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## Section 1: 10-Q (10-Q)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-422

### MIDDLESEX WATER COMPANY

(Exact name of registrant as specified in its charter)

New Jersey  
(State of incorporation)

22-1114430  
(IRS employer identification no.)

1500 Ronson Road, Iselin, 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, non-accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The number of shares outstanding of each of the registrant's classes of common stock, as of July 31, 2017: Common Stock, No Par Value: 16,337,784 shares outstanding.

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

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2017                        | 2016      | 2017                      | 2016      |
| Operating Revenues                               | \$ 33,014                   | \$ 32,725 | \$ 63,145                 | \$ 63,304 |
| Operating Expenses:                              |                             |           |                           |           |
| Operations and Maintenance                       | 16,651                      | 15,789    | 32,385                    | 31,617    |
| Depreciation                                     | 3,385                       | 3,180     | 6,693                     | 6,317     |
| Other Taxes                                      | 3,415                       | 3,428     | 6,724                     | 6,740     |
| Total Operating Expenses                         | 23,451                      | 22,397    | 45,802                    | 44,674    |
| Operating Income                                 | 9,563                       | 10,328    | 17,343                    | 18,630    |
| Other Income (Expense):                          |                             |           |                           |           |
| Allowance for Funds Used During Construction     | 180                         | 119       | 299                       | 180       |
| Other Income                                     | 47                          | 25        | 53                        | 73        |
| Other Expense                                    | (22)                        | (7)       | (27)                      | (26)      |
| Total Other Income, net                          | 205                         | 137       | 325                       | 227       |
| Interest Charges                                 | 1,469                       | 1,436     | 2,472                     | 2,413     |
| Income before Income Taxes                       | 8,299                       | 9,029     | 15,196                    | 16,444    |
| Income Taxes                                     | 2,918                       | 3,110     | 5,374                     | 5,735     |
| Net Income                                       | 5,381                       | 5,919     | 9,822                     | 10,709    |
| Preferred Stock Dividend Requirements            | 36                          | 36        | 72                        | 72        |
| Earnings Applicable to Common Stock              | \$ 5,345                    | \$ 5,883  | \$ 9,750                  | \$ 10,637 |
| Earnings per share of Common Stock:              |                             |           |                           |           |
| Basic  | \$ 0.33                     | \$ 0.36   | \$ 0.60                   | \$ 0.65   |
| Diluted  | \$ 0.33                     | \$ 0.36   | \$ 0.59                   | \$ 0.65   |
| Average Number of<br>Common Shares Outstanding : |                             |           |                           |           |
| Basic  | 16,332                      | 16,271    | 16,316                    | 16,252    |
| Diluted  | 16,488                      | 16,427    | 16,472                    | 16,408    |
| Cash Dividends Paid per Common Share             | \$ 0.2113                   | \$ 0.1988 | \$ 0.4225                 | \$ 0.3975 |

See Notes to Condensed Consolidated Financial Statements.

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

|  |   | June 30,<br>2017  | December 31,<br>2016 |
|--|---|-------------------|----------------------|
| <b>ASSETS</b>  |   |                   |                      |
| <b>UTILITY PLANT:</b>                                  | Water Production                                      | \$ 149,068        | \$ 146,914           |
|  | Transmission and Distribution                         | 443,128           | 430,880              |
|  | General   | 67,692            | 63,514               |
|  | Construction Work in Progress                         | 13,828            | 12,196               |
|  | <b>TOTAL</b>  | <b>673,716</b>    | <b>653,504</b>       |
|  | Less Accumulated Depreciation                         | 140,435           | 135,728              |
|  | <b>UTILITY PLANT - NET</b>                            | <b>533,281</b>    | <b>517,776</b>       |
| <b>CURRENT ASSETS:</b>                                 |   |                   |                      |
|  | Cash and Cash Equivalents                             | 3,689             | 3,879                |
|  | Accounts Receivable, net                              | 9,953             | 10,129               |
|  | Unbilled Revenues                                     | 8,284             | 6,590                |
|  | Materials and Supplies (at average cost)              | 4,881             | 4,094                |
|  | Prepayments   | 2,912             | 2,024                |
|  | <b>TOTAL CURRENT ASSETS</b>                           | <b>29,719</b>     | <b>26,716</b>        |
| <b>AND OTHER ASSETS:</b>                               |   |                   |                      |
|  | Preliminary Survey and Investigation Charges          | 3,142             | 2,365                |
|  | Regulatory Assets                                     | 60,474            | 60,894               |
|  | Operations Contracts, Developer and Other Receivables | 789               | 1,139                |
|  | Restricted Cash                                       | 439               | 439                  |
|  | Non-utility Assets - Net                              | 9,252             | 9,131                |
|  | Federal Income Tax Receivable                         | 1,408             | 1,408                |
|  | Other   | 226               | 293                  |
|  | <b>TOTAL DEFERRED CHARGES AND OTHER ASSETS</b>        | <b>75,730</b>     | <b>75,669</b>        |
|  | <b>TOTAL ASSETS</b>                                   | <b>\$ 638,730</b> | <b>\$ 620,161</b>    |
| <b>CAPITALIZATION AND LIABILITIES</b>                  |   |                   |                      |
| <b>CAPITALIZATION:</b>                                 |   |                   |                      |
|  | Common Stock, No Par Value                            | \$ 154,075        | \$ 153,045           |
|  | Retained Earnings                                     | 68,249            | 65,392               |
|  | <b>TOTAL COMMON EQUITY</b>                            | <b>222,324</b>    | <b>218,437</b>       |
|  | Preferred Stock                                       | 2,435             | 2,436                |
|  | Long-term Debt  | 136,429           | 134,538              |
|  | <b>TOTAL CAPITALIZATION</b>                           | <b>361,188</b>    | <b>355,411</b>       |
| <b>CURRENT LIABILITIES:</b>                            |   |                   |                      |
|  | Current Portion of Long-term Debt                     | 6,164             | 6,159                |
|  | Notes Payable   | 17,000            | 12,000               |
|  | Accounts Payable                                      | 15,045            | 12,343               |
|  | Accrued Taxes   | 13,137            | 12,385               |
|  | Accrued Interest                                      | 1,078             | 1,084                |
|  | Unearned Revenues and Advanced Service Fees           | 967               | 923                  |
|  | Other   | 2,026             | 2,162                |
|  | <b>TOTAL CURRENT LIABILITIES</b>                      | <b>55,417</b>     | <b>47,056</b>        |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)</b> |   |                   |                      |
| <b>DEFERRED CREDITS AND OTHER LIABILITIES:</b>         |   |                   |                      |
|  | Customer Advances for Construction                    | 20,862            | 20,846               |
|  | Accumulated Deferred Investment Tax Credits           | 714               | 753                  |
|  | Accumulated Deferred Income Taxes                     | 76,312            | 72,072               |
|  | Employee Benefit Plans                                | 34,651            | 36,139               |
|  | Regulatory Liability - Cost of Utility Plant Removal  | 11,711            | 11,337               |
|  | Other   | 1,378             | 1,443                |
|  | <b>TOTAL DEFERRED CREDITS AND OTHER LIABILITIES</b>   | <b>145,628</b>    | <b>142,590</b>       |
| <b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>            |   | <b>76,497</b>     | <b>75,104</b>        |
|  | <b>TOTAL CAPITALIZATION AND LIABILITIES</b>           | <b>\$ 638,730</b> | <b>\$ 620,161</b>    |

See Notes to Condensed Consolidated Financial Statements.



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

|   | Six Months Ended June 30, |                 |
|---|---------------------------|-----------------|
|   | 2017                      | 2016            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                              |                           |                 |
| Net Income  | \$ 9,822                  | \$ 10,709       |
| Adjustments to Reconcile Net Income to                                    |                           |                 |
| Net Cash Provided by Operating Activities:                                |                           |                 |
| Depreciation and Amortization   | 6,887                     | 6,800           |
| Provision for Deferred Income Taxes and Investment Tax Credits            | 4,395                     | 3,321           |
| Equity Portion of Allowance for Funds Used During Construction (AFUDC)    | (205)                     | (118)           |
| Cash Surrender Value of Life Insurance                                    | (114)                     | (44)            |
| Stock Compensation Expense  | 437                       | 468             |
| Changes in Assets and Liabilities:  |                           |                 |
| Accounts Receivable   | 176                       | (848)           |
| Unbilled Revenues   | (1,694)                   | (1,908)         |
| Materials and Supplies  | (787)                     | (2,132)         |
| Prepayments   | (888)                     | (1,207)         |
| Accounts Payable  | 2,702                     | 3,064           |
| Accrued Taxes   | 752                       | 313             |
| Accrued Interest  | (6)                       | (13)            |
| Employee Benefit Plans  | (640)                     | (580)           |
| Unearned Revenue & Advanced Service Fees                                  | 44                        | 19              |
| Other Assets and Liabilities  | (710)                     | (1,099)         |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                          | <b>20,171</b>             | <b>16,745</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                              |                           |                 |
| Utility Plant Expenditures, Including AFUDC of \$94 in 2017, \$62 in 2016 | (21,165)                  | (20,111)        |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                              | <b>(21,165)</b>           | <b>(20,111)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                              |                           |                 |
| Redemption of Long-term Debt  | (2,115)                   | (2,136)         |
| Proceeds from Issuance of Long-term Debt                                  | 4,047                     | 861             |
| Net Short-term Bank Borrowings  | 5,000                     | 7,500           |
| Deferred Debt Issuance Expense  | (33)                      | (15)            |
| Proceeds from Issuance of Common Stock                                    | 592                       | 830             |
| Payment of Common Dividends   | (6,893)                   | (6,454)         |
| Payment of Preferred Dividends  | (72)                      | (72)            |
| Construction Advances and Contributions-Net                               | 278                       | 612             |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                          | <b>804</b>                | <b>1,126</b>    |
| <b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>                           | <b>(190)</b>              | <b>(2,240)</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                   | <b>3,879</b>              | <b>3,469</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                         | <b>\$ 3,689</b>           | <b>\$ 1,229</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:</b>                      |                           |                 |
| Utility Plant received as Construction Advances and Contributions         | \$ 1,131                  | \$ 1,395        |
| Long-term Debt Deobligation   | \$ —                      | \$ 534          |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>                 |                           |                 |
| Cash Paid During the Year for:  |                           |                 |
| Interest  | \$ 2,594                  | \$ 2,538        |
| Interest Capitalized  | \$ 94                     | \$ 62           |
| Income Taxes  | \$ 714                    | \$ 3,131        |

See Notes to Condensed Consolidated Financial Statements.

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

|  | June 30,<br>2017 | December 31,<br>2016 |
|--|------------------|----------------------|
| <b>Common Stock, No Par Value</b>                              |                  |                      |
| Shares Authorized - 40,000                                     |                  |                      |
| Shares Outstanding - 2017 - 16,336; 2016 - 16,296              | \$154,075        | \$ 153,045           |
| <b>Retained Earnings</b>                                       |                  |                      |
|  | 68,249           | 65,392               |
| <b>TOTAL COMMON EQUITY</b>                                     | <b>\$222,324</b> | <b>\$ 218,437</b>    |
| <b>Cumulative Preferred Stock, No Par Value:</b>               |                  |                      |
| Shares Authorized - 126  |                  |                      |
| Shares Outstanding - 24  |                  |                      |
| <b>Convertible:</b>  |                  |                      |
| Shares Outstanding, \$7.00 Series - 10                         | \$ 1,007         | \$ 1,007             |
| Shares Outstanding, \$8.00 Series - 3                          | 349              | 349                  |
| <b>Nonredeemable:</b>  |                  |                      |
| Shares Outstanding, \$7.00 Series - 1                          | 79               | 80                   |
| Shares Outstanding, \$4.75 Series - 10                         | 1,000            | 1,000                |
| <b>TOTAL PREFERRED STOCK</b>                                   | <b>\$ 2,435</b>  | <b>\$ 2,436</b>      |
| <b>Long-term Debt:</b>   |                  |                      |
| 8.05%, Amortizing Secured Note, due December 20, 2021          | \$ 1,300         | \$ 1,415             |
| 6.25%, Amortizing Secured Note, due May 19, 2028               | 4,585            | 4,795                |
| 6.44%, Amortizing Secured Note, due August 25, 2030            | 3,687            | 3,827                |
| 6.46%, Amortizing Secured Note, due September 19, 2031         | 3,967            | 4,107                |
| 4.22%, State Revolving Trust Note, due December 31, 2022       | 304              | 329                  |
| 3.60%, State Revolving Trust Note, due May 1, 2025             | 1,958            | 2,062                |
| 3.30% State Revolving Trust Note, due March 1, 2026            | 411              | 431                  |
| 3.49%, State Revolving Trust Note, due January 25, 2027        | 446              | 465                  |
| 4.03%, State Revolving Trust Note, due December 1, 2026        | 578              | 603                  |
| 4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021 | 213              | 213                  |
| 0.00%, State Revolving Fund Bond, due August 1, 2021           | 162              | 166                  |
| 3.64%, State Revolving Trust Note, due July 1, 2028            | 266              | 276                  |
| 3.64%, State Revolving Trust Note, due January 1, 2028         | 87               | 91                   |
| 3.45%, State Revolving Trust Note, due August 1, 2031          | 989              | 1,015                |
| 6.59%, Amortizing Secured Note, due April 20, 2029             | 4,127            | 4,302                |
| 7.05%, Amortizing Secured Note, due January 20, 2030           | 3,146            | 3,271                |
| 5.69%, Amortizing Secured Note, due January 20, 2030           | 6,453            | 6,709                |
| 4.45%, Amortizing Secured Note, due April 20, 2040             | 10,047           | 10,267               |
| 4.47%, Amortizing Secured Note, due April 20, 2040             | 3,728            | 3,809                |
| 3.75%, State Revolving Trust Note, due July 1, 2031            | 2,133            | 2,191                |
| 2.00%, State Revolving Trust Note, due February 1, 2036        | 1,115            | 1,115                |
| 3.75%, State Revolving Trust Note, due November 30, 2030       | 1,123            | 1,154                |
| 0.00% Construction Loans                                       | 11,517           | 7,470                |
| <b>First Mortgage Bonds:</b>                                   |                  |                      |
| 0.00%, Series X, due August 1, 2018                            | 105              | 107                  |
| 4.25% to 4.63%, Series Y, due August 1, 2018                   | 123              | 122                  |
| 0.00%, Series Z, due August 1, 2019                            | 329              | 336                  |
| 5.25% to 5.75%, Series AA, due August 1, 2019                  | 440              | 440                  |
| 0.00%, Series BB, due August 1, 2021                           | 590              | 603                  |
| 4.00% to 5.00%, Series CC, due August 1, 2021                  | 779              | 779                  |
| 0.00%, Series EE, due August 1, 2023                           | 2,641            | 2,713                |
| 3.00% to 5.50%, Series FF, due August 1, 2024                  | 3,690            | 3,690                |
| 0.00%, Series GG, due August 1, 2026                           | 887              | 903                  |
| 4.00% to 5.00%, Series HH, due August 1, 2026                  | 960              | 960                  |
| 0.00%, Series II, due August 1, 2024                           | 683              | 700                  |
| 3.40% to 5.00%, Series JJ, due August 1, 2027                  | 824              | 824                  |
| 0.00%, Series KK, due August 1, 2028                           | 1,058            | 1,078                |
| 5.00% to 5.50%, Series LL, due August 1, 2028                  | 1,175            | 1,175                |
| 0.00%, Series MM, due August 1, 2030                           | 1,304            | 1,337                |
| 3.00% to 4.375%, Series NN, due August 1, 2030                 | 1,590            | 1,590                |
| 0.00%, Series OO, due August 1, 2031                           | 2,207            | 2,258                |

|   |                  |            |
|---|------------------|------------|
| 2.00% to 5.00%, Series PP, due August 1, 2031 | <b>780</b>       | 780        |
| 5.00%, Series QQ, due October 1, 2023         | <b>9,915</b>     | 9,915      |
| 3.80%, Series RR, due October 1, 2038         | <b>22,500</b>    | 22,500     |
| 4.25%, Series SS, due October 1, 2047         | <b>23,000</b>    | 23,000     |
| 0.00%, Series TT, due August 1, 2032          | <b>2,358</b>     | 2,408      |
| 3.00% to 3.25%, Series UU, due August 1, 2032 | <b>890</b>       | 890        |
| 0.00%, Series VV, due August 1, 2033          | <b>2,386</b>     | 2,433      |
| 3.00% to 5.00%, Series WW, due August 1, 2033 | <b>865</b>       | 865        |
| <b>SUBTOTAL LONG-TERM DEBT</b>                | <b>144,421</b>   | 142,489    |
| Add: Premium on Issuance of Long-term Debt    | <b>1,388</b>     | 1,495      |
| Less: Unamortized Debt Expense                | <b>(3,216)</b>   | (3,287)    |
| Less: Current Portion of Long-term Debt       | <b>(6,164)</b>   | (6,159)    |
| <b>TOTAL LONG-TERM DEBT</b>                   | <b>\$136,429</b> | \$ 134,538 |

See Notes to Condensed Consolidated Financial Statements.



**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 2016 Annual Report on Form 10-K (the 2016 Form 10-K) are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of June 30, 2017, the results of operations for the three and six month periods ended June 30, 2017 and 2016 and cash flows for the six month periods ended June 30, 2017 and 2016. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2016, has been derived from the Company's audited financial statements for the year ended December 31, 2016 included in the 2016 Form 10-K.

*Recent Accounting Guidance*

**Inventory** - In July 2015, the Financial Accounting Standards Board (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 was effective January 1, 2017 and did not have a material impact on the Company's 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 was effective January 1, 2017 and did not have a material impact on the Company's financial statements.

**Revenue Recognition** - In May 2014, the FASB issued 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 and has begun creating an inventory of its contracts with customers, which consist primarily of regulated municipal water sale contracts and non-regulated operation and maintenance contracts for water and wastewater systems. Based on the Company's initial interpretation of the guidance, this update is not expected to have an impact on the Company's regulated municipal water sale contracts. The impact on the Company's non-regulated operation and maintenance contracts, if any, is not expected to be material. The Company's non-regulated segment contributed approximately 12% and 7% of total revenues and net income, respectively, for the six months ended June 30, 2017 and approximately 11% and 2% of total revenues and net income, respectively, for the year ended December 31, 2016. These assessments are preliminary and subject to change pending the Company's completion of its review of the guidance and its impact on the Company's contracts with customers.

**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 assessing the impact of this standard on its consolidated financial statements and footnote disclosures, but does not expect that the adoption of this guidance to have a material impact on the Company's financial statements.

**Leases** - In February 2016, the FASB issued guidance related to leases which will require lessees to recognize a lease liability (a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis) a right-of-use asset (an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term). The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company is currently assessing the impact of this standard on its consolidated financial statements and footnote disclosures, but does not expect that the adoption of this guidance to have a material impact on the Company's 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.

**Restricted Cash** - In November 2016, the FASB issued guidance related to the classification and presentation of restricted cash in the statement of cash flows, which requires entities to a) include restricted cash balances in its cash and cash-equivalent balances in the statement of cash flows and b) include a reconciliation of cash and cash-equivalents per the statement of financial position as compared to the statement of cash flows. Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents will not be presented as cash flow activities in the statement of cash flows. In addition, an entity with a material balance of amounts described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. 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.

**Employee Benefit Plans-Net Periodic Benefit Cost** - In March 2017, the FASB issued guidance which requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, the ASU requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The guidance is effective January 1, 2018. The Company is currently assessing the impact of this standard on its consolidated financial statements and footnote disclosures, but does not expect that the adoption of this guidance to have a material impact on the Company's financial statements.

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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 May 2017, Middlesex filed a petition with the New Jersey Board of Public Utilities (the NJBPU) seeking approval to reset its purchased water adjustment clause (PWAC) tariff rate. A PWAC is an optional rate mechanism that allows for the recovery of increased purchased water costs in between base rate case filings with the PWAC reset to zero once those increased costs are included in base rates. A PWAC is subject to an annual true-up. The current PWAC rate became effective November 1, 2016. The current filing includes the true-up and a request to recover additional annual costs of \$1.2 million for the purchase of untreated water from the New Jersey Water Supply Authority (NJWSA). The NJWSA increased the rate it charges its subscribers on July 1, 2017. The Company expects that the NJBPU will approve the PWAC rate reset by October 2017 with an effective date of November 1, 2017.

**Tidewater** - Effective July 1, 2017, Tidewater reset its Delaware Public Service Commission-approved Distribution System Improvement Charge (DSIC) rate, which is expected to generate \$0.4 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 to their water distribution system made between base rate proceedings.

### **Note 3 – Capitalization**

#### *Common Stock*

During the six months ended June 30, 2017 and 2016, there were 15,954 common shares (approximately \$0.6 million) and 26,434 common shares (approximately \$0.8 million), respectively, issued under the Middlesex Water Company Investment Plan.

#### *Long-term Debt*

In January 2017, the NJBPU approved Middlesex's request to borrow up to \$37.0 million under the New Jersey State Revolving Fund (SRF) program to fund the construction of a large-diameter transmission pipeline from the Carl J. Olsen water treatment plant and interconnect with our distribution system. Middlesex currently expects to close on the SRF construction loan in the first quarter of 2018 with funding requisitions occurring primarily throughout 2018 and 2019.

In January 2017, the NJBPU approved Middlesex's request to borrow up to \$10.0 million under the New Jersey SRF program to fund the 2017 RENEW Program, which is an ongoing initiative to eliminate all unlined water distribution mains in the Middlesex system. Middlesex expects to close on the SRF construction loan in August 2017 with funding requisitions occurring primarily throughout the remainder of 2017.

Middlesex closed on a \$2.3 million NJBPU approved SRF construction loan in May 2017. The proceeds will be used to fund the upgrade of a booster station at one of its well fields. Funding requisitions are expected to occur through May 2018.

#### *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 First Mortgage and SRF Bonds (collectively, the Bonds) issued by Middlesex is based on quoted market prices for similar issues. Under the fair value hierarchy, the fair value of cash and cash equivalents is

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classified as a Level 1 measurement and the fair value of notes payable and the Bonds in the table below are classified as Level 2 measurements. The carrying amount and fair value of the Bonds were as follows:

|       | June 30, 2017   |            | December 31, 2016 |            |
|-------|-----------------|------------|-------------------|------------|
|       | Carrying Amount | Fair Value | Carrying Amount   | Fair Value |
| Bonds | \$ 82,454       | \$ 84,552  | \$82,786          | \$84,821   |

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 \$62.0 million and \$59.7 million at June 30, 2017 and December 31, 2016, respectively. Customer advances for construction have carrying amounts of \$20.9 million and \$20.8 million at June 30, 2017 and December 31, 2016, 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)<br>Three Months Ended June 30, |        |          |        |
|--|--|--------|----------|--------|
|  | 2017   |        | 2016     |        |
| Basic:                                       | Income   | Shares | Income   | Shares |
| Net Income                                   | \$ 5,381   | 16,332 | \$ 5,919 | 16,271 |
| Preferred Dividend                           | (36)   |        | (36)     |        |
| Earnings Applicable to Common Stock          | \$ 5,345   | 16,332 | \$ 5,883 | 16,271 |
| <b>Basic EPS</b>                             | \$ 0.33  |        | \$ 0.36  |        |
| <b>Diluted:</b>                              |  |        |          |        |
| Earnings Applicable to Common Stock          | \$ 5,345   | 16,332 | \$ 5,883 | 16,271 |
| \$7.00 Series Preferred Dividend             | 17   | 115    | 17       | 115    |
| \$8.00 Series Preferred Dividend             | 6  | 41     | 6        | 41     |
| Adjusted Earnings Applicable to Common Stock | \$ 5,368   | 16,488 | \$ 5,906 | 16,427 |
| <b>Diluted EPS</b>                           | \$ 0.33  |        | \$ 0.36  |        |

|  | (In Thousands Except per Share Amounts)<br>Six Months Ended June 30, |        |           |        |
|--|--|--------|-----------|--------|
|  | 2017   |        | 2016      |        |
| Basic:                                       | Income   | Shares | Income    | Shares |
| Net Income                                   | \$ 9,822   | 16,316 | \$ 10,709 | 16,252 |
| Preferred Dividend                           | (72)   |        | (72)      |        |
| Earnings Applicable to Common Stock          | \$ 9,750   | 16,316 | \$ 10,637 | 16,252 |
| <b>Basic EPS</b>                             | \$ 0.60  |        | \$ 0.65   |        |
| <b>Diluted:</b>                              |  |        |           |        |
| Earnings Applicable to Common Stock          | \$ 9,750   | 16,316 | \$ 10,637 | 16,252 |
| \$7.00 Series Preferred Dividend             | 34   | 115    | 34        | 115    |
| \$8.00 Series Preferred Dividend             | 12   | 41     | 12        | 41     |
| Adjusted Earnings Applicable to Common Stock | \$ 9,796   | 16,472 | \$ 10,683 | 16,408 |
| <b>Diluted EPS</b>                           | \$ 0.59  |        | \$ 0.65   |        |

#### 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.

|                                      | (In Thousands)     |                  |                  |                  |
|--------------------------------------|--------------------|------------------|------------------|------------------|
|                                      | Three Months Ended |                  | Six Months Ended |                  |
|                                      | June 30,           |                  | June 30,         |                  |
| Operations by Segments:              | 2017               | 2016             | 2017             | 2016             |
| <b>Revenues:</b>                     |                    |                  |                  |                  |
| Regulated                            | \$ 29,278          | \$ 28,859        | \$ 55,771        | \$ 55,808        |
| Non – Regulated                      | 3,863              | 4,002            | 7,613            | 7,736            |
| Inter-segment Elimination            | (127)              | (136)            | (239)            | (240)            |
| <b>Consolidated Revenues</b>         | <b>\$ 33,014</b>   | <b>\$ 32,725</b> | <b>\$ 63,145</b> | <b>\$ 63,304</b> |
| <b>Operating Income:</b>             |                    |                  |                  |                  |
| Regulated                            | \$ 8,877           | \$ 9,694         | \$ 16,097        | \$ 17,426        |
| Non – Regulated                      | 686                | 634              | 1,246            | 1,204            |
| <b>Consolidated Operating Income</b> | <b>\$ 9,563</b>    | <b>\$ 10,328</b> | <b>\$ 17,343</b> | <b>\$ 18,630</b> |
| <b>Net Income:</b>                   |                    |                  |                  |                  |
| Regulated                            | \$ 4,972           | \$ 5,583         | \$ 9,111         | \$ 10,073        |
| Non – Regulated                      | 409                | 336              | 711              | 636              |
| <b>Consolidated Net Income</b>       | <b>\$ 5,381</b>    | <b>\$ 5,919</b>  | <b>\$ 9,822</b>  | <b>\$ 10,709</b> |
| <b>Capital Expenditures:</b>         |                    |                  |                  |                  |
| Regulated                            | \$ 11,588          | \$ 13,290        | \$ 21,160        | \$ 19,950        |
| Non – Regulated                      | —                  | 149              | 5                | 161              |
| <b>Total Capital Expenditures</b>    | <b>\$ 11,588</b>   | <b>\$ 13,439</b> | <b>\$ 21,165</b> | <b>\$ 20,111</b> |

|                            | As of<br>June 30,<br>2017 | As of<br>December 31,<br>2016 |
|----------------------------|---------------------------|-------------------------------|
| <b>Assets:</b>             |                           |                               |
| Regulated                  | \$ 642,726                | \$ 619,915                    |
| Non – Regulated            | 6,681                     | 6,245                         |
| Inter-segment Elimination  | (10,677)                  | (5,999)                       |
| <b>Consolidated Assets</b> | <b>\$ 638,730</b>         | <b>\$ 620,161</b>             |

**Note 6 – Short-term Borrowings**

As of June 30, 2017, the Company has established lines of credit aggregating \$60.0 million. At June 30, 2017, the outstanding borrowings under these credit lines were \$17.0 million at a weighted average interest rate of 2.22%.

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

|                                   | (In Thousands)     |          |                  |          |
|-----------------------------------|--------------------|----------|------------------|----------|
|                                   | Three Months Ended |          | Six Months Ended |          |
|                                   | June 30,           |          | June 30,         |          |
|                                   | 2017               | 2016     | 2017             | 2016     |
| Average Daily Amounts Outstanding | \$ 15,582          | \$ 3,769 | \$ 14,221        | \$ 3,368 |
| Weighted Average Interest Rates   | 2.08%              | 1.52%    | 1.95%            | 1.48%    |

The maturity dates for the \$17.0 million outstanding as of June 30, 2017 are all in July 2017 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<br>June 30, |          | Six Months Ended<br>June 30, |          |
|             | 2017                           | 2016     | 2017                         | 2016     |
| Treated     | \$ 795                         | \$ 754   | \$ 1,574                     | \$ 1,555 |
| Untreated   | 573                            | 570      | 1,232                        | 1,236    |
| Total Costs | \$ 1,368                       | \$ 1,324 | \$ 2,806                     | \$ 2,791 |

*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 concurrent 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* - As part of an agreement with the County of Monmouth, New Jersey (County), Middlesex serves as guarantor of the performance of Applied Water Management, Inc. (AWM), an unaffiliated wastewater treatment contractor, to operate a County-owned leachate pretreatment facility at the Monmouth County Reclamation Center in Tinton Falls, New Jersey. The performance guaranty is effective through 2028 unless another guarantor, acceptable to the County, replaces Middlesex before such date. Under agreements with AWM and Natural Systems Utilities, LLC (NSU), the parent company of AWM, Middlesex earns a fee for providing the performance guaranty. In addition, Middlesex may provide operational support to the facility, as needed, and AWM and NSU, serving as guarantor to Middlesex with respect to the performance of AWM, agree to indemnify Middlesex against any claims that may arise under the Middlesex guaranty to the County.

If requested to perform under the guaranty to the 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 the County, Middlesex would be required to fulfill the remaining operational commitment of AWM. As of both June 30, 2017 and December 31, 2016, the liability recognized in Other Non-Current Liabilities on the balance sheet for the guaranty is approximately \$0.1 million.

*Construction*

The Company has budgeted approximately \$60 million for its construction program in 2017. 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 a contribution, the participant must be employed by the Company on December 31st of the year to which the contribution relates. For each of the three and six month periods ended June 30, 2017 and 2016, the Company made Pension Plan cash contributions of \$1.0 million and \$1.5 million, respectively. The Company expects to make Pension Plan cash contributions of approximately \$1.8 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 each of the three and six month periods ended June 30, 2017 and 2016, the Company made Other Benefits Plan cash contributions of \$0.2 million and \$0.5 million, respectively. The Company expects to make Other Benefits Plan cash contributions of approximately \$1.2 million over the remainder of the current year.



The following tables set forth information relating to the Company's periodic costs for its employee retirement benefit plans:

|  | (In Thousands)              |         |                       |        |
|--|-----------------------------|---------|-----------------------|--------|
|  | <u>Pension Benefits</u>     |         | <u>Other Benefits</u> |        |
|  | Three Months Ended June 30, |         |                       |        |
|  | 2017                        | 2016    | 2017                  | 2016   |
| Service Cost   | \$ 600                      | \$ 577  | \$ 272                | \$ 275 |
| Interest Cost  | 786                         | 761     | 491                   | 488    |
| Expected Return on Assets                                | (1,122)                     | (1,004) | (601)                 | (558)  |
| Amortization of Unrecognized Losses                      | 391                         | 357     | 445                   | 443    |
| Amortization of Unrecognized Prior Service Cost (Credit) | —                           | —       | (432)                 | (432)  |
| Net Periodic Benefit Cost                                | \$ 655                      | \$ 691  | \$ 175                | \$ 216 |

|  | (In Thousands)            |          |                       |         |
|--|---------------------------|----------|-----------------------|---------|
|  | <u>Pension Benefits</u>   |          | <u>Other Benefits</u> |         |
|  | Six Months Ended June 30, |          |                       |         |
|  | 2017                      | 2016     | 2017                  | 2016    |
| Service Cost   | \$ 1,200                  | \$ 1,154 | \$ 544                | \$ 550  |
| Interest Cost  | 1,572                     | 1,523    | 982                   | 976     |
| Expected Return on Assets                                | (2,245)                   | (2,007)  | (1,203)               | (1,116) |
| Amortization of Unrecognized Losses                      | 783                       | 713      | 890                   | 886     |
| Amortization of Unrecognized Prior Service Cost (Credit) | —                         | —        | (864)                 | (864)   |
| Net Periodic Benefit Cost                                | \$ 1,310                  | \$ 1,383 | \$ 349                | \$ 432  |

#### 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 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.

**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, 2016.

**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. They include, but are not limited to statements as to:

- expected financial condition, performance, prospects and earnings of the Company;
- strategic plans for growth;
- the amount and timing of rate increases and other regulatory matters, including the recovery of certain costs recorded as regulatory assets;
- the Company’s expected liquidity needs during the upcoming fiscal year and beyond and the sources and availability of funds to meet its liquidity needs;
- expected customer rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- financial projections;
- 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;
- the ability of the Company to pay dividends;
- the Company’s compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- the safety and reliability of the Company’s equipment, facilities and operations;
- the Company’s plans to renew municipal franchises and consents in the territories it serves;
- trends; and
- 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:

- effects of general economic conditions;
- increases in competition for growth in non-franchised markets to be potentially served by the Company;
- ability of the Company to adequately control selected operating expenses which are necessary to maintain safe and proper utility services, and which may be beyond the Company’s control;
- availability of adequate supplies of water;
- actions taken by government regulators, including decisions on rate increase requests;
- new or modified water quality standards;
- weather variations and other natural phenomena impacting utility operations;
- financial and operating risks associated with acquisitions and/or privatizations;
- acts of war or terrorism;
- changes in the pace of housing development;
- 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.

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, 2016.

## 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.

In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey.

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system under a ten-year operations and maintenance contract expiring in 2022. 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 and wastewater related home maintenance programs. HomeServe is a leading national 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 43,000 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 in Sussex County, Delaware.

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

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The majority of our revenue is generated from retail and contract water services to customers in our service areas. We record water service revenue as such service is rendered and include estimates for amounts unbilled at the end of the period for services provided after the last billing cycle. Fixed service charges are billed in advance by our subsidiary, Tidewater, and are recognized in revenue as the service is provided.

Our ability to increase operating income and net income is based significantly on four factors: weather, adequate and timely rate relief, effective cost management, and customer growth. These factors are evident in the discussions below which compare our results of operations with the prior period.

### **Recent Developments**

**Capital Construction Program** - The Company's multi-year capital construction program involves numerous projects designed to upgrade and replace infrastructure as well as enhance the integrity of system assets to better serve the current and future generations of water users. The Company plans to invest approximately \$149 million through 2018 in connection with this plan for projects including:

- Construction of a 4.6 mile water transmission pipeline to provide critical resiliency and redundancy capability to the Company's water transmission system in New Jersey;
- Replacement of five miles of water mains including service lines, valves, fire hydrants and meters in the Borough of South Plainfield, New Jersey;
- Enhanced treatment process at the Company's largest water plant in Edison, New Jersey, to mitigate the formation of disinfection by-products that can develop naturally during treatment;
- Additional elevated storage tanks to supplement water supply during emergencies and peak usage periods;
- Upgrades to water interconnections with neighboring utilities for greater resiliency and emergency response;
- Relocation of water meters from inside customers' premises to exterior meter pits to allow quicker access by crews in emergencies, enhanced customer safety and convenience and reduced unmetered water; and
- Additional standby emergency power generation.

**Middlesex**- In May 2017, Middlesex filed a petition with the New Jersey Board of Public Utilities (the NJBPU) seeking approval to reset its purchased water adjustment clause (PWAC) tariff rate. A PWAC is an optional rate mechanism that allows for the recovery of increased purchased water costs in between base rate case filings with the PWAC reset to zero once those increased costs are included in base rates. A PWAC is subject to an annual true-up. The current PWAC rate became effective November 1, 2016. The current filing includes the true-up and a request to recover additional annual costs of \$1.2 million for the purchase of untreated water from the New Jersey Water Supply Authority (NJWSA). The NJWSA increased the rate it charges its subscribers on July 1, 2017. The Company expects that the NJBPU will approve the PWAC rate reset by October 2017 with an effective date of November 1, 2017.

**Tidewater Distribution System Improvement Charge (DSIC)** - Effective July 1, 2017, Tidewater reset its Delaware Public Service Commission-approved DSIC rate, which is expected to generate \$0.4 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 to their water distribution system made between base rate proceedings.

### **Outlook**

Favorable weather patterns and additional sales to neighboring municipal water utilities due to emergency conditions experienced by those entities in 2015 and 2016, which contributed to overall increases in operating revenues during those periods, have not reoccurred in 2017 through June 30<sup>th</sup> and may not occur for the remainder of 2017. Changes in customer water usage habits, 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.

Organic residential customer growth for 2017, largely the result of new housing from developer activity in Delaware is expected to be consistent with that experienced in recent years.

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;
- Invest in, and/or operate under contract, renewable energy and industrial and commercial treatment projects that are complementary to the provision of water and wastewater services and related 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 operations of the Regulated segment are subject to regulations promulgated by state public utility commissions as to rates and level of service. Rates and level service in the Non-Regulated segment are subject to the terms of individually-negotiated and executed contracts with municipal, industrial and other clients. Both segments are subject to federal and state environmental, water and wastewater quality and other associated legal and regulatory requirements.

The segments in the tables included below consist of the following companies: Regulated-Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated-USA, USA-PA, and White Marsh.

### Results of Operations – Three Months Ended June 30, 2017

|                                     | (In Thousands)                   |               |                 |                                  |               |                 |
|-------------------------------------|----------------------------------|---------------|-----------------|----------------------------------|---------------|-----------------|
|                                     | Three Months Ended June 30, 2017 |               |                 | Three Months Ended June 30, 2016 |               |                 |
|                                     | Regulated                        | Non-Regulated | Total           | Regulated                        | Non-Regulated | Total           |
| Revenues                            | \$ 29,252                        | \$ 3,762      | \$ 33,014       | \$ 28,832                        | \$ 3,893      | \$ 32,725       |
| Operations and maintenance expenses | 13,709                           | 2,942         | 16,651          | 12,665                           | 3,124         | 15,789          |
| Depreciation expense                | 3,337                            | 48            | 3,385           | 3,133                            | 47            | 3,180           |
| Other taxes                         | 3,329                            | 86            | 3,415           | 3,340                            | 88            | 3,428           |
| <b>Operating income</b>             | <b>8,877</b>                     | <b>686</b>    | <b>9,563</b>    | <b>9,694</b>                     | <b>634</b>    | <b>10,328</b>   |
| Other income, net                   | 175                              | 30            | 205             | 143                              | (6)           | 137             |
| Interest expense                    | 1,469                            | —             | 1,469           | 1,436                            | —             | 1,436           |
| Income taxes                        | 2,611                            | 307           | 2,918           | 2,818                            | 292           | 3,110           |
| <b>Net income</b>                   | <b>\$ 4,972</b>                  | <b>\$ 409</b> | <b>\$ 5,381</b> | <b>\$ 5,583</b>                  | <b>\$ 336</b> | <b>\$ 5,919</b> |

*Operating Revenues*

Operating revenues for the three months ended June 30, 2017 increased \$0.3 million from the same period in 2016.

- Tidewater System revenues increased \$0.5 million due to additional residential customers; and
- Middlesex System revenues decreased \$0.2 million due to lower water usage across all classes of customers.

*Operation and Maintenance Expense*

Operation and maintenance expenses for the three months ended June 30, 2017 increased \$0.9 million from the same period in 2016, primarily related to the following factors:

- Higher water production costs of \$0.5 million in the Middlesex System, primarily due to a rate increase in the water treatment residuals disposal process and lower raw water quality;
- Higher labor costs of \$0.3 million, primarily due to higher average labor rates and increased headcount required to address additional regulatory and other needs; and
- All other operation and maintenance expense categories increased \$0.1 million.

*Depreciation*

Depreciation expense for the three months ended June 30, 2017 increased \$0.2 million from the same period in 2016 due to a higher level of utility plant in service.

*Other Taxes*

Other taxes for the three months ended June 30, 2017 were consistent with the same period in 2016. Higher payroll taxes were offset by lower revenue related taxes on decreased revenues in our Middlesex system.

*Other Income, net*

Other Income, net for the three months ended June 30, 2017 increased \$0.1 million from the same period in 2016, due to a higher allowance for funds used during construction (AFUDC), resulting from a higher level of capital projects in progress.

*Interest Charges*

Interest charges for the three months ended June 30, 2017 remained consistent with the same period in 2016.

*Income Taxes*

Income taxes for the three months ended June 30, 2017 decreased \$0.2 million from the same period in 2016, due to lower pre-tax income in 2017 as compared to 2016.

*Net Income and Earnings Per Share*

Net income for the three months ended June 30, 2017 decreased \$0.5 million as compared with the same period in 2016. Basic and diluted earnings per share were \$0.33 and \$0.36 for the three months ended June 30, 2017 and 2016, respectively.

**Results of Operations – Six Months Ended June 30, 2017**

(In Thousands)  
Six Months Ended June 30,

|                                     | 2017            |               |                 | 2016             |               |                  |
|-------------------------------------|-----------------|---------------|-----------------|------------------|---------------|------------------|
|                                     | Regulated       | Non-Regulated | Total           | Regulated        | Non-Regulated | Total            |
| Revenues                            | \$ 55,734       | \$ 7,411      | \$ 63,145       | \$ 55,767        | \$ 7,537      | \$ 63,304        |
| Operations and maintenance expenses | 26,496          | 5,889         | 32,385          | 25,548           | 6,069         | 31,617           |
| Depreciation expense                | 6,596           | 97            | 6,693           | 6,225            | 92            | 6,317            |
| Other taxes                         | 6,545           | 179           | 6,724           | 6,568            | 172           | 6,740            |
| <b>Operating income</b>             | <b>16,097</b>   | <b>1,246</b>  | <b>17,343</b>   | <b>17,426</b>    | <b>1,204</b>  | <b>18,630</b>    |
| Other income, net                   | 295             | 30            | 325             | 233              | (6)           | 227              |
| Interest expense                    | 2,472           | —             | 2,472           | 2,413            | —             | 2,413            |
| Income taxes                        | 4,809           | 565           | 5,374           | 5,173            | 562           | 5,735            |
| <b>Net income</b>                   | <b>\$ 9,111</b> | <b>\$ 711</b> | <b>\$ 9,822</b> | <b>\$ 10,073</b> | <b>\$ 636</b> | <b>\$ 10,709</b> |

*Operating Revenues*

Operating revenues for the six months ended June 30, 2017 decreased \$0.2 million from the same period in 2016.

- Middlesex System revenues decreased \$1.0 million due to lower water usage across all classes of customers;
- Tidewater System revenues increased \$0.9 million due to additional residential customers; and
- All other operating revenue categories decreased \$0.1 million.

*Operation and Maintenance Expense*

Operation and maintenance expenses for the six months ended June 30, 2017 increased \$0.8 million from the same period in 2016, primarily related to the following factors:

- Higher water production costs of \$0.7 million in the Middlesex System, primarily due to a rate increase in the water treatment residuals disposal process and lower raw water quality;
- Higher labor costs of \$0.5 million, primarily due to higher average labor rates and increased headcount required to address additional regulatory and other needs;
- Decreased liability insurance costs of \$0.3 million due to prior policy year refunds; and
- All other operation and maintenance expense categories decreased \$0.1 million.

*Depreciation*

Depreciation expense for the six months ended June 30, 2017 increased \$0.4 million from the same period in 2016 due to a higher level of utility plant in service.

*Other Taxes*

Other taxes for the six months ended June 30, 2017 were consistent with the same period in 2016. Higher payroll taxes were offset by lower revenue related taxes on decreased revenues in our Middlesex system.

*Other Income, net*

Other Income, net for the six months ended June 30, 2017 increased \$0.1 million from the same period in 2016 due to higher AFUDC, resulting from a higher level of capital projects in progress.

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### *Interest Charges*

Interest charges for the six months ended June 30, 2017 increased \$0.1 million from the same period in 2016 due to higher average short-term debt balances outstanding and higher average interest rates on short-term debt.

### *Income Taxes*

Income taxes for the six months ended June 30, 2017 decreased \$0.4 million from the same period in 2016, due to lower pre-tax income in 2017 as compared to 2016.

### *Net Income and Earnings Per Share*

Net income for the six months ended June 30, 2017 decreased \$0.9 million as compared with the same period in 2016. Basic earnings per share were \$0.60 and \$0.65 for the six months ended June 30, 2017 and 2016, respectively. Diluted earnings per share were \$0.59 and \$0.65 for the six months ended June 30, 2017 and 2016, respectively.

## **Liquidity and Capital Resources**

### *Operating Cash Flows*

Cash flows from operations are largely based on four factors: weather, adequate and timely rate increases, effective cost management and growth. The effect of those factors on net income is discussed in “Results of Operations.”

For the six months ended June 30, 2017, cash flows from operating activities increased \$3.4 million to \$20.2 million. The increase in cash flows from operating activities primarily resulted from lower income tax payments and decreased inventory purchases. The \$20.2 million of net cash flow from operations enabled the Company to fund approximately 72% of utility plant expenditures internally for the period.

### *Investing Cash Flows*

For the six months ended June 30, 2017, cash flows used in investing activities increased \$1.1 million to \$21.2 million. The increase in cash flows used in investing activities resulted from higher utility plant expenditures.

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

### *Financing Cash Flows*

For the six months ended June 30, 2017, cash flows from financing activities decreased \$0.3 million to \$0.8 million. The decrease in cash flows from financing activities resulted from increased common stock dividend payments and lower proceeds from sales of common stock under the Middlesex Water Company Investment Plan (the Investment Plan) offset by an increase in short-term and long-term debt funding.

### *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 Investment Plan and proceeds from sales offerings to the public of our common stock. See below for a more detailed discussion regarding the funding of our capital program.

The capital investment program for 2017 is currently estimated to be approximately \$60 million. Through June 30, 2017, we have expended \$21.2 million and expect to incur approximately \$39 million for capital projects for the remainder of 2017.

We currently project that we may expend approximately \$163 million for capital projects in 2018 and 2019. The actual amount and timing of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain capital projects.



To pay for our capital program for the remainder of 2017, we plan on utilizing:

- Internally generated funds;
- Proceeds from the Investment Plan;
- Requisition funding from active construction loans under the New Jersey State Revolving Fund (SRF) program (approximately \$10.0 million depending on actual construction schedule). The SRF program provides low cost financing for projects that meet certain water quality and system improvement benchmarks; and
- Short-term borrowings, as needed, through \$60.0 million of available lines of credit with several financial institutions. As of June 30, 2017, there remains \$43.0 million of available credit under these lines.

**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 \$6.2 million of the current portion of existing long-term debt instruments will mature. Applying a hypothetical 10% change in the rate of interest charged on those borrowings would not have a material effect on our earnings.

Our risks associated with commodity price increases for chemicals, electricity and other commodities are reduced through contractual arrangements and the ability to recover market-based price increases through customers' rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, financial position and cash flows.

We are exposed to credit risk for both our Regulated and Non-Regulated business segments. Our Regulated operations serve residential, commercial, industrial and municipal customers while our Non-Regulated operations engage in business activities with developers, government entities and other customers. Our primary credit risk is exposure to customer default on contractual obligations and the associated loss that may be incurred due to the non-payment of customer accounts receivable balances. Our credit risk is managed through established credit and collection policies which are in compliance with applicable regulatory requirements and involve monitoring of customer exposure and the use of credit risk mitigation measures such as letters of credit or prepayment arrangements. Our credit portfolio is diversified with no significant customer or industry concentrations. In addition, our Regulated businesses are generally able to recover all prudently incurred costs including uncollectible customer accounts receivable expenses and collection costs through rates.

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

## **Item 4. Controls and Procedures**

### *Disclosure Controls and Procedures*

As required by Rule 13a-15 under the Securities and Exchange Act of 1934 (the Exchange Act), an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer. Based upon that evaluation, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Report. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding disclosure.

## **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, 2016.

### **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**

- [10.46](#) Copy of Construction Loan Agreement (CFP 17-1) By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company
- [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

SIGNATURES

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

MIDDLESEX WATER COMPANY

By: /s/A. Bruce O'Connor  
A. Bruce O'Connor  
Vice President, Treasurer and  
Chief Financial Officer  
(Principal Accounting Officer)

Date: August 1, 2017

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## Section 2: EX-10.46 (EX-10.46)

Exhibit 10.46

MIDDLESEX WATER COMPANY  
NOTE  
RELATING TO:  
THE CONSTRUCTION FINANCING TRUST LOAN PROGRAM  
OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

\$2,291,847

May 4, 2017

CFP-17-1

**FOR VALUE RECEIVED, MIDDLESEX WATER COMPANY**, a corporation duly created and validly existing pursuant to the laws of the State (as hereinafter defined), and its successors and assigns (the “Borrower”), hereby promises to pay to the order of the **NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST**, a public body corporate and politic with corporate succession, duly created and validly existing under and by virtue of the Act (as hereinafter defined) (the “Trust”), the Principal (as hereinafter defined), together with all unpaid accrued Interest (as hereinafter defined), fees, late charges and other sums due hereunder, if any, in lawful money of the United States of America, on the Maturity Date (as hereinafter defined) or the date of any optional prepayment or acceleration in accordance with the provisions of this note (this “Note”).

**SECTION 1. Definitions.** As used in this Note, unless the context requires otherwise, the following terms shall have the following meanings:

“**Act**” means the “New Jersey Environmental Infrastructure Trust Act”, constituting Chapter 334 of the Pamphlet Laws of 1985 of the State (codified at N.J.S.A. 58:11B-1 *et seq.*), as the same may from time to time be amended and supplemented.

“**Administrative Fee**” means a fee of up to four-tenths of one percent (.40%) of that portion of the Principal identified in clause (i) of the definition thereof (as set forth in this Section 1), or such lesser amount, if any, as the Trust may determine from time to time.

“**Anticipated Financing Program**” means the financing program of the Trust, pursuant to which the Trust will issue its Trust Bonds for the purpose of financing, on a long term basis, the Project and other projects of certain qualifying borrowers.

“**Anticipated Long Term Loan**” means the long term loan made by the Trust to the Borrower from the proceeds of its Trust Bonds, as part of the Anticipated Financing Program.

“**Authorized Officer**” means any person authorized by the Borrower or the Trust, as the case may be, to perform any act or execute any document relating to the Loan or this Note.

“**Borrower Note Resolution**” means the resolution of the Borrower’s Board of Directors adopted on May 24, 2016, as amended and supplemented from time to time, pursuant to which this Note has been issued, and entitled:



**RESOLUTION OF MIDDLESEX WATER COMPANY, DETERMINING THE FORM AND OTHER DETAILS OF ITS “NOTE RELATING TO THE CONSTRUCTION FINANCING PROGRAM OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST”, TO BE ISSUED IN THE PRINCIPAL AMOUNT OF UP TO \$4.0 MILLION, AND PROVIDING FOR THE ISSUANCE AND SALE OF SUCH NOTE TO THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, AND AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH NOTE BY MIDDLESEX WATER COMPANY IN FAVOR OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, ALL PURSUANT TO THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST CONSTRUCTION FINANCING PROGRAM.**

“**Business Corporation Law**” means the “New Jersey Business Corporation Act”, constituting Chapter 263 of the Pamphlet Laws of 1968 of the State (codified at N.J.S.A. 14A:1-1 *et seq.*), as the same may from time to time be amended and supplemented.

“**Code**” means the Internal Revenue Code of 1986, as the same may from time to time be amended and supplemented, including any regulations promulgated thereunder, any successor code thereto and any administrative or judicial interpretations thereof.

“**Cost**” means those costs that are allocable to the Project, as shall be determined on a project-specific basis in accordance with the Regulations, as further set forth in Exhibit B hereto, as the same may be amended by subsequent changes to eligible costs as evidenced by a certificate of an Authorized Officer of the Trust.

“**Environmental Infrastructure Facilities**” means Wastewater Treatment Facilities, Stormwater Management Facilities or Water Supply Facilities (as such terms are defined in the Regulations).

“**Environmental Infrastructure System**” means the Environmental Infrastructure Facilities of the Borrower, including the Project, for which the Borrower is receiving the Loan.

“**Event of Default**” means any occurrence or event specified in Section 6 hereof.

“**Interest**” means the interest charged on the outstanding Principal of the Loan at a rate of 0.00%.

“**Loan**” means the loan of the Principal, made by the Trust to the Borrower to finance or refinance a portion of the Cost of the Project, as evidenced by this Note.

“**Loan Disbursement Requisition**” means the requisition, to be executed by an Authorized Officer of the Borrower and approved by the New Jersey Department of Environmental Protection, in a form to be determined by the Trust and the New Jersey Department of Environmental Protection.

“**Maturity Date**” means May 1, 2018, or such earlier or later date to be determined by the Trust in its sole discretion, which date shall be determined by the Trust to be the date of the closing for the Anticipated Financing Program.

“**NJDEP**” means the New Jersey Department of Environmental Protection.

“**Principal**” means the principal amount of the Loan, at any time being the lesser of (i) Two Million Two Hundred Ninety One Thousand Eight Hundred Forty Seven Dollars(\$2,291,847), or (ii) the aggregate outstanding amount as shall actually be disbursed to the Borrower by the Trust pursuant to one or more Loan Disbursement Requisitions, which Principal shall be payable by the Borrower to the Trust (i) on the Maturity Date or (ii) with respect to any optional prepayment or acceleration of the Loan, on the date of such optional prepayment or acceleration, as the case may be.

“**Project**” means the Environmental Infrastructure Facilities of the Borrower which constitutes a project for which the Trust is making the Loan to the Borrower, as further described in Exhibit A-1 hereto.

“**Regulations**” means the rules and regulations, as applicable, now or hereafter promulgated pursuant to N.J.A.C. 7:22-3 *et seq.*, 7:22-4 *et seq.*, 7:22-5 *et seq.*, 7:22-6 *et seq.*, 7:22-7 *et seq.*, 7:22-8 *et seq.*, 7:22-9 *et seq.* and 7:22-10 *et seq.*, as the same may from time to time be amended and supplemented.

“**State**” means the State of New Jersey.

“**Trust Bonds**” means the revenue bonds of the Trust to be issued, as part of the Anticipated Financing Program.

**SECTION 2. Representations of the Borrower.** The Borrower represents and warrants to the Trust:

(a) Organization. The Borrower: (i) is a corporation duly created and validly existing under and pursuant to the Constitution and laws of the State, including the Business Corporation Law; (ii) has full legal right and authority to execute, attest and deliver this Note, to authorize the authentication of this Note, to sell this Note to the Trust, and to perform its obligations hereunder, and (iii) has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the issuance of this Note, the authentication of this Note, the sale thereof to the Trust and the due performance of its obligations hereunder and (B) the execution, delivery and due performance of all certificates and other instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out and give effect to this Note.

(b) Authority. This Note has been duly authorized by the Borrower, and duly executed, attested and delivered by Authorized Officers of the Borrower, and duly authenticated by the trustee or the paying agent pursuant to the Borrower Note Resolution. This Note has been duly sold by the Borrower to the Trust and duly issued by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as the enforcement thereof may be affected by bankruptcy, insolvency or other laws or the application by a court of legal or equitable principles affecting creditors' rights.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower that, if adversely determined, would adversely affect (i) the condition (financial or otherwise) of the Borrower, (ii) the adoption of the Borrower Note Resolution, (iii) the ability of the Borrower to satisfy all of its Loan repayment obligations hereunder, (iv) the authorization, execution, attestation, authentication or delivery of this Note, (v) the issuance of this Note and the sale thereof to the Trust, and (vi) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Note.

(d) Compliance with Existing Laws and Agreements; Governmental Consent. (i) The authorization, execution, attestation and delivery of this Note by the Borrower, (ii) the adoption of the Borrower Note Resolution, (iii) the sale of this Note to the Trust, (iv) the observation and performance by the Borrower of its duties, covenants, obligations and agreements hereunder, including, without limitation, the repayment of the Loan and all other amounts due hereunder, and (iii) the undertaking and completion of the Project, will not (A) result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (B) result in any breach of any of the terms, conditions or provisions of, or (C) constitute a default under, any existing ordinance or resolution, outstanding debt or lease obligation, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument to which the Borrower is a party or by which the Borrower, its Environmental Infrastructure System or any of its properties or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Borrower was established or any laws, ordinances, injunctions, judgments, decrees, rules, regulations or existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations are subject. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation, authentication and delivery of this Note, for the sale of this Note to the Trust, for the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Note, and for the undertaking and completion of the Project.

(e) Reliance. The Borrower hereby acknowledges that the Trust is making the Loan to the Borrower pursuant to the terms hereof in reliance upon each of the representations of the Borrower set forth in this Section 2.



### **SECTION 3. Covenants of the Borrower.**

(a) Participation in the Anticipated Financing Program. The Borrower covenants and agrees that it shall undertake and complete in a timely manner all conditions precedent identified by the Trust relating to (i) the participation by the Borrower in the Anticipated Financing Program and (ii) the qualification by the Borrower for receipt of the Anticipated Long Term Loan.

(b) Pledge. The Borrower unconditionally and irrevocably promises to make the Loan repayments in accordance with the terms of, and to the extent provided in, the Borrower Note Resolution for the punctual repayment of the Loan and all other amounts due pursuant to this terms of this Note.

(c) Disposition of Environmental Infrastructure System. The Borrower covenants and agrees that it shall not sell, lease, abandon or otherwise dispose of all or substantially all of its Environmental Infrastructure System without the express written consent of the Trust, which consent may or may not be granted by the Trust in its sole discretion.

(d) Financing With Tax-Exempt Bonds. The Borrower acknowledges, covenants and agrees that it is the intention of the Borrower to finance the Project on a long term basis with proceeds of Trust Bonds now or hereinafter issued, the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103(a) of the Code (“tax-exempt bonds”). In furtherance of such long term financing with tax-exempt bonds, the Borrower covenants that, except to the extent expressly permitted in writing by the Trust, the Borrower will not take any action or permit any action to be taken which would result in any of the proceeds of the Loan being used (directly or indirectly) to make or finance loans to persons other than the Borrower. In addition, the Borrower covenants and agrees that (i) all of the proceeds of the Loan will be used to pay costs of an exempt facility, within the meaning of Section 142 of the Code, which were paid and incurred by the Borrower no more than 60 days before the date on which the Trust adopted a declaration of intent with respect to the Project, and (ii) no portion of the Project will be investment property, within the meaning of Section 148(b) of the Code. The Borrower covenants and agrees that any Costs to be paid or reimbursed with proceeds of the Loan will result in the expenditure of proceeds under Treasury Regulations §1.148-6(d) and Treasury Regulations §1.150-2, for costs subject to the allowance for depreciation provided in Section 167 of the Code which are chargeable to the capital account of the Borrower with respect to such exempt facility.

(e) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall maintain its Environmental Infrastructure System in good repair, working order and operating condition, and make all necessary and proper repairs and improvements with respect thereto.

(f) Records and Accounts; Inspections. The Borrower covenants and agrees that it shall keep accurate records and accounts for its Environmental Infrastructure System, separate and distinct from its other records and accounts, which shall be audited annually by an independent registered certified public accountant and shall be made available for inspection by the Trust upon prior written notice. The Borrower shall permit the Trust to inspect the Environmental Infrastructure System.

(g) Insurance. The Borrower covenants and agrees that it shall maintain insurance policies providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System, in an amount that will satisfy all applicable regulatory requirements. The Borrower covenants and agrees that it shall include, or cause to be included, the Trust as an additional “named insured” on any certificate of liability insurance procured by the Borrower and by any contractor or subcontractor for the Project.

(h) Reliance. The Borrower hereby acknowledges that the Trust is making the Loan to the Borrower pursuant to the terms hereof in reliance upon each of the covenants of the Borrower set forth in this Section 3.

**SECTION 4. Disbursement of the Loan Proceeds; Amounts Payable; Prepayment; and Late Fee.** The Trust shall effectuate the Loan to the Borrower by making one or more disbursements to the Borrower promptly after receipt by the Trust of a Loan Disbursement Requisition and the approval of such Loan Disbursement Requisition by an Authorized Officer of the Trust or designee thereof, each such disbursement and the date thereof to be recorded by an Authorized Officer of the Trust on the table attached as Exhibit A-2 hereto; provided, however, that no Loan Disbursement Requisition shall be approved for disbursement unless the portion of the Project to which such Loan Disbursement Requisition relates has been certified for funding by the NJDEP. It is expected that the proceeds of the Loan will be disbursed to the Borrower in accordance with Exhibit C hereto. The latest date upon which the Borrower may submit to the Trust a Loan Disbursement Requisition is the business day immediately preceding the date fixed by the Trust for the sale of its bonds in connection with the Anticipated Financing Program, or such alternative date as shall be identified by the Trust for the Borrower in writing. On the Maturity Date, the Borrower shall repay the Loan to the Trust in an amount equal to: (i) the Principal; (ii) the Interest; (iii) the Administrative Fee, if any; and (iv) any other amounts due and owing pursuant to the provisions of this Note. Any earnings accrued on the undrawn portion of the Principal of the Loan shall be credited against the Borrower’s repayment obligations hereunder. The Borrower may prepay the Loan obligations hereunder, in whole or in part, upon receipt of the prior written consent of an Authorized Officer of the Trust. Each payment made to the Trust shall be applied to the payment of, first, the Interest then due and payable, second, the Principal, third, the Administrative Fee, if any, fourth, any late charges, and, finally, any other amount due pursuant to the provisions of this Note. In the event that the repayment obligation set forth in this Note is received by the Trust later than the Maturity Date, a late fee shall be payable to the Trust in an amount equal to the greater of twelve percent (12%) per annum or the prime rate as published in the Wall Street Journal on the Maturity Date plus one half of one percent per annum on such late payment from the Maturity Date to the date it is actually paid; provided, however, that any late payment charges incurred hereunder shall not exceed the maximum interest rate permitted by law. Notwithstanding the provisions of this Section 4 to the contrary, the Borrower hereby acknowledges and agrees that, on the date of issuance of this Note, a disbursement shall be made and shall be recorded by an Authorized Officer of the Trust on the table attached as Exhibit A-2 hereto in the amount recorded thereon. Such disbursement shall be made for the purpose of funding fifty percent (50%) of an administrative fee, which administrative fee is payable by the Borrower to the NJDEP as a portion of the Cost of the Project that has been incurred by the Borrower for engineering and environmental services provided to the Borrower by the NJDEP. Such disbursement shall be paid by the Trust on behalf of the

Borrower directly to the NJDEP in satisfaction of the provisions hereof.

**SECTION 5. Unconditional Obligations.** The obligation of the Borrower to make the Loan repayments and all other payments required hereunder and the obligation to perform and observe the other duties, covenants, obligations and agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner whatsoever while any Loan repayments, or any other payments due hereunder, remain unpaid, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Project or Environmental Infrastructure System, commercial frustration of the purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, any failure of the Trust to perform and observe any agreement or any duty, liability or obligation arising out of this Note, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might have against the Trust or any other party; provided, however, that payments hereunder shall not constitute a waiver of any such rights.

**SECTION 6. Events of Default.** The following events shall constitute an "Event of Default" hereunder: (i) failure by the Borrower to pay, when due, any and all of its Loan repayment obligations hereunder, and any other payment obligations due hereunder; (ii) failure by the Borrower to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed pursuant to the terms of this Note; (iii) any representation made by the Borrower contained in this Note or in any instrument furnished in compliance with or with reference to this Note is false or misleading in any material respect; and (iv) a petition is filed by or against the Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Note or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal, or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors, or a custodian of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days.

**SECTION 7. Remedies upon Event of Default.** Whenever an Event of Default shall have occurred and be continuing pursuant to the terms hereof, the Borrower hereby acknowledges and agrees to the rights of the Trust to take any action permitted or required at law or in equity to collect the amounts then due and thereafter to become due hereunder or to enforce the observance and performance of any duty, covenant, obligation or agreement of the Borrower hereunder. If an Event of Default shall have occurred, the Borrower hereby acknowledges and agrees that the Trust shall have the right to declare all Loan repayments and all other amounts due hereunder to be due and payable immediately without further notice or demand. The Borrower hereby acknowledges and agrees that no remedy herein is intended to be exclusive, and every remedy shall be cumulative and in addition to every other remedy given under this Note or now or hereafter existing at law or in equity. The Borrower hereby further acknowledges and agrees that no delay or omission by the Trust to exercise any remedy or right accruing upon any Event of Default shall impair any such remedy or right or shall be construed to be a waiver thereof, but any such remedy or right may be exercised as often as may be deemed expedient. The Borrower hereby agrees that upon demand it shall pay to the Trust the reasonable fees and expenses of attorneys and other reasonable expenses (including, without limitation, the reasonably allocated costs of in-house counsel and legal staff) incurred in the collection of Loan repayments or any sum due hereunder or in the enforcement of the observation or performance of any obligations or agreements of the Borrower upon an Event of Default. Any moneys collected by the Trust pursuant to this Section 7 shall be applied first to pay any attorneys' fees or other fees and expenses owed by the Borrower.

**SECTION 8. Certain Miscellaneous Provisions.** The Borrower hereby agrees as follows: (a) all notices hereunder shall be deemed given when hand delivered or when mailed by registered or certified mail, postage prepaid, to the Borrower at the following address: Middlesex Water Company, 1500 Ronson Road, Iselin, New Jersey 08830-0452, Attention: A. Bruce O'Connor, Vice President, Treasurer and Chief Financial Officer; and to the Trust at the following address: New Jersey Environmental Infrastructure Trust, 3131 Princeton Pike, Building 4, Suite 216, Lawrenceville, New Jersey 08648-2201, Attention: Executive Director; (b) this Note shall be binding upon the Borrower and its successors and assigns; (c) in the event any provision of this Note is held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof; (d) the obligations of the Borrower pursuant to the terms of this Note may not be assigned by the Borrower for any reason, unless the Trust shall have approved said assignment in writing; (e) this Note may not be amended, supplemented or modified without the prior written consent of the Trust; (f) this Note shall be governed by and construed in accordance with the laws of the State; (g) the Borrower shall, at the request of the Trust, execute and deliver such further instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights, security interests and agreements granted or intended to be granted by this Note; and (h) whenever the Borrower is required to obtain the determination, approval or consent of the Trust pursuant to the terms hereof, such determination, approval or consent may be either granted or withheld by the Trust in its sole and absolute discretion.

[The remainder of this page has been left blank intentionally.]

IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed, sealed and delivered on the date first above written.

**MIDDLESEX WATER COMPANY**

[SEAL]

ATTEST:

By: /s/A. Bruce O'Connor  
**A. Bruce O'Connor**  
**Vice President, Treasurer**  
**And Chief Financial Officer**  
**Authorized Officer**

/s/Jay L. Kooper, Esq.  
**Jay L. Kooper, Esq.**  
**Vice President, General**  
**Counsel and Secretary**

EXHIBIT A-1

1) Name and Address of Local Unit:

Middlesex Water Company  
1500 Ronson Road  
Iselin, New Jersey 08830-3020

Attention: Brian Carr, P.E.

2) Description of the Project:

The Middlesex Water Company is pursuing financial assistance from the New Jersey Environmental Infrastructure Financing Program for the replacement of the existing underground Booster Pump Station (BPS) and SCADA/Chlorination station at the Tingley Lane North Well Field (NWF) in northern Edison Township with a new 6 million gallons per day (MGD) duplex pump station. The proposed project will consist of: the removal of the existing underground BPS; the construction of an above-ground building to house both the SCADA/Chlorination station and a proposed upgraded BPS; the installation of a permanent source of emergency power for the facility; the installation of improved SCADA panels; and the installation of new tablet type chlorinators to replace the existing gas chlorinators.

The overall project consists of one (1) building contract. Zero (0) contracts have previously received authorization to award. This exhibit pertains to contract 1 of 1.

3) Description of the Wastewater Treatment System:

The Middlesex Water Company (MWC) distributes potable water on a retail basis to approximately 59,000 homes located in New Jersey in Woodbridge Township, City of South Amboy, Metuchen Borough, Carteret Borough, portions of Edison Township, South Plainfield Borough in Middlesex County, and a portion of Clark Township in Union County. The MWC also provides water on a wholesale basis to Edison Township, Highland Park Borough, Rahway City, Old Bridge Municipal Utilities Authority, and Marlboro Township Municipal Utilities Authority, as well as water treatment and pumping services to East Brunswick Township. It is served by surface and groundwater sources, with the principal source being the Delaware and Raritan Canal, owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Company.

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EXHIBIT B

Basis for the Determination of Allowable Costs

The determination of the costs allowable for assistance from the New Jersey Environmental Infrastructure Financing Program is presented below:

| Cost Classification                  | Application Amount | Allowable Amount | CLP Allowable Amount |
|--------------------------------------|--------------------|------------------|----------------------|
| 1. Administrative Expenses           | \$ 72,000          | \$ 55,380        | \$ 55,380            |
| 2. Other Costs                       | \$ 0               | \$ 0             | \$ 0                 |
| 3. Engineering Fees                  | \$ 288,000         | \$ 155,475       | \$ 155,475           |
| 4. Building Costs                    | \$ 2,400,000       | \$ 1,846,000     | \$ 1,846,000         |
| 5. Contingencies                     | \$ 120,000         | \$ 92,300        | \$ 92,300            |
| 6. Allowance for Planning and Design | \$ 120,000         | \$ 120,000       | \$ 120,000           |
| 7. Sub-Total                         | \$ 3,000,000       | \$ 2,269,155     | \$ 2,269,155         |
| 8. DEP Fee (Financed Portion (50%))  |                    | \$ 22,692        | \$ 22,692            |
| 9. Total Project Costs               | \$ 3,000,000       | \$ 2,291,847     | \$ 2,291,847         |
| 10. CLP Loan Amount                  |                    |                  | \$ 2,291,847         |

As a result of the review by the New Jersey Department of Environmental Protection (“Department”), various line items may have been revised resulting in a change of the allowable costs for this project. The basis for the determination of the allowable costs is as follows:

1. Administrative Expenses:

The total amount requested for this line item on the application was \$72,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is  $\$1,846,000 \times 0.03 = \$55,380$ .

Allowable Administrative Expenses are \$55,380.

2. Other Costs:

The amount requested for this line item on the application was \$0. Therefore, the total allowable amount for this line item is \$0.

Allowable Other Costs are \$0.



3. Engineering Fees:

The amount requested for this line item on the application was \$288,000. Construction management services contract, dated December 18, 2013, in the amount of \$155,475 has been awarded to Hatch Mott MacDonald. The scope of services and associated fees have been reviewed by NJDEP and found acceptable.

Allowable Engineering Fees are \$155,475.

4. Building Costs:

The amount requested for this line item on the application was \$2,400,000. The allowable amount based on the low bids received is \$1,846,000.

Allowable Building Costs are \$1,846,000.

5. Contingencies:

The amount requested for this line item on the application was \$120,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is  $\$1,846,000 \times 0.05 = \$92,300$ .

Allowable Contingencies are \$92,300.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$120,000. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$\$250,000 + 0.12 \times (\$1,846,000 - \$1,000,000) = \$351,520$ . At the request of the applicant, this line item is limited to the application amount of \$120,000.

Allowable Planning and Design Allowance is \$120,000.

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7. Sub-Total:

The total amount applied for was \$3,000,000. The subtotal line item amount is \$2,269,155.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the SFY2017 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Construction Loan.

$$\text{DEP Fee} = \$2,269,155 \times 2\% = \underline{\$45,384}$$

$$\underline{\$45,384} \times .50 = \underline{\$22,692} \text{ (financed through the Construction Loan and paid to DEP upon closing of the Construction Loan)}$$

9. Total Project Costs:

The total project costs are (loan amount + DEP Fee) \$2,291,847.

10. CLP Loan Amount:

The CLP Loan Amount is \$2,291,847.

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EXHIBIT C

1. Disbursement Schedule

The following is a schedule of the estimated disbursements for this loan. Disbursements to the Borrower for any given month shall not exceed the amounts indicated below plus any undisbursed from the previous months.

| Year  | Month  | DEP Fee (Trust to<br>make payment) | Total        |
|-------|--------|------------------------------------|--------------|
| 2017  | May    | \$ 22,692                          |              |
|       | May    |                                    | \$ 1,080,000 |
|       | June   |                                    | \$ 450,000   |
|       | July   |                                    | \$ 450,000   |
|       | August |                                    | \$ 289,155   |
| Total |        | \$ 22,692                          | \$ 2,269,155 |

\*This represents that portion (50%) of the DEP Fee that has been financed for the Borrower through the short-term Construction Loan. No action is required on the part of the borrower with respect to the payment to DEP of the DEP Fee. The Trust will address, or already has addressed, the implementation of this disbursement.

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## 2. Project Schedule

The Borrower shall expeditiously initiate and complete the project in accordance with the project schedule which was submitted as part of the loan application repeated below. Failure to promptly initiate and complete the Project may result in the imposition of sanctions under N.J.A.C. 7:22-3.40 through 3.44 and N.J.A.C. 7:22-4.40 through 4.44. In addition, failure to promptly award all subagreement(s) for building the Project within 12 months of the date of this loan may result in a limitation on allowable costs as provided by N.J.A.C. 7:22-5.4(d) 4. This limitation provides that costs incurred under contracts awarded after 12 months from the date of this loan are unallowable unless a specific extension has been granted by the Department, in the case of a Fund Loan, and the Trust, in the case of a Trust Loan.

| <u>EVENT</u>  | <u>DATE</u>        |
|---|--------------------|
| <u>Advertisement:</u><br>Tingley Lane Booster Station Upgrade                     | December 22, 2016  |
| <u>Bid Receipt:</u><br>Tingley Lane Booster Station Upgrade                       | February 15, 2017  |
| <u>Award:</u><br>Tingley Lane Booster Station Upgrade                             | March 17, 2017     |
| <u>Issuance of Notice to Proceed:</u><br>Tingley Lane Booster Station Upgrade     | March 17, 2017     |
| <u>Completion of Construction:</u><br>Tingley Lane Booster Station Upgrade        | September 17, 2017 |
| <u>Initiation of Operation:</u><br>Tingley Lane Booster Station Upgrade           | September 17, 2017 |
| <u>Project Performance Certification:</u><br>Tingley Lane Booster Station Upgrade | September 17, 2018 |

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## Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

### SECTION 302 CERTIFICATION PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934

I, Dennis W. Doll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlesex Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our

supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Dennis W. Doll  
Dennis W. Doll  
Chief Executive Officer

Date: August 1, 2017

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## Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

### SECTION 302 CERTIFICATION PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF 1934

I, A. Bruce O'Connor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlesex Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

- d. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ A. Bruce O'Connor  
A. Bruce O'Connor  
Chief Financial Officer

Date: August 1, 2017

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## Section 5: EX-32.1 (EX-32.1)

**Exhibit 32.1**

### SECTION 906 CERTIFICATION PURSUANT TO 18 U.S.C. §1350

I, Dennis W. Doll, hereby certify that, to the best of my knowledge, the periodic report being filed herewith containing financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and that information contained in said periodic report fairly presents, in all material respects, the financial condition and results of operations of Middlesex Water Company for the period covered by said periodic report.

/s/ Dennis W. Doll  
Dennis W. Doll  
Chief Executive Officer

Date: August 1, 2017

A signed original of this written statement required by Section 906 has been provided to Middlesex Water Company and will be retained by Middlesex Water Company and furnished to the Securities and Exchange Commission or its staff upon request.

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## Section 6: EX-32.2 (EX-32.2)

**Exhibit 32.2**

### SECTION 906 CERTIFICATION PURSUANT TO 18 U.S.C. §1350

I, A. Bruce O'Connor, hereby certify that, to the best of my knowledge, the periodic report being filed herewith containing financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and that information contained in said periodic report fairly presents, in all material respects, the financial condition and results of operations of Middlesex Water Company for the period covered by said periodic report.

/s/ A. Bruce O'Connor  
A. Bruce O'Connor  
Chief Financial Officer

Date: August 1, 2017

A signed original of this written statement required by Section 906 has been provided to Middlesex Water Company and will be retained by Middlesex Water Company and furnished to the Securities and Exchange Commission or its staff upon request.

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