

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For Quarter Ended: June 30, 1998

Commission File
No. 0-422

MIDDLESEX WATER COMPANY
(Exact name of registrant as specified in its charter)

INCORPORATED IN NEW JERSEY
(State or other jurisdiction of
incorporation or organization)

22-1114430
(I.R.S. Employer
Identification No.)

1500 RONSON ROAD, ISELIN, NJ
(Address of principal executive offices)

08830
(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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that this registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 30 days.

YES NO

Indicate the number of shares outstanding of each of the Issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 1998
Common Stock, No Par Value	4,345,245

INDEX

PART I.	FINANCIAL INFORMATION	PAGE
Item 1.	Financial Statements:	
	Consolidated Statements of Income	1
	Consolidated Balance Sheets	2
	Consolidated Statements of Capitalization and Retained Earnings	4
	Consolidated Statements of Cash Flows	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	8
PART II.	OTHER INFORMATION	10
SIGNATURE		11

PART I. - FINANCIAL INFORMATION

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Operating Revenues	\$10,591,316	\$ 9,937,149	\$20,360,455	\$19,273,168
Operating Expenses:				
Operations and Maintenance	5,171,280	4,965,120	10,087,766	9,525,478
Depreciation	815,639	759,628	1,623,723	1,515,111
Taxes, other than Income Taxes	1,499,787	1,429,827	2,914,244	2,820,997
Federal Income Taxes	836,439	704,294	1,518,689	1,355,027
Total Operating Expenses	8,323,145	7,858,869	16,144,422	15,216,613
Utility Operating Income	2,268,171	2,078,280	4,216,033	4,056,555
Other Income-Net	392,630	58,260	522,421	180,022
Income Before Interest Charges	2,660,801	2,136,540	4,738,454	4,236,577
Interest Charges	1,086,793	825,720	1,901,195	1,643,732
Net Income	1,574,008	1,310,820	2,837,259	2,592,845
Preferred Stock Dividend Requirements	79,696	39,731	159,393	79,463
Earnings Applicable to Common Stock	\$ 1,494,312	\$ 1,271,089	\$ 2,677,866	\$ 2,513,382
Basic and Diluted Earnings per Share	\$0.34	\$0.30	\$0.62	\$0.60
Average Number of Common Shares Outstanding	4,330,025	4,224,248	4,310,462	4,217,480
Cash Dividends Paid per Common Share	\$0.28 1/2	\$0.28	\$0.57	\$0.56

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS

ASSETS AND OTHER DEBITS

	June 30, 1998	December 31, 1997
	<u>(Unaudited)</u>	<u></u>
UTILITY PLANT:		
Water Production	\$ 27,900,063	\$ 27,689,254
Transmission and Distribution	114,656,052	113,104,789
General	18,905,283	18,845,301
Construction Work in Progress	13,747,369	5,683,217
	<u>175,208,767</u>	<u>165,322,561</u>
TOTAL	175,208,767	165,322,561
Less Accumulated Depreciation	31,114,622	30,251,825
	<u>144,094,145</u>	<u>135,070,736</u>
UTILITY PLANT-NET	144,094,145	135,070,736
	<u>3,702,176</u>	<u>2,038,568</u>
NONUTILITY ASSETS-NET	3,702,176	2,038,568
CURRENT ASSETS:		
Cash and Cash Equivalents	2,487,316	2,513,294
Temporary Cash Investments-Restricted	16,743,117	218,787
Accounts Receivable(net of allowance for doubtful accounts)	4,867,564	3,794,860
Unbilled Revenues	2,557,179	2,175,934
Materials and Supplies(at average cost)	1,100,183	960,577
Prepayments and Other Current Assets	535,878	387,487
	<u>28,291,237</u>	<u>10,050,939</u>
TOTAL CURRENT ASSETS	28,291,237	10,050,939
DEFERRED CHARGES:		
Regulatory Assets	7,296,196	7,359,969
Unamortized Debt Expense	3,182,940	2,773,233
Preliminary Survey and Investigation Charges	215,036	213,650
Other	2,393,596	2,253,678
	<u>13,087,768</u>	<u>12,600,530</u>
TOTAL DEFERRED CHARGES	13,087,768	12,600,530
	<u>\$189,175,326</u>	<u>\$159,760,773</u>
TOTAL	\$189,175,326	\$159,760,773

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND OTHER CREDITS

	June 30, 1998	December 31, 1997
	<u>(Unaudited)</u>	<u></u>
CAPITALIZATION(see accompanying statements)	\$133,866,164	\$109,139,429
	<u></u>	<u></u>
CURRENT LIABILITIES:		
Current Portion of Long-term Debt	44,336	42,708
Notes Payable	4,476,932	564,701
Accounts Payable	2,937,186	3,602,420
Customer Deposits	397,387	393,376
Taxes Accrued	5,590,086	5,142,089
Interest Accrued	1,599,371	1,183,561
Other	2,298,773	2,039,828
	<u></u>	<u></u>
TOTAL CURRENT LIABILITIES	17,344,071	12,968,683
	<u></u>	<u></u>
DEFERRED CREDITS:		
Customer Advances for Construction	10,770,277	10,830,646
Accumulated Deferred Investment Tax Credits	2,201,222	2,237,060
Accumulated Deferred Federal Income Taxes	12,398,209	12,177,993
Other	2,227,503	2,051,895
	<u></u>	<u></u>
TOTAL DEFERRED CREDITS	27,597,211	27,297,594
	<u></u>	<u></u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	10,367,880	10,355,067
	<u></u>	<u></u>
TOTAL	\$189,175,326	\$159,760,773
	<u></u>	<u></u>

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CAPITALIZATION AND RETAINED EARNINGS

	June 30, 1998	December 31, 1997
	(Unaudited)	
CAPITALIZATION:		
Common Stock, No Par Value		
Shares Authorized, 10,000,000		
Shares Outstanding-1998, 4,345,245		
1997, 4,269,217	\$ 32,665,359	\$ 31,138,484
Retained Earnings	20,309,429	20,087,065
	<hr/>	<hr/>
TOTAL COMMON EQUITY	52,974,788	51,225,549
	<hr/>	<hr/>
Cumulative Preference Stock, No Par Value		
Shares Authorized, 100,000; Shares Outstanding, None		
Cumulative Preferred Stock, No Par Value,		
Shares Authorized - 150,000		
Convertible:		
Shares Outstanding, \$7.00 Series - 14,881	1,562,505	1,562,505
Shares Outstanding, \$8.00 Series - 20,000	2,331,430	2,331,430
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1,017	101,700	101,700
Shares Outstanding, \$4.75 Series - 10,000	1,000,000	1,000,000
	<hr/>	<hr/>
TOTAL CUMULATIVE PREFERRED STOCK	4,995,635	4,995,635
	<hr/>	<hr/>
Long-term Debt:		
8.02% Amortizing Secured Note, due December 20, 2021	3,440,077	3,460,953
First Mortgage Bonds:		
7.25%, Series R, due July 1, 2021	6,000,000	6,000,000
5.20%, Series S, due October 1, 2022	12,000,000	12,000,000
5.25%, Series T, due October 1, 2023	6,500,000	6,500,000
6.40%, Series U, due February 1, 2009	15,000,000	15,000,000
5.25%, Series V, due February 1, 2029	10,000,000	10,000,000
5.35%, Series W, due February 1, 2038	23,000,000	0
	<hr/>	<hr/>
SUBTOTAL LONG-TERM DEBT	75,940,077	52,960,953
Less: Current Portion of Long-term Debt	(44,336)	(42,708)
	<hr/>	<hr/>
TOTAL LONG-TERM DEBT	75,895,741	52,918,245
	<hr/>	<hr/>
TOTAL CAPITALIZATION	\$133,866,164	\$109,139,429
	<hr/>	<hr/>
	Six Months Ended	Year Ended
	June 30, 1998	December 31, 1997
	(Unaudited)	
RETAINED EARNINGS:		
BALANCE AT BEGINNING OF PERIOD	\$ 20,087,065	\$ 19,226,847
Net Income	2,837,259	5,860,906
	<hr/>	<hr/>
TOTAL	22,924,324	25,087,753
	<hr/>	<hr/>
Cash Dividends:		
Cumulative Preferred Stock	159,358	239,361
Common Stock	2,455,537	4,761,327
	<hr/>	<hr/>
TOTAL DEDUCTIONS	2,614,895	5,000,688
	<hr/>	<hr/>
BALANCE AT END OF PERIOD	\$ 20,309,429	\$ 20,087,065

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended 1998	June 30, 1997
	<hr/>	<hr/>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 2,837,259	\$ 2,592,845
Adjustments To Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,807,353	1,557,090
Provision for Deferred Income Taxes	220,216	362,166
Allowance for Funds Used During Construction	(352,056)	(12,071)
Changes in Current Assets and Liabilities:		
Accounts Receivable	(1,072,704)	(145,431)
Materials and Supplies	(139,606)	(99,402)
Accounts Payable	(665,234)	551,013
Accrued Income Taxes	447,997	565,026
Accrued Interest	415,810	4,533
Unbilled Revenues	(381,245)	(283,556)
Other-Net	218,883	(508,030)
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,336,673	4,584,183
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures	(10,292,634)	(2,623,454)
Note Receivable	(1,664,224)	0
Preliminary Survey and Investigation Charges	(1,386)	(436,706)
Other-Net	(161,760)	132,571
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(12,120,004)	(2,927,589)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(20,876)	(19,087)
Proceeds from Issuance of Long-term Debt	23,000,000	0
Net Short-term Bank Borrowings	3,912,231	0
Deferred Debt Issuance Expenses	(474,096)	0
Temporary Cash Investments-Restricted	(16,524,330)	(206,845)
Proceeds from Issuance of Common Stock-Net	1,526,875	520,630
Payment of Preferred Dividends	(159,358)	(79,463)
Payment of Common Dividends	(2,455,537)	(2,359,981)
Customer Advances and Contributions-Net	(47,556)	683,120
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	8,757,353	(1,461,626)
	<hr/>	<hr/>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,978)	194,968
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,513,294	4,262,862
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,487,316	\$ 4,457,830
	<hr/>	<hr/>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Period for:		
Interest (net of amounts capitalized)	\$ 1,283,663	\$ 1,575,885
Income Taxes	\$ 1,300,000	\$ 500,700

Excludes Allowance for funds Used During Construction.
See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Organization - Middlesex Water Company (Middlesex or Company) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Pinelands Water Company, Pinelands Wastewater Company, and Utility Service Affiliates, Inc. (USA). Public Water Supply Company, Inc. (Public) and White Marsh Environmental Systems, Inc. are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (Consolidated Group) are reported on a consolidated basis. All intercompany accounts and transactions have been eliminated.

The consolidated notes accompanying the 1997 Form 10-K are applicable to this report and, in the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 1998 and the results of operations and its cash flows for the periods ended June 30, 1998 and 1997. Information included in the Balance Sheet as of December 31, 1997 has been derived from the Company's audited financial statements included in its annual report on Form 10-K for the year ended December 31, 1997.

Note 2 - Regulatory Matters

In the first quarter of 1998, Middlesex filed an application with the New Jersey Board of Public Utilities (BPU) to issue and sell up to 800,000 additional shares of Common Stock under the Company's Dividend Reinvestment and Common Stock Purchase Plan. The Company received approval on this matter on June 10, 1998.

Note 3 - Capitalization

Common Stock - During the three months ended June 30, 1998, 40,696 common shares (\$0.8 million) were issued under the Company's Dividend Reinvestment and Common Stock Purchase Plan. A 5% discount on purchases and reinvestments through the Plan was available until June 1, 1998.

Long-term Debt - On March 31, 1998, Middlesex issued \$23.0 million of First Mortgage Bonds designated as Series W with a maturity date of February 1, 2038 and a coupon rate of 5.35%. The effective interest cost to maturity is 5.48%. The bond offering was competitively bid in cooperation with the New Jersey Economic Development Authority. Interest paid to the bondholders is exempt from federal and New Jersey income taxes (Tax Exempt). However, the interest is subject to the Alternative Minimum Tax (AMT). The proceeds of the bonds will be used to finance a significant portion of the upgrade of the Carl J. Olsen Water Treatment Plant (CJO Plant).

On May 29, 1998 the Company filed a petition with the BPU seeking approval to issue \$2.5 million of long-term bonds through the New Jersey State Revolving Fund (SRF). The SRF program, which is administered by the New Jersey Environmental Infrastructure Trust, evolved from the Federal Environmental Protection Agency's (EPA) regulations issued under the Safe Drinking Water Act. Under this program, investor-owned public water utilities can apply for construction loans, which are funded by the participating state and the EPA through the state environmental agency. In New Jersey, initial project approval must be granted by the New Jersey Department of Environmental Protection (NJDEP). Funds from the EPA, which can equal up to 50% of construction costs, are loaned at a zero interest cost; the interest rate on the state portion of the loan is based upon the market place at time of issuance. The rate to the Company is a blend of the two rates. The interest paid to bondholders is considered Tax Exempt subject to AMT. Proceeds from the proposed financing would be available for qualified costs reimbursement in May 1999. A decision by the BPU is expected during the third quarter.

Middlesex has also filed planning and design documents with the NJDEP in order to be able to apply for additional loans under the SRF program in future years. If approved, Middlesex will need to file for approval from the BPU sometime during the second quarter of 1999.

MIDDLESEX WATER COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE
THREE AND SIX MONTHS ENDED JUNE 30, 1998 COMPARED TO
JUNE 30, 1997

Operating Revenues were up \$0.7 million or 6.6% over the second quarter of 1997. For the six months ended June 30, 1998 Operating Revenues were up \$1.1 million or 5.6% over the same period in 1997. The components of the increases are as follows:

	(Millions)	
	Three Months	Six Months
Base Rate Increases	\$0.4	\$0.6
Subsidiary Acquisition	0.2	0.4
Consumption Increase	0.1	0.1
	—	—
Increase	\$0.7	\$1.1

In January 1998, Middlesex implemented an approved rate increase of 4.4% while Pinelands Water and Wastewater rates increased as part of a scheduled phase-in. Public Water Supply Company (Public) was not part of consolidated operations until August 1, 1997. Tidewater experienced continued double-digit customer growth, on an annualized basis, which offset lower overall consumption in the Company's New Jersey operations. Consumption for Middlesex general water users was higher, but improvements to two of Middlesex Contract Sales customers systems resulted in lower usage under those contracts.

Operating Expenses increased \$0.5 million or 5.9% for the quarter and \$0.9 million or 6.0% for the six months ended June 30, 1998 compared to the respective period a year ago. Both the inclusion of Public's operations and mandated recognition of postretirement benefit costs other than pensions resulted in higher expense of \$0.2 million and \$0.5 million for the second quarter and year to date 1998, respectively. Increased sales resulted in higher revenue related taxes and higher taxable income pushed Federal Income Taxes up for the quarter and year to date.

Other income rose significantly due to capitalized interest on the expenditures associated with the upgrade of the Carl J. Olsen Water Treatment Plant (CJO Plant) and investment earnings on restricted CJO Plant construction funds. The increase in capitalized interest was \$0.2 million and \$0.3 million for the three and six month periods. Investment earnings rose \$0.2 million for the three and six month period.

Interest Expense for 1998 reflects the increased debt service on the \$23.0 million of first mortgage bonds issued on March 31, 1998. The Preferred Stock Dividend Requirement difference is due to the issuance on July 31, 1997 of the \$8.00 preferred stock series to complete the acquisition of Public.

Capital Resources: The Company's capital program for 1998 is estimated to be \$28.3 million and includes \$18.0 million for the upgrade of the Carl J. Olsen Water Treatment Plant which is scheduled for completion in June 1999, \$2.0 million for the rehabilitation of unlined cast iron pipe (RENEW Program), \$4.6 million for water system additions and improvements in Delaware and \$3.7 million for scheduled upgrades to existing systems. The \$3.7 million for scheduled upgrades consists of \$0.9 million for mains, \$0.7 million for service lines, \$0.8 million for meters and hydrants and \$1.3 million for various other items.

Liquidity: Proceeds from the \$23.0 million Series W First Mortgage Bonds will be used to finance a large part of the CJO Plant project. Other capital expenditures will be financed through internally generated funds and sale of common stock through the Dividend Reinvestment and Common Stock Purchase Plan (DRP). Additionally, the Company will utilize short-term borrowings through \$30.0 million of available lines of credit. An offering of common equity of approximately \$8.0 million has tentatively been scheduled for December 1998. Capital expenditures of \$10.3 million have been incurred in the six months ended June 30, 1998.

Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued three new accounting pronouncements, which the Company is required to adopt in 1998.

Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income" establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. At June 30, 1998, the Company does not have any items of comprehensive income that would affect the current reporting of the Company's financial position, results of operations or cash flows.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that public enterprises report certain information about operating segments in complete sets of financial statements. Disclosure is not required for interim financial statements in the initial year of its application. The Company is evaluating the requirements of SFAS No. 131. Because the statement relates solely to disclosure provisions, it will not have any effect on the Company's financial position, results of operations or cash flows.

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," revises and standardizes disclosure requirements for pension and other postretirement benefit plans but does not change the measurement or recognition of those plans.

Year 2000 Disclosure: The Company has assessed the effect of the Year 2000 issue on its computer systems and believes that all of its systems are in compliance.

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings
None
- Item 2. Changes in Securities
None.
- Item 3. Defaults upon Senior Securities
None.
- Item 4. Submission of Matters to a Vote of Security Holders
Annual Meeting of Shareholders held May 27, 1998.

Matters voted upon at the meeting:

ELECTION OF DIRECTORS

Nominees for Class II term expiring in 2001:

	FOR	WITHHOLD
Ernest C. Gere	3,457,664	73,053
Stephen H. Mundy	3,435,648	95,069
Richard A. Russo	3,469,333	61,387

Resolution approving appointment of Deloitte & Touche LLP, Certified Public Accountants, as independent auditors for 1998:

FOR	AGAINST	ABSTAIN
3,490,107	13,513	27,097

Resolution approving amendment to the Restated Certificate of Incorporation to increase the authorized Common Stock, from 6,000,000 shares to 10,000,000 shares:

FOR	AGAINST	ABSTAIN
3,297,443	188,505	44,769

- Item 5. Other Information
None
- Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits: No. 27, Financial Data Schedule.
(b) Reports on Form 8-K: None

SIGNATURE

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

MIDDLESEX WATER COMPANY
(Registrant)

Date: August 7, 1998

/s/A. Bruce O'Connor
A. Bruce O'Connor
Vice President and Controller

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MIDDLESEX WATER COMPANY

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DEC-31-1998	
JUN-30-1998	
PER-BOOK	
144,094,145	
3,702,176	
28,291,237	
13,087,768	
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	189,175,326
	32,665,359
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20,309,429	
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75,895,741	
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50,787,894	
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4,216,033	
522,421	
4,738,454	
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2,677,866	
2,455,537	
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3,336,673	
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	0.62