

MIDDLESEX WATER CO
Form 10-Q
November 04, 2011

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 September 30, 2011

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
(State of incorporation)

22-1114430
(IRS employer identification no.)

1500 Ronson Road, Iselin, NJ 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 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

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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 October 31, 2011:

Common Stock, No Par Value: 15,634,889 shares outstanding.

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MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands except per share amounts)

	Three Months Ended September		Nine Months Ended September	
	2011	30, 2010	2011	30, 2010
Operating Revenues	\$ 28,671	\$ 29,585	\$ 78,769	\$ 77,768
Operating Expenses:				
Operations and Maintenance	14,667	14,036	42,760	41,205
Depreciation	2,421	2,387	7,250	6,827
Other Taxes	3,067	3,141	8,737	8,532
Total Operating Expenses	20,155	19,564	58,747	56,564
Operating Income	8,516	10,021	20,022	21,204
Other Income (Expense):				
Allowance for Funds Used During Construction	235	143	626	785
Other Income	759	172	1,118	532
Other Expense	(20)	(129)	(180)	(181)
Total Other Income, net	974	186	1,564	1,136
Interest Charges	1,703	1,819	4,631	5,125
Income before Income Taxes	7,787	8,388	16,955	17,215
Income Taxes	2,644	2,652	5,557	5,495
Net Income	5,143	5,736	11,398	11,720
Preferred Stock Dividend Requirements	52	52	155	156
Earnings Applicable to Common Stock	\$ 5,091	\$ 5,684	\$ 11,243	\$ 11,564
Earnings per share of Common Stock:				
Basic	\$ 0.33	\$ 0.37	\$ 0.72	\$ 0.81
Diluted	\$ 0.32	\$ 0.36	\$ 0.72	\$ 0.80
Average Number of Common Shares Outstanding :				
Basic	15,622	15,518	15,599	14,350
Diluted	15,885	15,781	15,862	14,613
Cash Dividends Paid per Common Share	\$ 0.1825	\$ 0.1800	\$ 0.5475	\$ 0.5400

See Notes to Unaudited Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED BALANCE
SHEETS
(Unaudited)
(In thousands)

		September 30,	December 31,
		2011	2010
ASSETS			
UTILITY PLANT:	Water Production	\$ 125,242	\$ 118,919
	Transmission and Distribution	320,457	308,468
	General	45,114	44,368
	Construction Work in Progress	16,843	11,715
	TOTAL	507,656	483,470
	Less Accumulated Depreciation	90,427	84,737
	UTILITY PLANT - NET	417,229	398,733
CURRENT ASSETS:			
	Cash and Cash Equivalents	4,134	2,453
	Accounts Receivable, net	13,068	11,963
	Unbilled Revenues	6,319	4,752
	Materials and Supplies (at average cost)	2,009	2,196
	Prepayments	2,123	1,401
	TOTAL CURRENT ASSETS	27,653	22,765
DEFERRED CHARGES AND OTHER ASSETS:			
	Unamortized Debt Expense	2,650	2,739
	Preliminary Survey and Investigation Charges	5,453	7,023
	Regulatory Assets	37,421	38,771
	Operations and Developer Contracts Fees Receivable	4,062	4,589
	Restricted Cash	4,552	7,056
	Non-utility Assets - Net	7,511	7,122
	Other	622	387
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	62,271	67,687
	TOTAL ASSETS	\$ 507,153	\$ 489,185
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:			
	Common Stock, No Par Value	\$ 141,018	\$ 139,534
	Retained Earnings	36,450	33,745
	TOTAL COMMON EQUITY	177,468	173,279
	Preferred Stock	3,353	3,362
	Long-term Debt	132,641	133,844
	TOTAL CAPITALIZATION	313,462	310,485
CURRENT LIABILITIES:			
	Current Portion of Long-term Debt	4,564	4,432
	Notes Payable	24,250	17,000
	Accounts Payable	5,789	6,403
	Accrued Taxes	10,671	8,752
	Accrued Interest	895	1,598

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	Unearned Revenues and Advanced Service Fees	751	864
	Other	1,412	1,691
	TOTAL CURRENT LIABILITIES	48,332	40,740
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
DEFERRED CREDITS	Customer Advances for Construction	21,630	21,261
AND OTHER LIABILITIES:	Accumulated Deferred Investment Tax Credits	1,166	1,225
	Accumulated Deferred Income Taxes	31,112	29,691
	Employee Benefit Plans	26,096	28,562
	Regulatory Liability - Cost of Utility Plant Removal	7,869	7,369
	Other	617	154
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	88,490	88,262
CONTRIBUTIONS IN AID OF CONSTRUCTION		56,869	49,698
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 507,153	\$ 489,185

See Notes to Unaudited Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH
FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 11,398	\$ 11,720
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	7,767	7,387
Provision for Deferred Income Taxes and Investment Tax Credits	1,297	114
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(405)	(488)
Cash Surrender Value of Life Insurance	(42)	159
Stock Compensation Expense	315	277
Changes in Assets and Liabilities:		
Accounts Receivable	(578)	(3,503)
Unbilled Revenues	(1,567)	(2,549)
Materials & Supplies	187	(306)
Prepayments	(722)	(488)
Accounts Payable	(614)	1,168
Accrued Taxes	1,919	3,938
Accrued Interest	(703)	(1,034)
Employee Benefit Plans	(1,226)	(180)
Unearned Revenue & Advanced Service Fees	(113)	59
Other Assets and Liabilities	158	(531)
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,071	15,743
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of \$221 in 2011, \$297 in 2010	(17,647)	(22,223)
Restricted Cash	2,504	505
NET CASH USED IN INVESTING ACTIVITIES	(15,143)	(21,718)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(3,818)	(3,720)
Proceeds from Issuance of Long-term Debt	2,747	10,000
Net Short-term Bank Borrowings	7,250	(24,050)
Deferred Debt Issuance Expense	(34)	(7)
Common Stock Issuance Expense	-	(133)
Repurchase of Preferred Stock	(9)	(11)
Proceeds from Issuance of Common Stock	1,168	29,469
Payment of Common Dividends	(8,538)	(7,672)
Payment of Preferred Dividends	(155)	(156)
Construction Advances and Contributions-Net	1,142	1,067
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(247)	4,787

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NET CHANGES IN CASH AND CASH EQUIVALENTS	1,681	(1,188)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,453	4,278
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 4,134	\$ 3,090

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:

Utility Plant received as Construction Advances and Contributions	\$ 6,400	\$ 924
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SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash Paid During the Year for:

Interest	\$ 5,365	\$ 6,167
Interest Capitalized	\$ 221	\$ 297
Income Taxes	\$ 2,614	\$ 2,726

See Notes to Unaudited Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CAPITAL
STOCK
AND LONG-TERM DEBT
(Unaudited)
(In thousands)

	September 30, 2011	December 31, 2010
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2011 - 15,633	\$ 141,018	\$ 139,534
2010 - 15,566		
Retained Earnings	36,450	33,745
TOTAL COMMON EQUITY	\$ 177,468	\$ 173,279
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	89
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 3,353	\$ 3,362
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,354	\$ 2,456
6.25%, Amortizing Secured Note, due May 19, 2028	7,000	7,315
6.44%, Amortizing Secured Note, due August 25, 2030	5,297	5,507
6.46%, Amortizing Secured Note, due September 19, 2031	5,577	5,787
4.22%, State Revolving Trust Note, due December 31, 2022	566	585
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,623	3,655
3.49%, State Revolving Trust Note, due January 25, 2027	633	664
4.03%, State Revolving Trust Note, due December 1, 2026	846	865
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	484	522
0.00%, State Revolving Fund Bond, due August 1, 2021	359	397
3.64%, State Revolving Trust Note, due July 1, 2028	372	387
3.64%, State Revolving Trust Note, due January 1, 2028	124	130
6.59%, Amortizing Secured Note, due April 20, 2029	6,133	6,395
7.05%, Amortizing Secured Note, due January 20, 2030	4,583	4,771
5.69%, Amortizing Secured Note, due January 20, 2030	9,402	9,786
3.45%, State Revolving Trust Note, due August 1, 2031	33	17
3.75%, State Revolving Trust Note, due July 1, 2031	1,327	-
3.75%, State Revolving Trust Note, due November 30, 2030	1,404	-
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000	12,000
5.25%, Series T, due October 1, 2023	6,500	6,500

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5.25%, Series V, due February 1, 2029	10,000	10,000
5.35%, Series W, due February 1, 2038	23,000	23,000
0.00%, Series X, due September 1, 2018	375	430
4.25% to 4.63%, Series Y, due September 1, 2018	525	590
0.00%, Series Z, due September 1, 2019	894	1,007
5.25% to 5.75%, Series AA, due September 1, 2019	1,315	1,440
0.00%, Series BB, due September 1, 2021	1,206	1,328
4.00% to 5.00%, Series CC, due September 1, 2021	1,560	1,680
5.10%, Series DD, due January 1, 2032	6,000	6,000
0.00%, Series EE, due August 1, 2023	4,804	5,224
3.00% to 5.50%, Series FF, due August 1, 2024	6,160	6,555
0.00%, Series GG, due August 1, 2026	1,352	1,440
4.00% to 5.00%, Series HH, due August 1, 2026	1,640	1,715
0.00%, Series II, due August 1, 2024	1,150	1,239
3.40% to 5.00%, Series JJ, due August 1, 2027	1,560	1,625
0.00%, Series KK, due August 1, 2028	1,526	1,616
5.00% to 5.50%, Series LL, due August 1, 2028	1,635	1,695
0.00%, Series MM, due August 1, 2030	1,901	1,968
3.00% to 4.375%, Series NN, due August 1, 2030	1,985	1,985
SUBTOTAL LONG-TERM DEBT	137,205	138,276
Less: Current Portion of Long-term Debt	(4,564)	(4,432)
TOTAL LONG-TERM DEBT	\$ 132,641	\$ 133,844

See Notes to Unaudited 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 Matters

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 2010 Annual Report on Form 10-K (the 2010 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 September 30, 2011, the results of operations for the three and nine month periods ended September 30, 2011 and 2010 and cash flows for the nine month periods ended September 30, 2011 and 2010. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2010, has been derived from the Company's audited financial statements for the year ended December 31, 2010 included in the 2010 Form 10-K.

Certain reclassifications have been made to the prior year financial statements to conform with the current period presentation.

TESI Purchases Wastewater Systems

During the second quarter of 2011, TESI acquired two Sussex County, Delaware wastewater systems for approximately \$0.1 million. These wastewater systems currently serve about 100 customers in total and ultimately expect to serve 360 at build-out. The wastewater plants are among several other nearby TESI-owned facilities providing regulated wastewater services to residential developments within the region. Tidewater provides water service to several communities in the area, including one of the developments where these wastewater systems are located.

USA Enters into Long-Term Marketing Agreement

In August 2011, USA entered into a 10-year marketing agreement (the Agreement) with HomeServe USA (HomeServe), a leading provider of home maintenance service programs to service, develop and grow USA's LineCare customer base. As part of the Agreement, USA recognized a gain of \$0.6 million on the transfer of its existing contracts to HomeServe. Over the next 10 years, USA will receive a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts.

Recent Accounting Guidance

In the third quarter of 2011, there was no new adopted or proposed accounting guidance that did or could have a material impact on the Company's financial statements.

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Note 2 – Rate Matters

On August 28, 2011, Middlesex implemented a New Jersey Board of Public Utilities (NJBPU) approved Purchased Water Adjustment Clause (PWAC). In January 2011, Middlesex had filed a PWAC application with the NJBPU seeking to recover increased costs of \$0.4 million to purchase untreated water from the New Jersey Water Supply Authority and treated water from a non-affiliated regulated water utility.

A Distribution System Improvement Charge (DSIC) is a Delaware Public Service Commission (DEPSC) approved rate-mechanism that allows water utilities to recover investment in non-revenue producing capital improvements to the water system between base rate proceedings. Effective July 1, 2011, Tidewater's DEPSC approved DSIC was increased from 1.34% to 1.98%.

Effective June 1, 2011, the DEPSC approved a multi-year agreement for a phased-in base rate increase for Southern Shores. This increase was necessitated by capital investment in the upgrade and renovation of Southern Shores' primary water treatment facilities, as well as by increased operating costs. Under the terms of the agreement, which expires on June 30, 2020, Southern Shores will also increase rates on January 1, 2012, and each successive January 1st through 2015, to generate approximately \$0.1 million of additional revenue on an annual basis with each increase. Thereafter, rate increases, if any, cannot exceed the lesser of the regional Consumer Price Index or 3%.

The Pennsylvania Public Utility Commission (PAPUC) held public hearings in October 2011 in connection with the Twin Lakes application seeking permission to increase its base rates by approximately \$0.2 million per year. We cannot predict whether the PAPUC will ultimately approve, deny, or reduce the amount of the request. A decision by the PAPUC is not expected until early 2012.

In July 2011, TESI filed an application with the DEPSC seeking permission to increase its base rates by approximately \$0.8 million per year. The request was made necessary by capital investments TESI has made or has committed to make as well as increased operations and maintenance costs. We cannot predict whether the DEPSC will ultimately approve, deny, or reduce the amount of the request. A decision by the DEPSC is not expected until mid 2012. On September 28, 2011, TESI implemented a 7.6% interim rate increase subject to refund as allowed under DEPSC regulations.

In September 2011, Tidewater filed an application with the DEPSC seeking permission to increase its base rates by approximately \$6.9 million per year. The request was made necessary by capital investments Tidewater has made or has committed to make as well as increased operations and maintenance costs. We cannot predict whether the DEPSC will ultimately approve, deny, or reduce the amount of the request. A decision by the DEPSC is not expected until mid 2012. Tidewater received DEPSC approval to implement a 10.49% interim rate increase, subject to refund, on November 15, 2011.

Note 3 – Capitalization

Common Stock

During the nine months ended September 30, 2011, there were 63,816 common shares (approximately \$1.2 million) issued under the Company's Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP).

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The Company maintains a stock plan for its non-management directors (Outside Director Stock Compensation Plan). In May 2011, the Company granted and issued 3,833 shares of common stock (approximately \$0.1 million) to the non-management directors under the Outside Director Stock Compensation Plan.

Preferred Stock

In February 2011, the Company repurchased 93 shares of its \$7.00 Series, nonredeemable cumulative preferred stock at par value for approximately \$9 thousand.

Long-term Debt

In March 2011, Tidewater closed on a \$2.8 million loan with the Delaware State Revolving Fund (SRF) program which allows, but does not obligate, Tidewater to draw against a General Obligation Note for a specific project. The interest rate on any draw will be set at 3.75% with a final maturity of July 1, 2031 on the amount actually borrowed. As of September 30, 2011, Tidewater has borrowed \$1.3 million under this loan.

In March 2011, Southern Shores closed on a \$1.6 million loan with the Delaware SRF program, which allows, but does not obligate, Southern Shores to draw against a General Obligation Note for a specific project. The interest rate on any draw will be set at 3.75% with a final maturity of November 30, 2030 on the amount actually borrowed. As of September 30, 2011, Southern Shores has borrowed \$1.4 million under this loan.

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 is based on quoted market prices for similar issues. The carrying amount and fair market value of the Company's bonds were as follows:

	(Thousands of Dollars)			
	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$ 87,088	\$ 87,579	\$ 89,037	\$ 85,405
SRF Bonds	\$ 843	\$ 850	\$ 919	\$ 937

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 \$49.3 million at September 30, 2011 and \$48.3 million at December 31, 2010. Customer advances for construction have a carrying amount of \$21.6 million at September 30, 2011 and \$21.3 million at December 31, 2010. 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.

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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 September 30,	
		2011	2010
Basic:	Income	Shares	