FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-06-30**
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FILER

ENERGYNORTH INC

CIK:**704503**| IRS No.: **020363755** | State of Incorp.:**NH** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **001-11441** | Film No.: **99670950**
SIC: **4924** Natural gas distribution

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1260 ELM ST
MANCHESTER NH 03105

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the Quarterly Period Ended June 30, 1999

Commission File Number 001-11441

ENERGYNORTH, INC.
(Exact name of registrant as specified in its charter)

New Hampshire	02-0363755
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1260 Elm Street, P.O. Box 329, Manchester, NH 03105
(Address and zip code of principal executive offices)

(603) 625-4000
(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 [X] No [ ]

EnergyNorth, Inc. had 3,319,718 shares of $1.00 par value common stock outstanding on July 27, 1999, the filing date of this report.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ENERGYNORTH, INC.
Condensed Consolidated Balance Sheets
Assets
(Unaudited, except for September 30, 1998 data)
(In thousands)

	June 30,		September 30,
	1999	1998	1998

Property:			
Utility plant, at cost	$165,184	$154,918	$158,595
Accumulated depreciation and amortization	54,902	50,819	51,313
Net utility plant	110,282	104,099	107,282
Net nonutility property, at cost	8,116	7,773	7,771
Net property	118,398	111,872	115,053
Current assets:			
Cash and temporary cash investments	599	6,845	1,231
Accounts receivable (net of allowances of $1,267, $1,230 and $1,127, respectively)	10,764	13,609	9,727
Unbilled revenues	673	595	516
Materials and supplies	2,058	2,304	2,086
Supplemental gas supplies	6,479	6,990	9,653
Prepaid and deferred taxes	1,210	1,869	1,804
Recoverable FERC 636 transition costs	-	505	252
Prepaid expenses and other	2,797	2,311	2,252
Total current assets	24,580	35,028	27,521
Deferred charges and other assets:			
Regulatory asset - income taxes	2,401	2,401	2,401
Recoverable environmental costs	10,613	5,464	6,113
Other deferred charges	2,117	1,859	1,941
Other assets	2,236	2,020	2,121
Total deferred charges and other assets	17,367	11,744	12,576
Total assets	$160,345	$158,644	$155,150

See accompanying notes to condensed consolidated financial statements.

ENERGYNORTH, INC.
Condensed Consolidated Balance Sheets
Stockholders' Equity and Liabilities
(Unaudited, except for September 30, 1998 data)
(In thousands, except share information)

	June 30, 1999	June 30, 1998	September 1998
Capitalization:			
Common stockholders' equity:			
Common stock - par value of $1 per share; 10,000,000 shares authorized; 3,319,718, 3,316,148 and 3,317,498 shares issued and outstanding, respectively	$ 3,320	$ 3,316	$ 3,317
Amount in excess of par	32,506	32,410	32,445
Retained earnings	20,255	19,082	15,128
Total common stockholders' equity	56,081	54,808	50,890
Long-term debt	45,731	45,731	44,390

Total capitalization	101,812	100,539	95,280
Current liabilities:			
Notes payable to banks	3,926	1,505	3,524
Current portion of long-term debt	850	1,012	2,061
Inventory purchase obligation	5,308	5,919	8,712
Accounts payable	9,234	12,297	10,431
Deferred gas costs	736	3,959	3,841
Accrued interest	1,139	1,173	272
Accrued and deferred taxes	2,482	2,382	342
Accrued FERC 636 transition costs	-	505	252
Accrued environmental remediation costs	3,398	1,597	2,345
Customer deposits and other	4,613	3,686	3,761
Total current liabilities	31,686	34,035	35,541
Commitments and contingencies			
Deferred credits:			
Deferred income taxes	19,483	18,605	18,828
Unamortized investment tax credits	1,518	1,641	1,610
Regulatory liability - income taxes	1,056	1,169	1,141
Long-term environmental remediation costs	2,000	-	-
Contributions in aid of construction and other	2,790	2,655	2,750
Total deferred credits	26,847	24,070	24,329
Total stockholders' equity and liabilities	$160,345	$158,644	$155,150

See accompanying notes to condensed consolidated financial statements.

<TABLE>
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ENERGYNORTH, INC.
Condensed Consolidated Statements of Income
For the periods ended June 30
(Unaudited)
(In thousands, except per share amounts)

	Three Months		Nine Months		Twelve Months	
	1999	1998	1999	1998	1999	1998
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Operating revenues	$21,655	$20,498	$101,111	$93,422	$117,615	$102,855
Operating expenses:						
Cost of sales	14,676	14,106	56,646	53,018	67,752	58,195
Operations and maintenance	5,965	5,542	19,074	16,785	25,362	22,185
Depreciation and amortization	1,854	1,640	5,864	5,004	7,464	6,491
Taxes other than income taxes	1,023	1,064	3,198	3,158	4,112	3,088
Federal and state income taxes	(1,082)	(1,031)	5,028	4,821	3,309	3,590
Total operating expenses	22,436	21,321	89,810	82,786	107,999	93,549

Operating income (loss)	(781)	(823)	11,301	10,636	9,616	9,306
Other income	77	247	983	1,096	1,060	1,364
Interest expense:						
Interest on long-term debt	973	975	2,909	2,918	3,888	3,653
Other interest	144	207	862	594	1,117	903
Total interest expense	1,117	1,182	3,771	3,512	5,005	4,556
Net income (loss)	$(1,821)	$(1,758)	$ 8,513	$ 8,220	$ 5,671	$ 6,114
Weighted average shares outstanding	3,320	3,282	3,319	3,257	3,319	3,254
Basic earnings (loss) per share	$ (.55)	$ (.54)	$ 2.56	$ 2.52	$ 1.71	$ 1.88
Dividends declared per share	$ .35	$ .335	$ 1.02	$ .975	$ 1.355	$ 1.295

</TABLE>

See accompanying notes to condensed consolidated financial statements.

<TABLE>
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ENERGYNORTH, INC.
Condensed Consolidated Statements of Cash Flows
For the nine months ended June 30
(Unaudited)
(In thousands)

<S>	1999 <C>	1998 <C>
Cash flows from operating activities:		
Net income	$ 8,513	$ 8,220
Noncash items:		
Depreciation and amortization	6,219	5,427
Deferred taxes and investment tax credits, net	450	153
Changes in:		
Accounts receivable, net	(1,037)	(2,817)
Unbilled revenues	(157)	7
Inventories	3,202	1,972
Prepaid expenses and other	(545)	611
Deferred gas costs	(3,105)	2,659
Accounts payable	(1,197)	1,137
Accrued liabilities	1,667	617
Accrued/prepaid taxes	2,734	1,575
Payments for environmental costs and other	(2,774)	(965)
Net cash provided by operating activities	13,970	18,596
Cash flows from investing activities:		

Additions to property	(8,528)	(10,000)
Change in note receivable, net	-	131
Other investing activities	-	249
Net cash used for investing activities	(8,528)	(9,620)
Cash flows from financing activities:		
Issuance of common stock	64	63
Cash dividends on common stock	(3,386)	(3,189)
Issuance of long-term debt	2,223	456
Repayment of long-term debt	(2,093)	(856)
Repayment of capital lease obligations	-	(46)
Change in notes payable to banks	402	1,373
Change in inventory purchase obligation	(3,404)	(1,933)
Change in other financing activities	120	3
Net cash used for financing activities	(6,074)	(4,129)
Net (decrease) increase in cash and temporary cash investments	(632)	4,847
Cash and temporary cash investments, beginning of period	1,231	1,998
Cash and temporary cash investments, end of period	$ 599	$ 6,845

</TABLE>

See accompanying notes to condensed consolidated financial statements.

ENERGYNORTH, INC.
Notes to Condensed Consolidated Financial Statements
June 30, 1999
(Unaudited)

EnergyNorth, Inc. (Company) is an exempt public utility holding company operating in northern New England. Its principal operating subsidiaries include EnergyNorth Natural Gas, Inc. (ENGI), EnergyNorth Propane, Inc. (ENPI), and ENI Mechanicals, Inc. (ENMI). ENGI is New Hampshire's largest natural gas utility with over 71,000 customers. ENPI is a retail propane company serving over 15,000 customers in New Hampshire, and through its 49% investment in VGS Propane, LLC, serves more than 9,000 customers in Vermont. ENMI, through its wholly owned subsidiaries, Northern Peabody, Inc. (NPI) and Granite State Plumbing and Heating, Inc. (GSP&H), provides mechanical contracting services for commercial, industrial and institutional customers in northern New England. They are engaged in the design, construction and service of plumbing, heating, ventilation, air conditioning and process piping systems.

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of EnergyNorth, Inc. include the accounts of all subsidiaries. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

Effective May 1, 1998, the Company acquired NPI and GSP&H, which are subsidiaries of ENMI. The acquisition was accounted for as a purchase, and is reflected in the condensed consolidated financial statements for the periods ended June 30, 1999 and 1998.

The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the U. S. Securities and Exchange Commission. Certain footnote disclosures and other information, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted from these interim financial statements, pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information not misleading. In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of June 30, 1999 and 1998 and the results of operations for the three, nine and twelve months then ended and statements of cash flows for the nine months ended June 30, 1999 and 1998. All accounting policies and practices have been applied in a manner consistent with prior periods. These interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report to Shareholders for the year ended September 30, 1998.

The business of ENGI and ENPI is influenced by seasonal weather conditions. The amount of gas sold and transported for central and space heating purposes and, to a lesser extent, water heating is directly related to the ambient air temperature. Consequently, more gas is sold and transported during the winter months than is sold and transported during the summer months. Therefore, the

results of operations for the interim periods presented are not indicative of the results to be expected for all or any part of the balance of the current fiscal year.

Reclassifications are made periodically to previously issued financial statements to conform to the current year's presentation.

Note 2. Cash Flows

Supplemental disclosures of cash flow information for the nine months ended June 30, are as follows (in thousands):

	1999	1998
Cash paid (received) during the period for:		
Interest (net of amount capitalized)	$2,623	$2,222
Income taxes	1,448	2,890
Noncash activities:		
Acquisition investment	-	1,992

In preparing the accompanying condensed consolidated statements of cash flows, all highly liquid investments having maturities of three months or less when acquired were considered to be cash equivalents and classified as cash and temporary cash investments.

Note 3. Commitments and Contingencies

For a discussion of commitments and contingencies, please refer to Footnote 11 in the Company's 1998 Annual Report to shareholders.

Note 4. Subsequent Event

On July 14, 1999, the Company and Eastern Enterprises (Eastern), a Massachusetts business trust, entered into an Agreement and Plan of Reorganization (Agreement) which provides for the merger of the Company with and into a subsidiary of Eastern, as a result of which the Company would become a wholly owned subsidiary of Eastern. Under the Agreement, holders of outstanding shares of the Company's common stock can elect to receive cash, Eastern common stock or a combination of cash and stock as set forth in the Agreement. Completion of the merger is subject to approval by the Company's stockholders and receipt of satisfactory regulatory approvals, including approval by the New Hampshire Public Utilities Commission and the Securities and Exchange Commission and antitrust clearance.

ENERGYNORTH, INC.
Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations
June 30, 1999

Results of Operations

Net loss for the three months ended June 30, 1999, was $1.8 million, or $.55 per share, compared to $1.7 million, or $.54 per share, in 1998. Net income increased to $8.5 million, or $2.56 per share, for the nine months ended June 30, 1999, from $8.2 million, or $2.52 per share, in 1998. For the twelve months ended June 30, 1999, net income was $5.7 million, or $1.71 per share, compared to $6.1 million, or $1.88 per share, in the prior period. Included in the prior twelve-month period results was a one-time, after-tax credit of $649,000, or $.20 per share, which was the result of a property tax settlement.

Temperatures for the current three, nine and twelve-month periods were colder than the prior comparable periods, but significantly warmer than normal and had a major impact on the results of operations for the periods presented. The table below discloses degree day data as recorded at the U.S. weather station in Concord, New Hampshire, comparing actual degree days to the previous period and to normal. Due to the size and topographical variations of the Company's service territory, weather conditions vary. Concord, New Hampshire weather data is considered to be representative of the territory.

	Actual 6-30-99	Actual 6-30-98	Normal	Change vs. Previous Period	Change vs. Normal Period
3 months	896	826	999	8.5%	(10.3)%
9 months	6,530	6,365	7,178	2.6%	(9.0)%
12 months	6,697	6,579	7,452	1.8%	(10.1)%

Quarterly Comparison

Total operating revenues increased $1.2 million, or 5.6%, for the quarter ended June 30, 1999. ENMI mechanical contract sales increased $2.7 million for the quarter due primarily to the timing of the ENMI acquisition. Utility gas service revenues were $11.4 million compared to $13.1 million in the prior period, a 13.1% decrease. The average number of customers increased 2.3% for the quarter, the weather was 8.5% colder, and firm sendout, including transportation, increased 2.6%. Lower purchased gas costs of $1.5 million passed through the cost of gas adjustment (CGA) to firm customers was the primary reason for the revenue decrease. Changes in the CGA rates affect operating revenues; however, they do not affect total margin because the CGA is a tariff mechanism designed to provide dollar-for-dollar recovery of gas costs. Utility natural gas margin increased 2.1% for the quarter.

Propane gallons sold increased 14.1% for the three-month period due to an 8.8% increase in the average number of retail propane customers and colder temperatures. Retail propane operating revenues increased $145,000 and gross margin increased 17.1% compared to the same quarter last year.

Operations and maintenance expenses relating to the mechanical contracting businesses acquired in May 1998 were the main reason for the increase in operations and maintenance expenses from the prior comparable period. Depreciation and amortization expenses increased for the period as a result of capital additions and amortization of environmental remediation costs. The decrease in other income resulted primarily from a reduction in interest earned on the temporary investment of surplus cash.

Nine-Month Comparison

Total operating revenues increased $7.7 million, or 8.2%, for the nine months ended June 30, 1999. Partially offsetting a $15.6 million increase in ENMI mechanical contract sales, due primarily to the timing of the ENMI acquisition, were lower utility gas service revenues. Utility gas service revenues were $69.8 million compared to $77.7 million in the prior period, a 10.1% decrease. The decrease resulted in part from lower purchased gas costs of $8.2 million that were passed through the CGA to firm customers. In addition, revenues decreased as customers switched from sales gas service to transportation gas service. The weather was 2.6% colder than the prior period and firm sendout, including transportation, increased over 4.8% as the average number of customers increased 2.4%. Margin earned from utility natural gas operations was $1.4 million, or 4.0%, higher than last year's nine-month period.

The average number of retail propane customers grew nearly 8.3% for the nine-month period and temperatures were 2.6% colder than the prior period. Retail propane gallons sold increased 8.1% compared to the prior period. Operating revenues were virtually unchanged from the prior period as retail prices decreased in response to lower purchased propane costs, resulting in an 8.6% increase in margin.

Included in the 13.6% increase in operations and maintenance expenses were expenses attributed to the mechanical contracting operations and higher wage rates. Continued capital additions to plant and equipment and amortization of environmental remediation costs were the primary reasons for the 17.2% increase in depreciation and amortization expenses. The primary reason for the 7.4% increase in total interest expense was the greater level of short-term debt outstanding during the current period.

Twelve-Month Comparison

Total operating revenues increased $14.8 million, or 14.4%, for the twelve months ended June 30, 1999. A $23.4 million increase in ENMI mechanical contract sales resulting from the timing of the ENMI acquisition was partially offset by lower utility gas service revenues. Utility gas service revenues were $77.4 million compared to $85.9 million in the prior period, a 9.9% decrease. Although firm sendout, including transportation, increased 5.8% over the prior period, revenues decreased as lower gas costs of $8.1 million were passed through the CGA. In addition, revenues were lower as customers switched from sales gas service to transportation gas service. Margin earned from utility natural gas operations increased $1.6 million, or 4.2%, from the corresponding prior period.

The average number of retail propane customers increased 7.9% for the twelve months ended June 30, 1999 and temperatures were 1.8% colder than the prior period. Although propane gallons sold increased 7.3%, operating revenues decreased slightly as sales prices were reduced to reflect lower propane costs. Margin earned from retail propane operations increased 7.8% compared to the same period last year.

Operations and maintenance expenses of the mechanical contracting business and increases in wages were the primary reasons for the 14.3% increase in operations and maintenance expenses for the period. Higher depreciation and amortization charges were a direct result of plant additions and amortization of environmental remediation costs. Taxes other than income taxes for the prior period included favorable property tax settlements. The decrease in other income included interest on refunds received from federal income tax settlements and interest earned on temporary investments.

Total interest expense increased 9.9% during the twelve-month period due primarily to the $22 million of 7.4% First Mortgage Bonds issued in September 1997 and the increased level of short-term debt outstanding during the current period.

Capital Resources and Liquidity

Cash flow patterns reflect the seasonality of the Company's utility and propane businesses. The greatest demand for cash is in the fall and early winter as construction projects are brought to completion and during the winter as accounts receivable balances grow. During the spring and early summer months, a positive cash flow stream is created as accounts receivable balances are collected. At this time, inventories have been utilized and prepaid amounts, mostly insurance, are being amortized. During the summer months, supplemental gas supplies are replenished in preparation for the winter heating season. The overcollected deferred gas cost amounts at June 30, 1999, will be returned to customers during subsequent winter and summer periods through the CGA mechanism. ENMI does not share the seasonal characteristics of the utility and propane businesses.

The Company's major capital requirements result from efforts to serve additional customers and from normal replacements and efficiency improvements to the existing plant. For the nine months ended June 30, 1999, capital expenditures totaled approximately $8.5 million.

Capital expenditures and working capital requirements were financed by internally generated funds and supplemented by short-term bank borrowings. At June 30, 1999, the Company had unsecured bank lines of credit of $27.7 million, $3.9 million of which was outstanding.

Construction expenditures for fiscal 1999 are expected to total approximately $13.4 million. Construction expenditures, payment of dividends, long-term debt repayments, environmental remediation and working capital requirements will continue to be funded through cash generated by operations, supplemented by available lines of credit.

Environmental Matters

The Company and certain of its predecessors owned or operated several facilities for the manufacture of gas from coal, a process used through the mid-1900s that produced by-products that may be considered contaminated or hazardous under current law, and some of which may still be present at such facilities. In April, 1999 the Company received a request from the New Hampshire Department of Environmental Services to participate with Public Service Company of New Hampshire (PSNH) and Northern Utilities in the development of a site investigation report for a former manufactured gas site located in Dover, New Hampshire. The Company is also participating with PSNH in the investigation and remediation of former manufactured gas sites in Laconia, New Hampshire and Nashua, New Hampshire and is engaged in remediation of a site in Concord, New Hampshire. Costs to complete the Company's share of site investigation, risk characterization and remediation at manufactured gas sites are currently estimated to range from $5.4 million to $10.5 million. In addition to costs incurred to date, the Company has recorded $3.4 million as an accrued current liability and $2.0 million as a long-term liability at June 30, 1999 with a corresponding charge to recoverable environmental costs. For further detail regarding environmental issues please refer to Footnote 11 in the Company's 1998 Annual Report to Shareholders.

Year 2000 Readiness

The Company has evaluated its principal computer systems and noninformation technology systems including, but not limited to, telecommunication systems, automated meter reading systems, SCADA, regulator stations, plant remote control systems and security systems to determine readiness for the year 2000. These systems are currently capable of processing the year 2000, or are in the process of being upgraded or replaced by systems that are similarly capable. All necessary program modifications and system upgrades and testing are expected to be completed by the year 2000. At June 30, 1999, all Company systems critical to the delivery of gas to customers are year 2000 compliant. Costs incurred to date and costs expected to be incurred to complete the year 2000 readiness are not material and will not have a material impact on the Company's financial position or results of operations.

The Company is currently assessing year 2000 issues with third parties with whom it has a material relationship. Although this assessment is ongoing, critical vendors contacted to date have indicated that interruption to service due to year 2000 problems are unlikely. Due to the complexity of the problem and the reliance on certain important vendors and suppliers, there can be no guarantee that year 2000 compliance for all computer systems and other systems will be achieved or that critical and important vendors and suppliers will achieve compliance. The successful upgrade of the

Company's systems on a timely basis is critical to enable the Company to avoid business disruption and the loss of essential information or data in the year 2000. In addition, a disruption of the transmission of gas due to year 2000 problems experienced by the Company's gas supplier or other significant vendors and service providers could prevent the delivery of a sufficient amount of gas to enable the Company to serve certain customer segments.

Because of the difficulty of accessing year 2000 readiness of others outside the control of the Company, the Company considers potential disruptions by these third parties to present the "reasonably likely worst case scenario." The Company's inability to serve its customers could result in increased costs, loss of business and other similar risks. In an effort to investigate the risks of non-compliance, the Company is in the process of preparing a contingency plan. It is anticipated that contingency plans will be finalized by September 30, 1999.

Factors that May Affect Future Results

The Private Securities Litigation Reform Act of 1995 encourages the use of cautionary statements accompanying forward-looking statements. The preceding Management's Discussion and Analysis of Financial Condition and Results of Operations includes or refers to forward-looking statements concerning the impact of changes in the cost of gas and of the CGA mechanism on total margin; projected capital expenditures and sources of cash to fund expenditures; year 2000 readiness; and estimated costs of environmental remediation and anticipated regulatory approval of recovery mechanisms. The Company's future results, generally and with respect to such forward-looking statements, may be affected by many factors, among which are uncertainty as to the regulatory allowance of recovery of changes in the cost of gas; uncertain demands for capital expenditures and the availability of cash from various sources; uncertainty as to environmental costs and as to regulatory approval of the full recovery of environmental costs, and other regulatory assets; weather; results of regulatory proceedings on unbundling; impact of new pipeline supplies; and success of the Company's year 2000 readiness efforts and those of its vendors and customers.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

A description of pending legal proceedings is contained in the Company's annual report on Form 10-K for the fiscal year ended September 30, 1998.

No further material legal proceedings or material developments occurred since September 30, 1998.

Items 2-5 are not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

27 - Financial Data Schedule
(Submitted only in electronic format to the Securities and Exchange Commission)

(b) Reports on Form 8-K:

A current report on Form 8-K reporting the occurrence of an event covered by Item 5 was filed on July 20, 1999 by the Company regarding an Agreement and Plan of Reorganization entered into by the Company and Eastern Enterprises on July 14, 1999.

ENERGYNORTH, INC.

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 thereunto duly authorized.

EnergyNorth, Inc.
(Registrant)

Date: July 27, 1999 /s/ DAVID A. SKRZYSOWSKI

David A. Skrzysowski, duly authorized
Vice President & Controller
(Principal Accounting Officer)

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This schedule contains summary financial information extracted from the EnergyNorth, Inc. condensed consolidated balance sheet as of June 30, 1999 and condensed consolidated statement of income and statement of cash flows for the nine months ended June 30, 1999 and is qualified in its entirety by reference to such financial statements.
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year ending September 30, 1999.  Actual interest on bonds for the nine months
ended June 30, 1999 was $2,679.
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