricted Cash	455	2,573
	Non-utility Assets - Net	9,292	9,197
	Other	453	518
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	83,813	87,502
	TOTAL ASSETS	$586,407	$575,772
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	$149,739	$148,668
	Retained Earnings	51,062	48,623
	TOTAL COMMON EQUITY	200,801	197,291
	Preferred Stock	2,436	2,436
	Long-term Debt	136,065	136,039
	TOTAL CAPITALIZATION	339,302	335,766
CURRENT LIABILITIES:	Current Portion of Long-term Debt	5,692	5,910
	Notes Payable	18,000	19,000

	Accounts Payable	8,925	6,354
	Accrued Taxes	12,500	8,948
	Accrued Interest	1,118	1,134
	Unearned Revenues and Advanced Service Fees	861	839
	Other	2,318	1,687
	TOTAL CURRENT LIABILITIES	49,414	43,872
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	21,979	21,978
	Accumulated Deferred Investment Tax Credits	871	910
	Accumulated Deferred Income Taxes	48,171	47,306
	Employee Benefit Plans	44,196	45,135
	Regulatory Liability - Cost of Utility Plant Removal	10,609	10,273
	Other	1,659	1,277
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	127,485	126,879
CONTRIBUTIONS IN AID OF CONSTRUCTION		70,206	69,255
	TOTAL CAPITALIZATION AND LIABILITIES	$586,407	$575,772

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$8,724	$7,897
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6,680	6,038
Provision for Deferred Income Taxes and Investment Tax Credits	1,093	1,335
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(113)	(84)
Cash Surrender Value of Life Insurance	(96)	(70)
Stock Compensation Expense	337	299
Changes in Assets and Liabilities:		
Accounts Receivable	(416)	796
Unbilled Revenues	(1,655)	(1,402)
Materials & Supplies	(70)	(374)
Prepayments	(891)	(1,310)
Accounts Payable	2,571	347
Accrued Taxes	3,552	1,820
Accrued Interest	(16)	(1)
Employee Benefit Plans	151	(1,232)
Unearned Revenue & Advanced Service Fees	22	(59)
Other Assets and Liabilities	307	(192)
NET CASH PROVIDED BY OPERATING ACTIVITIES	20,180	13,808
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of $72 in 2015, $49 in 2014	(12,646)	(8,505)
Restricted Cash	1,375	(2,464)
Distribution from Joint Venture	—	765
NET CASH USED IN INVESTING ACTIVITIES	(11,271)	(10,204)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(2,735)	(1,726)
Proceeds from Issuance of Long-term Debt	3,000	4,398
Net Short-term Bank Borrowings	(1,000)	(450)
Deferred Debt Issuance Expense	(4)	(8)
Restricted Cash	743	—
Proceeds from Issuance of Common Stock	734	719
Payment of Common Dividends	(6,212)	(6,071)

Payment of Preferred Dividends	(72)	(79)
Construction Advances and Contributions-Net	(262)	(150)
NET CASH USED IN FINANCING ACTIVITIES	(5,808)	(3,367)
NET CHANGES IN CASH AND CASH EQUIVALENTS	3,101	237
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,673	4,834
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5,774	$5,071
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	$1,214	$1,130
Long-term Debt Deobligation	$457	$—
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	$2,683	$2,770
Interest Capitalized	$72	$49
Income Taxes	$901	$2,215

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)

		June 30, 2015	December 31, 2014
Common Stock, No Par Value			
Shares Authorized -	40,000		
Shares Outstanding -	2015 - 16,161	$149,739	$ 148,668
	2014 - 16,124		
Retained Earnings		51,062	48,623
TOTAL COMMON EQUITY		$200,801	$ 197,291
Cumulative Preferred Stock, No Par Value:			
Shares Authorized -	126		
Shares Outstanding -	24		
Convertible:			
Shares Outstanding, $7.00 Series - 10		1,007	1,007
Shares Outstanding, $8.00 Series - 3		349	349
Nonredeemable:			
Shares Outstanding, $7.00 Series - 1		80	80
Shares Outstanding, $4.75 Series - 10		1,000	1,000
TOTAL PREFERRED STOCK		$2,436	$ 2,436
Long-term Debt:			
8.05%, Amortizing Secured Note, due December 20, 2021		$1,730	$ 1,825
6.25%, Amortizing Secured Note, due May 19, 2028		5,425	5,635
6.44%, Amortizing Secured Note, due August 25, 2030		4,247	4,387
6.46%, Amortizing Secured Note, due September 19, 2031		4,527	4,667
4.22%, State Revolving Trust Note, due December 31, 2022		399	421
3.60%, State Revolving Trust Note, due May 1, 2025		2,366	2,463
3.30% State Revolving Trust Note, due March 1, 2026		487	506
3.49%, State Revolving Trust Note, due January 25, 2027		518	536
4.03%, State Revolving Trust Note, due December 1, 2026		674	697
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021		299	299
0.00%, State Revolving Fund Bond, due August 1, 2021		236	241
3.64%, State Revolving Trust Note, due July 1, 2028		304	313
3.64%, State Revolving Trust Note, due January 1, 2028		101	104
3.45%, State Revolving Trust Note, due August 1, 2031		1,090	1,115
6.59%, Amortizing Secured Note, due April 20, 2029		4,825	4,999

7.05%, Amortizing Secured Note, due January 20, 2030	3,646	3,771
5.69%, Amortizing Secured Note, due January 20, 2030	7,479	7,735
4.46%, Amortizing Secured Note, due April 20, 2040	10,927	8,000
3.75%, State Revolving Trust Note, due July 1, 2031	2,357	2,411
3.75%, State Revolving Trust Note, due November 30, 2030	1,246	1,276
First Mortgage Bonds:		
0.00%, Series X, due September 1, 2018	211	215
4.25% to 4.63%, Series Y, due September 1, 2018	245	245
0.00%, Series Z, due September 1, 2019	548	559
5.25% to 5.75%, Series AA, due September 1, 2019	700	700
0.00%, Series BB, due September 1, 2021	827	845
4.00% to 5.00%, Series CC, due September 1, 2021	1,025	1,025
0.00%, Series EE, due August 1, 2023	3,468	3,550
3.00% to 5.50%, Series FF, due August 1, 2024	3,690	4,900
0.00%, Series GG, due August 1, 2026	1,064	1,083
4.00% to 5.00%, Series HH, due August 1, 2026	1,390	1,390
0.00%, Series II, due August 1, 2024	861	881
3.40% to 5.00%, Series JJ, due August 1, 2027	1,090	1,090
0.00%, Series KK, due August 1, 2028	1,233	1,255
5.00% to 5.50%, Series LL, due August 1, 2028	1,435	1,435
0.00%, Series MM, due August 1, 2030	1,504	1,537
3.00% to 4.375%, Series NN, due August 1, 2030	1,755	1,755
0.00%, Series OO, due August 1, 2031	2,508	2,559
2.00% to 5.00%, Series PP, due August 1, 2031	850	850
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
0.00%, Series TT, due August 1, 2032	2,659	2,709
3.00% to 3.25%, Series UU, due August 1, 2032	975	975
0.00%, Series VV, due August 1, 2033	2,672	2,720
3.00% to 5.00%, Series WW, due August 1, 2033	935	935
SUBTOTAL LONG-TERM DEBT	139,943	140,029
Add: Premium on Issuance of Long-term Debt	1,814	1,920
Less: Current Portion of Long-term Debt	(5,692)	(5,910)
TOTAL LONG-TERM DEBT	$136,065	$ 136,039

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 2014 Annual Report on Form 10-K (the 2014 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 June 30, 2015, the results of operations for the three month and six month periods ended June 30, 2015 and 2014 and cash flows for the sixth month periods ended June 30, 2015 and 2014. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2014, has been derived from the Company's audited financial statements for the year ended December 31, 2014 included in the 2014 Form 10-K.

Recent Accounting Guidance

As previously disclosed in the 2014 Form 10-K, in May 2014, the Financial Accounting Standards Board (FASB) issued an update to authoritative guidance related to revenue from contracts with customers. The update replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. The FASB has deferred the effective date of these new revenue recognition standards by one year to January 1, 2018.

In April 2015, the FASB issued an update to authoritative guidance related to the presentation of debt issuance costs on the balance sheet, requiring companies to present debt issuance costs as a direct deduction from the carrying value of debt, which the Company will adopt beginning January 1, 2016. The new guidance must be applied retrospectively to each prior period presented. The adoption of this guidance will have no impact on the Company's statement of income or cash flows and will not have a material impact on the Company's balance sheet.

There are no other new adopted or proposed accounting guidance that the Company is aware of that could have a material impact on the Company's financial statements.

Note 2 – Rate and Regulatory Matters

Middlesex - In March 2015, Middlesex filed a petition with the New Jersey Board of Public Utilities (NJBPU) seeking permission to increase its base water rates by approximately $9.5 million per year. The request was necessitated by declining consumption in its Commercial and Industrial class customers, increasing costs for active and retired employee benefits, capital infrastructure investments Middlesex has made, or has committed to make, and regulation-driven increases in other operations and maintenance costs. In July 2015, a Stipulation of Settlement (the Settlement) between Middlesex and the intervening parties was approved in an initial decision by an Administrative Law Judge. The Settlement recommends a $5.0 million increase in Middlesex's base water rates. The Settlement must now be presented for consideration and approval by the NJBPU, which the Company expects will occur in the third quarter of 2015. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the Settlement. NJPBU approval of a base water rate increase would concurrently reset Middlesex's Distribution System Improvement Charge (DSIC) to zero. A DSIC is a rate-mechanism that allows water utilities to recover investments in, and generate a return on, qualifying capital improvements to their water distribution system made between base rate proceedings. The Middlesex DSIC has been in effect since May 12, 2015, and has generated less than $0.1 million of revenues to date.

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Tidewater - Effective July 1, 2015, Tidewater's Delaware Public Service Commission-approved DSIC was increased from 0.31% to 0.37%. Total annual revenues under the Tidewater DSIC are expected to amount to approximately $0.1 million.

Note 3 – Capitalization

Common Stock

During the six months ended June 30, 2015 and 2014, there were 32,585 common shares (approximately $0.7 million) and 35,078 common shares (approximately $0.7 million), respectively, issued under the Middlesex Water Company Investment Plan (the Investment Plan), a direct share purchase and sale and dividend reinvestment plan for Middlesex common stock. In July 2015, the Company filed a registration statement with the United States Securities and Exchange Commission registering an additional 700,000 common shares for potential issuance under the Investment Plan.

Long-term Debt

In December 2014, the NJBPU approved Middlesex's request to borrow up to $5.0 million through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey State Revolving Fund (SRF) loan program. This loan was intended to fund the current year RENEW Program, which is our ongoing initiative to clean and cement all unlined mains in the Middlesex system. Due to administrative changes in the New Jersey SRF loan program, participants are now required to complete construction of the qualifying project prior to closing on a long-term loan or, in the alternative, enter into a construction loan agreement with the NJEIT until the project is complete. At that time, the construction loan can be rolled into the next NJEIT long-term loan. Middlesex is currently reviewing the impact of these new requirements. These changes, along with an assessment of the condition of the mains subject to rehabilitation under the current year RENEW Program, will delay the project until 2016. During the second half of 2015, Middlesex expects to file an update to its petition with the NJPBU seeking approval to modify the previous granted financing timetable to accommodate the New Jersey SRF loan program changes.

In the second quarter of 2015, the NJEIT de-obligated future principal payments of $0.5 million on Series FF SRF long-term debt.

In October 2014, Tidewater completed a $15.0 million debt transaction. The loan agreement, as amended, allows Tidewater to borrow, in increments at its discretion, until October 30, 2015. Through June 30, 2015, Tidewater has drawn down $11.0 million, including $3.0 million for the six months ended June 30, 2015, at a fixed interest rate of 4.46%. The proceeds were used to pay down short-term debt and for other general corporate purposes. In July 2015, Tidewater borrowed an additional $2.0 million under this loan agreement. The interest rate on any borrowings from the remaining $2.0 million proceeds will be set at the time of the borrowing. Those funds are expected to be used to fund a portion of Tidewater's ongoing capital program. The final maturity date of all borrowings under this loan agreement is April 2040.

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 and SRF Bonds (Bonds) is based on quoted market prices for similar

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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 the Bonds in the table below are classified as Level 2 measurements. The carrying amount and fair value of the Company's bonds were as follows:

	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	$87,061	$86,859	$88,628	$90,115
SRF Bonds	$535	$537	$540	$542

For other long-term debt for which there was no quoted market price and there is not an active trading market, it was not practicable to estimate their fair value (for details, including carrying value, interest rate and due date on these series of long-term debt, please refer to those series noted as "Amortizing Secured Note" and "State Revolving Trust Note" on the Condensed Consolidated Statements of Capital Stock and Long-Term Debt). The carrying amount of these instruments was $52.3 million at June 30, 2015 and $50.8 million at December 31, 2014. Customer advances for construction have carrying amounts of $22.0 million at both June 30, 2015 and December 31, 2014. 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.

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 June 30,			
	2015		2014	
Basic:	Income	Shares	Income	Shares
Net Income	$ 5,089	16,149	$ 4,728	16,018
Preferred Dividend	(36)		(36)	
Earnings Applicable to Common Stock	$ 5,053	16,149	$ 4,692	16,018
Basic EPS	$ 0.31		$ 0.29	
Diluted:				
Earnings Applicable to Common Stock	$ 5,053	16,149	$ 4,692	16,018
$7.00 Series Preferred Dividend	17	115	17	140
$8.00 Series Preferred Dividend	6	41	6	41
Adjusted Earnings Applicable to Common Stock	$ 5,076	16,305	$ 4,715	16,199

Diluted EPS	$ 0.31	$ 0.29

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	(In Thousands Except per Share Amounts)			
	Six Months Ended June 30,			
	2015		2014	
Basic:	Income	Shares	Income	Shares
Net Income	$ 8,724	16,141	$ 7,897	15,996
Preferred Dividend	(72)		(79)	
Earnings Applicable to Common Stock	$ 8,652	16,141	$ 7,818	15,996
Basic EPS	$ 0.54		$ 0.49	
Diluted:				
Earnings Applicable to Common Stock	$ 8,652	16,141	$ 7,818	15,996
$7.00 Series Preferred Dividend	34	115	41	153
$8.00 Series Preferred Dividend	12	41	12	41
Adjusted Earnings Applicable to Common Stock	$ 8,698	16,297	$ 7,871	16,190
Diluted EPS	$ 0.53		$ 0.49	

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 June 30,		Six Months Ended June 30,	
Operations by Segments:	2015	2014	2015	2014
Revenues:				
Regulated	$27,972	$25,720	$52,878	$49,373
Non – Regulated	3,804	3,624	7,795	7,261
Inter-segment Elimination	(110)	(154)	(227)	(271)
Consolidated Revenues	$31,666	$29,190	$60,446	$56,363
Operating Income:				
Regulated	$8,672	$8,144	$14,835	$13,547
Non – Regulated	563	603	1,084	1,167
Consolidated Operating Income	$9,235	$8,747	$15,919	$14,714
Net Income:				
Regulated	$4,809	$4,416	$8,185	$7,297
Non – Regulated	280	312	539	600
Consolidated Net Income	$5,089	$4,728	$8,724	$7,897
Capital Expenditures:				
Regulated	$7,734	$4,339	$12,619	$8,474
Non – Regulated	27	—	27	31
Total Capital Expenditures	$7,761	$4,339	$12,646	$8,505

	As of June 30, 2015	As of December 31, 2014
Assets:		
Regulated	$582,618	$574,854
Non – Regulated	8,150	7,252
Inter-segment Elimination	(4,361)	(6,334)
Consolidated Assets	$586,407	$575,772

Note 6 – Short-term Borrowings

As of June 30, 2015, the Company has established lines of credit aggregating $60.0 million. At June 30, 2015, the outstanding borrowings under these credit lines were $18.0 million at a weighted average interest rate of 1.19%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were as follows:

	(In Thousands) Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Average Daily Amounts Outstanding	$15,769	$26,874	$16,834	$27,435
Weighted Average Interest Rates	1.18%	1.42%	1.18%	1.44%

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The maturity dates for the $18.0 million outstanding as of June 30, 2015 are all in July 2015 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

Water Supply

Middlesex has an agreement with the New Jersey Water Supply Authority (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, 2021, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Tidewater contracts with the City of Dover, Delaware to purchase 15.0 million gallons of treated water annually.

Purchased water costs are shown below:

	(In Thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Treated	$766	$802	$1,495	$1,580
Untreated	552	515	1,195	1,121
Total Costs	$1,318	$1,317	$2,690	$2,701

Contract Operations - USA-PA operates the City of Perth Amboy, New Jersey’s (Perth Amboy) 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.

Guarantees - In September 2013, Middlesex entered into an agreement with the County of Monmouth, New Jersey (Monmouth County) to serve as guarantor of the performance of Applied Water Management, Inc. (AWM) to design, construct and operate a leachate pretreatment facility at the Monmouth County Reclamation Center in Tinton Falls, New Jersey. Middlesex expects to act as guarantor of AWM’s performance through at least August 2018 and is contractually obligated to act as guarantor of AWM’s performance through 2028 unless another guarantor, acceptable to Monmouth County, is identified. Construction of the facility is being financed by Monmouth County and began in September 2014. In addition, Middlesex entered into agreements with AWM and Natural Systems Utilities, Inc. (NSU), the parent company of AWM, whereby, Middlesex earns a fee for providing the guaranty of AWM’s performance to Monmouth County, Middlesex provides operational support to the project, and AWM and NSU, serving as guarantor to Middlesex with respect to the performance of AWM, indemnify Middlesex against any claims that may arise under the Middlesex guaranty to Monmouth County.

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Middlesex believes it is unlikely any payments would need to be made under Middlesex's guaranty of AWM's performance to Monmouth County. If asked to perform under the guaranty to Monmouth County, and, if AWM and NSU, as guarantor to Middlesex, do not fulfill their obligations to indemnify Middlesex against any claims that may arise under the Middlesex guaranty to Monmouth County, Middlesex would be required to fulfill the construction and operational commitments of AWM. As of June 30, 2015 and December 31, 2014, the liability recognized in Other Non-Current Liabilities on the balance sheet for the guaranty is approximately $0.3 million.

Construction

The Company has budgeted approximately $24.2 million for its construction program in 2015. The actual timing and amount 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 all active employees hired prior to April 1, 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 at the discretion of the Company, based upon a percentage of the participants' compensation. In order to be eligible for contribution, the eligible employee must be employed by the Company on December 31st of the year to which the contribution relates. For the three months ended June 30, 2015 and 2014, the Company made Pension Plan cash contributions of $1.0 million and $0.8 million, respectively. For the six months ended June 30, 2015 and 2014, the Company made Pension Plan cash contributions of $1.0 million and $1.3 million, respectively. The Company expects to make Pension Plan cash contributions of approximately $2.3 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.

Other Postretirement Benefits

The Company's retirement plan other than pensions (Other Benefits Plan) covers substantially all of its current retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. For the three months ended June 30, 2015 and 2014, the Company made Other Benefits Plan cash contributions of $0.8 million and $0.2 million, respectively. For the six months ended June 30, 2015 and 2014, the Company made Other Benefits Plan cash contributions of $0.8 million and $0.4 million, respectively. The Company expects to make Other Benefits Plan cash contributions of approximately $0.9 million over the remainder of the current year.

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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 June 30,			
	2015	2014	2015	2014
Service Cost	$639	$474	$343	$258
Interest Cost	724	671	480	448
Expected Return on Assets	(980)	(884)	(527)	(484)
Amortization of Unrecognized Losses	411	104	565	353
Amortization of Unrecognized Prior Service Cost (Credit)	—	—	(432)	(432)
Net Periodic Benefit Cost	$794	$365	$429	$143

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Six Months Ended June 30,			
	2015	2014	2015	2014
Service Cost	$1,279	$947	$686	$516
Interest Cost	1,447	1,341	961	896
Expected Return on Assets	(1,959)	(1,767)	(1,053)	(969)
Amortization of Unrecognized Losses	823	208	1,131	707
Amortization of Unrecognized Prior Service Cost (Credit)	—	1	(864)	(864)
Net Periodic Benefit Cost	$1,590	$730	$861	$286

Note 9 – Income Taxes

The Internal Revenue Service (IRS) has issued final regulations pertaining to the deductibility of costs that qualify as repairs on tangible property. The regulations, which the Company will adopt by filing a change in accounting method request with its 2014 Federal income tax return, redefine the characteristics previously used by the Company to determine tax deductibility of expenditures associated with tangible property. Under the regulations, the IRS has provided guidelines for certain industries, but not for regulated public water utilities. Consequently, the Company undertook a comprehensive study to support the adoption and integration of the new regulations into its tax policies prospectively, and to also determine the level of deductibility for income tax purposes, if any, for expenditures incurred on projects completed in prior years where such expenditures were capitalized, but may now be considered currently deductible as repairs under the new regulations. The Company is currently preparing its 2014 Federal income tax return, which is expected to be filed on or before September 15, 2015, and will include the final determined amount of expenditures deductible under the new regulations. Results from the aforementioned study, which is subject to completion and requires filing with the IRS, preliminarily indicate there may be approximately $19.0 million of refundable taxes previously paid to the IRS. However, it is probable that any net tax benefits that may result from adopting the study findings will be considered in determining the revenue requirement used to set base rates for the Company in a future regulatory proceeding. Consequently, adoption of the new regulations will not have a significant impact on the Company’s financial statements or effective tax rate.

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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, 2014.

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;
- acts of war or terrorism;
- significant changes in the pace of housing development in Delaware;
- the availability and cost of capital resources; 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, 2014.

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 219,000. 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.

We have an investment in a joint venture, Ridgewood Green RME, LLC, that owns and operates facilities to optimize the production of electricity at the Village of Ridgewood, New Jersey wastewater treatment plant and other municipal facilities.

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).

USA offers residential customers in New Jersey and Delaware water service line and sewer lateral maintenance programs (LineCare). USA entered into a marketing 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. USA also operates the Borough of Avalon, New Jersey's (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.

USA also provides unregulated water and wastewater services under contract with several New Jersey municipalities.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC (Southern Shores), provide water services to approximately 40,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater’s subsidiary, White Marsh, services approximately 4,000 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. (TESI) subsidiary provides wastewater services to approximately 3,300 residential retail customers.

Our Pennsylvania subsidiary, Twin Lakes, provides water services to approximately 120 retail customers in the Township of Shohola, Pike County, Pennsylvania.

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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 the prior period.

Recent Developments

Middlesex Base Water Rate Filing - In March 2015, Middlesex filed a petition with the New Jersey Board of Public Utilities (NJBPU) seeking permission to increase its base water rates by approximately $9.5 million per year. The request was necessitated by declining consumption in its Commercial and Industrial class customers, increasing costs for active and retired employee benefits, capital infrastructure investments Middlesex has made, or has committed to make, and regulation-driven increases in other operations and maintenance costs. In July 2015, a Stipulation of Settlement (the Settlement) between Middlesex and the intervening parties was approved in an initial decision by an Administrative Law Judge. The Settlement recommends a $5.0 million increase in Middlesex’s base water rates. The Settlement must now be presented for consideration and approval by the NJBPU, which the Company expects will occur in the third quarter of 2015. We cannot predict whether the NJBPU will ultimately approve, deny, or reduce the amount of the Settlement. NJPBU approval of a base water rate increase would concurrently reset Middlesex’s Distribution System Improvement Charge (DSIC) to zero. A DSIC is a rate-mechanism that allows water utilities to recover investments in, and generate a return on, qualifying capital improvements to their water distribution system made between base rate proceedings. The Middlesex DSIC has been in effect since May 12, 2015, and has generated less than $0.1 million of revenues to date.

Tidewater DSIC - Effective July 1, 2015, Tidewater’s Delaware Public Service Commission-approved DSIC was increased from 0.31% to 0.37%. Total annual revenues under the Tidewater DSIC are expected to amount to approximately $0.1 million.

Income Taxes - The Internal Revenue Service (IRS) has issued final regulations pertaining to the deductibility of costs that qualify as repairs on tangible property. The regulations, which the Company will adopt by filing a change in accounting method request with its 2014 Federal income tax return, redefine the characteristics previously used by the Company to determine tax deductibility of expenditures associated with tangible property. Under the regulations, the IRS has provided guidelines for certain industries, but not for regulated public water utilities. Consequently, the Company undertook a comprehensive study to support the adoption and integration of the new regulations into its tax policies prospectively, and to also determine the level of deductibility for income tax purposes, if any, for expenditures incurred on projects completed in prior years where such expenditures were capitalized, but may now be considered currently deductible as repairs under the new regulations. The Company is currently preparing its 2014

Federal income tax return, which is expected to be filed on or before September 15, 2015, and will include the final determined amount of expenditures deductible under the new regulations. Results from the aforementioned study, which is subject to completion and requires filing with the IRS, preliminarily indicate there may be approximately $19.0 million of refundable taxes previously paid to the IRS. However, it is probable that any net tax benefits that may result from adopting the study findings will be considered in determining the revenue requirement used to set base rates for the Company in a future regulatory proceeding. Consequently, adoption of the new regulations will not have a significant impact on the Company's financial statements or effective tax rate.

Outlook

Revenues in 2015 are expected to be favorably impacted by the following:

- The full year effect of Middlesex's and Tidewater's base water rate increases, which became effective in July 2014 and August 2014, respectively, TESI's Plantations system base wastewater rate increase effective in October 2014 and Tidewater's Dover Air Force Base contract, which Tidewater began serving in October 2014 (see Note 2 – Rate and Regulatory Matters in Middlesex's 2014 Annual Report on Form 10-K for further discussion on these matters);

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- If approved, either in full or partially, a Middlesex base water rate increase (see "*Recent Developments-Middlesex Base Water Rate Filing*" above); and
- The 2015 Tidewater DSIC and Middlesex DSIC (see *"Recent Developments"* above regarding Tidewater's and Middlesex's DSIC);

Revenues and earnings are influenced by weather. Changes in water usage patterns, as well as increases in capital expenditures and operating costs, are significant factors in determining the timing and extent of rate increase requests. We continue to implement plans to further streamline operations and further reduce operating costs.

A market-driven lower discount rate, combined with the adoption of a new mortality table that reflects longer life expectancies, has resulted in higher employee retirement benefit plans expense in 2015.

Our strategy for profitable growth is focused on four key areas:

- Prudent acquisitions of investor- and municipally-owned water and wastewater utilities;
- Operate municipal and industrial water and wastewater systems under contract;
- Invest in renewable energy projects that are complementary to the provision of water and wastewater services, and to our core water and wastewater competencies; and
- Invest in other products, services and opportunities that complement our core water and wastewater competencies.

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 June 30, 2015

	(In Thousands) Three Months Ended June 30, 2015			2014		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$27,952	$ 3,714	$31,666	$25,656	$ 3,534	$29,190
Operations and maintenance expenses	13,208	3,021	16,229	11,771	2,792	14,563
Depreciation expense	2,938	44	2,982	2,790	47	2,837
Other taxes	3,134	86	3,220	2,951	92	3,043
Operating income	8,672	563	9,235	8,144	603	8,747
Other income, net	133	(5)	128	51	(5)	46
Interest expense	1,474	22	1,496	1,493	22	1,515
Income taxes	2,522	256	2,778	2,286	264	2,550
Net income	$4,809	$ 280	$5,089	$4,416	$ 312	$4,728

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Operating Revenues

Operating revenues for the three months ended June 30, 2015 increased $2.5 million from the same period in 2014. This increase was primarily related to the following factors:

- Middlesex System revenues increased $1.3 million, primarily due to a NJBPU-approved rate increase implemented in July 2014 ($1.2 million) and increased customer demand, primarily amongst Middlesex's wholesale contract customers ($0.1 million);
- Tidewater System revenues increased $0.9 million due to higher customer demand offset by decreased final rates implemented in August 2014 as compared to interim rates implemented in February 2014; and
- USA-PA's revenues increased $0.3 million, primarily from scheduled fixed fees increases under our contract with the Perth Amboy.

Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended June 30, 2015 increased $1.7 million from the same period in 2014, primarily related to the following factors:

- Employee benefit expenses increased $0.7 million due to higher retirement plan costs resulting from a lower discount rate than in the prior year and the adoption of new mortality tables, reflecting longer life expectancies, both used in the calculation of the 2015 net periodic plan costs;
- Variable production costs increased $0.2 million, primarily due to an increase in the rate the Company pays for residuals removal in our Middlesex System;
- Increased repair, inspection and preventative maintenance activity, as compared to 2014, resulted in higher costs of $0.1 million in our Middlesex System;
- USA-PA's operation and maintenance costs increased $0.3 million, primarily due to higher subcontractor expenditures;
- USA's operation and maintenance costs increased $0.1 million, due to expenditures connected with billable supplemental services under USA's contract to operate the Avalon water utility, sewer utility and storm water system; and
- Operation and maintenance expenses for all other categories increased $0.3 million.

Depreciation

Depreciation expense for the three months ended June 30, 2015 increased $0.1 million from the same period in 2014 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the three months ended June 30, 2015 rose by $0.2 million from the same period in 2014, primarily due to higher revenue related taxes on increased revenues in our Middlesex system.

Other Income, net

Other Income, net for the three months ended June 30, 2015 increased $0.1 million from the same period in 2014, primarily due to higher allowance for funds used during construction, resulting from higher average capital projects in progress.

Interest Charges

Interest charges for the three months ended June 30, 2015 remained consistent with the same period in 2014.

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Income Taxes

Income taxes for the three months ended June 30, 2015 increased $0.2 million from the same period in 2014, primarily due to increased pre-tax operating income in 2015 as compared to 2014.

Net Income and Earnings Per Share

Net income for the three months ended June 30, 2015 increased $0.4 million as compared with the same period in 2014. Basic and diluted earnings per share were $0.31 and $0.29 for the three months ended June 30, 2015 and 2014, respectively.

Results of Operations – Six Months Ended June 30, 2015

	(In Thousands) Six Months Ended June 30, 2015			2014		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$52,830	$ 7,616	$60,446	$49,281	$ 7,082	$56,363
Operations and maintenance expenses	26,039	6,278	32,317	24,362	5,638	30,000
Depreciation expense	5,843	87	5,930	5,559	93	5,652
Other taxes	6,113	167	6,280	5,813	184	5,997
Operating income	14,835	1,084	15,919	13,547	1,167	14,714
Other income, net	190	(6)	184	110	(6)	104
Interest expense	2,510	44	2,554	2,572	46	2,618
Income taxes	4,330	495	4,825	3,788	515	4,303
Net income	$8,185	$ 539	$8,724	$7,297	$ 600	$7,897

Operating Revenues

Operating revenues for the six months ended June 30, 2015 increased $4.1 million from the same period in 2014. This increase was primarily related to the following factors:

- Middlesex System revenues increased $1.8 million, primarily due to a NJBPU-approved rate increase implemented in July 2014 ($2.4 million) partially offset by lower customer demand by both General Metered Service customers ($0.2 million) and wholesale contract customers ($0.2 million);
- Tidewater System revenues increased $1.5 million due to higher customer demand offset by decreased final rates implemented in August 2014 as compared to interim rates implemented in February 2014;
- USA-PA's revenues increased $0.5 million, from scheduled fixed fees increases under our contract with the Perth Amboy ($0.6 million) partially offset by lower revenues ($0.1 million) under the same contract for supplemental services;
- USA's revenues increased $0.1 million, primarily due to higher supplemental services revenues earned under our contract to operate the Avalon water utility, sewer utility and storm water system; and
- All other revenues increased $0.2 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the six months ended June 30, 2015 increased $2.3 million from the same period in 2014, primarily related to the following factors:

- Employee benefit expenses increased $1.4 million due to higher retirement plan costs resulting from a lower discount rate than in the prior year and the adoption of new mortality tables, reflecting longer life expectancies, both used in the calculation of the 2015 net periodic plan costs;

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- Variable production costs increased $0.1 million, primarily due to an increase in the rate the Company pays for residuals removal in our Middlesex System partially offset by lower customer demand in our Middlesex System;
- Decreased cold weather main break activity, as compared to 2014, resulted in lower labor overtime costs of $0.1 million and lower non-labor costs of $0.1 million in our Middlesex System;
- USA-PA's operation and maintenance costs increased $0.6 million, primarily due to higher subcontractor expenditures;
- USA's operation and maintenance costs increased $0.2 million, primarily due to expenditures for billable supplemental services under USA's contract to serve Avalon; and
- Operation and maintenance expenses for all other categories increased $0.1 million.

Depreciation

Depreciation expense for the six months ended June 30, 2015 increased $0.3 million from the same period in 2014 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the six months ended June 30, 2015 increased $0.3 million from the same period in 2014, primarily due to higher revenue related taxes on increased revenues in our Middlesex system.

Other Income, net

Other Income, net for the six months ended June 30, 2015 increased $0.1million from the same period in 2014, primarily due to primarily due to higher allowance for funds used during construction, resulting from higher average capital projects in progress.

Interest Charges

Interest charges for the six months ended June 30, 2015 decreased $0.1 million from the same period in 2014, primarily due to lower average interest rates on decreased average total debt outstanding.

Income Taxes

Income taxes for the six months ended June 30, 2015 increased $0.5 million from the same period in 2014, primarily due to increased pre-tax operating income in 2015 as compared to 2014.

Net Income and Earnings Per Share

Net income for the six months ended June 30, 2015 increased $0.8 million as compared with the same period in 2014. Basic earnings per share were $0.54 and $0.49 for the six months ended June 30, 2015 and 2014, respectively. Diluted earnings per share were $0.53 and $0.49 for the six months ended June 30, 2015 and 2014, respectively.

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 growth. The effect of those factors on net income is discussed in “Results of Operations.”

For the six months ended June, 2015, cash flows from operating activities increased $6.4 million to $20.2 million. The increase in cash flows from operating activities primarily resulted from the timing of vendor and income tax payments. The $20.2 million of net cash flow from operations enabled us to fund all 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, proceeds from sales of common stock under the Middlesex Water Company Investment Plan (Investment Plan) and proceeds from sales offerings to the public of our common stock. See below for a more detailed discussion regarding the funding of our capital program.

The capital investment program for 2015 is currently estimated to be $24.2 million. Through June 30, 2015, we have expended $12.6 million and expect to incur approximately $11.6 million for capital projects for the remainder of 2015.

We currently project that we may expend approximately $71.4 million for capital projects in 2016 and 2017. 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 2015, we plan on utilizing:

- Internally generated funds.
- Proceeds from the sale of common stock through the Investment Plan.
- Remaining funds available ($4.0 million as of June 30, 2015) under Tidewater's October 2014 loan (see *"Long-Term Debt"* in Note 3 – Capitalization for further discussion of this loan).
- Short-term borrowings, if necessary, through $60.0 million of available lines of credit with several financial institutions. As of June 30, 2015, there remains $42.0 million to draw upon.

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

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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, the Company will pay approximately $5.7 million of the current portion of existing long-term debt instruments. 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.

The Company's retirement benefit plan assets are exposed to fluctuating market prices of debt and equity securities. Changes to the Company's retirement benefit plan assets' value can impact the Company's retirement benefit plan expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover retirement 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, 2014.

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

10.31*	Registration Statement No. 333-205698, Form S-3, under Securities Act of 1933 filed July 31, 2015, relating to the Middlesex Water Company Investment Plan
10.32	Amended and Restated Loan Agreement between registrant, registrant's subsidiaries and PNC Bank, N.A.
31.1	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.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

* Previously filed.

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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, Treasurer and
Chief Financial Officer
(Principal Accounting Officer)

Date: August 3, 2015