MIDDLESEX WATER CO
Form 10-Q
November 01, 2016

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 September 30, 2016

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 October 31, 2016:
Common Stock, No Par Value: 16,289,172 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 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues	$ 37,794	$ 34,654	$ 101,098	$ 95,100
Operating Expenses:				
Operations and Maintenance	16,599	16,772	48,215	49,089
Depreciation	3,243	3,032	9,561	8,962
Other Taxes	3,796	3,390	10,537	9,671
Total Operating Expenses	23,638	23,194	68,313	67,722
Operating Income	14,156	11,460	32,785	27,378
Other Income (Expense):				
Allowance for Funds Used During Construction	207	113	387	297
Other Income (Expense), net	400	108	449	108
Total Other Income, net	607	221	836	405
Interest Charges	1,427	1,505	3,841	4,058
Income before Income Taxes	13,336	10,176	29,780	23,725
Income Taxes	4,523	3,433	10,258	8,258
Net Income	8,813	6,743	19,522	15,467
Preferred Stock Dividend Requirements	36	36	108	108
Earnings Applicable to Common Stock	$ 8,777	$ 6,707	$ 19,414	$ 15,359
Earnings per share of Common Stock:				
Basic	$ 0.54	$ 0.41	$ 1.19	$ 0.95
Diluted	$ 0.54	$ 0.41	$ 1.19	$ 0.95
Average Number of Common Shares Outstanding :				

Basic	16,284	16,202	16,262	16,161
Diluted	16,440	16,358	16,418	16,317
Cash Dividends Paid per Common Share	$ 0.1988	$ 0.1925	$ 0.5963	$ 0.5775

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

		September 30, 2016	December 31, 2015
ASSETS			
UTILITY PLANT:	Water Production	$146,095	$142,794
	Transmission and Distribution	411,088	398,363
	General	62,990	61,322
	Construction Work in Progress	20,087	5,734
	TOTAL	640,260	608,213
	Less Accumulated Depreciation	133,293	126,343
	UTILITY PLANT - NET	506,967	481,870
CURRENT ASSETS:	Cash and Cash Equivalents	1,453	3,469
	Accounts Receivable, net	13,273	10,060
	Unbilled Revenues	8,531	6,246
	Materials and Supplies (at average cost)	4,399	2,600
	Prepayments	2,813	2,035
	TOTAL CURRENT ASSETS	30,469	24,410
DEFERRED CHARGES AND OTHER ASSETS:	Preliminary Survey and Investigation Charges	2,690	2,199
	Regulatory Assets	57,961	58,552
	Operations Contracts, Developer and Other Receivables	2,793	2,921
	Restricted Cash	439	439
	Non-utility Assets - Net	9,410	9,199
	Federal Income Tax Receivable	1,408	1,408
	Other	311	385
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	75,012	75,103
	TOTAL ASSETS	$612,448	$581,383
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	$152,571	$150,763
	Retained Earnings	65,650	55,931
	TOTAL COMMON EQUITY	218,221	206,694
	Preferred Stock	2,436	2,436
	Long-term Debt	130,853	132,908
	TOTAL CAPITALIZATION	351,510	342,038
CURRENT	Current Portion of Long-term Debt	6,144	5,739

LIABILITIES:	Notes Payable	13,600	3,000
	Accounts Payable	10,331	6,525
	Accrued Taxes	10,632	9,126
	Accrued Interest	401	1,104
	Unearned Revenues and Advanced Service Fees	904	880
	Other	2,403	1,945
	TOTAL CURRENT LIABILITIES	44,415	28,319
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	20,906	20,461
	Accumulated Deferred Investment Tax Credits	773	832
	Accumulated Deferred Income Taxes	73,389	67,702
	Employee Benefit Plans	34,227	36,515
	Regulatory Liability - Cost of Utility Plant Removal	11,241	10,876
	Other	1,487	1,597
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	142,023	137,983
CONTRIBUTIONS IN AID OF CONSTRUCTION		74,500	73,043
	TOTAL CAPITALIZATION AND LIABILITIES	$612,448	$581,383

See Notes to 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, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$19,522	$15,467
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	10,052	9,990
Provision for Deferred Income Taxes and Investment Tax Credits	5,382	17,631
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(261)	(179)
Cash Surrender Value of Life Insurance	(89)	(51)
Stock Compensation Expense	649	468
Changes in Assets and Liabilities:		
Accounts Receivable	(3,213)	(2,746)
Unbilled Revenues	(2,285)	(2,054)
Materials & Supplies	(1,799)	(428)
Prepayments	(778)	(747)
Accounts Payable	3,806	2,255
Accrued Taxes	1,506	2,389
Accrued Interest	(703)	(723)
Employee Benefit Plans	(1,169)	(3,122)
Unearned Revenue & Advanced Service Fees	24	33
Federal Income Tax Receivable	—	(9,756)
Other Assets and Liabilities	16	725
NET CASH PROVIDED BY OPERATING ACTIVITIES	30,660	29,152
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of $126 in 2016, $118 in 2015	(34,146)	(19,297)
Restricted Cash	—	1,391
NET CASH USED IN INVESTING ACTIVITIES	(34,146)	(17,906)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(4,917)	(5,358)
Proceeds from Issuance of Long-term Debt	3,903	5,000
Net Short-term Bank Borrowings	10,600	(1,000)
Deferred Debt Issuance Expense	(158)	(66)
Common Stock Issuance Expense	—	(22)
Restricted Cash	—	744
Proceeds from Issuance of Common Stock	1,159	1,115

Payment of Common Dividends	(9,695)	(9,331)
Payment of Preferred Dividends	(108)	(108)
Construction Advances and Contributions-Net	686	(242)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,470	(9,268)
NET CHANGES IN CASH AND CASH EQUIVALENTS	(2,016)	1,978
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,469	2,673
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$1,453	$4,651
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	$1,217	$1,622
Long-term Debt Deobligation	$476	$466
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	$4,658	$4,897
Interest Capitalized	$126	$118
Income Taxes	$4,011	$1,136

See Notes to Condensed Consolidated Financial Statements.

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MIDDLESEX WATER COMPANY

CONSOLIDATED STATEMENTS OF CAPITAL STOCK

AND LONG-TERM DEBT

(Unaudited)

(In thousands)

		September 30, 2016	December 31, 2015
Common Stock, No Par Value			
Shares Authorized -	40,000		
Shares Outstanding -	2016 - 16,288 2015 - 16,225	$ 152,571	$ 150,763
Retained Earnings		65,650	55,931
TOTAL COMMON EQUITY		$ 218,221	$ 206,694
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		$ 1,470	$ 1,629
6.25%, Amortizing Secured Note, due May 19, 2028		4,900	5,215
6.44%, Amortizing Secured Note, due August 25, 2030		3,897	4,107
6.46%, Amortizing Secured Note, due September 19, 2031		4,177	4,387
4.22%, State Revolving Trust Note, due December 31, 2022		353	376
3.60%, State Revolving Trust Note, due May 1, 2025		2,165	2,267
3.30% State Revolving Trust Note, due March 1, 2026		431	469
3.49%, State Revolving Trust Note, due January 25, 2027		465	501
4.03%, State Revolving Trust Note, due December 1, 2026		627	651
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021		213	254
0.00%, State Revolving Fund Bond, due August 1, 2021		166	203
3.64%, State Revolving Trust Note, due July 1, 2028		285	294
3.64%, State Revolving Trust Note, due January 1, 2028		94	97
3.45%, State Revolving Trust Note, due August 1, 2031		1,015	1,066
6.59%, Amortizing Secured Note, due April 20, 2029		4,389	4,651

7.05%, Amortizing Secured Note, due January 20, 2030	3,333	3,521
5.69%, Amortizing Secured Note, due January 20, 2030	6,838	7,222
4.45%, Amortizing Secured Note, due April 20, 2040	14,227	14,707
3.75%, State Revolving Trust Note, due July 1, 2031	2,248	2,303
2%, State Revolving Trust Note, due February 1, 2036	1,115	—
3.75%, State Revolving Trust Note, due November 30, 2030	1,186	1,216
0.00%, Construction Loans	2,788	—
First Mortgage Bonds:		
0.00%, Series X, due August 1, 2018	107	162
4.25% to 4.63%, Series Y, due August 1, 2018	122	185
0.00%, Series Z, due August 1, 2019	335	446
5.25% to 5.75%, Series AA, due August 1, 2019	440	565
0.00%, Series BB, due August 1, 2021	603	723
4.00% to 5.00%, Series CC, due August 1, 2021	779	895
0.00%, Series EE, due August 1, 2023	2,713	3,132
3.00% to 5.50%, Series FF, due August 1, 2024	3,690	3,690
0.00%, Series GG, due August 1, 2026	903	993
4.00% to 5.00%, Series HH, due August 1, 2026	960	1,300
0.00%, Series II, due August 1, 2024	700	789
3.40% to 5.00%, Series JJ, due August 1, 2027	824	1,010
0.00%, Series KK, due August 1, 2028	1,078	1,167
5.00% to 5.50%, Series LL, due August 1, 2028	1,175	1,365
0.00%, Series MM, due August 1, 2030	1,337	1,437
3.00% to 4.375%, Series NN, due August 1, 2030	1,590	1,675
0.00%, Series OO, due August 1, 2031	2,258	2,408
2.00% to 5.00%, Series PP, due August 1, 2031	780	815
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	2,408	2,559
3.00% to 3.25%, Series UU, due August 1, 2032	890	935
0.00%, Series VV, due August 1, 2033	2,433	2,577
3.00% to 5.00%, Series WW, due August 1, 2033	865	900
SUBTOTAL LONG-TERM DEBT	138,787	140,279
Add: Premium on Issuance of Long-term Debt	1,548	1,707
Less: Unamortized Debt Expense	(3,338)	(3,339)
Less: Current Portion of Long-term Debt	(6,144)	(5,739)
TOTAL LONG-TERM DEBT	$ 130,853	$ 132,908

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 2015 Annual Report on Form 10-K (the 2015 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, 2016 and the results of operations and cash flows for the three and nine month periods ended September 30, 2016 and 2015. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2015, has been derived from the Company's audited financial statements for the year ended December 31, 2015 included in the 2015 Form 10-K.

Recent Accounting Guidance

Consolidation - In February 2015, the Financial Accounting Standards Board (FASB) issued guidance that amends the consolidation analysis for variable interest entities ("VIEs") as well as voting interest entities. The amendments under the new guidance modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities and eliminate the presumption that a general partner should consolidate a limited partnership. This guidance was effective January 1, 2016. The adoption of this guidance did not have a material impact on the Company's financial statements.

Debt Issuance Costs - 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. The guidance was effective January 1, 2016. As a result of adopting this guidance, the December 31, 2015 balance sheet was revised, which resulted in decreases of $3.3 million to deferred charges and other assets and long-term debt, respectively. The adoption of this guidance had no impact on the Company's statements of income or cash flows.

Deferred Income Taxes – In November 2015**,** the FASB issued guidance on the classification of deferred tax assets and deferred tax liabilities, requiring entities to present them as noncurrent on the balance sheet. This guidance was effective January 1, 2016 and did not have a material impact on the Company's balance sheet.

Revenue Recognition - In May 2014, the 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. The Company is currently analyzing the impact this standard will have on our financial statements.

Inventory - In July 2015, the FASB issued guidance on simplifying the measurement of inventory. The new guidance replaces the current lower of cost or market test with a lower of cost or net realizable value test when cost is determined on a first-in, first-out or average cost basis. The guidance is effective January 1, 2017 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities - In January 2016, the FASB issued guidance which (i) requires all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies, to be carried at fair value through net income, (ii) requires an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected, (iii) amends several disclosure requirements, including the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and (iv) requires disclosure of the fair value of financial assets and liabilities measured at amortized cost at the amount that would be received to sell the asset or paid to transfer the liability. The guidance is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The guidance is required to be applied retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method). The Company is currently analyzing the impact this standard will have on our financial statements.

Accounting for Share-Based Payments - In March 2016, the FASB issued guidance which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance is effective January 1, 2017. The Company is currently analyzing the impact this standard will have on our financial statements.

Statement of Cash Flows - In August 2016, the FASB issued guidance which amends the previous guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of this guidance is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The guidance is effective January 1, 2018 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

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 September 2016, the New Jersey Board of Public Utilities (the NJBPU) approved a Middlesex petition to establish a purchased water adjustment clause and implement a tariff rate sufficient to recover additional costs of less than $0.1 million for the purchase of treated water from a non-affiliated regulated water utility.

Tidewater - Effective July 1, 2016, Tidewater increased its Delaware Public Service Commission-approved Distribution System Improvement Charge (DSIC) rate, which is expected to generate $0.3 million of annual revenues. A DSIC is a rate-mechanism that allows water utilities to recover investments in, and generate a return on, qualifying capital improvements made between base rate proceedings.

Pinelands - In April 2016, the NJBPU approved $0.2 million and $0.1 million increases, respectively, in Pinelands Water and Pinelands Wastewater's annual base water and wastewater rates, effective May 7, 2016. In October 2015, the companies had filed petitions with the NJBPU seeking permission to increase base rates by approximately $0.5 million per year. The rate filings were necessitated by capital infrastructure investments the companies have made, or have committed to make, increased operations and maintenance costs and lower non-fixed fee revenues. The Pinelands Water base water rate increase will be phased-in over two years.

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Twin Lakes – In June 2016, the Pennsylvania Public Utilities Commission approved a $0.1 million increase in Twin Lakes' base water rates, effective June 15, 2016. In November 2015, Twin Lakes had filed a petition seeking permission to increase its base water rates by approximately $0.2 million per year. This request was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase will be phased in over two years.

Note 3 – Capitalization

Common Stock

During the nine months ended September 30, 2016 and 2015, there were 35,350 common shares (approximately $1.2 million) and 48,414 common shares (approximately $1.1 million), respectively, issued under the Middlesex Water Company Investment Plan.

Long-term Debt

In February 2016, Tidewater closed on a $1.2 million loan with the Delaware State Revolving Fund (SRF) program which allows, but does not obligate, Tidewater to draw against a General Obligation Note to fund the replacement of the water distribution system in a manufactured home community. The interest rate on all draws is 2.0% with a final repayment maturity date of February 1, 2036. Through September 30, 2016, Tidewater has drawn $1.1 million on this loan and expects to draw down the remainder of the loan proceeds during the fourth quarter of 2016.

In March 2016, the NJBPU approved Middlesex's request to borrow up to $16.0 million through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey SRF long-term loan program utilizing first mortgage bonds. The proceeds will be used to fund the current year RENEW Program, which is an ongoing initiative to eliminate all unlined water distribution mains in the Middlesex system. Under the SRF program, borrowers first enter into a construction loan with the NJEIT, for which Middlesex closed on an $11.8 million zero percent (0%) arrangement on June 28, 2016. Through September 30, 2016, Middlesex has drawn down $2.8 million and expects to draw down the remaining proceeds during the fourth quarter of 2016. When construction on a qualifying project is substantially complete, the NJEIT will coordinate the conversion of the construction loan into a twenty year long-term securitized loan with 75% of the principal balance having a stated interest rate of zero percent (0%) and 25% of the principal balance at a market interest rate at the time of closing using the credit rating of the State of New Jersey. The NJEIT generally schedules its long-term debt financings in November and May.

In July 2016, the NJBPU approved Middlesex's request to borrow up to $4.0 million under the New Jersey SRF program to fund the upgrade of a booster station at one of its well fields. Based on the current construction schedule, Middlesex expects to close on the SRF construction loan in December 2016 with proceeds requisitions occurring through September 2017.

In 2016, the NJEIT de-obligated principal payments of $0.5 million on several series of SRF loans.

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 issues. Under the fair value hierarchy, the fair value of cash and cash

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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:

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	$82,407	$86,236	$85,143	$87,972
SRF Bonds	$379	$381	$457	$459

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”, “State Revolving Trust Note” and “Construction Loans” on the Condensed Consolidated Statements of Capital Stock and Long-Term Debt). The carrying amount of these instruments was $56.0 million and $54.7 million at September 30, 2016 and December 31, 2015, respectively. Customer advances for construction have carrying amounts of $20.9 million and $20.5 million at September 30, 2016 and December 31, 2015, respectively. 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 September 30,			
	2016		2015	
Basic:	Income	Shares	Income	Shares
Net Income	$8,813	16,284	$6,743	16,202
Preferred Dividend	(36)		(36)	
Earnings Applicable to Common Stock	$8,777	16,284	$6,707	16,202
Basic EPS	$0.54		$0.41	
Diluted:				
Earnings Applicable to Common Stock	$8,777	16,284	$6,707	16,202
$7.00 Series Preferred Dividend	17	115	17	115

$8.00 Series Preferred Dividend	6	41	6	41
Adjusted Earnings Applicable to Common Stock	$8,800	16,440	$6,730	16,358
Diluted EPS	$0.54		$0.41	

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	(In Thousands Except per Share Amounts)			
	Nine Months Ended September 30,			
	2016		2015	
Basic:	Income	Shares	Income	Shares
Net Income	$19,522	16,262	$15,467	16,161
Preferred Dividend	(108)		(108)	
Earnings Applicable to Common Stock	$19,414	16,262	$15,359	16,161
Basic EPS	$1.19		$0.95	
Diluted:				
Earnings Applicable to Common Stock	$19,414	16,262	$15,359	16,161
$7.00 Series Preferred Dividend	50	115	50	115
$8.00 Series Preferred Dividend	18	41	18	41
Adjusted Earnings Applicable to Common Stock	$19,482	16,418	$15,427	16,317
Diluted EPS	$1.19		$0.95	

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		Nine Months Ended	
	September 30,		September 30,	
Operations by Segments:	2016	2015	2016	2015
Revenues:				
Regulated	$33,989	$31,120	$89,797	$83,998
Non – Regulated	3,949	3,650	11,685	11,445
Inter-segment Elimination	(144)	(116)	(384)	(343)
Consolidated Revenues	$37,794	$34,654	$101,098	$95,100
Operating Income:				
Regulated	$13,516	$10,938	$30,940	$25,774
Non – Regulated	640	522	1,845	1,604
Consolidated Operating Income	$14,156	$11,460	$32,785	$27,378
Net Income:				
Regulated	$8,154	$6,466	$18,226	$14,653
Non – Regulated	659	277	1,296	814
Consolidated Net Income	$8,813	$6,743	$19,522	$15,467
Capital Expenditures:				
Regulated	$14,011	$6,613	$33,961	$19,232
Non – Regulated	24	38	185	65
Total Capital Expenditures	$14,035	$6,651	$34,146	$19,297

	As of September 30, 2016	As of December 31, 2015
Assets:		
Regulated	$611,400	$581,321
Non – Regulated	7,047	6,436
Inter-segment Elimination	(5,999)	(6,374)
Consolidated Assets	$612,448	$581,383

Note 6 – Short-term Borrowings

As of September 30, 2016, the Company has established lines of credit aggregating $60.0 million. At September 30, 2016, the outstanding borrowings under these credit lines were $13.6 million at a weighted average interest rate of 1.51%.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Average Daily Amounts Outstanding	$11,734	$17,304	$6,177	$16,992
Weighted Average Interest Rates	1.54%	1.19%	1.52%	1.18%

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The maturity dates for the $13.6 million outstanding as of September 30, 2016 are all in October 2016 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 27.0 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 3.0 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Treated	$804	$775	$2,360	$2,271
Untreated	675	674	1,911	1,869
Total Costs	$1,479	$1,449	$4,271	$4,140

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 - Under an agreement with the County of Monmouth, New Jersey (Monmouth County), Middlesex serves as guarantor of the performance of Applied Water Management, Inc. (AWM) to operate a leachate pretreatment facility, owned by Monmouth County, 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. Under agreements with AWM and Natural Systems Utilities, Inc. (NSU), the parent company of AWM, Middlesex earns a fee for providing the guaranty of AWM's performance to Monmouth County. In addition, Middlesex provides operational support to the project if necessary, 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.

Middlesex believes it is unlikely any payments would be made under Middlesex's guaranty of AWM's performance to Monmouth County. If requested 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 remaining operational commitment of AWM. As of September 30, 2016 and December 31, 2015, the liability recognized in Other Non-Current Liabilities on the balance sheet for the guaranty is approximately $0.1 million.

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Construction

The Company expects to spend approximately $46 million for its construction program in 2016. 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 the annual contribution, the eligible employee must be employed by the Company on December 31st of the year to which the contribution relates. For each of the three months ended September 30, 2016 and 2015, the Company made Pension Plan cash contributions of $1.0 million. For the nine months ended September 30, 2016 and 2015, the Company made Pension Plan cash contributions of $2.5 million and $2.0 million, respectively. The Company expects to make Pension Plan cash contributions of approximately $0.5 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 September 30, 2016, the Company made Other Benefits Plan cash contributions of $0.2 million. For the three months ended September 30, 2015, the Company did not make any Other Benefits Plan cash contributions. For the nine months ended September 30, 2016 and 2015, the Company made Other Benefits Plan cash contributions of $0.7 million and $0.8 million, respectively. The Company expects to make Other Benefits Plan cash contributions of approximately $0.2 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 September 30,			
	2016	2015	2016	2015
Service Cost	$577	$639	$275	$343
Interest Cost	761	724	488	480
Expected Return on Assets	(1,004)	(980)	(558)	(527)
Amortization of Unrecognized Losses	357	411	443	565
Amortization of Unrecognized Prior Service Cost (Credit)	—	—	(432)	(432)
Net Periodic Benefit Cost	$691	$794	$216	$429

(In Thousands)	Pension Benefits		Other Benefits	
	Nine Months Ended September 30,			
	2016	2015	2016	2015
Service Cost	$1,731	$1,918	$824	$1,029
Interest Cost	2,284	2,171	1,464	1,441
Expected Return on Assets	(3,011)	(2,939)	(1,674)	(1,580)
Amortization of Unrecognized Losses	1,070	1,234	1,330	1,696
Amortization of Unrecognized Prior Service Cost (Credit)	—	—	(1,296)	(1,296)
Net Periodic Benefit Cost	$2,074	$2,384	$648	$1,290

Note 9 – Income Taxes

As part of its 2014 Federal income tax return, the Company adopted the final Internal Revenue Service (IRS) regulations pertaining to the tax deductibility of costs that qualify as repairs on tangible property. The adoption resulted in a net reduction of $17.6 million in taxes previously remitted to the IRS, for which the Company has already sought and received refunds pertaining to tax years 2012 through 2014 in accordance with IRS regulations. Subsequently, the Company's 2014 federal income tax return was selected for examination by the IRS. It is unknown at this time whether the results of this examination will result in any changes to the filed Federal income tax return.

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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, 2015.

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, 2015.

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 61,000 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 produce 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 operates the Borough of Avalon, New Jersey’s (Avalon) water utility, sewer utility and storm water system. In addition to performing day-to-day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon. Under a marketing agreement with HomeServe USA (HomeServe), USA offers residential customers in New Jersey and Delaware a menu of water, wastewater and other residential-related maintenance programs. HomeServe is a leading provider of such home maintenance service programs. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe’s service contracts. The agreement expires in 2021. 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, provide water services to approximately 42,000 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. subsidiary provides wastewater services to approximately 3,400 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 regulated 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

Pinelands Water, Pinelands Wastewater and Twin Lakes Rate Increases – In the second quarter of 2016, Pinelands Water, Pinelands Wastewater and Twin Lakes implemented base rate increases of $0.2 million, $0.1 million and $0.1 million, respectively. The rate increases were necessitated by capital infrastructure investments the companies have made and increased operations and maintenance costs. The Pinelands Water and Twin Lakes rate increases will be phased-in over two years.

Tidewater Distribution System Improvement Charge (DSIC) - Effective July 1, 2016, Tidewater increased its Delaware Public Service Commission-approved DSIC rate, which is expected to generate $0.3 million of annual revenues. A DSIC is a rate-mechanism that allows water utilities to recover investments in, and generate a return on, qualifying capital improvements made between base rate proceedings.

Outlook

Revenues in 2016 are expected to continue to be favorably impacted by the following:

- The full year effect of Middlesex's August 2015 $5.0 million rate increase;
- Increased needs for water by Middlesex wholesale contract customers;
- Rate increases for Pinelands Water, Pinelands Wastewater and Twin Lakes implemented in the second quarter of 2016 (see *"Recent Developments"* above regarding rate increases); and
- The increase in the Tidewater DSIC (see *"Recent Developments"* above regarding DSIC).

Revenues and earnings are influenced by weather. The increased water demands in 2016 may not reoccur in 2017. 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. As operating costs are anticipated to increase in 2017 in a variety of categories, we continue to implement plans to further streamline operations and further reduce, and mitigate increases in, operating costs.

Operating expenses in 2016 will continue to be favorably impacted by lower employee benefit plan expenses, primarily resulting from a market-driven higher discount rate used in the 2016 actuarial valuation of our retirement benefit plans. For 2017, current market-driven trending indicators portend a lower discount rate which consequently would result in higher employee benefit plan expenses.

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

- Prudent acquisitions of investor- and municipally-owned water and wastewater utilities;

- Timely and adequate recovery of prudent investments in utility plant required to maintain appropriate utility services;

- Operate municipal, commercial and industrial water and wastewater systems under contract;

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- 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 September 30, 2016

	(In Thousands) Three Months Ended September 30,					
	2016			2015		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$33,946	$ 3,848	$37,794	$31,093	$ 3,561	$34,654
Operations and maintenance expenses	13,527	3,072	16,599	13,856	2,916	16,772
Depreciation expense	3,194	49	3,243	2,988	44	3,032
Other taxes	3,709	87	3,796	3,311	79	3,390
Operating income	13,516	640	14,156	10,938	522	11,460
Other income, net	82	525	607	195	26	221
Interest expense	1,427	—	1,427	1,483	22	1,505
Income taxes	4,017	506	4,523	3,184	249	3,433
Net income	$8,154	$ 659	$8,813	$6,466	$ 277	$6,743

Operating Revenues

Operating revenues for the three months ended September 30, 2016 increased $3.1 million from the same period in 2015. This increase was primarily related to the following factors:

- Middlesex System revenues increased $2.3 million due to:
  - o Sales to General Metered Service and Public/Private Fire customers increased by $1.5 million, due to the New Jersey Board of Public Utilities (NJBPU)-approved rate increase implemented in August 2015 ($0.9 million) and favorable weather conditions ($0.6 million); and
  - o Sales to Contract customers increased by $0.8 million primarily due to higher water demand;
- Tidewater System revenues increased $0.5 million due to additional customers ($0.4 million) and weather-related demand ($0.1 million);
- Pinelands revenues increased $0.1 million due to the NJBPU-approved rate increases implemented in May 2016 and weather-related demand;
- USA's revenues increased $0.1 million due to additional supplemental service revenues earned under our contract to operate the Avalon water utility, sewer utility and storm water system; and
- USA-PA's revenues increased $0.1 million from scheduled fixed fee increases under our contract with Perth Amboy.

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Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended September 30, 2016 decreased $0.2 million from the same period in 2015, primarily related to the following factors:

- Employee benefit expense decreased by $0.3 million due primarily to lower retirement plan costs. The 2016 costs were calculated using a higher discount rate than in the 2015 calculation of our net periodic plan costs;
- Labor costs increased by $0.3 million due to higher average labor rates and increased headcount, partially offset by higher capitalized labor at Middlesex; and
- All other operation and maintenance expense categories decreased $0.2 million.

Depreciation

Depreciation expense for the three months ended September 30, 2016 increased $0.2 million from the same period in 2015 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the three months ended September 30, 2016 increased $0.4 million from the same period in 2015, primarily due to higher gross revenue taxes on increased Middlesex system revenues.

Other Income, net

Other Income, net for the three months ended September 30, 2016 increased $0.4 million from the same period in 2015, due primarily to the recognition by USA of previously deferred income associated with the 10-year marketing agreement with HomeServe.

Interest Charges

Interest charges for the three months ended September 30, 2016 decreased $0.1 million from the same period in 2015 due to lower average long-term and short-term debt balances outstanding.

Income Taxes

Income taxes for the three months ended September 30, 2016 increased $1.1 million from the same period in 2015 due to higher taxable income in 2016 as compared to 2015.

Net Income and Earnings Per Share

Net income for the three months ended September 30, 2016 increased $2.1 million as compared with the same period in 2015. Basic and diluted earnings per share were $0.54 and $0.41 for the three months ended September 30, 2016 and 2015, respectively.

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Results of Operations – Nine Months Ended September 30, 2016

	(In Thousands) Nine Months Ended September 30, 2016			2015		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	$89,712	$ 11,386	$101,098	$83,923	$ 11,177	$95,100
Operations and maintenance expenses	39,075	9,140	48,215	39,894	9,195	49,089
Depreciation expense	9,420	141	9,561	8,830	132	8,962
Other taxes	10,277	260	10,537	9,425	246	9,671
Operating income	30,940	1,845	32,785	25,774	1,604	27,378
Other income, net	317	519	836	385	20	405
Interest expense	3,841	—	3,841	3,992	66	4,058
Income taxes	9,190	1,068	10,258	7,514	744	8,258
Net income	$18,226	$ 1,296	$19,522	$14,653	$ 814	$15,467

Operating Revenues

Operating revenues for the nine months ended September 30, 2016 increased $6.0 million from the same period in 2015. This increase was primarily related to the following factors:

- Middlesex System revenues increased $5.5 million due to:
  - Sales to General Metered Service and Public/Private Fire customers increased by $4.2 million, from a NJBPU-approved rate increase implemented in August 2015 ($3.2 million) and favorable weather conditions ($1.0 million); and
  - Sales to Contract customers increased by $1.3 million due to higher water demand ($1.2 million) and from a NJBPU-approved rate increase implemented in August 2015 ($0.1 million);
- Tidewater System revenues increased $0.1 million due to additional customers ($0.6 million) mostly offset by lower customer demand from unfavorable weather conditions in late-spring and early summer ($0.5 million);
- White Marsh revenues increased $0.1 million due to new contracts to operate water and wastewater systems as well as additional billable supplemental services under existing contracts;
- Pinelands revenues increased $0.1 million due to the NJBPU-approved rate increase implemented in May 2016 and weather-related demand; and
- All other revenue categories increased $0.2 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the nine months ended September 30, 2016 decreased $0.9 million from the same period in 2015, primarily related to the following factors:

- Employee benefit expense decreased by $1.0 million due primarily to lower retirement plan costs. The 2016 costs were calculated using a higher discount rate than in the 2015 calculation of our net periodic plan costs;
- Decreased cold weather main break repair activity, as compared to 2015, resulted in lower costs of $0.2 million in our Middlesex System; and
- Variable production costs decreased $0.2 million, due primarily to improved non-revenue water management and higher raw water quality in our Middlesex System; and
- Labor costs increased by $0.5 million due to company-wide higher average labor rates and increased headcount, partially offset by higher capitalized labor at Middlesex.

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Depreciation

Depreciation expense for the nine months ended September 30, 2016 increased $0.6 million from the same period in 2015 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the nine months ended September 30, 2016 increased $0.9 million from the same period in 2015, primarily due to higher gross revenue taxes on increased Middlesex system revenues.

Other Income, net

Other Income, net for the nine months ended September 30, 2016 increased $0.4 million from the same period in 2015, due primarily to the recognition by USA of previously deferred income associated with the 10-year marketing agreement with HomeServe.

Interest Charges

Interest charges for the nine months ended September 30, 2016 decreased $0.2 million from the same period in 2015due to lower average long-term and short-term debt balances outstanding.

Income Taxes

Income taxes for the nine months ended September 30, 2016 increased $2.0 million from the same period in 2015, primarily due to higher taxable income in 2016 as compared to 2015.

Net Income and Earnings Per Share

Net income for the nine months ended September 30, 2016 increased $4.1 million as compared with the same period in 2015. Basic and diluted earnings per share were $1.19 and $0.95 for the nine months ended September 30, 2016 and 2015, respectively.

Liquidity and Capital Resources

Operating Cash Flows

Increases in cash flows from operations are largely based on four factors: favorable 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 comparative nine month periods ended September 30, 2016 and 2015, cash flows from operating activities increased $1.5 million to $30.7 million. This increase in cash flows, which resulted primarily from higher water sales offset by higher income tax payments, enabled us to internally fund approximately 90% of current year utility plant expenditures.

Investing Cash Flows

For the comparative nine month periods ended September 30, 2016 and 2015, cash flows used in investing activities increased $16.2 million to $34.1 million, which was attributable to higher utility plant expenditures.

For further discussion on the Company's future capital expenditures and expected funding sources, see "*Capital Expenditures and Commitments*" below.

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Financing Cash Flows

For the comparative nine month periods ended September 30, 2016 and 2015, cash flows provided by financing activities increased $10.7 million to $1.5 million. The increase in cash flows provided by financing activities resulted from increased short-term debt funding offset by higher net cash outflows for long-term debt.

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 (the 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 current year capital program.

The capital investment program for 2016 is currently estimated to be $46 million. We currently project that we may invest approximately $112 million in 2017 and 2018 on capital projects. The actual amount and timing is dependent on project scheduling and refinement of engineering estimates for certain capital projects.

Through September 30, 2016, we have spent $34.1 million and expect to expend approximately $12 million on capital projects for the remainder of 2016.

To fund our capital program for the remainder of 2016, we plan on utilizing:

- Internally generated funds;
- Proceeds from the sale of common stock through the Investment Plan;
- Proceeds from the 2016 New Jersey and Delaware State Revolving Fund programs (up to $9.0 million and $0.1 million, respectively); and
- Short-term borrowings, if necessary, through $60.0 million of available lines of credit with several financial institutions. As of September 30, 2016, there remains $46.4 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.

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 $6.1 million of the current portion of 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 mitigated through contractual arrangements and the ability to recover price increases through rates approved by our economic regulators. 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 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, 2015.

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

10.33(a)	Amendment to Uncommitted Line of Credit Agreement between registrant, registrant's subsidiaries and Bank of America, 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

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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: November 1, 2016