

Section 1: 10-K (10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:
Common Stock, No Par Value

Name of each exchange on which registered:
The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 their 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 for such shorter period that the registrants were required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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," "smaller reporting company," and "emerging growth company" in Rule 12(b)-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 aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2017 was \$624,441,708 based on the closing market price of \$39.60 per share.

The number of shares outstanding for each of the registrant's classes of common stock, as of February 28, 2018:
Common Stock, No par Value 16,351,940 shares outstanding

Documents Incorporated by Reference

Proxy Statement to be filed in connection with the Registrant's Annual Meeting of Stockholders to be held on May 22, 2018, which will be filed with the Securities and Exchange Commission within 120 days of the end of our 2017 fiscal year, is incorporated by reference into Part III.

**MIDDLESEX WATER COMPANY
FORM 10-K**

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this annual 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. Middlesex Water Company (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 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 annual 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 annual 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.

PART I

Item 1. Business.

Overview

Middlesex Water Company (Middlesex) was incorporated as a water utility company in 1897 and owns and operates regulated water utility and wastewater systems in New Jersey, Delaware and Pennsylvania. Middlesex also operates water and wastewater systems under contract on behalf of municipal and private clients in New Jersey and Delaware.

The terms “the Company,” “we,” “our,” and “us” refer to Middlesex Water Company and its subsidiaries, including Tidewater Utilities, Inc. (Tidewater) and Tidewater’s wholly-owned subsidiaries, Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh). The Company’s other subsidiaries are 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), Tidewater Environmental Services, Inc. (TESI) and Twin Lakes Utilities, Inc. (Twin Lakes).

The Company’s principal executive offices are located at 1500 Ronson Road, Iselin, New Jersey 08830. Our telephone number is (732) 634-1500. Our website address is <http://www.middlesexwater.com>. We make available, free of charge through our website, reports and amendments filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, after such material is electronically filed with or furnished to the United States Securities and Exchange Commission (the SEC).

Middlesex System

The Middlesex System in New Jersey provides water services to approximately 61,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the City of Rahway, Townships of Edison and Marlboro, the Borough of Highland Park and the Old Bridge Municipal Utilities Authority. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire protection purposes. The Middlesex System also provides water treatment and pumping services to the Township of East Brunswick under contract. The amount of water supply allocated to the Township of East Brunswick is granted directly to the Township by the New Jersey Water Supply Authority. The Middlesex System produced approximately 58% of our 2017 consolidated operating revenues.

The Middlesex System’s retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of the Township of Edison and the Borough of South Plainfield in Middlesex County and, to a minor extent, a portion of the Township of Clark in Union County. Retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These customers are located in generally well-developed areas of central New Jersey.

The contract customers of the Middlesex System comprise an area of approximately 110 square miles with a population of approximately 219,000. Contract sales to the Townships of Edison and Marlboro, the City of Rahway and the Old Bridge Municipal Utilities Authority are supplemental to the water systems owned and operated by these customers. Middlesex is the sole source of water for the Borough of Highland Park and the Township of East Brunswick.

Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview, and is not physically interconnected with the Middlesex System. Bayview produced less than 1% of our 2017 consolidated operating revenues.

Tidewater System

Tidewater, together with its wholly-owned subsidiary, Southern Shores, provides water services to approximately 45,000 retail customers for residential, commercial and fire protection purposes in approximately 400 separate communities in New Castle, Kent and Sussex Counties, Delaware. White Marsh is a wholly-owned subsidiary of Tidewater that is unregulated as to rates and operates or maintains more than 55 water and/or wastewater systems under contracts that serve approximately 4,000 residential customers. White Marsh owns two commercial properties that are leased to Tidewater as its administrative office campus and its field operations center. The Tidewater System produced approximately 28% of our 2017 consolidated operating revenues.

Utility Service Affiliates-Perth Amboy

USA-PA operates the City of Perth Amboy, New Jersey's (Perth Amboy) water treatment and distribution system and its wastewater collection system under a 20-year agreement, which expires in December 2018. USA-PA serves approximately 11,900 homes and businesses, most of which are served by both the water and wastewater systems. Under the agreement, USA-PA receives fixed fees, and may receive variable fees, based on customer revenue growth. Fixed fee revenues increase over the term of the 20-year contract based upon a schedule of rates. USA-PA produced approximately 8% of our 2017 consolidated operating revenues.

In connection with the agreement with Perth Amboy, USA-PA entered into a 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 and its term is concurrent with USA-PA's contract with Perth Amboy.

Pinelands System

Pinelands Water provides water services to approximately 2,500 residential customers in Burlington County, New Jersey. Pinelands Water produced less than 1% of our 2017 consolidated operating revenues. Pinelands Water is not physically interconnected with the Middlesex System.

Pinelands Wastewater provides wastewater collection and treatment services to approximately 2,500 residential customers. Under contract, it also services one municipal wastewater system in Burlington County, New Jersey with approximately 200 residential customers. Pinelands Wastewater produced approximately 1% of our 2017 consolidated operating revenues.

Utility Service Affiliates, Inc.

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. USA serves approximately 6,200 Avalon homes and businesses, most of which are served by both the water and wastewater collection systems. 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.

USA also provides unregulated water and wastewater services under contract with several other smaller New Jersey municipalities.

Under a marketing agreement with HomeServe USA (HomeServe), USA offers residential customers in New Jersey and Delaware various 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 produced approximately 2% of our 2017 consolidated operating revenues.

TESI System

TESI provides wastewater collection and treatment services to approximately 3,500 residential retail customers in Sussex County, Delaware. TESI produced approximately 2% of our 2017 consolidated operating revenues.

Twin Lakes System

Twin Lakes provides water services to approximately 120 residential customers in Shohola, Pennsylvania. Twin Lakes produced less than 1% of our 2017 consolidated operating revenues.

Financial Information

Consolidated operating revenues, operating income and net income are as follows:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$ 130,775	\$ 132,906	\$ 126,025
Operating Income	\$ 38,620	\$ 40,632	\$ 35,840
Net Income	\$ 22,809	\$ 22,742	\$ 20,028

Operating revenues were earned from the following sources:

	Years Ended December 31,		
	2017	2016	2015
Residential	48.8%	48.3%	48.5%
Commercial	10.7	10.6	10.4
Industrial	6.7	6.9	6.5
Fire Protection	9.0	8.8	8.9
Contract Sales	10.4	11.7	11.2
Contract Operations	11.5	11.0	11.5
Other	2.9	2.7	3.0
Total	100.0%	100.0%	100.0%

Water Supplies and Contracts

Our New Jersey, Delaware and Pennsylvania water supply systems are physically separate and are not interconnected. In New Jersey, the Pinelands System and Bayview System are not interconnected with the Middlesex System or each other. We believe we have adequate sources of water supply to meet the current service requirements of our present customers in New Jersey, Delaware and Pennsylvania.

Middlesex System

Our Middlesex System, which produced approximately 14.4 billion gallons in 2017, obtains water from surface sources and wells (groundwater sources). In 2017, surface sources of water provided approximately 74% of the Middlesex System's water supply, groundwater sources provided approximately 19% from 31 wells and the balance was purchased from a non-affiliated regulated water utility. The Middlesex System's distribution storage facilities are used to supply water to customers at times of peak demand, outages and emergencies.

The principal source of surface water for the Middlesex System is the Delaware & Raritan Canal, which is owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority

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(NJWSA). Middlesex is under contract with the NJWSA, which expires November 30, 2023, and provides for average purchases of 27.0 million gallons per day (mgd) of untreated water from the Delaware & Raritan Canal, augmented by the Round Valley/Spruce Run Reservoir System. The untreated surface water is pumped to, and treated at, the Middlesex Carl J. Olsen (CJO) Water Treatment Plant. 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 minimum purchase of 3.0 mgd of treated water with provisions for additional purchases.

Tidewater System

Our Tidewater System produced approximately 2.2 billion gallons in 2017 from 158 wells. Tidewater expects to submit applications to Delaware regulatory authorities for the approval of additional wells as growth, customer demand and water quality warrant. Tidewater augments its water production with annual minimum purchases of 15.0 million gallons of treated water under contract from the City of Dover, Delaware. Tidewater does not have a central water treatment facility for the nearly 400 separate communities it serves. As the number has grown, many of Tidewater's individual systems have been interconnected, forming several regional systems that are served by multiple water treatment facilities.

Pinelands Water System

Water supply to our Pinelands Water System is derived from four wells which produced approximately 145.9 million gallons in 2017. The aggregate pumping capacity of the four wells is 2.2 mgd.

Pinelands Wastewater System

The Pinelands Wastewater System discharges into the South Branch of the Rancocas Creek through a tertiary treatment plant that provides clarification, sedimentation, filtration and disinfection. The total capacity of the plant is 0.5 mgd, and the system treated approximately 91.3 million gallons in 2017.

Bayview System

Water supply to Bayview customers is derived from two wells, which produced approximately 6.6 million gallons in 2017.

TESI System

The TESI System is comprised of seven wastewater treatment systems in Sussex County, Delaware, which are not interconnected. The treatment plants provide clarification, sedimentation, and disinfection. The combined total treatment capacity of the plants is 0.7 mgd. The TESI System treated approximately 105.9 million gallons in 2017.

Twin Lakes System

Water supply to Twin Lakes' customers is derived from one well, which produced approximately 15.0 million gallons in 2017.

Employees

As of December 31, 2017, we had a total of 315 employees. None of our employees are subject to a collective bargaining agreement. We believe our employee relations are positive. Wages and benefits are reviewed annually and are considered competitive within both the industry and the regions where we operate.

Competition

Our business in our franchised service areas is substantially free from direct competition with other public utilities, municipalities and other entities. However, our ability to provide contract water supply and wastewater services and operations and maintenance services that are not under the jurisdiction of a state public utility

commission is subject to competition from other public utilities, municipalities and other entities. Although Tidewater and TESI have been granted exclusive franchises for each of their existing community water and wastewater systems, their ability to expand service areas can be affected by the Delaware Public Service Commission awarding franchises to other regulated water and wastewater utilities with whom we compete for such franchises and for projects.

Regulation

Our rates charged to customers for water and wastewater services, the quality of the services we provide and certain other matters are regulated by the following state utility commissions (collectively, the Utility Commissions):

- New Jersey-New Jersey Board of Public Utilities (NJBPU)
- Delaware-Delaware Public Service Commission (DEPSC)
- Pennsylvania-Pennsylvania Public Utilities Commission (PAPUC)

Our USA, USA-PA and White Marsh subsidiaries are not regulated public utilities. However, they are subject to environmental regulation with respect to water quality and wastewater effluent quality to the extent such services are provided.

We are subject to environmental and water quality regulation by the following regulatory agencies (collectively, the Government Environmental Regulatory Agencies):

- United States Environmental Protection Agency (EPA)
- New Jersey Department of Environmental Protection (NJDEP) with respect to operations in New Jersey
- Delaware Department of Natural Resources and Environmental Control, the Delaware Department of Health and Social Services-Division of Public Health (DEDPH), and the Delaware River Basin Commission (DRBC) with respect to operations in Delaware
- Pennsylvania Department of Environmental Protection (PADEP) with respect to operations in Pennsylvania

In addition, our issuances of equity securities are subject to the prior approval of the NJBPU and require registration with the SEC. Our issuances of long-term debt securities are subject to the prior approval of the appropriate Utility Commissions.

Regulation of Rates and Services

For regulated rate setting purposes, we account separately for operations in New Jersey, Delaware and Pennsylvania to facilitate independent rate setting by the applicable Utility Commissions.

In determining our regulated utility rates, the respective Utility Commissions consider the revenue, expenses, rate base of property used and useful in providing service to the public and a fair rate of return on investments within their separate jurisdictions. Rate determinations by the respective Utility Commissions do not guarantee achievement to us of specific rates of return for our New Jersey, Delaware and Pennsylvania regulated utility operations. Thus, we may not achieve the stated rates of return authorized by the Utility Commissions. In addition, there can be no assurance that any future rate increases will be granted or, if granted, that they will be in the amounts requested.

Middlesex Rate Matters

In October 2017, Middlesex filed a petition with the NJBPU seeking permission to increase base water rates by approximately \$15.3 million per year. The request was necessitated by capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the last filing in New Jersey in 2015 as well as increased operations and maintenance costs. We cannot predict when and whether the NJBPU will ultimately approve, deny, or reduce the amount of the request. Under New Jersey statute, the NJBPU must render a decision within nine months of filing a petition.

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In October 2017, the NJBPU approved Middlesex's petition to reset its Purchased Water Adjustment Clause (PWAC) tariff rate to recover additional annual costs of \$1.2 million, primarily for the purchase of untreated water from the New Jersey Water Supply Authority. A PWAC is a rate mechanism that allows for the recovery of increased purchased water costs between base rate case filings. The PWAC is reset to zero once those increased costs are included in base rates. The reset PWAC tariff rate became effective on November 1, 2017.

In August 2015, Middlesex implemented a \$5.0 million NJBPU-approved rate increase. The rate increase was needed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$219.0 million, based on a return on equity of 9.75%.

Tidewater Rate Matters

Effective January 1, 2018, Tidewater increased its DEPSC-approved Distribution System Improvement Charge rate, which is expected to generate revenues of approximately \$0.4 million annually.

Pinelands Rate Matters

In April 2016, the NJBPU approved \$0.2 million and \$0.1 million of increases, respectively, in Pinelands Water and Pinelands Wastewater's annual base rates, effective May 7, 2016. The rate increases were necessitated by capital infrastructure investments by the companies, increased operations and maintenance costs and lower non-fixed fee revenues. The Pinelands Water base water rate increase was phased-in between 2016 and 2017.

Southern Shores Rate Matters

Under the terms of a multi-year DEPSC-approved agreement expiring in 2020, customer rates will increase on January 1st of each year to generate additional annual revenue of \$0.1 million with each increase.

Twin Lakes Rate Matters

In June 2016, the PAPUC approved a \$0.1 million increase in Twin Lakes' base water rates. The rate increase was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase will be phased in with the final phase implemented subsequent to specific capital investments being placed in service.

Future Rate Filings

Management monitors the need for rate relief for our regulated subsidiaries on an ongoing basis. When capital improvements (both made and planned) and/or increases in operation and maintenance costs require rate relief, base rate increase requests are expeditiously filed with those subsidiaries' Utility Commissions.

Water and Wastewater Quality and Environmental Regulations

Government environmental regulatory agencies regulate our operations in New Jersey, Delaware and Pennsylvania with respect to water supply, treatment and distribution systems and the quality of the water. They also regulate our operations with respect to wastewater collection, treatment and disposal.

Regulations relating to water quality require us to perform tests to ensure our water meets state and federal quality requirements. In addition, government environmental regulatory agencies continuously review current regulations governing the limits of certain organic compounds found in the water as byproducts of the treatment process. We participate in industry-related research to identify the various types of technology that might reduce the level of organic, inorganic and synthetic compounds found in water. The cost to water utilities to comply with the proposed water quality standards depends in part on the limits set in the regulations and on the method selected to treat the water to the required standards. We regularly test our water to determine compliance with existing required government environmental regulatory agencies' water quality standards.

Treatment of groundwater in our Middlesex System is by chlorination for primary disinfection purposes. In addition, at certain locations, air stripping is used for removal of volatile organic compounds.

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Surface water treatment in our Middlesex System is by conventional treatment; coagulation, sedimentation and filtration. The treatment process includes pH adjustment, chlorination for disinfection, and corrosion control for the distribution system.

Treatment of groundwater in our Tidewater System is by chlorination for disinfection purposes and, in some cases, pH correction and filtration for nitrate and iron removal and granular activated carbon filtration for organics removal. Chloramination is used for final disinfection at Southern Shores.

Treatment of groundwater in the Pinelands Water, Bayview and Twin Lakes Systems (primary disinfection only) is performed at individual well sites.

Treatment of wastewater in the Pinelands Wastewater and TESI Systems includes rotating biological contactors. Membrane bioreactors, sequential batch reactors and lagoon treatment coupled with spray irrigation are also utilized in the TESI System.

The NJDEP, DEDPH and PADEP monitor our activities and review the results of water quality tests that are performed for adherence to applicable regulations. Other applicable regulations include the Federal Lead and Copper Rule, the Federal Surface Water Treatment Rule and the Federal Total Coliform Rule and regulations for maximum contaminant levels established for various volatile organic compounds.

Seasonality

Customer demand for our water during the warmer months is generally greater than other times of the year due primarily to additional consumption of water in connection with irrigation systems, swimming pools, cooling systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand may vary with temperature and rainfall timing and overall levels. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the customer demand for our water may decrease and therefore, adversely affect our revenues.

Management

This table lists information concerning our executive management team:

Name	Age	Principal Position(s)
Dennis W. Doll	59	President, Chief Executive Officer and Chairman of the Board of Directors
A. Bruce O'Connor	59	Vice President, Treasurer and Chief Financial Officer
Richard M. Risoldi	61	Vice President-Operations and Chief Operating Officer
Jay L. Kooper	45	Vice President-General Counsel and Secretary
Bernadette M. Sohler	57	Vice President-Corporate Affairs
Lorrie B. Ginegaw	42	Vice President-Human Resources
Gerard L. Esposito	66	President, Tidewater Utilities, Inc.

Dennis W. Doll – Mr. Doll joined the Company in 2004 as Executive Vice President and was named President and Chief Executive Officer and a Director of Middlesex effective January 1, 2006. In May 2010, he was elected Chairman of the Board. He is also Chairman for all subsidiaries of Middlesex. Prior to joining the Company, Mr. Doll had been employed in various executive leadership roles in the regulated water utility business since 1985. Mr. Doll also serves as a volunteer Director on selected non-profit utility industry-related Boards including the New Jersey Utilities Association (Past Chairman), The Water Research Foundation (presently Co-Vice Chairman), the National Association of Water Companies (Past President) and Court Appointed Special Advocates (CASA) of Middlesex County. Mr. Doll further serves as a Director of Hammer Fiber Optics Holdings Corp. (OTCQB: HMMR); an alternative telecommunications carrier providing high capacity broadband service through a wireless access network.

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A. Bruce O'Connor – Mr. O'Connor, a Certified Public Accountant, joined the Company in 1990 and was named Vice President and Chief Financial Officer in 1996 and Treasurer in 2014. He is Treasurer and a Director of Tidewater, USA, White Marsh and TESI. He is Vice President, Treasurer and a Director of Pinelands Water, USA-PA, Pinelands Wastewater and Twin Lakes.

Richard M. Risoldi – Mr. Risoldi joined the Company in 1989 as Director of Production. He was appointed Assistant Vice President of Operations in 2003. He was named Vice President-Subsidiary Operations in May 2004. In January 2010, he was named Vice President – Operations and Chief Operating Officer. He is a Director of Tidewater, White Marsh and TESI. He also serves as a Director and President of Pinelands Water, USA, USA-PA, Pinelands Wastewater and Twin Lakes.

Jay L. Kooper – Mr. Kooper joined the Company in March 2014 as Vice President and General Counsel and serves as Secretary for the Company and all subsidiaries. Prior to joining the Company, Mr. Kooper held various positions in private and public entities as well as in private law practice, representing electric, gas, water, wastewater, telephone and cable companies as well as municipalities and private clients before 17 state public utility commissions and legislatures, federal agencies and federal and state appellate courts. Mr. Kooper serves as a volunteer director on selected non-profit Boards in New Jersey, is the Chair of the National Association of Water Companies' New Jersey Chapter, and currently serves as the Chair of the New Jersey State Bar Association's Public Utility Law Section.

Bernadette M. Sohler – Ms. Sohler joined the Company in 1994, was named Director of Communications in 2003 and promoted to Vice President-Corporate Affairs in March 2007. She also serves as Vice President of USA. Prior to joining the Company, Ms. Sohler held marketing and public relations management positions in the financial services industry. Ms. Sohler serves as a volunteer director on area Chambers of Commerce and several non-profit Boards, is the Chair of the New Jersey Utilities Association's Communications Committee and is a member of the American Water Works Association and the National Investor Relations Institute.

Lorrie B. Ginegaw – Ms. Ginegaw joined Tidewater in 2004. In September 2005, Ms. Ginegaw was promoted to Human Resources Manager. In May 2007, Ms. Ginegaw was promoted to Director of Human Resources for Middlesex. In March 2012, Ms. Ginegaw was named Vice President-Human Resources. Prior to joining the Company, Ms. Ginegaw worked in various human resources positions in the healthcare and transportation/logistics industries. She is a member of the New Jersey Utilities Association's Human Resources Committee.

Gerard L. Esposito – Mr. Esposito joined Tidewater in 1998 as Executive Vice President. He was named President of Tidewater and White Marsh in 2003 and President of TESI in January 2005. Prior to joining the Company he worked in various executive positions for Delaware environmental protection and water quality governmental agencies. He is a Director of Tidewater, White Marsh and TESI. Mr. Esposito is a volunteer Director on selected Delaware non-profit, government, and professional Boards, including the Delaware Solid Waste Authority, which he chairs, Port of Wilmington, Delaware Workforce Investment Board, and the University of Delaware Sea Grant Advisory Council, which he chairs.

ITEM 1A. RISK FACTORS.

Our revenue and earnings depend on the rates we charge our customers. We cannot raise utility rates in our regulated businesses without filing a petition with the appropriate Utility Commissions. If these agencies modify, delay, or deny our petition, our revenues will not increase and our earnings will decline unless we are able to reduce costs.

The NJBPU regulates our public utility companies in New Jersey with respect to rates and charges for service, classification of accounts, awards of new service territory, acquisitions, financings and other matters. That means, for example, that we cannot raise the utility rates we charge to our customers without first filing a petition with the NJBPU and going through a lengthy administrative process. In much the same way, the DEPSC and the

PAPUC regulate our public utility companies in Delaware and Pennsylvania, respectively. We cannot give assurance of when we will request approval for any such matter, nor can we predict whether these Utility Commissions will approve, deny or reduce the amount of such requests.

Certain costs of doing business are not completely within our control. The failure to obtain any rate increase would prevent us from increasing our revenues and, unless we are able to reduce costs, would result in reduced earnings.

General economic conditions may materially and adversely affect our financial condition and results of operations.

Adverse economic conditions could negatively impact our customers' water usage demands, particularly the level of water usage demand by our commercial and industrial customers in our Middlesex System. If water demand by our commercial and industrial customers in our Middlesex System were negatively impacted, our financial condition and results of operations could continue to be negatively impacted.

We are subject to environmental laws and regulations, including water quality and wastewater effluent quality regulations, as well as other state and local regulations. Compliance with those laws and regulations requires us to incur costs and we are subject to fines or other sanctions for non-compliance.

Government environmental regulatory agencies regulate our operations in New Jersey, Delaware and Pennsylvania with respect to water supply, treatment and distribution systems and the quality of water. Government environmental regulatory agencies also regulate our operations in New Jersey and Delaware with respect to wastewater collection, treatment and disposal.

Government environmental regulatory agencies' regulations relating to water quality require us to perform expanded types of testing to ensure that our water meets state and federal water quality requirements. We are subject to EPA regulations under the Federal Safe Drinking Water Act, which include the Lead and Copper Rule, the maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule and the Total Coliform Rule. There are also similar NJDEP regulations for our New Jersey water systems. The NJDEP, DEDPH and PADEP monitor our activities and review the results of water quality tests that we perform for adherence to applicable regulations. In addition, Government Environmental Regulatory Agencies are continually reviewing regulations governing the limits of certain organic compounds found in the water as byproducts of treatment.

We are also subject to regulations related to fire protection services in New Jersey and Delaware. In New Jersey there is no state-wide fire protection regulatory agency. However, New Jersey regulations exist as to the size of piping required regarding the provision of fire protection services. In Delaware, fire protection is regulated statewide by the Office of State Fire Marshal.

The cost of compliance with the water and wastewater effluent quality standards depends in part on the limits set in the regulations and on the method selected to implement them. If new or more restrictive standards are imposed, the cost of compliance could be very high and have an adverse impact on our revenues and results of operations if we cannot recover those costs through our rates that we charge our customers. The cost of compliance with fire protection requirements could also be high and make us less profitable if we cannot recover those costs through our rates charged to our customers.

In addition, if we fail to comply with environmental or other laws and regulations to which our business is subject, we could be fined or subject to other sanctions, which could adversely impact our business or results of operations.

We depend upon our ability to raise money in the capital markets to finance some of the costs of complying with laws and regulations, including environmental laws and regulations or to pay for some of the costs of improvements to or the expansion of our utility system assets. Our regulated utility companies cannot issue debt or equity securities without regulatory approval.

We require financing to fund the ongoing capital program for the improvement in our utility system assets and for planned expansion of those systems. We expect to spend approximately \$267 million for capital projects through 2020. We must obtain approval from our economic regulators to sell debt or equity securities to raise money for these projects. If sufficient capital is not available, or the cost of capital is too high, or if the regulatory authorities deny a petition of ours to sell debt or equity securities, we may not be able to meet the costs of complying with environmental laws and regulations or the costs of improving and expanding our utility system assets to the level we believe operationally prudent. This may result in the imposition of fines from environmental regulators or restrictions on our operations which could curtail our ability to upgrade or replace utility system assets.

We rely on our information technology systems to help manage our operations.

Our information technology systems require periodic modifications, upgrades and or replacement which subject us to costs and risks including potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel to implement and operate existing or new systems, and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into our current systems. In addition, challenges implementing new technology systems may cause disruptions in our business operations and have an adverse effect on our business operations, if not anticipated and appropriately mitigated.

We rely on our computer, information and communications technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our operating facilities. Our computer and communications systems and operations could be damaged or interrupted by natural disasters, power loss and internet, telecommunications or data network failures or acts of war or terrorism or similar events or disruptions. Any of these or other events could cause service interruption, delays and loss of critical data or, impede aspects of operations and therefore, adversely affect our financial results.

Cyber-attacks on entities around the world have caused operational failures and/or compromised corporate and personal data. Such attacks could result in the loss, or compromise, of customer, financial or operational data, disruption of billing, collections or normal field service activities, disruption of electronic monitoring and control of operational systems and delays in financial reporting and other management functions. Possible impacts associated with a cyber-incident may include remediation costs related to lost, stolen, or compromised data, repairs to data processing systems, increased cyber security protection costs, adverse effects on our compliance with regulatory and environmental laws and regulation, including standards for drinking water, litigation and reputational damage.

Weather conditions and overuse of underground aquifers may interfere with our sources of water, demand for water services and our ability to supply water to customers.

Our ability to meet current and future water demands of our customers depends on the availability of an adequate supply of water. Unexpected conditions may interfere with our water supply sources. Drought and overuse of underground aquifers may limit the availability of ground and/or surface water. Freezing weather may also contribute to water transmission interruptions caused by water main breakage. Any interruption in our water supply could cause a reduction in our revenue and profitability. These factors may adversely affect our ability to supply water in sufficient quantities to our customers. Governmental drought restrictions may result in decreased customer demand for water services and can adversely affect our revenue and earnings.

Our business is subject to seasonal fluctuations, which could affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional consumption of water in connection with irrigation systems, swimming pools, cooling systems and other outdoor water use. Throughout the year, and particularly during typically warmer months, demand may vary with temperature and rainfall levels. In the event that temperatures during the typically warmer months are cooler than normal, or if there is more rainfall than normal, the demand for our water may decrease and adversely affect our revenues.

Our water sources or water service provided to customers may become contaminated by naturally-occurring or man-made compounds and events. This may cause disruption in services and impose operational and regulatory enforcement costs upon us to restore the water to required levels of quality as well as may damage our reputation and cause private litigation claims against us.

Our sources of water or water in our distribution systems may become contaminated by naturally-occurring or man-made compounds or other events. In the event that any portion of our water supply sources or water distribution systems is contaminated, we may need to interrupt service to our customers until we are able to remediate the contamination or substitute the flow of water from an uncontaminated water source through existing interconnections with other water purveyors or through our transmission and distribution systems, where possible. We may also incur significant costs in treating any contaminated water, or remediating the effects on our treatment and distribution systems, through the use of our current treatment facilities, or development of new treatment methods. Our inability to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water supply in a cost-effective manner, may reduce our revenues and make us less profitable.

We may be unable to recover costs associated with treating or decontaminating water supplies through rates, or recovery of these costs may not occur in a timely manner. In addition, we could be subject to claims for damages arising from government enforcement actions or other lawsuits arising out of interruption of service or human exposure to hazardous substances in our drinking water and water supplies. Such costs could adversely affect our financial results.

Contamination of the water supply or the water service provided to our customers could result in substantial injury or damage to our customers, employees or others and we could be exposed to substantial claims and litigation, which are inherently subject to uncertainties and are potentially subject unfavorable rulings. Negative impacts to our profitability and our reputation may occur even if we are not responsible for the contamination or the consequences arising out of human exposure to contamination or hazardous substances in the water or water supplies. Pending or future claims against us could have a material adverse impact on our business, financial condition, results of operations and cash flows.

We face competition from other water and wastewater utilities and service providers which might hinder our growth and reduce our profitability.

We face risks of competition from other utilities or other entities authorized by federal, state or local agencies to provide utility services. Once a state utility regulator grants a franchise to a utility to serve a specific territory, that utility effectively has an exclusive right to service that territory. Although a new franchise offers some protection against competitors, the pursuit of franchises is often competitive, particularly in Delaware, where new franchises may be awarded to utilities based upon competitive negotiation. Competing entities have challenged, and may challenge in the future, our applications for new franchises. Also, third parties entering into long-term agreements to operate municipal utility systems may adversely affect our long-term agreements to supply water or wastewater services on a contract basis to municipalities, which could adversely affect our financial results.

We have short-term and long-term contractual obligations for water, wastewater and storm water system operation and maintenance under which we may incur costs in excess of payments received.

USA-PA operates and maintains the water and wastewater systems of Perth Amboy under a 20-year contract expiring on December 31, 2018. USA operates and maintains the water, wastewater and storm water systems of Avalon under a 10-year contract expiring in 2022. These contracts do not protect us against incurring costs in excess of revenues we earn pursuant to the contracts. There can be no absolute assurance that we will not experience losses resulting from these contracts. Losses under these contracts, or our failure or inability to perform or renew such agreements, may have a material adverse effect on our financial condition and results of operations.

We serve as guarantor of performance of an unaffiliated company under a contract to operate a leachate pretreatment facility at the Monmouth County Reclamation Center in Tinton Falls, New Jersey.

Middlesex entered into agreements, expiring in 2028, with Applied Water Management, Inc. (AWM), Natural Systems Utilities, LLC, (NSU) the parent company of AWM, and the County of Monmouth, New Jersey (County) for the operation of a leachate pretreatment facility at the Monmouth County Reclamation Center in Tinton Falls, New Jersey. Under the terms of the agreement, AWM operates the County-owned landfill leachate pretreatment facility. Middlesex is the guarantor of AWM's performance under the agreement (the Guaranty), for which Middlesex earns a fee, in addition to providing operational support if necessary. If asked to perform under the Guaranty, Middlesex could be required to fulfill the remaining operational commitments of AWM. There can be no absolute assurance that we will not experience losses if asked to perform under the Guaranty. Losses from performance under this Guaranty, or our failure or inability to perform, may have a material adverse effect on our financial condition and results of operations. NSU and AWM have indemnified Middlesex for any costs Middlesex may incur in connection with its Guaranty to the County.

Capital market conditions and key assumptions may adversely impact the value of our postretirement benefit plan assets and liabilities.

Market factors can adversely affect the rate of return on assets held in trusts to satisfy our future postretirement benefit obligations as well negatively affect interest rates, which impacts the discount rates used in the determination of our postretirement benefit actuarial valuations. In addition, changes in demographics, such as increases in life expectancy assumptions, can increase future postretirement benefit obligations. Any negative impact to these factors, either individually or a combination thereof, may have a material adverse effect on our financial condition and results of operations.

An element of our growth strategy is the acquisition of water and wastewater assets, operations, contracts or companies. Any pending or future acquisitions we decide to undertake will involve risks.

The acquisition and/or operation of water and wastewater systems is an element of our growth strategy. This strategy depends on identifying suitable opportunities and reaching mutually agreeable terms with acquisition candidates or contract partners. Further, acquisitions may result in dilution of our equity securities, incurrence of debt and contingent liabilities, fluctuations in quarterly results and other related expenses. In addition, the assets, operations, contracts or companies we acquire may not achieve the revenues and profitability expected.

The current concentration of our business in central New Jersey and Delaware makes us susceptible to adverse development in local regulatory, economic, demographic, competitive and weather conditions.

Our New Jersey water and wastewater businesses provide services to customers who are located primarily in eastern Middlesex County, New Jersey. Water service is provided under wholesale contracts to the Townships of Edison, East Brunswick and Marlboro, the Borough of Highland Park, the Old Bridge Municipal Utilities Authority, and the City of Rahway in Union County, New Jersey. We also provide water and wastewater services to customers in the State of Delaware. Our revenues and operating results are therefore subject to local regulatory, economic, demographic, competitive and weather conditions in a relatively concentrated geographic area. A change in any of these conditions could make it more costly for us to conduct our business.

The necessity for ongoing security has resulted, and may continue to result, in increased operating costs.

Because of physical and operational threats to the health and security of the United States of America, we employ procedures to review and modify, as necessary, physical and other security measures at our facilities. We provide ongoing training and communications to our employees about threats to our water supply, our assets and related systems and our employees' personal safety. We have incurred, and will continue to incur, costs for security measures to protect against such risks.

Our ability to achieve organic customer growth in our market area is dependent on the residential building market. New housing starts are one element that impacts our rate of growth and therefore, may not meet our expectations.

We expect our revenues to increase from customer growth for our regulated water and wastewater operations as a result of anticipated construction and sale of new housing units. If housing starts decline, or do not increase as we have projected, as a result of economic conditions or otherwise, the timing and extent of our organic revenue growth may not meet our expectations, our deferred project costs may not produce revenue-generating projects in the timeframes anticipated and our financial results could be negatively impacted.

There can be no assurance we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

We have paid dividends on our common stock each year since 1912 and have increased the amount of dividends paid each year since 1973. Our earnings, financial condition, capital requirements, applicable regulations and other factors, including the timeliness and adequacy of rate increases, will determine both our ability to pay dividends and the amount of those dividends. There can be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

If we are unable to pay the principal and interest on our indebtedness as it comes due or we default under certain other provisions of our loan documents, our indebtedness could be accelerated and our results of operations and financial condition could be adversely affected.

Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control.

We believe cash generated from operations and, if necessary, borrowings under existing credit facilities, will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are less favorable than we desire.

No assurance can be given that any refinancing or sale of equity will be possible when needed, or that we will be able to negotiate acceptable terms. In addition, our failure to comply with certain provisions contained in our trust indentures and loan agreements relating to our outstanding indebtedness could lead to a default under these documents, which could result in an acceleration of our indebtedness.

We depend significantly on the technical and management services of our senior management team, and the departure of any of those persons could cause our operating results to temporarily be short of our expectations.

Our success depends significantly on the continued individual and collective contributions of our senior management team. If we lose the services of any member of our senior management, or are unable to attract and retain qualified senior management personnel, our operating results could be negatively impacted.

We are subject to anti-takeover measures that may be used to discourage, delay or prevent changes of control that might benefit non-management shareholders.

Subsection 10A of the New Jersey Business Corporation Act, known as the New Jersey Shareholders Protection Act, applies to us. The Shareholders Protection Act deters merger proposals, tender offers or other attempts to effect changes in control that are not approved by our Board of Directors. In addition, we have a classified Board of Directors, which means only a portion of the Director population is elected each year. A classified Board can make it more difficult for an acquirer to gain control of the Company by voting its candidates onto the Board of Directors and may also deter merger proposals and tender offers. Our Board of Directors also has the ability, subject to obtaining NJBPU approval, to issue one or more series of preferred stock having such number of shares, designation, preferences, voting rights, limitations and other rights as the Board of Directors may fix. This could be used by the Board of Directors to discourage, delay or prevent an acquisition that the Board of Directors determines is not in the best interest of the common shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Utility Plant

The water utility plant in our systems consists of source of supply, pumping, water treatment, transmission and distribution, general facilities and all appurtenances, including all connecting pipes.

The wastewater utility plant in our systems consist of pumping, treatment, collection mains, general facilities and all appurtenances, including all connecting pipes.

Middlesex System

The Middlesex System's principal source of surface supply is the Delaware & Raritan Canal owned by the State of New Jersey and operated as a water resource by the NJWSA.

Water is withdrawn from the Delaware & Raritan Canal at New Brunswick, New Jersey through our intake and pumping station, located on state-owned land bordering the canal. Water is transported through two raw water pipelines for treatment and distribution at our CJO Water Treatment Plant in Edison, New Jersey.

The CJO Water Treatment Plant includes chemical storage and chemical feed equipment, two dual rapid mixing basins, four upflow clarifiers which are also called superpulsators, four underground reinforced chlorine contact tanks, twelve rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The CJO Water Treatment Plant also includes a computerized Supervisory Control and Data Acquisitions system to monitor and control the CJO Water Treatment Plant and the water supply and distribution system in the Middlesex System. There is an on-site State certified laboratory capable of performing bacteriological, chemical, process control and advanced instrumental chemical sampling and analysis. The firm design capacity of the CJO Water Treatment Plant is 55 mgd (60 mgd maximum capacity). The five electric motor-driven, vertical turbine pumps presently installed have an aggregate capacity of 85 mgd.

In addition, there is a 15 mgd auxiliary pumping station located at the CJO Water Treatment Plant location. It has a dedicated substation and emergency power supply provided by a diesel-driven generator. It pumps from the 10 million gallon distribution storage reservoir directly into the distribution system.

The transmission and distribution system is comprised of 741 miles of mains and includes 23,200 feet of 48-inch concrete transmission main connecting the CJO Water Treatment Plant to our distribution pipe network and related storage facilities. Also included is a 58,600 foot transmission main and a 38,800 foot transmission main, augmented with a long-term, non-exclusive agreement with the East Brunswick system to transport water to several of our contract customers.

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The Middlesex System's storage facilities consist of a 10 million gallon reservoir at the CJO Water Treatment Plant, 5 million gallon and 2 million gallon reservoirs in Edison (Grandview) and a 2 million gallon reservoir at the Park Avenue Well Field.

In New Jersey, we own the properties on which the Middlesex System's 31 wells are located, the properties on which our storage tanks are located as well as the property where the CJO Water Treatment Plant is located. We also own our headquarters complex located at 1500 Ronson Road, Iselin, New Jersey, consisting of a 27,000 square foot office building and an adjacent 16,500 square foot maintenance facility.

Tidewater System

The Tidewater System is comprised of 84 production plants that vary in pumping capacity from 46,000 gallons per day to 4.4 mgd. Water is transported to our customers through 745 miles of transmission and distribution mains. Storage facilities include 46 tanks, with an aggregate capacity of 7.7 million gallons. The Delaware office property, located on an eleven-acre parcel owned by White Marsh, consists of two office buildings totaling approximately 17,000 square feet. In addition, Tidewater maintains a field operations center servicing its largest service territory area in Sussex County, Delaware. The operations center is located on a 2.9 acre parcel owned by White Marsh, and consists of two buildings totaling approximately 8,400 square feet.

Pinelands Water System

Pinelands Water owns well site and storage properties in Southampton Township, New Jersey. The Pinelands Water storage facility is a 1.3 million gallon standpipe. Water is transported to our customers through 18 miles of transmission and distribution mains.

Pinelands Wastewater System

Pinelands Wastewater owns a 12 acre site on which its 0.5 million gallons per day capacity tertiary treatment plant and connecting pipes are located. Its wastewater collection system is comprised of approximately 24 miles of sewer lines.

Bayview System

Bayview owns two well sites, which are located in Downe Township, Cumberland County, New Jersey. Water is transported to its customers through our 4.2 mile distribution system.

TESI System

The TESI System is comprised of seven wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total capacity of the plants is 0.7 mgd. TESI's wastewater collection system is comprised of approximately 42.3 miles of sewer lines.

Twin Lakes System

Twin Lakes owns one operational well site, which is located in the Township of Shohola, Pike County, Pennsylvania. Water is transported to our customers through 3.7 miles of distribution mains.

USA-PA, USA and White Marsh

Our non-regulated subsidiaries, namely USA-PA, USA and White Marsh, do not own utility plant property.

ITEM 3. LEGAL PROCEEDINGS.

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.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock is traded on the NASDAQ Stock Market, LLC, under the symbol MSEX. The following table shows the range of high and low share prices per share for the common stock and the dividend paid to shareholders in such quarter. As of December 31, 2017, there were 1,655 holders of record.

	2017	High	Low	Dividend
Fourth Quarter		\$ 46.74	\$ 39.10	\$ 0.2238
Third Quarter		\$ 40.87	\$ 36.99	\$ 0.2113
Second Quarter		\$ 41.50	\$ 32.23	\$ 0.2113
First Quarter		\$ 42.80	\$ 34.55	\$ 0.2113
	2016	High	Low	Dividend
Fourth Quarter		\$ 44.48	\$ 32.82	\$ 0.2113
Third Quarter		\$ 43.99	\$ 32.51	\$ 0.1988
Second Quarter		\$ 44.11	\$ 30.50	\$ 0.1988
First Quarter		\$ 32.10	\$ 25.00	\$ 0.1988

The Company has paid dividends on its common stock each year since 1912. The payment of future dividends is contingent upon the future earnings of the Company, its financial condition and other factors deemed relevant by the Board of Directors at its discretion.

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company.

The Company periodically issues shares of common stock in connection with its Middlesex Water Company Investment Plan (the Investment Plan), a direct share purchase and sale and dividend reinvestment plan for the Company's common stock. In July 2015, the Company registered an additional 700,000 common shares for potential issuance under the Investment Plan with the SEC, increasing the number of NJBPU-authorized shares to 3.0 million. The Company raised approximately \$1.2 million through the issuance of 31,693 shares under the Investment Plan during 2017.

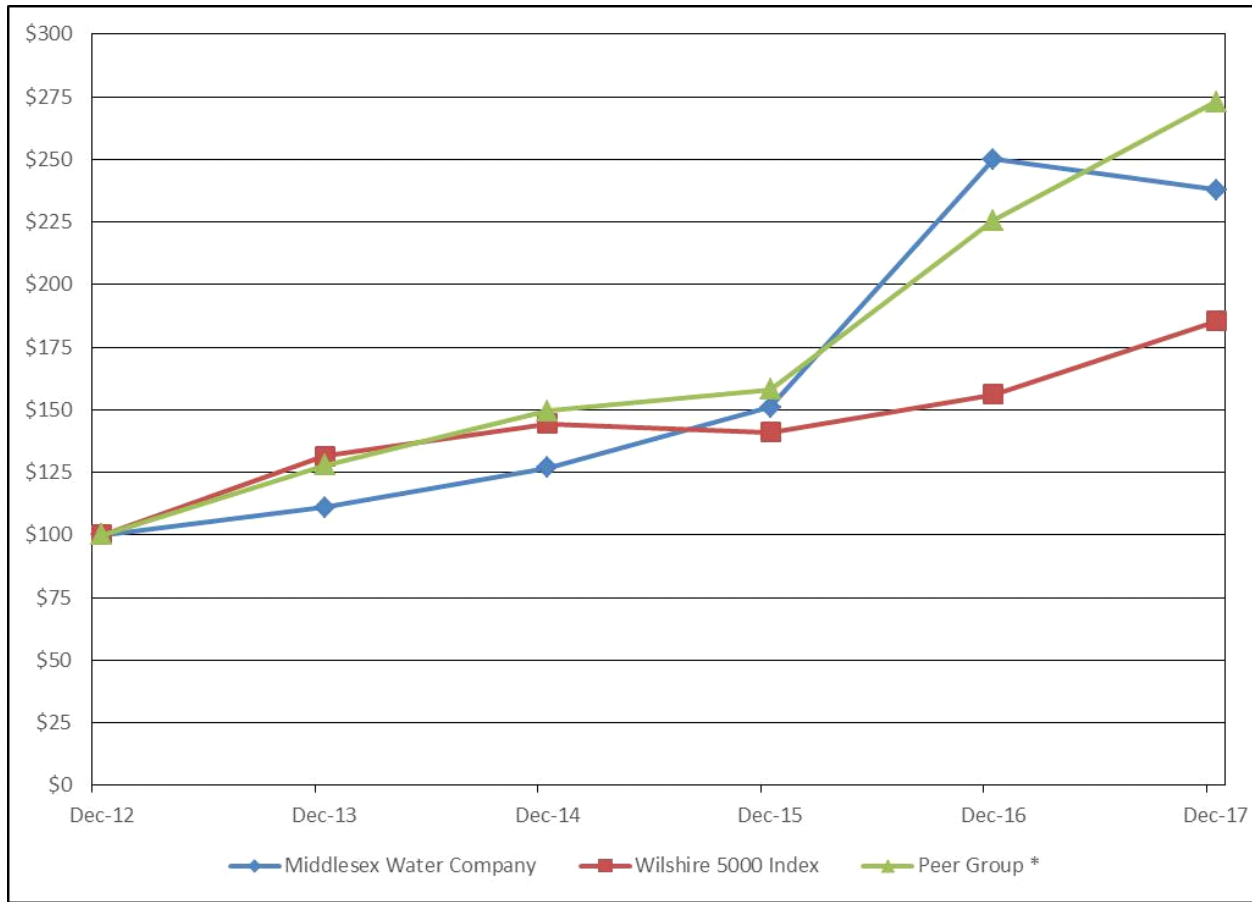
The Company maintains a stock compensation plan for certain management employees (the 2008 Restricted Stock Plan). The Company maintains an escrow account for 0.1 million awarded shares of the Company's common stock for the 2008 Restricted Stock Plan. Shares issued in connection with the 2008 Restricted Stock Plan are subject to forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of normal retirement, death, disability or change in control. The maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 0.3 million shares and less than 50,000 shares remain available for future awards under the 2008 Restricted Stock Plan. The 2008 Restricted Stock Plan terminates on March 31, 2018.

The Company maintains a stock compensation plan for its outside directors (the Outside Director Stock Compensation Plan). In 2017, 3,976 shares of the Company's common stock were granted and issued to the Company's outside directors under the Outside Director Stock Compensation Plan. The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 100,000. Of this total, 64,168 shares remain available for future grants under the Outside Director Stock Compensation Plan.

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Set forth below is a line graph comparing the yearly change in the cumulative total return (which includes reinvestment of dividends) of a \$100 investment for the Company's common stock, a peer group of investor-owned water utilities, and the Dow Jones Wilshire 5000 Stock Index for the period of five years commencing December 31, 2012. The Dow Jones Wilshire 5000 Stock Index measures the performance of all U.S. headquartered equity securities with readily available price data.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Middlesex Water Company, the Dow Jones Wilshire 5000 Stock Index and a Peer Group*



* Peer group includes American States Water Company, Artesian Resources Corp., California Water Service Group, Connecticut Water Service, Inc., SJW Corp., York Water Company and Middlesex.

	December 31,					
	2012	2013	2014	2015	2016	2017
Middlesex Water Company	100.00	111.05	126.85	150.99	250.11	237.80
Dow Jones Wilshire 5000 Stock Index	100.00	131.42	144.51	141.17	156.22	185.35
Peer Group	100.00	127.84	149.47	158.04	225.79	273.12

ITEM 6. SELECTED FINANCIAL DATA.**CONSOLIDATED SELECTED FINANCIAL DATA****(Thousands Except per Share Data)**

	2017	2016	2015	2014	2013
Operating Revenues	\$ 130,775	\$ 132,906	\$ 126,025	\$ 117,139	\$ 114,846
Operating Expenses:					
Operations and Maintenance	64,668	65,534	65,167	59,129	60,748
Depreciation	13,922	12,796	12,051	11,444	10,988
Other Taxes	13,565	13,944	12,967	12,174	12,140
Total Operating Expenses	92,155	92,274	90,185	82,747	83,876
Operating Income	38,620	40,632	35,840	34,392	30,970
Other Income (Expense), Net	795	(862)	293	(403)	91
Interest Charges	5,506	5,293	5,554	5,607	5,807
Income Taxes	11,100	11,735	10,551	9,937	8,621
Net Income	22,809	22,742	20,028	18,445	16,633
Preferred Stock Dividend	144	144	144	151	190
Earnings Applicable to Common Stock	\$ 22,665	\$ 22,598	\$ 19,884	\$ 18,294	\$ 16,443
Earnings per Share:					
Basic	\$ 1.39	\$ 1.39	\$ 1.23	\$ 1.14	\$ 1.04
Diluted	\$ 1.38	\$ 1.38	\$ 1.22	\$ 1.13	\$ 1.03
Average Shares Outstanding:					
Basic	16,330	16,270	16,175	16,052	15,868
Diluted	16,486	16,426	16,331	16,226	16,110
Dividends Declared and Paid	\$ 0.858	\$ 0.808	\$ 0.776	\$ 0.763	\$ 0.753
Total Assets	\$ 661,140	\$ 620,161	\$ 581,383	\$ 572,298	\$ 526,815
Convertible Preferred Stock	\$ 1,354	\$ 1,356	\$ 1,356	\$ 1,356	\$ 1,806
Long-term Debt	\$ 139,045	\$ 134,538	\$ 132,908	\$ 132,565	\$ 126,272

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

The following discussion of the Company's historical results of operations and financial condition should be read in conjunction with the Company's consolidated financial statements and related notes.

Management's Overview**Operations**

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. In partnership

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with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey (Perth Amboy). 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 approximately 2,500 customers in Southampton Township, 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 (Southern Shores), provide water services to approximately 45,000 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. (TESI) subsidiary provides wastewater services to approximately 3,500 residential retail customers in Sussex Counties, Delaware.

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

Recent Developments

Capital Construction Program - The Company's multi-year capital construction program encompasses numerous projects designed to upgrade and replace utility infrastructure as well as enhance the integrity and reliability of assets to better serve the current and future generations of water and wastewater customers. The Company plans to invest approximately \$94 million in 2018 in connection with this plan for projects that include, but are not limited to;

- Construction of a 4.6 mile water transmission pipeline to provide critical resiliency and redundancy 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 Woodbridge Township, 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 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 capability;
- 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 Base Water Rate Filing - In October 2017, Middlesex filed a petition with the New Jersey Board of Public Utilities (the NJBPU) seeking permission to increase base water rates by approximately \$15.3 million per year. The request was necessitated by capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the last filing in New Jersey in 2015 as well as increased operations and maintenance costs. See "*Rates*" below for further discussion of this base water rate filing.

The Tax Cuts and Jobs Act of 2017 - On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law making significant changes to the Internal Revenue Code, including a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. The tariff rates charged to customers in the Company's regulated companies, which comprise 92% of the Company's 2017 pre-tax income, include recovery of income taxes at the statutory rate at the time those rates are approved by the respective state public utility commissions that regulate each of our regulated subsidiaries. The Company is currently working to comply with orders issued by the NJBPU and Delaware Public Service Commission (DEPSC) seeking information on the amount of income taxes collected in rates that will not be incurred by the Company and the proposed methodology to adjust rates charged to customers to reflect excess taxes collected and the decreased corporate tax rate.

Contract Operations - USA-PA operates Perth Amboy's water and wastewater collection systems under contract, which expires on December 31, 2018. New Jersey municipalities are required to follow State guidelines for entering into professional services contracts. Perth Amboy has expressed an interest in continuing to have their systems contractually managed by a third party with the February 2018 issuance of a Request for Proposals to interested parties. Responses are due back to Perth Amboy in early April 2018 with the selection process made and a new 10-year contract expected to be executed by June 15, 2018. USA-PA intends to submit a proposal to continue to operate the systems.

Strategy for Growth

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

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

Rates

Middlesex - In October 2017, Middlesex filed a petition with the NJBPU seeking permission to increase base water rates by approximately \$15.3 million per year. The request was necessitated by capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the last filing in New Jersey in 2015 as well as increased operations and maintenance costs. We cannot predict when and whether the NJBPU will ultimately approve, deny, or reduce the amount of the request. Under New Jersey statute, the NJBPU must render a decision within nine months of filing a petition.

In October 2017, the NJBPU approved Middlesex's petition to reset its Purchased Water Adjustment Clause (PWAC) tariff rate to recover additional annual costs of \$1.2 million, primarily for the purchase of untreated water from the New Jersey Water Supply Authority. A PWAC is a rate mechanism that allows for the recovery of increased purchased water costs between base rate case filings. The PWAC is reset to zero once those increased costs are included in base rates. The reset PWAC tariff rate became effective on November 1, 2017.

In August 2015, Middlesex implemented a \$5.0 million NJBPU-approved rate increase. The rate increase was needed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$219.0 million, based on a return on equity of 9.75%.

Tidewater - Effective January 1, 2018, Tidewater increased its DEPSC-approved Distribution System Improvement Charge rate, which is expected to generate revenues of approximately \$0.4 million annually.

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Pinelands - In April 2016, the NJBPU approved \$0.2 million and \$0.1 million of increases, respectively, in Pinelands Water and Pinelands Wastewater's annual base rates, effective May 7, 2016. The rate increases were necessitated by capital infrastructure investments by the companies, increased operations and maintenance costs and lower non-fixed fee revenues. The Pinelands Water base water rate increase was phased-in between 2016 and 2017.

Southern Shores - Under the terms of a multi-year DEPSC-approved agreement expiring in 2020, customer rates will increase on January 1st of each year to generate additional annual revenue of \$0.1 million with each increase.

Twin Lakes - In June 2016, the Pennsylvania Public Utilities Commission approved a \$0.1 million increase in Twin Lakes' base water rates. The rate increase was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase will be phased in with the final phase implemented subsequent to specific capital investments being placed in service.

Outlook

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 (which are evident in comparison discussions in the Results of Operations section below). Weather patterns experienced in 2015 and 2016, which contributed to overall increases in operating revenues, did not reoccur in 2017, and may not reoccur in 2018. 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 2018 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 2018 is expected to be consistent with that experienced in recent years.

The Company has projected to spend approximately \$267 million on its 2018-2020 capital investment program, including approximately \$42 million for the upgrade of Middlesex's main water treatment plant in New Jersey, \$52 million to construct a large-diameter transmission pipeline that will provide a second connection between Middlesex's main water treatment plant and distribution system in New Jersey, \$34 million on our RENEW Program, our ongoing initiative to eliminate unlined mains in the Middlesex System and \$18 million to relocate water meters from inside customers' premises to exterior meter pits .

Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed approximately 88%, 89% and 88% of total revenues for the years ended December 31, 2017, 2016 and 2015, respectively and approximately 94%, 98% and 94% of net income for the years ended December 31, 2017, 2016 and 2015, respectively. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below are comprised 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 for 2017 as Compared to 2016

	(In Millions)					
	Years Ended December 31,					
	2017			2016		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 115.3	\$ 15.5	\$ 130.8	\$ 117.9	\$ 15.0	\$ 132.9
Operations and maintenance expenses	52.4	12.3	64.7	53.5	12.0	65.5
Depreciation expense	13.7	0.2	13.9	12.6	0.2	12.8
Other taxes	13.2	0.4	13.6	13.6	0.4	14.0
Operating income	36.0	2.6	38.6	38.2	2.4	40.6
Other income (expense), net	0.7	0.1	0.8	0.4	(1.3)	(0.9)
Interest expense	5.4	0.1	5.5	5.2	0.1	5.3
Income taxes	9.8	1.3	11.1	11.1	0.6	11.7
Net income	\$ 21.5	\$ 1.3	\$ 22.8	\$ 22.3	\$ 0.4	\$ 22.7

Operating Revenues

Operating revenues for the year ended December 31, 2017 decreased \$2.1 million from the same period in 2016.

- Middlesex System revenues decreased \$4.0 million due to lower water consumption across all classes of customers largely as a result of weather patterns in the spring and summer months in 2017 in addition to lower bulk water sales to neighboring municipal systems who experienced emergency conditions in 2016;
- Tidewater System revenues increased \$1.3 million due to additional residential customers offset by lower water consumption, also largely a result of weather patterns in the spring and summer months in 2017;
- Revenues in our unregulated companies increased \$0.5 million due to new White Marsh contracts to operate water and wastewater systems and a higher amount of billable supplemental services under USA's contract to operate Avalon's water utility, sewer utility and storm water system, partially offset by lower billable supplemental services under USA-PA's contract to operate Perth Amboy's water supply system and wastewater system; and
- All other operating revenue categories increased \$0.1 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the year ended December 31, 2017 decreased \$0.9 million from the same period in 2016, primarily related to the following factors:

- Lower retirement benefit plan expenses of \$1.1 million due to lower actuarially-determined postretirement benefit plan costs and reimbursement of retiree healthcare insurance premiums;
- Decreased liability insurance costs of \$0.7 million, primarily due to prior policy year refunds;
- Higher water production costs of \$0.6 million in our Middlesex System, primarily due to a rate increase by the municipal wastewater utility that receives the water treatment residuals in the Middlesex System and increased chemical costs as a result of intermittent changes in raw water quality;
- Higher water main break repair activity in our Middlesex System in 2017 as compared to 2016 resulted in higher costs of \$0.5 million; and
- All other operation and maintenance expense categories decreased \$0.2 million.

Depreciation

Depreciation expense for the year ended December 31, 2017 increased \$1.1 million from the same period in 2016 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the year ended December 31, 2017 (Expense) decreased \$0.4 million from the same period in 2016 due to lower revenue related taxes on decreased revenues in our Middlesex System offset by higher payroll taxes.

Other Income (Expense), net

Other Income (Expense), net for year ended December 31, 2017 increased \$1.7 million from the same period in 2016 due to a \$1.9 million charge in 2016 in connection with Middlesex's joint venture equity investment in, and loan to, Ridgewood Green RME, LLC (RGRME) (see "*Other Income, net*" in "*Results of Operations for 2016 as Compared to 2015*" below for further discussion) and higher Allowance for Funds Used During Construction resulting from a higher level of capital projects in progress partially offset by the 2016 recognition by USA of previously deferred income associated with the 10-year marketing agreement with HomeServe.

Interest Charges

Interest charges for the year ended December 31, 2017 increased \$0.2 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 year ended December 31, 2017 decreased \$0.6 million from the same period in 2016, due to the Company's re-measurement of certain accumulated deferred income taxes based on the rates at which they are expected to reverse in the future, resulting from the Tax Act. On December 22, 2017, the Tax Act was signed into law making significant changes to the Internal Revenue Code, including a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. We have calculated our best estimate of the impact of the Tax Act in our year end income tax provision in accordance with our understanding of the Tax Act and the authoritative guidance available as of the date of this filing.

Net Income and Earnings Per Share

Net income for the year ended December 31, 2017 increased \$0.1 million as compared with the same period in 2016. Basic and diluted earnings per share were each \$1.39 and \$1.38, respectively, for the year ended December 31, 2017. Basic and diluted earnings per share were \$1.39 and \$1.38, respectively, for the year ended December 31, 2016.

Results of Operations for 2016 as Compared to 2015

	(In Millions)					
	Years Ended December 31,					
	2016			2015		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 117.9	\$ 15.0	\$ 132.9	\$ 111.1	\$ 14.9	\$ 126.0
Operations and maintenance expenses	53.5	12.0	65.5	53.0	12.2	65.2
Depreciation expense	12.6	0.2	12.8	11.8	0.2	12.0
Other taxes	13.6	0.4	14.0	12.7	0.3	13.0
Operating income	38.2	2.4	40.6	33.6	2.2	35.8
Other income (expense), net	0.4	(1.3)	(0.9)	0.3	—	0.3
Interest expense	5.2	0.1	5.3	5.5	0.1	5.6
Income taxes	11.1	0.6	11.7	9.5	1.0	10.5
Net income	\$ 22.3	\$ 0.4	\$ 22.7	\$ 18.9	\$ 1.1	\$ 20.0

Operating Revenues

Operating revenues for the year ended December 31, 2016 increased \$6.9 million from the same period in 2015. This increase was primarily related to the following factors:

- Middlesex System revenues increased \$5.9 million due to:
 - o Sales to General Metered Service and Public/Private Fire customers increased by \$4.4 million from a NJBPU-approved rate increase implemented in August 2015 (\$3.2 million) and favorable weather conditions (\$1.2 million); and
 - o Sales to Contract customers increased by \$1.5 million due to higher water demand (\$1.4 million) and from a NJBPU-approved rate increase implemented in August 2015 (\$0.1 million);
- Tidewater System revenues increased \$0.6 million primarily due to additional customers;
- White Marsh revenues increased \$0.2 million due to new contracts to operate water and wastewater systems as well as additional billable supplemental services under existing contracts; and
- Pinelands revenues increased \$0.2 million due to the NJBPU-approved rate increase implemented in May 2016 and weather-related demand.

Operation and Maintenance Expense

Operation and maintenance expenses for the year ended December 31, 2016 increased \$0.4 million from the same period in 2015, primarily related to the following factors:

- Labor costs increased by \$1.6 million due to company-wide higher average labor rates, increased headcount and incentive compensation partially offset by higher capitalized labor at Middlesex;
- Costs associated with Middlesex's large main condition assessment program increased \$0.3 million;
- Insurance costs increased \$0.3 million primarily due to higher workmen's compensation premiums;
- Employee benefit expenses decreased by \$1.3 million due primarily to lower retirement plan costs. The 2016 costs were calculated using a higher discount rate than in the 2015 calculation of our net periodic plan costs;
- Decreased water main break repair activity, as compared to 2015, resulted in lower costs of \$0.2 million in our Middlesex System;
- Variable production costs decreased \$0.2 million, due primarily to improved non-revenue water management and decreased chemical costs as a result of intermittent changes in raw water quality in our Middlesex System; and
- All other operation and maintenance expense categories decreased \$0.1 million.

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Depreciation

Depreciation expense for the year ended December 31, 2016 increased \$0.7 million from the same period in 2015 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the year ended December 31, 2016 increased \$1.0 million from the same period in 2015, primarily due to higher gross revenue taxes on increased Middlesex System revenues.

Other Income (Expense), net

Other income (expense), net for the year ended December 31, 2016 decreased \$1.2 million from the same period in 2015, due primarily to a \$1.9 million charge in connection with Middlesex's joint venture equity investment in, and loan to, RGRME. RGRME owns and operates a renewable energy system solution comprised of an anaerobic digester, biogas generator and several solar panel sites for the Village of Ridgewood, New Jersey (Ridgewood). RGRME earns revenues primarily by selling renewable sourced electricity to Ridgewood and charging fees for liquid waste disposal. During the fourth quarter of 2016, RGRME identified that significant additional investment was required to optimize the liquid waste disposal and biogas electric generation process. Middlesex concluded that RGRME's inability to effectively operate the renewable energy system without significant additional investment would impair its ability to generate enough cash flow to cover its current and future operating and debt service obligations. Middlesex recorded an allowance for uncollectible notes receivable for \$1.7 million and an impairment charge of \$0.2 million on its equity investment. Offsetting some of these losses was the recognition by USA of previously deferred income associated with the 10-year marketing agreement with HomeServe and higher allowance for funds used during construction due to higher construction expenditures.

Interest Charges

Interest charges for the year ended December 31, 2016 decreased \$0.3 million from the same period in 2015 due to lower average long-term and short-term debt balances outstanding.

Income Taxes

Income taxes for the year ended December 31, 2016 increased \$1.2 million from the same period in 2015, primarily due to higher taxable income in 2016 as compared to 2015.

Net Income and Earnings Per Share

Net income for the year ended December 31, 2016 increased \$2.7 million as compared with the same period in 2015. Basic and diluted earnings per share were \$1.39 and \$1.38 for the year ended December 31, 2016 and 2015, as compared to \$1.23 and \$1.22, respectively, for the same period in 2015.

Liquidity and Capital Resources

Cash Flows from Operating Activities

Cash flows from operating activities are largely influenced by four factors: weather, adequate and timely rate increases, effective cost management and customer growth. The effect of those factors on net income is discussed in the Results of Operations section above.

For the year ended December 31, 2017, cash flows from operating activities were \$42.8 million, which enabled us to internally fund approximately 42% of utility plant expenditures in 2017. This was a decrease in cash flows of \$4.2 million from 2016 and resulted primarily from lower water sales and higher payments to vendors.

Increases in certain operating costs impact our liquidity and capital resources. We continually monitor the need for timely rate filing to minimize the lag between the time we experience increased operating costs and capital expenditures and the time we receive appropriate rate relief. There can be no assurances however that our regulated subsidiaries' respective Utility Commissions will approve base water and/or wastewater rate increase requests in whole or in part or when the decisions will be rendered.

Cash Flows from Investing Activities

For the year ended December 31, 2017, cash flows used in investing activities increased \$3.9 million to \$51.3 million, which was attributable to higher utility plant expenditures.

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

Cash Flows from Financing Activities

For the year ended December 31, 2017, cash flows provided by financing activities increased \$8.8 million to \$9.5 million. The majority of the increase in cash flows provided by financing activities is due to the net increase in short-term and long-term debt funding partially offset by increased common stock dividend payments.

For further discussion on the Company's short-term and long-term debt, see "Sources of Liquidity" below.

Capital Expenditures and Commitments

To fund our capital program, we use internally generated funds, short term and long term debt borrowings, proceeds from sales of common stock under the Middlesex Water Company Investment Plan (Investment Plan) and, when market conditions are favorable, proceeds from sales offerings to the public of our common stock.

The table below summarizes our estimated capital expenditures for the years 2018-2020.

	(Millions)				
	2018	2019	2020	2018-2020	
Distribution/Network System	\$ 62	\$ 58	\$ 52	\$ 172	
Production System	18	27	24	69	
Information Technology (IT) Systems	2	1	2	5	
Other	12	8	1	21	
Total Estimated Capital Expenditures	\$ 94	\$ 94	\$ 79	\$ 267	

Our estimated capital expenditures for the items listed above are primarily comprised of the following:

- **Distribution/Network System**-Projects associated with installation and relocation of water mains and service lines and wastewater collection systems, construction of water storage tanks, installation and replacement of hydrants and meters and our RENEW Program. RENEW is our ongoing initiative to eliminate unlined mains in the Middlesex System. In connection with our RENEW Program, we expect to spend approximately \$11 million in 2018, \$11 million in 2019 and \$11 million in 2020. Construction of a large-diameter transmission pipeline that will provide a second connection between Middlesex's Carl J. Olsen (CJO) water treatment plant and our distribution system is expected to result in approximately \$52 million of expenditures in 2018 through 2020.
- **Production System**-Projects associated with our water production and water/wastewater treatment plants, including \$4 million, \$19 million and \$20 million of expenditures in 2018, 2019 and 2020, respectively, for the upgrade of the CJO water treatment plant.
- **IT Systems**-Upgrade of our enterprise resource planning system and hardware and software purchases for our other IT systems.
- **Other**-Purchase of transportation equipment, tools, furniture, laboratory equipment, security systems and other general infrastructure needs including improvements to our headquarters in Iselin, New Jersey.

The actual amount and timing of capital expenditures is dependent on the need for replacement of existing infrastructure, customer growth, residential new home construction and sales, project scheduling and continued refinement of project scope and costs.

To pay for our capital program in 2018, we plan on utilizing:

- Internally generated funds;
- Proceeds from the Investment Plan;
- Proceeds from the New Jersey and Delaware State Revolving Fund (“SRF”) programs (approximately \$43 million depending on construction timing). SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks (see discussion under “*Sources of Liquidity-Long-term Debt*” below) ; and
- Short-term borrowings, as needed, through \$92.0 million of available lines of credit with several financial institutions. As of December 31, 2017, there remains \$64.0 million of available credit under these lines.

Sources of Liquidity

Short-term Debt. In 2017, the Company increased its established lines of credit to \$92.0 million, an increase of \$32.0 million. At December 31, 2017, the outstanding borrowings under these credit lines were \$28.0 million, at a weighted average interest rate of 2.54%.

The weighted average daily amounts of borrowings outstanding under the Company’s credit lines and the weighted average interest rates on those amounts were \$18.6 million and \$7.4 million at 2.15% and 1.54% for the years ended December 31, 2017 and 2016, respectively.

Long-term Debt. Subject to regulatory approval, the Company periodically issues long-term debt to fund its investments in utility plant and other assets. To the extent possible, the Company finances qualifying capital projects under SRF loan programs in New Jersey and Delaware. These government programs provide financing at interest rates that are typically below rates available in the broader financial markets. A portion of the borrowings under the New Jersey SRF is interest-free.

Under the New Jersey SRF program, borrowers first enter into a construction loan agreement with the New Jersey Infrastructure Bank (NJIB) at a below market interest rate. The NJIB was formally known as the New Jersey Environmental Infrastructure Trust. The current interest rate on construction loan borrowings is zero percent (0%). When construction on the qualifying project is substantially complete, the NJIB will coordinate the conversion of the construction loan into a long-term securitized loan with a portion of the principal balance having a stated interest rate of zero percent (0%) and a portion of the principal balance at a market interest rate at the time of closing using the credit rating of the State of New Jersey. The current term of the long-term loans offered through the NJIB is up to thirty years. The current portion of the principal balance having a stated interest rate of zero percent (0%) is 75% with the remaining portion of 25% having a market based interest rate. The NJIB generally schedules its long-term debt financings in May and November.

In February 2018, Middlesex requested approval from the NJBPU to borrow up to \$57.0 million under the NJIB program to fund the construction of a large-diameter transmission pipeline from the CJO water treatment plant and interconnect with our distribution system. Middlesex currently expects to close on the NJIB construction loan in the second quarter of 2018 with funding requisitions occurring primarily throughout 2018 and 2019.

In February 2018, Tidewater requested approval from the DEPSC to borrow up to \$0.9 million under the Delaware SRF program to fund the replacement of an entire water distribution system of a small Delaware subdivision. Tidewater expects to close on the SRF loan and complete the project in 2018.

In January 2018, Middlesex’s requested approval from the NJBPU to borrow up to \$14.0 million under the NJIB program to fund the 2018 RENEW Program, which is an ongoing initiative to eliminate all unlined water distribution mains in the Middlesex system. Middlesex expects to close on the NJIB construction loan in the second quarter of 2018 with funding requisitions occurring throughout 2018 through early 2019.

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Middlesex closed on a \$9.5 million NJBPU approved NJIB construction loan in August 2017. The proceeds are being used to fund the RENEW 2017 project. Through December 31, 2017, Middlesex has drawn down \$3.9 million and expects to draw down the remaining proceeds during the first quarter of 2018. The NJIB has notified the Company that the RENEW 2017 construction loan is scheduled for the May 2018 long-term debt financing program.

In November 2017, Middlesex closed out three of its active NJIB construction loans (booster station upgrade, RENEW 2015 and RENEW 2016 projects) by issuing to the NJIB first mortgage bonds designated as Series XX (\$11.3 million) and Series YY (\$3.9 million). The interest rate on the Series XX bond will be zero and the interest rate on the Series YY bond range between 3.0% and 5.0%. Through December 31, 2017, Middlesex has drawn down \$14.2 million and expects to draw down the remaining proceeds during the first quarter of 2018. The final maturity date for both bonds will be August 1, 2047, with scheduled principal and interest payments over the life of the loan.

Substantially all of the utility plant of the Company is subject to the lien of its mortgage, which includes debt service and capital ratio covenants. The Company is in compliance with all of its mortgage covenants and restrictions.

Common Stock. The Company periodically issues shares of common stock in connection with the Investment Plan. The Company raised \$1.2 million through the issuance of 31,693 shares under the Investment Plan during 2017.

Contractual Obligations

In the course of normal business activities, the Company enters into a variety of contractual obligations and commercial commitments. Some result in direct obligations on the Company's balance sheet while others are commitments, some firm and some based on uncertainties, which are disclosed in the Company's consolidated financial statements.

The table below presents our known contractual obligations for the periods specified as of December 31, 2017.

	Payment Due by Period (Millions of Dollars)				
	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Long-term Debt	\$ 147.9	\$ 6.9	\$ 14.0	\$ 13.3	\$ 113.7
Notes Payable	28.0	28.0	—	—	—
Interest on Long-term Debt	69.3	5.4	10.1	8.5	45.3
Purchased Water Contracts	25.5	5.7	11.5	5.8	2.5
Commercial Office Leases	7.3	0.7	1.4	1.4	3.8
Wastewater Operations	5.5	5.5	—	—	—
Total	\$ 283.5	\$ 52.2	\$ 37.0	\$ 29.0	\$ 165.3

The table above does not reflect any anticipated cash payments for postretirement benefit plan obligations. The effect on the timing and amount of these payments resulting from potential changes in actuarial assumptions and returns on plan assets cannot be estimated. In 2017, the Company contributed \$5.2 million to its postretirement benefit plans and expects to contribute approximately \$4.9 million in 2018.

Critical Accounting Policies and Estimates

The application of accounting policies and standards often requires the use of estimates, assumptions and judgments. The Company regularly evaluates these estimates, assumptions and judgments, including those related to the calculation of pension and postretirement benefits, unbilled revenues, and the recoverability of certain assets, including regulatory assets. The Company bases its estimates, assumptions and judgments on historical experience and current operating environment. Changes in any of the variables that are used for the Company's estimates, assumptions and judgments may lead to significantly different financial statement results.

Our critical accounting policies are set forth below.

Regulatory Accounting

We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for approximately 88% of Operating Revenues and 99% of Total Assets, are subject to regulation in the states in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance in the Financial Accounting Standards Board Accounting Standards Codification Topic 980 *Regulated Operations* (Regulatory Accounting).

In accordance with Regulatory Accounting, costs and obligations are deferred if it is probable that these items will be recognized for rate-making purposes in future rates. Accordingly, we have recorded costs and obligations, which will be amortized over various future periods. Any change in the assessment of the probability of rate-making treatment will require us to change the accounting treatment of the deferred item. We have no reason to believe any of the deferred items that are recorded will be treated differently by the regulators in the future.

Revenues

Revenues from metered customers include amounts billed on a cycle basis and unbilled amounts estimated from the last meter reading date to the end of the accounting period. The estimated unbilled amounts are determined by utilizing factors which may include historical consumption usage, current weather patterns and economic conditions. Differences between estimated revenues and actual billings are recorded in a subsequent period.

Revenues from unmetered customers are billed at a fixed tariff rate in advance at the beginning of each service period and are recognized in revenue ratably over the service period.

Revenues from the Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees are billed monthly and recorded as earned. Variable fees, which are based on billings and other factors, are recorded upon approval of the amount by Perth Amboy. The variable fees are not a material component of the management contract.

Revenues from USA's operations and maintenance contract for the Avalon water utility, sewer utility and storm water system are fixed for the term of the contract, are billed monthly and recorded as earned. USA also provides services to Avalon in addition to the base services provided under the operation and maintenance contract. These additional services are recorded as earned and billed upon approval of Avalon.

Revenues from White Marsh's base water and wastewater system operating contracts are fixed, billed monthly and are recorded as earned. White Marsh also provides services in addition to the base services provided under its water and wastewater operating contracts, which are billed and recorded as earned.

Retirement Benefit Plans

We maintain a noncontributory defined benefit pension plan (Pension Plan) which covers all currently active employees who were hired prior to April 1, 2007. In addition, the Company maintains an unfunded supplemental plan for its executive officers.

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The Company has a retirement benefit plan other than pensions (Other Benefits Plan) for substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in the Other Benefits Plan. Coverage includes healthcare and life insurance.

The costs for providing retirement benefits are dependent upon numerous factors, including actual plan experience and assumptions of future experience. Future retirement benefit plan obligations and expense will depend on future investment performance, changes in future discount rates and various other demographic factors related to the population participating in the Company's retirement benefit plans, all of which can change significantly in future years.

The allocation by asset category of retirement benefit plan assets at December 31, 2017 and 2016 is as follows:

Asset Category	Pension Plan			Other Benefits Plan		
	2017	2016	Target	2017	2016	Target
Equity Securities	62.8%	59.7%	55%	57.7%	54.1%	43%
Debt Securities	33.6%	36.6%	38%	32.9%	43.3%	50%
Cash	1.0%	1.0%	2%	9.4%	2.6%	2%
Real Estate/Commodities	2.6%	2.7%	5%	0.0%	0.0%	5%
Total	100.0%	100.0%		100.0%	100.0%	

The primary assumptions used for determining future postretirement benefit plans' obligations and costs are as follows:

- **Discount Rate** - calculated based on market rates for long-term, high-quality corporate bonds specific to the expected duration of our Pension Plan and Other Benefits Plan's liabilities;
- **Compensation Increase** - based on management projected future employee compensation increases;
- **Long-Term Rate of Return** - determined based on expected returns from our asset allocation for our Pension Plan and Other Benefits Plan assets;
- **Mortality** - The Company utilizes the Society of Actuaries' mortality table (RP 2014) (Mortality Improvement Scale MP2017 for the 2017 valuation); and
- **Healthcare Cost Trend Rate** - based on management projected future healthcare costs.

The discount rate, compensation increase rate and long-term rate of return used to determine future obligations of our postretirement benefit plans as of December 31, 2017 are as follows:

	Pension Plan	Other Benefits Plan
Discount Rate	3.53%	3.53%
Compensation Increase	3.00%	3.00%
Long-term Rate of Return	7.50%	7.50%

For the 2017 valuation, costs and obligations for our Other Benefits Plan assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits in 2018 with the annual rate of increase declining 1.0% per year for 2019-2021 and 0.5% per year for 2022-2023, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2023.

The following is a sensitivity analysis for certain actuarial assumptions used in determining projected benefit obligations (PBO) and expenses for our postretirement benefit plans:

Pension Plan

Actuarial Assumptions	Estimated Increase/ (Decrease) on PBO (000s)	Estimated Increase/ (Decrease) on Expense (000s)
Discount Rate 1% Increase	\$ (11,563)	\$ (1,050)
Discount Rate 1% Decrease	14,773	1,282

Other Benefits Plan

Actuarial Assumptions	Estimated Increase/ (Decrease) on PBO (000s)	Estimated Increase/ (Decrease) on Expense (000s)
Discount Rate 1% Increase	\$ (8,473)	\$ (888)
Discount Rate 1% Decrease	11,053	1,120
Healthcare Cost Trend Rate 1% Increase	9,412	1,496
Healthcare Cost Trend Rate 1% Decrease	(7,403)	(1,167)

Recent Accounting Standards

See Note 1(r) of the Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT 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, variable rate 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 \$6.9 million of the current portion of existing long-term debt instruments will mature. The Company manages its interest rate risk related to existing variable-rate short-term debt by limiting our variable rate exposure. Applying a hypothetical change in the rate of interest charged by 10% on those fixed- and variable-rate 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 price increases through 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 the market price variations 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Middlesex Water Company:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets and consolidated statements of capital stock and long-term debt of Middlesex Water Company (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Baker Tilly Virchow Krause, LLP

We have served as the Company's auditor since 2006.

Wyomissing, Pennsylvania

March 9, 2018

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

	Years Ended December 31,		
	2017	2016	2015
Operating Revenues	\$ 130,775	\$ 132,906	\$ 126,025
Operating Expenses:			
Operations and Maintenance	64,668	65,534	65,167
Depreciation	13,922	12,796	12,051
Other Taxes	13,565	13,944	12,967
Total Operating Expenses	92,155	92,274	90,185
Operating Income	38,620	40,632	35,840
Other Income (Expense):			
Allowance for Funds Used During Construction	702	619	380
Other Income	123	662	208
Other Expense	(30)	(2,143)	(295)
Total Other Income (Expense), net	795	(862)	293
Interest Charges	5,506	5,293	5,554
Income before Income Taxes	33,909	34,477	30,579
Income Taxes	11,100	11,735	10,551
Net Income	22,809	22,742	20,028
Preferred Stock Dividend Requirements	144	144	144
Earnings Applicable to Common Stock	\$ 22,665	\$ 22,598	\$ 19,884
Earnings per share of Common Stock:			
Basic	\$ 1.39	\$ 1.39	\$ 1.23
Diluted	\$ 1.38	\$ 1.38	\$ 1.22
Average Number of Common Shares Outstanding :			
Basic	16,330	16,270	16,175
Diluted	16,486	16,426	16,331
Cash Dividends Paid per Common Share	\$ 0.858	\$ 0.808	\$ 0.776

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS
(In thousands)

		December 31,	December 31,
		2017	2016
ASSETS			
UTILITY PLANT:	Water Production	\$ 153,844	\$ 146,914
	Transmission and Distribution	468,649	430,880
	General	69,457	63,514
	Construction Work in Progress	11,562	12,196
	TOTAL	703,512	653,504
	Less Accumulated Depreciation	146,272	135,728
	UTILITY PLANT - NET	557,240	517,776
CURRENT ASSETS:			
	Cash and Cash Equivalents	4,937	3,879
	Accounts Receivable, net	10,785	10,129
	Unbilled Revenues	6,999	6,590
	Materials and Supplies (at average cost)	4,118	4,094
	Prepayments	2,408	2,024
	TOTAL CURRENT ASSETS	29,247	26,716
DEFERRED CHARGES AND OTHER ASSETS:			
	Preliminary Survey and Investigation Charges	4,676	2,365
	Regulatory Assets	58,423	60,894
	Operations Contracts, Developer and Other Receivables	439	1,139
	Restricted Cash	1,460	439
	Non-utility Assets - Net	9,478	9,131
	Federal Income Tax Receivable	—	1,408
	Other	177	293
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	74,653	75,669
	TOTAL ASSETS	\$ 661,140	\$ 620,161
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$ 155,120	\$ 153,045
	Retained Earnings	74,055	65,392
	TOTAL COMMON EQUITY	229,175	218,437
	Preferred Stock	2,433	2,436
	Long-term Debt	139,045	134,538
	TOTAL CAPITALIZATION	370,653	355,411
CURRENT LIABILITIES:	Current Portion of Long-term Debt	6,865	6,159
	Notes Payable	28,000	12,000
	Accounts Payable	13,929	12,343
	Accrued Taxes	11,418	12,385
	Accrued Interest	1,093	1,084
	Unearned Revenues and Advanced Service Fees	951	923
	Other	2,281	2,162
	TOTAL CURRENT LIABILITIES	64,537	47,056
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	21,423	20,846
	Accumulated Deferred Income Taxes	43,160	72,825
	Employee Benefit Plans	36,686	36,139
	Regulatory Liabilities	43,745	11,337
	Other	1,315	1,443
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	146,329	142,590
CONTRIBUTIONS IN AID OF CONSTRUCTION		79,621	75,104
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 661,140	\$ 620,161

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 22,809	\$ 22,742	\$ 20,028
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	14,846	13,532	13,087
Provision for Deferred Income Taxes	7,944	3,553	15,753
Equity Portion of Allowance For Funds Used During Constuction (AFUDC)	(481)	(423)	(228)
Cash Surrender Value of Life Insurance	(209)	(101)	(76)
Stock Compensation Expense	840	829	633
Adoption of Repairs on Tangible Property Regulations Net	—	—	2,680
Changes in Assets and Liabilities:			
Accounts Receivable	(656)	(69)	(48)
Unbilled Revenues	(409)	(344)	(309)
Materials & Supplies	(24)	(1,494)	(347)
Prepayments	(384)	11	(46)
Accounts Payable	1,586	5,818	171
Accrued Taxes	(967)	3,259	178
Accrued Interest	9	(20)	(30)
Employee Benefit Plans	(1,920)	(1,601)	(129)
Unearned Revenue & Advanced Service Fees	28	43	41
Other Assets and Liabilities	(169)	1,336	(146)
NET CASH PROVIDED BY OPERATING ACTIVITIES	42,843	47,071	51,212
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures, Including AFUDC of \$221 in 2017, \$196 in 2016 and \$152 in 2015	(50,301)	(47,375)	(25,773)
(Receipt) Release of Restricted Cash	(1,021)	—	1,390
NET CASH USED IN INVESTING ACTIVITIES	(51,322)	(47,375)	(24,383)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(6,159)	(5,898)	(6,284)
Proceeds from Issuance of Long-term Debt	11,523	8,585	7,000
Net Short-term Bank Borrowings	16,000	9,000	(16,000)
Deferred Debt Issuance Expense	(230)	(152)	(65)
Common Stock Issuance Expense	—	—	(22)
Restricted Cash	—	—	744
Proceeds from Issuance of Common Stock	1,234	1,453	1,462
Payment of Common Dividends	(14,002)	(13,137)	(12,553)
Payment of Preferred Dividends	(144)	(144)	(144)
Construction Advances and Contributions-Net	1,315	1,007	(171)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	9,537	714	(26,033)
NET CHANGES IN CASH AND CASH EQUIVALENTS	1,058	410	796
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,879	3,469	2,673
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 4,937	\$ 3,879	\$ 3,469
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Utility Plant received as Construction Advances and Contributions	\$ 3,778	\$ 1,439	\$ 2,441
Long-term Debt Deobligation	\$ —	\$ 476	\$ 466
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest	\$ 5,616	\$ 5,430	\$ 5,702
Interest Capitalized	\$ 221	\$ 196	\$ 152
Income Taxes	\$ 2,754	\$ 5,729	\$ 1,391

See Notes to Consolidated Financial Statements.

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

	December 31, 2017	December 31, 2016
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2017 - 16,352; 2016 - 16,296	\$ 155,120	\$ 153,045
Retained Earnings	74,055	65,392
TOTAL COMMON EQUITY	\$ 229,175	\$ 218,437
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 126		
Shares Outstanding - 24		
Convertible:		
Shares Outstanding, \$7.00 Series - 10	1,005	1,007
Shares Outstanding, \$8.00 Series - 3	349	349
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	79	80
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 2,433	\$ 2,436
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 1,180	\$ 1,415
6.25%, Amortizing Secured Note, due May 19, 2028	4,375	4,795
6.44%, Amortizing Secured Note, due August 25, 2030	3,547	3,827
6.46%, Amortizing Secured Note, due September 19, 2031	3,827	4,107
4.22%, State Revolving Trust Note, due December 31, 2022	279	329
3.60%, State Revolving Trust Note, due May 1, 2025	1,851	2,062
3.30% State Revolving Trust Note, due March 1, 2026	392	431
3.49%, State Revolving Trust Note, due January 25, 2027	427	465
4.03%, State Revolving Trust Note, due December 1, 2026	553	603
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	162	213
0.00%, State Revolving Fund Bond, due August 1, 2021	128	166
3.64%, State Revolving Trust Note, due July 1, 2028	256	276
3.64%, State Revolving Trust Note, due January 1, 2028	84	91
3.45%, State Revolving Trust Note, due August 1, 2031	962	1,015
6.59%, Amortizing Secured Note, due April 20, 2029	3,953	4,302
7.05%, Amortizing Secured Note, due January 20, 2030	3,021	3,271
5.69%, Amortizing Secured Note, due January 20, 2030	6,197	6,709
4.45%, Amortizing Secured Note, due April 20, 2040	9,827	10,267
4.47%, Amortizing Secured Note, due April 20, 2040	3,646	3,810
3.75%, State Revolving Trust Note, due July 1, 2031	2,075	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	1,090	1,154
0.00% Construction Loans	3,874	7,470
First Mortgage Bonds:		
0.00%, Series X, due August 1, 2018	55	107
4.25% to 4.63%, Series Y, due August 1, 2018	61	122
0.00%, Series Z, due August 1, 2019	224	335
5.25% to 5.75%, Series AA, due August 1, 2019	300	440
0.00%, Series BB, due August 1, 2021	482	603
4.00% to 5.00%, Series CC, due August 1, 2021	636	779
0.00%, Series EE, due August 1, 2023	2,296	2,713
3.00% to 5.50%, Series FF, due August 1, 2024	3,495	3,690
0.00%, Series GG, due August 1, 2026	813	903
4.00% to 5.00%, Series HH, due August 1, 2026	880	960
0.00%, Series II, due August 1, 2024	610	700
3.40% to 5.00%, Series JJ, due August 1, 2027	750	824
0.00%, Series KK, due August 1, 2028	988	1,078
5.00% to 5.50%, Series LL, due August 1, 2028	1,095	1,175
0.00%, Series MM, due August 1, 2030	1,237	1,337
3.00% to 4.375%, Series NN, due August 1, 2030	1,505	1,590
0.00%, Series OO, due August 1, 2031	2,107	2,258
2.00% to 5.00%, Series PP, due August 1, 2031	740	780

5.00%, Series QQ, due October 1, 2023	9,915	9,915
3.80%, Series RR, due October 1, 2038	22,500	22,500
4.25%, Series SS, due October 1, 2047	23,000	23,000
0.00%, Series TT, due August 1, 2032	2,258	2,408
3.00% to 3.25%, Series UU, due August 1, 2032	845	890
0.00%, Series VV, due August 1, 2033	2,290	2,433
3.00% to 5.00%, Series WW, due August 1, 2033	830	865
0.00%, Series XX, due August 1, 2047	11,259	—
3.00% to 5.00%, Series YY, due August 1, 2047	3,860	—
SUBTOTAL LONG-TERM DEBT	147,852	142,489
Add: Premium on Issuance of Long-term Debt	1,367	1,495
Less: Unamortized Debt Expense	(3,309)	(3,287)
Less: Current Portion of Long-term Debt	(6,865)	(6,159)
TOTAL LONG-TERM DEBT	\$ 139,045	\$ 134,538

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance at January 1, 2015	16,124	\$ 148,668	\$ 48,623	\$ 197,291
Net Income			20,028	20,028
Dividend Reinvestment & Common Stock Purchase Plan	63	1,462		1,462
Restricted Stock Award, Net - Employees	33	528		528
Stock Award - Board Of Directors	5	105		105
Cash Dividends on Common Stock			(12,554)	(12,554)
Cash Dividends on Preferred Stock			(144)	(144)
Common Stock Expenses			(22)	(22)
Balance at December 31, 2015	<u>16,225</u>	<u>\$ 150,763</u>	<u>\$ 55,931</u>	<u>\$ 206,694</u>
Net Income			22,742	22,742
Dividend Reinvestment & Common Stock Purchase Plan	43	1,453		1,453
Restricted Stock Award, Net - Employees	24	682		682
Stock Award - Board Of Directors	4	147		147
Cash Dividends on Common Stock			(13,137)	(13,137)
Cash Dividends on Preferred Stock			(144)	(144)
Balance at December 31, 2016	<u>16,296</u>	<u>\$ 153,045</u>	<u>\$ 65,392</u>	<u>\$ 218,437</u>
Net Income			22,809	22,809
Dividend Reinvestment & Common Stock Purchase Plan	32	1,234		1,234
Restricted Stock Award, Net - Employees	22	724		724
Stock Award - Board Of Directors	4	147		147
Shares Forfeited	(2)	(30)		(30)
Cash Dividends on Common Stock			(14,002)	(14,002)
Cash Dividends on Preferred Stock			(144)	(144)
Balance at December 31, 2017	<u>16,352</u>	<u>\$ 155,120</u>	<u>\$ 74,055</u>	<u>\$ 229,175</u>

See Notes to Consolidated Financial Statements.

**MIDDLESEX WATER COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Note 1 – Organization, Summary of Significant Accounting Policies and Recent Developments

(a) Organization - Middlesex Water Company (Middlesex) 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.

Middlesex Water Company has operated as a water utility in New Jersey since 1897, in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992 and in Pennsylvania, through our wholly-owned subsidiary, Twin Lakes, since 2009. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate New Jersey municipal water, wastewater and storm water systems under contract and provide unregulated water and wastewater services in New Jersey and Delaware through our subsidiaries. Our rates charged to customers for water and wastewater services, the quality of services we provide and certain other matters are regulated in New Jersey, Delaware and Pennsylvania by the New Jersey Board of Public Utilities (NJBPUC), Delaware Public Service Commission (DEPSC) and Pennsylvania Public Utilities Commission (PAPUC), respectively. Our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

Certain reclassifications have been made to the prior year financial statements to conform with current period presentation. The reclassifications are immaterial to the overall presentation of our consolidated financial statements.

(b) Principles of Consolidation – 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. Other financial investments in which the Company holds a 50% or less voting interest and cannot exercise control over the operation and policies of the investments are accounted for under the equity method of accounting. Under the equity method of accounting, the Company records its investment interests in Non-Utility Assets and its percentage share of the earnings or losses of the investees in Other Income (Expense).

(c) System of Accounts – Middlesex, Pinelands Water and Pinelands Wastewater maintain their accounts in accordance with the Uniform System of Accounts prescribed by the NJBPUC. Tidewater, TESI and Southern Shores maintain their accounts in accordance with DEPSC requirements. Twin Lakes maintains its accounts in accordance with PAPUC requirements.

(d) Regulatory Accounting - We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 88% of Operating Revenues and 99% of Total Assets, are subject to regulation in the state in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in Accounting Standards Codification (ASC) 980, *Regulated Operations*.

In accordance with ASC 980, *Regulated Operations*, costs and obligations are deferred if it is probable that these items will be recognized for rate-making purposes in future rates. Accordingly, we have recorded costs and obligations, which will be amortized over various future periods. Any change in the assessment of the probability of rate-making treatment will require us to change the accounting treatment of the deferred item. We have no reason to believe any of the deferred items that are recorded will be treated differently by the regulators in the future. For additional information, see Note 2 – *Rate and Regulatory Matters*.

(e) Retirement Benefit Plans - We maintain a noncontributory defined benefit pension plan (Pension Plan) which covers all active employees who were hired prior to April 1, 2007. In addition, the Company maintains an unfunded supplemental plan for its executive officers that are Pension Plan participants. The Company has a retirement benefit plan other than pensions (Other Benefits Plan) for substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance.

The Company's costs for providing retirement benefits are dependent upon numerous factors, including actual plan experience and assumptions of future experience. Retirement benefit plan obligations and expense are determined based on investment performance, discount rates and various other demographic factors related to the population participating in the Company's retirement benefit plans, all of which can change significantly in future years. For more information on the Company's Retirement Benefit Plans, see Note 7 – *Employee Benefit Plans*.

(f) Utility Plant – Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 2017, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(g) Depreciation – Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The accumulated provision for depreciation is charged with the cost of property retired, less salvage. The following table sets forth the range of depreciation rates for the major utility plant categories used to calculate depreciation for the years ended December 31, 2017, 2016 and 2015. These rates have been approved by the NJBPU, DEPSC or PAPUC:

Source of Supply	1.15% - 3.44%	Transmission and Distribution (T&D):	
Pumping	2.00% - 5.39%	T&D – Mains	1.10% - 3.13%
Water Treatment	1.65% - 7.09%	T&D – Services	2.12% - 3.16%
General Plant	2.08% - 17.84%	T&D – Other	1.61% - 4.63%
Wastewater Collection	1.42% - 1.81%		

Non-regulated fixed assets consist primarily of office buildings, furniture and fixtures, and transportation equipment. These assets are recorded at original cost and depreciation is calculated based on the estimated useful lives, ranging from 3 to 40 years.

(h) Preliminary Survey and Investigation (PS&I) Costs – In the design of water and wastewater systems that the Company ultimately intends to construct, own and operate certain expenditures are incurred to advance those project activities. These PS&I costs are recorded as deferred charges on the balance sheet because these costs are expected to be recovered through future rates charged to customers as the underlying projects are placed into service as utility plant. If it is subsequently determined that costs for a project recorded as PS&I are not recoverable through rates charged to our customers, the applicable PS&I costs are recorded as Other Expense on the statement of income at that time.

(i) Customers' Advances for Construction (CAC) – Utility plant and/or cash advances are provided to the Company by customers, real estate developers and builders in order to extend utility service to their properties. These transactions are recorded as CAC. Contractual Refunds of CACs in the form of cash are made by the Company and are based on either additional operating revenues generated from new customers or as new customers are connected to the respective system. After all refunds are made and/or contract terms have expired, any remaining balance is transferred to Contributions in Aid of Construction.

Contributions in Aid of Construction (CIAC) – CIAC include direct non-refundable contributions of utility plant and/or cash and the portion of CAC that becomes non-refundable.

CAC and CIAC are not depreciated in accordance with regulatory requirements. In addition, these amounts reduce the investment base for purposes of setting rates.

(j) Allowance for Funds Used During Construction (AFUDC) - Middlesex and its regulated subsidiaries capitalize AFUDC, which represents the cost of financing projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost and construction period thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. AFUDC is calculated using each company's weighted cost of debt and equity as approved in their most recent respective regulatory rate order. The AFUDC rates for the years ended December 31, 2017, 2016 and 2015 for Middlesex and Tidewater are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Middlesex	6.73%	6.73%	6.72%
Tidewater	7.92%	7.92%	7.92%

(k) Accounts Receivable – We record bad debt expense based on historical write-offs combined with an evaluation of current conditions. The allowance for doubtful accounts was \$0.9 million as of December 31, 2017 and 2016. For the years ended December 31, 2017, 2016 and 2015, bad debt expense was \$0.5 million, \$0.7 million and \$0.8 million, respectively. For the years ended December 31, 2017, 2016 and 2015, write-offs were \$0.5 million, \$0.6 million and \$0.6 million, respectively. Receivables not expected to be received in 2018 are included as non-current assets in Operations Contracts, Developer and Other Receivables, including a loan by Middlesex to Ridgewood Green RME (RGRME).

In 2011, Middlesex entered into a joint venture agreement that established the legal entity RGRME for the purpose of owning and operating a renewable energy facility at a municipal wastewater treatment plant in New Jersey. Construction was completed and the facility began operating in 2013. This public-private partnership includes the production of electricity from solar panels and biogas to meet the electric power needs of the municipal wastewater treatment plant. A major element of the project's profitability is the ability to procure, and process, an adequate supply of high quality feedstock material from outside sources to supplement the production of biogas. Such feedstock is in the form of fats, oils, grease and other materials from various commercial operations. During the fourth quarter of 2016, RGRME determined that significant additional investment would need to be made to optimize the liquid waste disposal and biogas electricity generation process. As of December 31, 2017, Middlesex had an investment of \$0.2 million of equity capital (included in "Non-utility Assets – Net") and a \$1.7 million loan to RGRME (included in "Operations Contracts, Developer and Other Receivables, net"). The Company has determined that it is more likely than not that RGRME will be unable to satisfy its remaining debt service obligation to Middlesex and therefore, an allowance for uncollectible notes receivable of \$1.7 million has been recorded. Furthermore, Middlesex has recognized a noncash impairment charge of \$0.2 million, representing the Middlesex's equity investment in RGRME. These charges are included in "Other Expense" for the year ended December 31, 2016 on the consolidated statement of income.

(l) Revenues - Retail customer invoices for regulated utility service are typically comprised of two components; a fixed service charge and a volumetric or consumption charge. Revenues from retail customers, except Tidewater fixed service charges, include amounts billed in arrears on a cycle basis and unbilled amounts estimated from the last meter reading date to the end of the accounting period. The estimated unbilled amounts are determined by utilizing factors which include historical volumetric or consumption usage and current climate and economic conditions. Actual billings may differ from our estimates. Tidewater customers are billed in advance for their fixed service charge and these revenues are recognized as the service is provided to the customer.

Southern Shores is an unmetered system. Customers are billed a fixed service charge in advance at the beginning of each month and revenues are recognized as earned.

Customers in portions of the TESI system are billed a fixed service charge in arrears.

Revenues from White Marsh's base water and wastewater system operating contracts are fixed, billed monthly and are recorded as earned. White Marsh also provides services in addition to the base services provided under its water and wastewater operating contracts, which are billed and recorded as earned.

Revenues from the City of Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees are billed monthly and recorded as earned. Variable fees are recorded upon approval of the amount by the City of Perth Amboy.

Revenues from USA's operations and maintenance contract for the Borough of Avalon, New Jersey (Avalon) water utility, sewer utility and storm water system are fixed for the term of the contract, are billed monthly and recorded as earned. USA also provides services to Avalon in addition to the base services provided under the operation and maintenance contract. These additional services are recorded as earned and billed upon approval of Avalon.

(m) Unamortized Debt Expense and Premiums on Long-Term Debt - Unamortized Debt Expense and Premiums on Long-Term Debt, included on the consolidated balance sheet in long-term debt, are amortized over the lives of the related debt issues.

(n) Income Taxes - Middlesex files a consolidated federal income tax return for the Company and income taxes are allocated based on the separate return method. Investment tax credits have been deferred and are amortized over the estimated useful life of the related property. For more information on income taxes, see Note 3 – *Income Taxes*.

(o) Statements of Cash Flows - For purposes of reporting cash flows, the Company considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents. Cash and cash equivalents represent bank balances and money market funds with investments maturing in less than 90 days.

(p) Restricted Cash – Restricted cash includes cash proceeds from loan transactions entered into through state financing programs and are held in trusts for specific capital expenditures or debt service.

(q) Use of Estimates - Conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from those estimates.

(r) Recent Accounting Pronouncements

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

Debt Issuance Costs - In April 2015, the FASB issued an update to authoritative guidance related to the presentation of debt issuance costs on the balance sheet, requiring companies to present debt issuance costs as a direct deduction from the carrying value of debt. The guidance was effective January 1, 2016. The adoption of this guidance had no impact on the Company's statements of income or cash flows.

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

Inventory - In July 2015, the FASB issued guidance on simplifying the measurement of inventory. The new guidance replaces the current lower of cost or market test with a lower of cost and 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, which replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. This guidance is effective January 1, 2018, at which time the Company will adopt this guidance using the modified retrospective method. The Company has assessed the impact this will have on our financial statements by analyzing our inventory of contracts with customers, which consist primarily of regulated tariff-based sales and non-regulated operation and maintenance contracts for water and wastewater systems. Based on the Company's interpretation and analysis of this guidance, it will not have a material impact on the Company's financial statements since it is expected that there will be no material changes to the timing or recognition of revenue. Adoption of this guidance will result in more detailed revenue disclosures than currently required under existing guidance.

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. 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 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 the amendment 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 and its adoption 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 and its adoption 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 guidance 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 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, based on the Company's current leasing activity, does not expect that the adoption of this guidance to have a material impact on the Company's financial statements.

There are no other new adopted or proposed accounting guidance that the Company is aware of that could have a material impact on the Company's financial statements.

Note 2 - Rate and Regulatory Matters

Rate Matters

Middlesex - In October 2017, Middlesex filed a petition with the New Jersey Board of Public Utilities (NJBP) seeking permission to increase base water rates by approximately \$15.3 million per year. The request was necessitated by capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the last filing in New Jersey in 2015 as well as increased operations and maintenance costs. We cannot predict when and whether the NJBP will ultimately approve, deny, or reduce the amount of the request. Under New Jersey statute, the NJBP must render a decision within nine months of filing a petition.

In October 2017, the NJBP approved Middlesex's petition to reset its Purchased Water Adjustment Clause (PWAC) tariff rate to recover additional annual costs of \$1.2 million, primarily for the purchase of untreated water from the New Jersey Water Supply Authority. A PWAC is a rate mechanism that allows for the recovery of increased purchased water costs between base rate case filings. The PWAC is reset to zero once those increased costs are included in base rates. The reset PWAC tariff rate became effective on November 1, 2017.

In August 2015, Middlesex implemented a \$5.0 million NJBP-approved rate increase. The rate increase was needed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$219.0 million, based on a return on equity of 9.75%.

Tidewater - Effective January 1, 2018, Tidewater increased its Delaware Public Service Commission (DEPSC) approved Distribution System Improvement Charge rate, which is expected to generate revenues of approximately \$0.4 million annually.

Pinelands - In April 2016, the NJBP approved \$0.2 million and \$0.1 million of increases, respectively, in Pinelands Water and Pinelands Wastewater's annual base rates, effective May 7, 2016. The rate increases were necessitated by capital infrastructure investments by the companies, increased operations and maintenance costs and lower non-fixed fee revenues. The Pinelands Water base water rate increase was phased-in between 2016 and 2017.

Southern Shores - Under the terms of a multi-year DEPSC-approved agreement expiring in 2020, customer rates will increase on January 1st of each year to generate additional annual revenue of \$0.1 million with each increase.

Twin Lakes - In June 2016, the Pennsylvania Public Utilities Commission approved a \$0.1 million increase in Twin Lakes' base water rates. The rate increase was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase will be phased in with the final phase implemented subsequent to specific capital investments being placed in service.

Regulatory Matters

We have recorded certain costs as regulatory assets because we expect full recovery of, or are currently recovering, these costs in the rates we charge customers. These deferred costs have been excluded from rate base and, therefore, we are not earning a return on the unamortized balances. These items are detailed as follows:

Regulatory Assets	(Thousands of Dollars)		Remaining Recovery Periods
	December 31, 2017	December 31, 2016	
Retirement Benefits	\$ 43,070	\$ 40,603	Various
Income Taxes	9,876	15,899	Various
Rate Cases, Tank Painting, and Other	5,477	4,392	2-10 years
Total	<u>\$ 58,423</u>	<u>\$ 60,894</u>	

Retirement benefits include pension and other retirement benefits that have been recorded on the Consolidated Balance Sheet in accordance with the guidance provided in ASC 715, *Compensation – Retirement Benefits*. These amounts represent obligations in excess of current funding, which the Company believes will be fully recovered in rates set by the regulatory authorities.

The recovery period for income taxes is dependent upon when the temporary differences between the tax and book treatment of various items reverse.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law making significant changes to the Internal Revenue Code, including a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. The tariff rates charged to customers in the Company's regulated companies, which comprise 92% of the Company's 2017 pre-tax income, include recovery of income taxes at the statutory rate at the time those rates are approved by the respective state public utility commissions that regulate each of our regulated subsidiaries. The Company is currently performing a revaluation of its deferred income tax liabilities to comply with orders issued by the NJBPU and the DEPSC seeking information on the amount of income taxes collected in rates that are not expected to be incurred by the Company and the proposed methodology to adjust rates charged to customers to reflect excess taxes collected and the decreased corporate tax rate. The revaluation is based on certain assumptions and estimations made in accordance with the Company's understanding of the Tax Act and the authoritative guidance available as of the date of this filing. Initially, the Company has recorded regulatory liabilities of \$31.6 million and reduced its income tax related regulatory assets \$5.9 million for the revaluation of its deferred income taxes pertaining to rate-regulated operations. If new or revised authoritative guidance were to change the Company's understanding of the Tax Act impact on rate-regulated income taxes, it will update its accounting accordingly. The regulatory liabilities are overwhelmingly related to utility plant depreciation deduction timing differences, which are subject to Internal Revenue Service (IRS) normalization rules. The IRS requires that any utility plant related excess taxes cannot be returned to customers any faster than over the remaining life of the underlying utility plant.

The Company uses composite depreciation rates for its regulated utility assets, which is currently an acceptable method under generally accepted accounting principles and is widely used in the utility industry. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. The Company recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of December 31, 2017 and 2016, the Company has approximately \$12.2 million and \$11.3 million, respectively, of expected costs of removal recovered currently in rates in excess of actual costs incurred as regulatory liabilities.

The Company is recovering through customer rates acquisition premiums totaling \$0.5 million over the remaining lives of the underlying Utility Plant. These deferred costs have been included in rate base as utility plant and a return is being earned on the unamortized balances during the recovery periods.

Note 3 – Income Taxes

Income tax expense differs from the amount computed by applying the statutory rate on book income subject to tax for the following reasons:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2017	2016	2015
Income Tax at Statutory Rate	\$ 11,868	\$ 12,007	\$ 10,703
Tax Effect of:			
Utility Plant Related	(1,016)	(1,059)	(920)
State Income Taxes – Net	895	770	745
Tax Act	(610)	—	—
Employee Benefits	(43)	(5)	7
Other	6	22	16
Total Income Tax Expense	\$ 11,100	\$ 11,735	\$ 10,551

Income tax expense is comprised of the following:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2017	2016	2015
Current:			
Federal	\$ 2,090	\$ 7,305	\$ (15,203)
State	1,066	877	1,153
Deferred:			
Federal	7,713	3,325	24,686
State	310	307	(6)
Investment Tax Credits	(79)	(79)	(79)
Total Income Tax Expense	\$ 11,100	\$ 11,735	\$ 10,551

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amounts used for income tax purposes. The components of the net deferred tax liability are as follows:

	(Thousands of Dollars)	
	December 31,	
	2017	2016
Utility Plant Related	\$ 41,259	\$ 69,019
Customer Advances	(3,749)	(3,430)
Employee Benefits	4,903	6,904
Investment Tax Credits (ITC)	675	753
Other	72	(421)
Total Deferred Tax Liability and ITC	\$ 43,160	\$ 72,825

The staff of the United States Securities and Exchange Commission (SEC) has recognized the complexity of reflecting the impacts of the Tax Act, and on December 22, 2017 issued guidance in Staff Accounting Bulletin 118 (SAB 118) which clarifies accounting for income taxes if information is not yet available or complete and provides for up to a one year period in which to complete the required analyses and accounting. SAB 118 describes three scenarios or buckets associated with a company's status of accounting for income tax reform: (1) a company is complete with its accounting for certain effects of tax reform, (2) a company is able to determine a reasonable estimate for certain effects of tax reform and records that estimate as a provisional amount, or (3) a company is not able to determine a reasonable estimate and therefore continues to account for income taxes based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted. The Company has made a reasonable estimate for the measurement and accounting of the effects of the Tax Act which have been reflected in the December 31, 2017 financial statements. However, the final impact of the Tax Act may differ from these estimates due to, among other things, changes in the Company's interpretations and assumptions and additional guidance that may be issued by the IRS, the Company's rate regulators or the FASB. The re-measurement of deferred income taxes at the new federal tax rate decreased deferred income tax expense by \$0.6 million for the year ending December 31, 2017. Additionally, the re-measurement of deferred income taxes decreased accumulated deferred income taxes by \$24.2 million as of December 31, 2017.

As part of its 2014 Federal income tax return, the Company adopted the final IRS regulations pertaining to the tax deductibility of costs that qualify as repairs on tangible property. The adoption resulted in a net reduction of \$17.6 million in taxes previously remitted to the IRS, for which the Company has already sought and received refunds pertaining to tax years 2012 through 2014 in accordance with IRS regulations. Subsequently, the Company's 2014 federal income tax return was selected for examination by the IRS. Concurrently with the IRS examination, the Company agreed to extend the statutory review period for its 2012 thru 2014 tax years. It is unknown at this time whether the results of this examination will result in any changes to the filed 2014 tax return. While the Company believes that its treatment of qualifying tangible property repair costs is proper, its deductibility could be challenged as part of the current examination by the IRS. Therefore, the Company has recorded a provision against refundable taxes of \$2.3 million.

It is probable that any net tax benefits that resulted from adopting the regulations will be considered in determining the revenue requirement in the Company's current rate increase petition (see Note 2 - *Rate and Regulatory Matters*).

The statutory review periods for income tax returns for the years prior to 2012 have been closed. In the event that there are interest and penalties associated with income tax adjustments in the current examination and future examinations, these amounts will be reported under interest expense and other expense, respectively. Other than the effects of the provision against refundable taxes discussed above, there are no unrecognized tax benefits resulting from prior period tax positions.

Note 4 - 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 treated water of 15.0 million gallons annually.

Purchased water costs are shown below:

<u>Purchased Water</u>	(Millions of Dollars)		
	Years Ended December 31,		
	2017	2016	2015
Untreated	\$ 2.8	\$ 2.6	\$ 2.5
Treated	3.3	3.2	3.1
Total Costs	\$ 6.1	\$ 5.8	\$ 5.6

Contract Operations - USA-PA operates the City of Perth Amboy, New Jersey's (Perth Amboy) water and wastewater collection systems under a 20-year agreement, which expires on December 31, 2018. In connection with the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater collection system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses and its term is concurrent with USA-PA's contract with Perth Amboy.

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 December 31, 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.

Leases - The Company has entered into office space operating leases. Rental expenses under operating leases were \$0.1 million for the year ended December 31, 2017. The Company did not incur rental expenses for the years ended December 31, 2016 and 2015. The operating leases for these facilities will expire in 2027 and 2028. The minimum annual future rental commitment under operating leases that have initial or remaining non-cancelable lease terms over the next 5 years and thereafter are as follows:

<u>Year</u>	(Millions of Dollars)
	<u>Annual Maturities</u>
2018	\$ 0.7
2019	\$ 0.7
2020	\$ 0.7
2021	\$ 0.7
2022	\$ 0.7
Thereafter	\$ 3.8

Construction - The Company has projected to spend approximately \$94 million in 2018, \$94 million in 2019 and \$79 million in 2020 on its construction program. The actual amount and timing of capital expenditures is dependent on the need for replacement of existing infrastructure, customer growth, residential new home construction and sales, project scheduling and continued refinement of project scope and costs. There is no assurance that projected customer growth and residential new home construction and sales will occur.

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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 5 – Short-term Borrowings

Information regarding the Company’s short-term borrowings for the years ended December 31, 2017 and 2016 is summarized below:

	(Millions of Dollars)	
	2017	2016
Established Lines at Year-End	\$ 92.0	\$ 60.0
Maximum Amount Outstanding	28.0	13.1
Average Outstanding	18.6	7.4
Notes Payable at Year-End	28.0	12.0
Weighted Average Interest Rate	2.15%	1.54%
Weighted Average Interest Rate at Year-End	2.54%	1.71%

The maturity dates for the Notes Payable as of December 31, 2017 are in January 2018 through March 2018 and are extendable at the discretion of the Company.

Interest rates for short-term borrowings are below the prime rate with no requirement for compensating balances.

Note 6 - Capitalization

All the transactions discussed below related to the issuance of securities were approved by either the NJBPU or DEPSC, except where otherwise noted.

Common Stock

The Company periodically issues shares of its common stock in connection with its Middlesex Water Company Investment Plan (the Investment Plan), a direct share purchase and sale and dividend reinvestment plan for Middlesex common stock. In July 2015, the Company registered an additional 700,000 common shares for potential issuance under the Investment Plan with the SEC, increasing the number of NJBPU-authorized shares to 3.0 million. The cumulative number of shares issued under the Investment Plan at December 31, 2017 is 2.4 million. For the years ended December 31, 2017, 2016 and 2015, the Company raised approximately \$1.2 million, \$1.5 million and \$1.5 million, respectively, through the issuance of shares under the Investment Plan.

The Company issues shares under a restricted stock plan for certain management employees, which is described in Note 7 – *Employee Benefit Plans*.

The Company maintains a stock plan for its outside directors (the Outside Director Stock Compensation Plan). For the years ended December 31, 2017, 2016 and 2015, 3,976, 3,976 and 4,795 shares, respectively, of Middlesex common stock were granted and issued to the Company’s outside directors under the Outside Director Stock Compensation Plan and 64,168 shares remain available for future awards. The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 100,000.

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company.

Preferred Stock

At December 31, 2017 and 2016, there were 0.1 million shares of preferred stock authorized and less than 0.1 million shares of preferred stock outstanding. There were no preferred stock dividends in arrears.

The Company may not pay any dividends on its common stock unless full cumulative dividends to the preceding dividend date for all outstanding shares of preferred stock have been paid or set aside for payment. If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. In addition, if Middlesex were to liquidate, holders of preferred stock would be paid back the stated value of their preferred shares before any distributions could be made to common stockholders.

The conversion feature of the no par \$7.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for twelve shares of the Company's common stock. In addition, the Company may redeem up to 10% of the outstanding convertible stock in any calendar year at a price equal to the fair value of twelve shares of the Company's common stock for each share of convertible stock redeemed.

The conversion feature of the no par \$8.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for 13.714 shares of the Company's common stock. The preferred shares are convertible into common stock at the election of the security holder or Middlesex.

Long-term Debt

Subject to regulatory approval, the Company periodically issues long-term debt to fund its investments in utility plant and other assets. To the extent possible, the Company finances qualifying capital projects under State Revolving Fund (SRF) loan programs in New Jersey and Delaware. These government programs provide financing at interest rates that are typically below rates available in the broader financial markets. A portion of the borrowings under the New Jersey SRF is interest-free. Under the New Jersey SRF program, borrowers first enter into a construction loan agreement with the New Jersey Infrastructure Bank (NJIB) at a below market interest rate. The NJIB was formally known as the New Jersey Environmental Infrastructure Trust. The current interest rate on construction loan borrowings is zero percent (0%). When construction on the qualifying project is substantially complete, NJIB will coordinate the conversion of the construction loan into a long-term securitized loan with a portion of the principal balance having a stated interest rate of zero percent (0%) and a portion of the principal balance at a market interest rate at the time of closing using the credit rating of the State of New Jersey. The current term of the long-term loans offered through the NJIB is up to thirty years. The current portion of the principal balance having a stated interest rate of zero percent (0%) is 75% with the remaining portion of 25% having a market based interest rate. NJIB generally schedules its long-term debt financings in May and November.

Middlesex closed on a \$9.5 million NJBPU approved NJIB construction loan in August 2017. The proceeds are being used to fund the RENEW 2017 project. Through December 31, 2017, Middlesex has drawn down \$3.9 million and expects to draw down the remaining proceeds during the first quarter of 2018. The NJIB has notified the Company that the RENEW 2017 construction loan is scheduled for the May 2018 long-term debt financing program.

In November 2017, Middlesex closed out three of its active NJIB construction loans (booster station upgrade, RENEW 2015 and RENEW 2016 projects) by issuing to the NJIB first mortgage bonds designated as Series XX (\$11.3 million) and Series YY (\$3.9 million). The interest rate on the Series XX bond will be zero and the interest rate on the Series YY bond range between 3.0% and 5.0%. Through December 31, 2017, Middlesex has drawn down \$14.2 million and expects to draw down the remaining proceeds during the first quarter of 2018. The final maturity date for both bonds will be August 1, 2047, with scheduled principal and interest payments over the life of the loans.

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In February 2016, Tidewater closed on a \$1.2 million General Obligation Note loan with the Delaware SRF program to fund the replacement of the water distribution system in a manufactured home community. Tidewater has drawn \$1.1 million on this loan and the project is considered complete. The interest rate on the \$1.1 million is 2.0% with a final repayment maturity date of February 1, 2036.

In 2015, Tidewater completed the drawdown of a \$15.0 million long-term debt transaction. The interest rate on \$11.0 million of the loan is 4.45%. \$4.0 million of the loan was initially set up as a market-based variable interest rate transaction, but which was converted to a fixed rate of 4.47% in January 2017. The proceeds were used to pay down short-term debt and for other general corporate purposes. The final maturity date of all borrowings under this loan agreement is April 2040.

Bond Series QQ, RR and SS are term bonds with single maturity dates subsequent to 2022. Principal repayments for all series of the Company's long-term debt except for Bond Series X, Y, Z, AA, BB and CC extend beyond 2022. The aggregate annual principal repayment obligations for all long-term debt over the next five years are shown below:

<u>Year</u>	<u>(Millions of Dollars)</u> <u>Annual Maturities</u>
2018	\$ 6.9
2019	\$ 7.1
2020	\$ 6.9
2021	\$ 6.9
2022	\$ 6.4

The weighted average interest rate on all long-term debt at December 31, 2017 and 2016 was 3.77% and 3.88%, respectively. Except for the Amortizing Secured Notes (\$39.6 million), all of the Company's outstanding long-term debt has been issued through the New Jersey Economic Development Authority (\$55.4 million), the NJIB program (\$43.8 million) and the Delaware SRF program (\$9.1 million).

In both 2016 and 2015, the NJIB de-obligated principal payments of \$0.5 million on several series of SRF long-term debt.

Substantially all of the utility plant of the Company is subject to the lien of its mortgage, which includes debt service and capital ratio covenants. The Company is in compliance with all of its mortgage covenants and restrictions.

Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (EPS) for the three years ended December 31, 2017. Basic EPS is computed on the basis of the weighted average number of shares outstanding. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and \$8.00 Series.

(In Thousands, Except Per Share Amounts)

	2017		2016		2015	
	Income	Shares	Income	Shares	Income	Shares
Basic:						
Net Income	\$ 22,809	16,330	\$ 22,742	16,270	\$ 20,028	16,175
Preferred Dividend	(144)		(144)		(144)	
Earnings Applicable to Common Stock	\$ 22,665	16,330	\$ 22,598	16,270	\$ 19,884	16,175
Basic EPS	\$ 1.39		\$ 1.39		\$ 1.23	
Diluted:						
Earnings Applicable to Common Stock	\$ 22,665	16,330	\$ 22,598	16,270	\$ 19,884	16,175
\$7.00 Series Dividend	67	115	67	115	67	115
\$8.00 Series Dividend	24	41	24	41	24	41
Adjusted Earnings Applicable to Common Stock	\$ 22,756	16,486	\$ 22,689	16,426	\$ 19,975	16,331
Diluted EPS	\$ 1.38		\$ 1.38		\$ 1.22	

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 consolidated balance sheets for cash and cash equivalents, accounts receivable, 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 State Revolving Fund 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 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:

	(Thousands of Dollars)			
	At December 31,			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bonds	\$ 95,322	\$ 98,036	\$ 82,786	\$ 84,821

For other long-term debt issuances for which there is 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 of long-term debt described 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 \$52.5 million and \$59.7 million at December 31, 2017 and December 31, 2016, respectively. Customer advances for construction have carrying amounts of \$21.4 million and \$20.8 million at December 31, 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 7 - 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 can participate in a defined contribution profit sharing plan that provides an annual contribution at the discretion of the Company, based upon a percentage of

the participants' annual paid compensation. In order to be eligible for contribution, the eligible employee must be employed by the Company on December 31st of the year to which the contribution relates. The Company maintains an unfunded supplemental plan for its executive officers. The Accumulated Benefit Obligation for the Company's Pension Plan at December 31, 2017 and 2016 was \$75.7 million and \$66.8 million, respectively.

Other Benefits

The Company's 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. Accrued retirement benefit costs are recorded each year.

Regulatory Treatment of Over/Underfunded Retirement Obligations

Because the Company is subject to regulation in the states in which it operates, it is required to maintain its accounts in accordance with the regulatory authority's rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance of ASC 980, *Regulated Operations*. Based on prior regulatory practice, and in accordance with the guidance in ASC 980, *Regulated Operations*, the Company records underfunded Pension Plan and Other Benefits Plan obligation costs, which otherwise would be recognized in Other Comprehensive Income under ASC 715, *Compensation – Retirement Benefits*, as a Regulatory Asset, and expects to recover those costs in rates charged to customers.

The Company uses a December 31 measurement date for all of its employee benefit plans. The tables below set forth information relating to the Company's Pension Plan and Other Benefits Plan for 2017 and 2016.

	(Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	December 31,			
	2017	2016	2017	2016
Change in Projected Benefit Obligation:				
Beginning Balance	\$ 78,601	\$ 72,542	\$ 48,888	\$ 46,249
Service Cost	2,399	2,308	1,089	1,099
Interest Cost	3,143	3,046	1,964	1,952
Actuarial Loss	6,203	2,810	3,052	141
Benefits Paid	(2,333)	(2,105)	(648)	(553)
Ending Balance	\$ 88,013	\$ 78,601	\$ 54,345	\$ 48,888
Change in Fair Value of Plan Assets:				
Beginning Balance	\$ 59,370	\$ 52,931	\$ 31,607	\$ 29,018
Actual Return on Plan Assets	8,543	4,909	3,521	1,591
Employer Contributions	3,635	3,635	1,603	1,551
Benefits Paid	(2,333)	(2,105)	(648)	(553)
Ending Balance	\$ 69,215	\$ 59,370	\$ 36,083	\$ 31,607
Funded Status	\$ (18,798)	\$ (19,231)	\$ (18,262)	\$ (17,281)

	(Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	December 31,			
	2017	2016	2017	2016
Amounts Recognized in the Consolidated Balance Sheets consist of :				
Current Liability	374	373	—	—
Noncurrent Liability	18,424	18,858	18,262	17,281
Net Liability Recognized	\$ 18,798	\$ 19,231	\$ 18,262	\$ 17,281

	(Thousands of Dollars)					
	Pension Plan			Other Benefits Plan		
	Years Ended December 31,					
	2017	2016	2015	2017	2016	2015
Components of Net Periodic Benefit Cost						
Service Cost	\$ 2,399	\$ 2,308	\$ 2,558	\$ 1,089	\$ 1,099	\$ 1,373
Interest Cost	3,143	3,046	2,894	1,964	1,952	1,921
Expected Return on Plan Assets	(4,489)	(4,014)	(3,919)	(2,406)	(2,213)	(2,107)
Amortization of Net Actuarial Loss	1,566	1,426	1,645	1,781	1,773	2,261
Amortization of Prior Service Credit	—	—	—	(1,728)	(1,728)	(1,728)
Net Periodic Benefit Cost	\$ 2,619	\$ 2,766	\$ 3,178	\$ 700	\$ 883	\$ 1,720

Amounts that are expected to be amortized from Regulatory Assets into Net Periodic Benefit Cost in 2018 are as follows:

	(Thousands of Dollars)	
	Pension Plan	Other Benefits Plan
	Plan	Plan
Actuarial Loss	\$ 1,658	\$ 1,787
Prior Service Credit	—	(1,607)

The discount rate and compensation increase rate for determining our postretirement benefit plans' benefit obligations and costs as of and for the years ended December 31, 2017, 2016 and 2015, respectively, are as follows:

	Pension Plan			Other Benefits Plan		
	2017	2016	2015	2017	2016	2015
Weighted Average Assumptions:						
Expected Return on Plan Assets	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	3.53%	4.06%	4.26%	3.53%	4.06%	4.26%
Benefit Cost	4.06%	4.26%	3.91%	4.06%	4.26%	3.91%
Compensation Increase for:						
Benefit Obligation	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Benefit Cost	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

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The compensation increase assumption for the Other Benefits Plan is attributable to life insurance provided to qualifying employees upon their retirement. The insurance coverage will be determined based on the employee's base compensation as of their retirement date.

The Company utilizes the Society of Actuaries' mortality table (RP 2014) (Mortality Improvement Scale MP2017 for the 2017 valuation).

For the 2017 valuation, costs and obligations for our Other Benefits Plan assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits in 2018 with the annual rate of increase declining 1.0% per year for 2019-2021 and 0.5% per year for 2022-2023, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2023.

A one-percentage point change in assumed healthcare cost trend rates would have the following effects on the Other Benefits Plan:

	(Thousands of Dollars)	
	1 Percentage Point	
	Increase	Decrease
Effect on Current Year Service and Interest Costs	\$ 649	\$ (499)
Effect on Projected Benefit Obligation	\$ 9,412	\$ (7,403)

The following benefit payments, which reflect expected future service, are expected to be paid:

	(Thousands of Dollars)	
Year	Pension Plan	Other Benefits Plan
2018	\$ 2,639	\$ 1,174
2019	2,653	1,414
2020	2,875	1,614
2021	2,971	1,816
2022	3,360	2,027
2023-2027	23,789	11,674
Totals	<u>\$ 38,287</u>	<u>\$ 19,719</u>

Benefit Plans Assets

The allocation of plan assets at December 31, 2017 and 2016 by asset category is as follows:

<u>Asset Category</u>	Pension Plan			Other Benefits Plan		
	2017	2016	Target	2017	2016	Target
Equity Securities	62.8%	59.7%	55%	57.7%	54.1%	43%
Debt Securities	33.6%	36.6%	38%	32.9%	43.3%	50%
Cash	1.0%	1.0%	2%	9.4%	2.6%	2%
Real Estate/Commodities	2.6%	2.7%	5%	0.0%	0.0%	5%
Total	<u>100.0%</u>	<u>100.0%</u>		<u>100.0%</u>	<u>100.0%</u>	

Two outside investment firms each manage a portion of the Pension Plan asset portfolio. One of those investment firms also manages the Other Benefits Plan asset portfolio. Quarterly meetings are held between the Company's Pension Committee of the Board of Directors and the investment managers to review their performance and asset allocation. If the actual asset allocation is outside the targeted range, the Pension Committee reviews current market conditions and advice provided by the investment managers to determine the appropriateness of rebalancing the portfolio.

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The objective of the Company is to maximize the long-term return on retirement plan assets, relative to a reasonable level of risk, maintain a diversified investment portfolio and maintain compliance with the Employee Retirement Income Security Act of 1974. The expected long-term rate of return is based on the various asset categories in which plan assets are invested and the current expectations and historical performance for these categories.

Equity securities include Middlesex common stock in the amounts of \$0.8 million (1.1% of total Pension Plan assets) and \$0.8 million (1.4% of total Pension Plan assets) and as of December 31, 2017 and 2016, respectively.

Fair Value Measurements

Accounting guidance provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in accessible active markets.
- Level 2 – Inputs to the valuation methodology that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. If the asset or liability has a specified contractual term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Certain investments in cash and cash equivalents, equity securities, and commodities are valued based on quoted market prices in active markets and are classified as Level 1 investments. Certain investments in cash and cash equivalents, equity securities and fixed income securities are valued using prices received from pricing vendors that utilize observable inputs and are therefore classified as Level 2 investments.

The following tables present Middlesex's Pension Plan assets measured and recorded at fair value within the fair value hierarchy:

(Thousands of Dollars)

As of December 31, 2017

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 57,608	\$ —	\$ —	\$ 57,608
Money Market Funds	677	—	—	677
Common Equity Securities	10,930	—	—	10,930
Total Investments	\$ 69,215	\$ —	\$ —	\$ 69,215

(Thousands of Dollars)

As of December 31, 2016

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 49,439	\$ —	\$ —	\$ 49,439
Money Market Funds	648	—	—	648
Common Equity Securities	9,283	—	—	9,283
Total Investments	\$ 59,370	\$ —	\$ —	\$ 59,370

The following tables present Middlesex's Other Benefits Plan assets measured and recorded at fair value within the fair value hierarchy:

	(Thousands of Dollars)			
	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 20,819	\$ —	\$ —	\$ 20,819
Money Market Funds	3,388	—	—	3,388
Preferred Equity Securities	115	—	—	115
Agency/US/State/Municipal Debt	—	11,761	—	11,761
Total Investments	<u>\$ 24,322</u>	<u>\$ 11,761</u>	<u>\$ —</u>	<u>\$ 36,083</u>

	(Thousands of Dollars)			
	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 17,096	\$ —	\$ —	\$ 17,096
Money Markey Funds	826	—	—	826
Preferred Equity Securities	108	—	—	108
Agency/US/State/Municipal Debt	—	13,577	—	13,577
Total Investments	<u>\$ 18,030</u>	<u>\$ 13,577</u>	<u>\$ —</u>	<u>\$ 31,607</u>

Benefit Plans Contributions

For the Pension Plan, Middlesex made total cash contributions of \$3.6 million in 2017 and expects to make approximately \$3.3 million of cash contributions in 2018.

For the Other Benefits Plan, Middlesex made total cash contributions of \$1.6 million in 2017 and expects to make approximately \$1.6 million of cash contributions in 2018.

401(k) Plan

The Company maintains a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1%, but not more than 6%. The Company's matching contribution was \$0.6 million for each of the years ended December 31, 2017, 2016 and 2015.

For those employees hired after March 31, 2007, and still actively employed on December 31, 2017, the Company approved, and will fund, a discretionary contribution of \$0.5 million which was based on 5.0% of eligible 2017 compensation. For each of the years ended December 31, 2016 and 2015, the Company made discretionary contributions of \$0.4 million for qualifying employees.

Stock-Based Compensation

The Company has a stock compensation plan for certain management employees (the 2008 Restricted Stock Plan). The Company maintains an escrow account for 0.1 million shares of the Company's common stock for the 2008 Restricted Stock Plan. Shares issued in connection with the 2008 Restricted Stock Plan are subject to forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of normal retirement, death, disability or change in control. The maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 0.3 million shares, for which less than 50,000 shares remain as unissued shares. The 2008 Restricted Stock Plan terminates on March 31, 2018.

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The Company recognizes compensation expense at fair value for the 2008 Restricted Stock Plan awards in accordance with ASC 718, *Compensation – Stock Compensation*. Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period.

The following table presents information on the 2008 Restricted Stock Plan:

	Shares (thousands)	Unearned Compensation (thousands)	Weighted Average Grant Price
Balance, January 1, 2015	127	\$ 1,483	
Granted	33	741	\$ 22.65
Vested	(12)	—	
Forfeited	—	—	
Amortization of Compensation Expense	—	(528)	
Balance, December 31, 2015	148	\$ 1,696	
Granted	24	750	\$ 30.85
Vested	(25)	—	
Forfeited	—	—	
Amortization of Compensation Expense	—	(682)	
Balance, December 31, 2016	147	\$ 1,764	
Granted	22	799	\$ 36.95
Vested	(20)	—	
Forfeited	(2)	(54)	
Amortization of Compensation Expense	—	(724)	
Balance, December 31, 2017	147	\$ 1,785	

The fair value of vested restricted shares was \$0.8 million and \$0.9 million as of December 31, 2017 and 2016, respectively.

Note 8 – 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 the states of New Jersey, Delaware and Pennsylvania with respect to utility service 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.

(Thousands of Dollars)
Years Ended December 31,
2017 2016 2015

Operations by Segments:	2017	2016	2015
Revenues:			
Regulated	\$ 115,454	\$ 118,017	\$ 111,247
Non – Regulated	15,912	15,388	15,238
Inter-segment Elimination	(591)	(499)	(460)
Consolidated Revenues	\$ 130,775	\$ 132,906	\$ 126,025
Operating Income:			
Regulated	\$ 35,952	\$ 38,201	\$ 33,603
Non – Regulated	2,668	2,431	2,237
Consolidated Operating Income	\$ 38,620	\$ 40,632	\$ 35,840
Depreciation:			
Regulated	\$ 13,732	\$ 12,606	\$ 11,874
Non – Regulated	190	190	177
Consolidated Depreciation	\$ 13,922	\$ 12,796	\$ 12,051
Other Income (Expense), Net:			
Regulated	\$ 1,198	\$ 779	\$ 619
Non – Regulated	64	(1,308)	20
Inter-segment Elimination	(467)	(333)	(346)
Consolidated Other Income (Expense), Net	\$ 795	\$ (862)	\$ 293
Interest Expense:			
Regulated	\$ 5,855	\$ 5,293	\$ 5,554
Non – Regulated	118	89	89
Inter-segment Elimination	(467)	(89)	(89)
Consolidated Interest Charges	\$ 5,506	\$ 5,293	\$ 5,554
Income Taxes:			
Regulated	\$ 9,848	\$ 11,091	\$ 9,522
Non – Regulated	1,252	644	1,029
Consolidated Income Taxes	\$ 11,100	\$ 11,735	\$ 10,551
Net Income:			
Regulated	\$ 21,447	\$ 22,353	\$ 18,889
Non – Regulated	1,362	389	1,139
Consolidated Net Income	\$ 22,809	\$ 22,742	\$ 20,028
Capital Expenditures:			
Regulated	\$ 50,078	\$ 47,189	\$ 25,706
Non – Regulated	223	186	67
Total Capital Expenditures	\$ 50,301	\$ 47,375	\$ 25,773

(Thousands of Dollars)
As of
December 31, 2017 As of
December 31, 2016

Assets:			
Regulated	\$ 661,816	\$ 619,915	
Non – Regulated	7,093	6,245	
Inter-segment Elimination	(7,769)	(5,999)	
Consolidated Assets	\$ 661,140	\$ 620,161	

Note 9 - Quarterly Operating Results - Unaudited

Operating results for each quarter of 2017 and 2016 are as follows:

	(Thousands of Dollars, Except per Share Data)				
2017	1 st	2 nd	3 rd	4 th	Total
Operating Revenues	\$ 30,131	\$ 33,014	\$ 36,174	\$ 31,456	\$ 130,775
Operating Income	7,780	9,563	12,806	8,471	38,620
Net Income	4,441	5,381	7,642	5,345	22,809
Basic Earnings per Share	\$ 0.27	\$ 0.33	\$ 0.47	\$ 0.32	\$ 1.39
Diluted Earnings per Share	\$ 0.27	\$ 0.33	\$ 0.46	\$ 0.32	\$ 1.38
2016	1st	2nd	3rd	4th	Total
Operating Revenues	\$ 30,579	\$ 32,725	\$ 37,754	\$ 31,808	\$ 132,906
Operating Income	8,302	10,328	14,156	7,846	40,632
Net Income	4,790	5,919	8,813	3,220	22,742
Basic Earnings per Share	\$ 0.29	\$ 0.36	\$ 0.54	\$ 0.20	\$ 1.39
Diluted Earnings per Share	\$ 0.29	\$ 0.36	\$ 0.54	\$ 0.19	\$ 1.38

The information above, in the opinion of the Company, includes all adjustments consisting only of normal recurring accruals necessary for a fair presentation of such amounts. The business of the Company is subject to seasonal fluctuation with the peak period usually occurring during the summer months. The quarterly earnings per share amounts above may differ from previous filings due to the effects of rounding.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

(1) 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.

As required by Rule 13a-15 under 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 for the quarter ended December 31, 2017. Based upon that evaluation the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded:

(a) Disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) No changes in internal control over financial reporting occurred during our most recent fiscal quarter that has materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Accordingly, management believes the consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

(2) Management's Report on Internal Control Over Financial Reporting

The management of Middlesex Water Company (Middlesex or the Company) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13A-15(f) and 15d-15(f). Middlesex's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors of adequate preparation and fair presentation of the published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the adequacy of financial statement preparation and presentation. Middlesex's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* (2013 framework). Based on our assessment, we believe that as of December 31, 2017, the Company's internal control over financial reporting is operating as designed and is effective based on those criteria.

Middlesex's independent registered public accounting firm has audited the effectiveness of our internal control over financial reporting as of December 31, 2017 as stated in their report which is included herein.

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

/s/ A. Bruce O'Connor
A. Bruce O'Connor
Vice President, Treasurer and
Chief Financial Officer

Iselin, New Jersey
March 9, 2018

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information with respect to Directors of Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

Information regarding the Executive Officers of Middlesex Water Company is included under Item 1. in Part I of this Annual Report.

ITEM 11. EXECUTIVE COMPENSATION.

This Information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

1. The following Financial Statements and Supplementary Data are included in Part II- Item 8. of this Annual Report:

Consolidated Balance Sheets at December 31, 2017 and 2016.

Consolidated Statements of Income for each of the three years in the period ended December 31, 2017.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2017.

Consolidated Statements of Capital Stock and Long-term Debt as of December 31, 2017 and 2016.

Consolidated Statements of Common Stockholders' Equity for each of the three years in the period ended December 31, 2017.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

All Schedules are omitted because of the absence of the conditions under which they are required or because the required information is shown in the financial statements or notes thereto.

3. Exhibits

See Exhibit listing immediately following the signature page.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MIDDLESEX WATER COMPANY

By: /s/ Dennis W. Doll
Dennis W. Doll
President and Chief Executive Officer

Date: March 9, 2018

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities indicated on March 9, 2018.

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

By: /s/ Dennis W. Doll
Dennis W. Doll
Chairman of the Board, President, Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ James F. Cosgrove Jr.
James F. Cosgrove Jr.
Director

By: /s/ Kim C. Hanemann
Kim C. Hanemann
Director

By: /s/ Steven M. Klein
Steven M. Klein
Director

By: /s/ Amy B. Mansue
Amy B. Mansue
Director

By: /s/ John R. Middleton, M.D.
John R. Middleton, M.D.
Director

By: /s/ Walter G. Reinhard
Walter G. Reinhard
Director

By: /s/ Jeffries Shein
Jeffries Shein
Director

EXHIBIT INDEX

Exhibits designated with an asterisk (*) are filed herewith. The exhibits not so designated have heretofore been filed with the Commission and are incorporated herein by reference to the documents indicated in the previous filing columns following the description of such exhibits. Exhibits designated with a dagger (†) are management contracts or compensatory plans.

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
3.1	Certificate of Amendment to the Restated Certificate of Incorporation, filed with the State of New Jersey on June 19, 1997, included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed April 30, 2010.		
3.2	Certificate of Amendment to the Restated Certificate of Incorporation, filed with the State of New Jersey on May 27, 1998, filed as Exhibit 3.1 of the Company's 1998 Form 10-K.		
3.3	Certificate of Correction of Middlesex Water Company filed with the State of New Jersey on April 30, 1999, filed as Exhibit 3.3 of the Company's 2003 Form 10-K/A-2.		
3.4	Certificate of Amendment to the Restated Certificate of Incorporation Middlesex Water Company, filed with the State of New Jersey on February 17, 2000, filed as Exhibit 3.4 of the Company's 2003 Form 10-K/A-2.		
3.5	Certificate of Amendment to the Restated Certificate of Incorporation Middlesex Water Company, filed with the State of New Jersey on June 5, 2002, filed as Exhibit 3.5 of the Company's 2003 Form 10-K/A-2.		
3.6	Certificate of Amendment to the Restated Certificate of Incorporation, filed with the State of New Jersey on June 10, 1998, filed as Exhibit 3.1 of the Company's 1998 Form 10-K.		
3.7	Bylaws of the Company, as amended, filed as Exhibit 4.1 of the Company's 2010 Second Quarter Form 10-Q.		
4.1	Form of Common Stock Certificate.	2-55058	2(a)
10.1	Copy of Purchased Water Agreement between the Company and Elizabethtown Water Company, filed as Exhibit 10 of the Company's 2006 First Quarter Form 10-Q.		
10.2	Copy of Mortgage, dated April 1, 1927, between the Company and Union County Trust Company, as Trustee, as supplemented by Supplemental Indentures, dated as of October 1, 1939 and April 1, 1949.	2-15795	4(a)-4(f)
10.3	Copy of Supplemental Indenture, dated as of July 1, 1964 and June 15, 1991, between the Company and Union County Trust Company, as Trustee.	33-54922	10.4-10.9
10.4	Copy of Supply Agreement, dated as of July 27, 2011, between the Company and the Old Bridge Municipal Utilities Authority filed as Exhibit No. 10.4 of the Company's 2011 Third Quarter Form 10-Q.		

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.5	Copy of Supply Agreement, dated as of July 14, 1987, between the Company and the Marlboro Township Municipal Utilities Authority, as amended.	33-31476	10.13
10.6	Copy of Water Purchase Contract, dated as of September 25, 2003, between the Company and the New Jersey Water Supply Authority, filed as Exhibit No. 10.7 of the Company's 2003 Form 10-K.		
10.7	Copy of Treatment and Pumping Agreement, dated October 1, 2014, between Middlesex Water Company and the Township of East Brunswick, filed as Exhibit No. 10.7 of the Company's 2016 Form 10-K.		
10.8	Copy of Supply Agreement, dated June 4, 1990, between the Company and Edison Township.	33-54922	10.24
10.9	Copy of amended Supply Agreement between the Company and the Borough of Highland Park filed as Exhibit No. 10.1 of the Company's 2006 First Quarter Form 10-Q.		
10.9(a)	Copy of Amendment to Supply Agreement between the Company and the Borough of Highland Park filed as Exhibit No. 10.9(a) of the Company's 2015 Form 10-K.		
(t)10.10	Copy of Supplemental Executive Retirement Plan, filed as Exhibit 10.13 of the Company's 1999 Third Quarter Form 10-Q.		
(t)10.11(a)	Copy of 2008 Restricted Stock Plan, filed as Appendix A to the Company's Definitive Proxy Statement, dated and filed April 11, 2008.		
(t)10.11(b)	Copy of 2008 Outside Director Stock Compensation Stock Plan, filed as Appendix B to the Company's Definitive Proxy Statement, dated and filed April 11, 2008.		
(t)10.12(a)	Change in Control Termination Agreement between Middlesex Water Company and Dennis W. Doll, filed as Exhibit 10.13(a) of the Company's 2008 Form 10-K.		
(t)10.12(b)	Change in Control Termination Agreement between Middlesex Water Company and A. Bruce O'Connor, filed as Exhibit 10.13(b) of the Company's 2008 Form 10-K.		
(t)10.12(c)	Change in Control Termination Agreement between Middlesex Water Company and Richard M. Risoldi, filed as Exhibit 10.13(d) of the Company's 2008 Form 10-K.		
(t)10.12(d)	Change in Control Termination Agreement between Middlesex Water Company and Lorrie B. Ginegaw, filed as Exhibit 10.13(e) of the Company's 2011 Form 10-K.		
(t)10.12(e)	Change in Control Termination Agreement between Tidewater Utilities, Inc. and Gerard L. Esposito, filed as Exhibit 10.13(g) of the Company's 2008 Form 10-K.		
(t)10.12(f)	Change in Control Termination Agreement between Middlesex Water Company and Bernadette M. Sohler, filed as Exhibit 10.13(h) of the Company's 2008 Form 10-K.		

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
(t)10.12(g)	Change in Control Termination Agreement between Middlesex Water Company and Jay L. Kooper, filed as Exhibit 10.12(g) of the Company's 2014 Second Quarter Form 10-Q.		
10.13	Copy of Transmission Agreement, dated October 16, 1992, between the Company and the Township of East Brunswick.	33-54922	10.23
10.13(a)	Copy of Amendment of Transmission Agreement, dated October 1, 2014, between the Company and the Township of East Brunswick, filed as Exhibit No. 10.13(a) of the Company's 2016 Form 10-K.		
10.14	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series X), filed as Exhibit No. 10.22 of the Company's 1998 Third Quarter Form 10-Q.		
10.15	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the State of New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series Y), filed as Exhibit No. 10.23 of the Company's 1998 Third Quarter Form 10-Q.		
10.16	Copy of Operation, Maintenance and Management Services Agreement dated January 1, 1999 between the Company, City of Perth Amboy, Middlesex County Improvement Authority and Utility Service Affiliates, Inc.	333-66727	10.24
10.17	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the State of New Jersey and Middlesex Water Company (Series Z), filed as Exhibit No. 10.25 of the Company's 1999 Form 10-K.		
10.18	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series AA), filed as Exhibit No. 10.26 of the Company's 1999 Form 10-K.		
10.19	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the State of New Jersey and Middlesex Water Company (Series BB). Filed as Exhibit No. 10.22 of the Company's 2001 Form 10-K.		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.20	<u>Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series CC). Filed as Exhibit No. 10.22 of the Company's 2001 Form 10-K.</u>		
10.21	<u>Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the State of New Jersey and Middlesex Water Company (Series EE), filed as Exhibit No. 10.26 of the Company's 2004 Form 10-K.</u>		
10.22	<u>Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series FF), filed as Exhibit No. 10.27 of the Company's 2004 Form 10-K.</u>		
10.23	<u>Copy of Promissory Notes and Amendment to Combination Water Utility Real Estate Mortgage and Security Agreement, by Tidewater Utilities, Inc., dated October 15, 2014, filed as Exhibit 10.23 of the Company's 2014 Form 10-K.</u>		
10.24	<u>Copy of Supply Agreement, between the Company and the City of Rahway, filed as Exhibit No. 10.2 of the Company's 2006 First Quarter Form 10-Q.</u>		
10.25	<u>Copy of Supplemental Indenture dated October 15, 2006 between Middlesex Water Company and U.S. Bank National Association, as Trustee and copy of Loan Agreement dated November 1, 2006 between the State of New Jersey and Middlesex Water Company (Series GG), filed as Exhibit No. 10.30 of the Company's 2006 Form 10-K.</u>		
10.26	<u>Copy of Supplemental Indenture dated October 15, 2006 between Middlesex Water Company and U.S. Bank National Association, as Trustee and copy of Loan Agreement dated November 1, 2006 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series HH), filed as Exhibit No. 10.31 of the Company's 2006 Form 10-K.</u>		
10.27	<u>Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2007 (Series II), filed as Exhibit No. 10.32 of the Company's 2007 Form 10-K.</u>		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.28	Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection, and Middlesex Water Company dated as of November 1, 2007 (Series JJ), filed as Exhibit 10.33 of the Company's 2007 Form 10-K.		
10.29	Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2008 (Series KK), filed as Exhibit 10.34 of the Company's 2008 Form 10-K.		
10.30	Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection, and Middlesex Water Company dated as of November 1, 2008 (Series LL)), filed as Exhibit 10.35 of the Company's 2008 Form 10-K.		
10.31	Registration Statement, Form S-3, under Securities Act of 1933 filed July 31, 2015, relating to the Middlesex Water Company Investment Plan.	333-205698	
10.32	Amended and Restated Line of Credit Note between registrant, registrant's subsidiaries and PNC Bank, N.A., filed as Exhibit 10.32 of the Company's 2015 First Quarter Form 10-Q.		
10.32(a)	Amendment To and Extension of the Expiration Date of the Line of Credit included in the Amended and Restated Loan Agreement between registrant, registrant's subsidiaries and PNC Bank, N.A., filed as Exhibit 10.32(a) of the Company's 2017 Third Quarter Form 10-Q.		
10.33	Uncommitted Line of Credit Letter Agreement between registrant, registrant's subsidiaries and Bank of America, N.A, filed as Exhibit 10.33 of the Company's 2015 Third Quarter Form 10-Q.		
10.33(a)	Amendment To and Extension of the Expiration Date of the Line of Credit included in the Amended and Restated Loan Agreement between registrant, registrant's subsidiaries and Bank of America, N.A., filed as Exhibit 10.32(a) of the Company's 2017 Third Quarter Form 10-Q.		
10.34	Amended Promissory Note for a committed line of credit between registrant's wholly-owned subsidiary Tidewater Utilities, Inc. and CoBank, ACB, filed as Exhibit 10.34 of the Company's 2017 First Quarter Form 10-Q.		
10.35	Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of December 1, 2010 (Series MM), filed as Exhibit 10.41 of the Company's 2010 Form 10-K.		

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.36	<u>Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of December 1, 2010 (Series NN), filed as Exhibit 10.42 of the Company's 2010 Form 10-K.</u>		
10.37	<u>Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of May 1, 2012 (Series OO), filed as Exhibit 10.43 of the Company's 2012 Second Quarter Form 10-Q.</u>		
10.38	<u>Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2012 (Series PP), filed as Exhibit 10.44 of the Company's 2012 Second Quarter Form 10-Q.</u>		
10.39	<u>Copy of Loan Agreement By and Between the New Jersey Economic Development Authority and Middlesex Water Company dated as of November 1, 2012 (Series QQ, RR & SS), filed as Exhibit 10.41 of the Company's 2012 Form 10-K.</u>		
10.40	<u>Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of May 1, 2013 (Series TT), filed as Exhibit 10.42 of the Company's 2013 Second Quarter Form 10-Q.</u>		
10.41	<u>Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2013 (Series UU), filed as Exhibit 10.43 of the Company's 2013 Second Quarter Form 10-Q.</u>		
10.42	<u>Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2014 (Series VV), filed as Exhibit 10.43 of the Company's 2014 Second Quarter Form 10-Q.</u>		
10.43	<u>Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2014 (Series WW), filed as Exhibit 10.44 of the Company's 2014 Second Quarter Form 10-Q.</u>		
*10.44	<u>Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2017 (Series XX).</u>		
*10.45	<u>Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2017 (Series YY).</u>		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.46	Copy of Construction Loan Agreement (CFP 17-2) by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company, filed as Exhibit 10.47 of the Company's 2017 Third Quarter Form 10-Q.		
*21	Middlesex Water Company Subsidiaries.		
*23.1	Consent of Independent Registered Public Accounting Firm, Baker Tilly Virchow Krause, LLP.		
*31	Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.		
*31.1	Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.		
*32	Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C.§1350.		
*32.1	Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C.§1350.		
101.INS	XBRL Instance Document		
101.LAB	XBRL Labels Linkbase Document		
101.PRE	XBRL Presentation Linkbase Document		
101.DEF	XBRL Definition Linkbase Document		
101.SCH	XBRL Schema Document		
101.CAL	XBRL Calculation Linkbase Document		

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Section 2: EX-10.44 (EX-10.44)

Exhibit 10.44

LOAN AGREEMENT
BY AND BETWEEN
THE STATE OF NEW JERSEY,
ACTING BY AND THROUGH THE NEW JERSEY
DEPARTMENT OF ENVIRONMENTAL PROTECTION
AND
MIDDLESEX WATER COMPANY

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FUND LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of November 1, 2017 by and between THE STATE OF NEW JERSEY, acting by and through the New Jersey Department of Environmental Protection, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings ascribed thereto in Section 1.01 hereof);

WITNESSETH THAT:

WHEREAS, the Borrower has, in accordance with the Regulations, made timely application to the State for a Loan to finance a portion of the Costs of the Project;

WHEREAS, the State has approved the Borrower's application for a Loan from Federal Funds, if and when received by and available to the State, and moneys from repayments of loans previously made from such Federal Funds, in the amount of the loan commitment set forth in Exhibit A-2 attached hereto and made a part hereof to finance a portion of the Costs of the Project;

WHEREAS, the New Jersey State Legislature has approved an appropriations act that authorizes an expenditure of said proceeds, Federal Funds or related moneys to finance a portion of the Costs of the Project;

WHEREAS, the Borrower, in accordance with the Business Corporation Law and all other applicable law, will issue a Borrower Bond to the State evidencing said Loan at the Loan Closing; and

WHEREAS, in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334, as amended, and the Regulations, the Borrower has been awarded a Trust Loan for a portion of the Costs of the Project plus, if applicable to the Borrower, capitalized interest on the Trust Loan and certain costs of issuance.

NOW, THEREFORE, for and in consideration of the award of the Loan by the State, the Borrower agrees to complete the Project and to perform under this Loan Agreement in accordance with the conditions, covenants and procedures set forth herein and attached hereto as part hereof, as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01. Definitions.

(a) The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, have the following meanings:

“Administrative Fee” means an annual fee of up to one percent (1.0%) of the initial principal amount of the Loan or such lesser amount, if any, as may be authorized by any act of the New Jersey State Legislature and as the State may approve from time to time.

“Authorized Officer” means, in the case of the Borrower, any person or persons authorized pursuant to a resolution of the board of directors of the Borrower to perform any act or execute any document relating to the Loan, the Borrower Bond or this Loan Agreement.

“Bond Counsel” means a law firm appointed or approved by the State, as the case may be, having a reputation in the field of municipal law whose opinions are generally acceptable by purchasers of municipal bonds.

“Borrower” means the corporation that is a party to and is described in Schedule A to this Loan Agreement, and its successors and assigns.

“Borrower Bond” means the general obligation bond, note, debenture or other evidence of indebtedness authorized, executed, attested and delivered by the Borrower to the State and authenticated on behalf of the Borrower to evidence the Loan, a specimen of which is attached hereto as Exhibit D and made a part hereof.

“Borrowers” means any other Local Government Unit or Private Entity (as such terms are defined in the Regulations) authorized to construct, operate and maintain Environmental Infrastructure Facilities that have entered into Loan Agreements with the State pursuant to which the State will make Loans to such recipients from Federal Funds.

“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.

“Costs” means those costs that are eligible, reasonable, necessary, allocable to the Project and permitted by generally accepted accounting principles, including Allowances and Building Costs (as defined in the Regulations), as shall be determined on a project-specific basis in accordance with the Regulations as set forth in Exhibit B hereto, as the same may be amended by subsequent eligible costs as evidenced by a certificate of an authorized officer of the State.

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

“Environmental Infrastructure Facilities” means Water Supply Facilities (as such term is defined in the Regulations).

“Environmental Infrastructure System” means the Environmental Infrastructure Facilities of the Borrower, including the Project, described in Exhibit A-1 attached hereto and made a part hereof for which the Borrower is borrowing the Loan under this Loan Agreement.

“Event of Default” means any occurrence or event specified in Section 5.01 hereof.

“Excess Project Funds” shall have the meaning set forth in Section 3.03A hereof.

“Federal Funds” means those funds awarded to the State pursuant to the Clean Water Act (33 U.S.C. §1251 *et seq.*) or the Safe Drinking Water Act (42 U.S.C. §300f *et seq.*), as the same may from time to time be amended and supplemented.

“Loan” means the loan made by the State to the Borrower to finance or refinance a portion of the Costs of the Project pursuant to this Loan Agreement. For all purposes of this Loan Agreement, the principal amount of the Loan at any time shall be the amount of the loan commitment set forth in Exhibit A-2 attached hereto and made a part hereof (such amount being also specified as the initial aggregate principal amount of the Borrower Bond) less any amount of such principal amount that has been repaid by the Borrower under this Loan Agreement and less any adjustment made for low bid or final building costs pursuant to the provisions of N.J.A.C. 7:22-3.26 and the appropriations act of the New Jersey State Legislature authorizing the expenditure of moneys to finance a portion of the Costs of the Project.

“Loan Agreement” means this Loan Agreement, including Schedule A and the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof.

“Loan Agreements” means any other loan agreements entered into by and between the State and one or more of the Borrowers pursuant to which the State will make Loans to such Borrowers from Federal Funds.

“Loan Closing” means the date upon which the Borrower shall deliver its Borrower Bond, as previously authorized, executed, attested and, if applicable, authenticated, to the State.

“Loan Repayments” means the sum of (i) the repayments of the principal amount of the Loan payable by the Borrower pursuant to Section 3.03(a) of this Loan Agreement and (ii) any late charges incurred hereunder, but shall not include the Administrative Fee.

“Loan Term” means the term of this Loan Agreement provided in Sections 3.01 and 3.03 hereof and in Exhibit A-2 attached hereto and made a part hereof.

“Loans” means the loans made by the State to the Borrowers under the Loan Agreements from moneys from Federal Funds.

“Master Program Trust Agreement” means that certain Master Program Trust Agreement, dated as of November 1, 1995, by and among the Trust, the State, United States Trust Company of New York, as Master Program Trustee thereunder, The Bank of New York (NJ), in several capacities thereunder, and First Fidelity Bank, N.A. (predecessor to Wachovia Bank, National Association), in several capacities thereunder, as supplemented by that certain Agreement of Resignation of Outgoing Master Program Trustee, Appointment of Successor Master Program Trustee and Acceptance Agreement, dated as of November 1, 2001, by and among United States Trust Company of New York, as Outgoing Master Program Trustee, State Street Bank and Trust Company, N.A. (predecessor to U.S. Bank Trust National Association), as Successor Master Program Trustee, and the Trust, as the same may be amended and supplemented from time to time in accordance with its terms.

“Prime Rate” means the prevailing commercial interest rate announced by the Trustee from time to time in the State as its prime lending rate.

“Project” means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the State is permitted to make a loan to the Borrower pursuant to the Regulations, all or a portion of the Costs of which is financed or refinanced by the State through the making of the Loan under this Loan Agreement and which may be identified under either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

“Regulations” means the rules and regulations, as applicable, now or hereafter promulgated under 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, acting, unless otherwise specifically indicated, by and through the Department, and its successors and assigns.

“Trust” means 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 P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 *et seq.*).

“Trust Loan” means the loan made to the Borrower by the Trust pursuant to the Trust Loan Agreement.

“Trust Loan Agreement” means the loan agreement by and between the Borrower and the Trust dated as of November 1, 2017 to finance or refinance a portion of the Costs of the Project.

“Trustee” means, initially, Zions Bank, a Division of ZB, National Association, the Trustee appointed by the Trust and its successors as Trustee under the Bond Resolution (as defined in the Trust Loan Agreement), as provided in Article X of the Bond Resolution.

(b) In addition to the capitalized terms defined in subsection (a) of this Section 1.01, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly

requires otherwise, have the meanings ascribed to such additional capitalized terms in Schedule A attached hereto and made a part hereof.

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

SECTION 2.01. Representations of Borrower. The Borrower represents for the benefit of the State as follows:

(a) Organization and Authority.

(i) The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State of New Jersey, including the Business Corporation Law.

(ii) The acting officers of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in this Loan Agreement either are or, at the time any such action was performed, were the duly appointed or elected officers of such Borrower empowered by applicable New Jersey law and, if applicable, authorized by resolution of the Borrower to perform such actions. To the extent any such action was performed by an officer no longer the duly acting officer of such Borrower, all such actions previously taken by such officer are still in full force and effect.

(iii) The Borrower has full legal right and authority and all necessary licenses and permits required as of the date hereof to own, operate and maintain its Environmental Infrastructure System, to carry on its activities relating thereto, to execute, attest and deliver this Loan Agreement and the Borrower Bond, to authorize the authentication of the Borrower Bond, to sell the Borrower Bond to the State, to undertake and complete the Project and to carry out and consummate all transactions contemplated by this Loan Agreement.

(iv) The proceedings of the Borrower's board of directors approving this Loan Agreement and the Borrower Bond, authorizing the execution, attestation and delivery of this Loan Agreement and the Borrower Bond, authorizing the sale of the Borrower Bond to the State, authorizing the authentication of the Borrower Bond on behalf of the Borrower and authorizing the Borrower to undertake and complete the Project, including, without limitation, the Borrower Bond Resolution (collectively, the "Proceedings"), have been duly and lawfully adopted in accordance with the Business Corporation Law and other applicable New Jersey law at a meeting or meetings that were duly called and held in accordance with the Borrower By-Laws and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the Borrower Bond and the sale thereof to the State upon the terms set forth herein; and (C)

the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement.

(vi) This Loan Agreement and the Borrower Bond have each been duly authorized by the Borrower and duly executed, attested and delivered by Authorized Officers of the Borrower, and the Borrower Bond has been duly sold by the Borrower to the State, duly authenticated by the trustee or paying agent, if applicable, under the Borrower Bond Resolution and duly issued by the Borrower in accordance with the terms of the Borrower Bond Resolution; and assuming that the State has all the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, this Loan Agreement, and assuming further that this Loan Agreement is the legal, valid and binding obligation of the State, enforceable against the State in accordance with its terms, each of this Loan Agreement and the Borrower Bond constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective 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; and the information contained under "Description of Loan" in Exhibit A-2 attached hereto and made a part hereof is true and accurate in all respects.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the State in writing on the Borrower's application for the Loan or otherwise that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or the ability of the Borrower to make all Loan Repayments or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect (i) the undertaking or completion of the Project, (ii) the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, (iii) the ability of the Borrower to make all Loan Repayments, (iv) the authorization, execution, attestation or delivery of this Loan Agreement or the Borrower Bond, (v) the issuance of the Borrower Bond and the sale thereof to the State, (vi) the adoption of the Borrower Bond Resolution, or (vii) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond, which proceedings have not been previously disclosed in writing to the State either in the Borrower's application for the Loan or otherwise.

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the State,

(iii) the adoption of the Borrower Bond Resolution, (iv) the observation and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, 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 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 is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the State, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it, its Environmental Infrastructure System or its properties may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System or the ability of the Borrower to make all Loan Repayments, to pay all other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, for the issuance of the Borrower Bond and the sale thereof to the State, for the adoption of the Borrower Bond Resolution, for the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond and for the undertaking or completion of the Project and the financing or refinancing thereof, including, but not limited to, if required, the approval by the New Jersey Board of Public Utilities (the "BPU") of the issuance by the Borrower of the Borrower Bond to the State and any other approvals required therefor by the BPU; and the Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond or with the undertaking or completion of the Project and the financing or refinancing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any

governmental body or officer that has not been obtained is required on the part of the Borrower as a condition to the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the State, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

(g) Compliance with Law. The Borrower:

(i) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject, the failure to comply with which would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System; and

(ii) has obtained all licenses, permits, franchises or other governmental authorizations presently necessary for the ownership of its properties or for the conduct of its activities that, if not obtained, would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the State as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the Costs of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Costs of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the State and is eligible for such reimbursement under and pursuant to the Regulations, the Code and any other applicable law. All of such costs constitute Costs for which the State is authorized to make Loans to the Borrower pursuant to the Regulations.

SECTION 2.02. Particular Covenants of Borrower.

(a) Promise to Pay. The Borrower unconditionally and irrevocably promises in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal of the Loan and the Borrower Bond, and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable state and federal laws, rules and regulations in the performance of this Loan Agreement; (ii) to maintain its Environmental Infrastructure System in good repair and operating condition; (iii) to cooperate with the State in the observance and performance of the respective duties, covenants, obligations and agreements of the Borrower and the State under this Loan Agreement; and (iv) to establish, levy and collect rents, rates and other charges for the products and services provided by its Environmental Infrastructure System, which rents, rates

and other charges shall be at least sufficient to comply with all covenants pertaining thereto contained in, and all other provisions of, any bond resolution, trust indenture or other security agreement, if any, relating to any bonds, notes or other evidences of indebtedness issued or to be issued by the Borrower, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of, and interest if any on, the Borrower Bond, plus all other amounts due hereunder.

(c) Revenue Obligation; No Prior Pledges. The Borrower shall not be required to make payments under this Loan Agreement except from the revenues of its Environmental Infrastructure System and from such other funds of such Environmental Infrastructure System legally available therefor and from any other sources pledged to such payment pursuant to subsection (a) of this Section 2.02. In no event shall the Borrower be required to make payments under this Loan Agreement from any revenues or receipts not derived from its Environmental Infrastructure System or pledged pursuant to subsection (a) of this Section 2.02. Except for (i) loan repayments required with respect to the Trust Loan, (ii) the debt service on any future bonds or notes of the Borrower issued at parity with the Borrower Bond under the Borrower Bond Resolution, and (iii) the debt service on any bonds, notes or evidences of indebtedness of the Borrower at parity with the Borrower Bond under the Borrower Bond Resolution and currently outstanding or issued on the date hereof, the revenues derived by the Borrower from its Environmental Infrastructure System, after the payment of all costs of operating and maintaining the Environmental Infrastructure System, are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the obligation of the Borrower to make Loan Repayments under this Loan Agreement and the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

(d) Completion of Project and Provision of Moneys Therefor. The Borrower covenants and agrees (i) to exercise its best efforts in accordance with prudent environmental infrastructure utility practice to complete the Project and to accomplish such completion on or before the estimated Project completion date set forth in Exhibit C hereto and made a part hereof; (ii) to comply with the terms and provisions contained in Exhibit G hereto; and (iii) to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives under the Loan and Trust Loan, required to complete the Project.

(e) See Section 2.02(e) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(e) by reference as if set forth in full herein.

(f) Reserved.

(g) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall, in accordance with prudent environmental infrastructure utility practice, (i) at all times operate the properties of its Environmental Infrastructure System and any business in connection therewith in an efficient manner, (ii) maintain its Environmental Infrastructure System in good repair, working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Environmental

Infrastructure System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(h) Records and Accounts.

(i) The Borrower shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent or certified public accountant, which may be part of the annual audit of the General Records of the Borrower. Such System Records and General Records shall be made available for inspection by the State at any reasonable time upon prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the State within 150 days of the close of the fiscal year being so audited or, with the consent of the State, such additional period as may be provided by law.

(ii) Within thirty (30) days following receipt of any Loan proceeds, including without limitation the "Allowance for Administrative Costs" or the "Allowance for Planning and Design" set forth in Exhibit B hereto, the Borrower shall allocate such proceeds to an expenditures in a manner that satisfies the requirements of Treasury Regulation §1.148-6(d) and transmit a copy of each such allocation to the State. No portion of the Allowance for Administrative Costs will be allocated to a cost other than a cost described in N.J.A.C. 7:22-5.11(a) 3, 4 or 6. No portion of the Allowance for Planning and Design will be allocated to a cost other than a cost described N.J.A.C. 7:22-5.12, or other costs of the Borrower's Environmental Infrastructure System which are "capital expenditures," within the meaning of Treasury Regulations §1.150-1. The Borrower shall retain records of such allocations for at least until the date that is three years after the scheduled maturity date of the Loan. The Borrower shall make such records available to the State within 15 days of any request by the State.

(i) Inspections; Information. The Borrower shall permit the State and any party designated by the State, at any and all reasonable times during construction of the Project and thereafter upon prior written notice, to examine, visit and inspect the property, if any, constituting the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the State may reasonably require in connection therewith.

(j) Insurance. The Borrower shall maintain or cause to be maintained, in force, insurance policies with responsible insurers or self-insurance programs providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining Environmental Infrastructure Facilities of the nature of the Borrower's Environmental Infrastructure System, including liability coverage, all to the extent available at reasonable cost but in no case less than will satisfy all applicable regulatory requirements.

(k) Costs of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the State a certificate from a licensed professional engineer authorized to practice in the State stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds the maturity date of the Borrower Bond.

(l) Delivery of Documents. Concurrently with the delivery of this Loan Agreement (as previously authorized, executed and attested) at the Loan Closing, the Borrower will cause to be delivered to the State each of the following items:

(i) an opinion of the Borrower's bond counsel substantially in the form of Exhibit E hereto; provided, however, that the State may permit portions of such opinion to be rendered by general counsel to the Borrower and may permit variances in such opinion from the form set forth in Exhibit E if such variances are acceptable to the State;

(ii) counterparts of this Loan Agreement as previously executed and attested by the parties hereto;

(iii) copies of those resolutions finally adopted by the board of directors of the Borrower and requested by the State, including, without limitation, (A) the resolution of the Borrower authorizing the execution, attestation and delivery of this Loan Agreement, (B) the Borrower Bond Resolution, as amended and supplemented as of the date of the Loan Closing, authorizing the execution, attestation, authentication, sale and delivery of the Borrower Bond to the State, (C) the resolution of the Borrower confirming the details of the sale of the Borrower Bond to the State, each of said resolutions of the Borrower being certified by an Authorized Officer of the Borrower as of the date of the Loan Closing, (D) the resolution of the BPU approving the issuance by the Borrower of the Borrower Bond to the State and setting forth any other approvals required therefor by the BPU, if applicable, and (E) any other Proceedings; and

(iv) the certificates of insurance coverage as required pursuant to the terms of Section 3.06(c) hereof and such other certificates, documents, opinions and information as the State may require in Exhibit F hereto, if any.

(m) Execution and Delivery of Borrower Bond. Concurrently with the delivery of this Loan Agreement at the Loan Closing, the Borrower shall also deliver to the State the Borrower Bond, as previously executed, attested and, if applicable, authenticated.

(n) Notice of Material Adverse Change. The Borrower shall promptly notify the State of any material adverse change in the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or in the ability of the Borrower to make all Loan Repayments and otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(o) Continuing Representations. The representations of the Borrower contained herein shall be true at the time of the execution of this Loan Agreement and at all times during the term of this Loan Agreement.

(p) Additional Covenants and Requirements. (i) No later than the Loan Closing and, if necessary, in connection with the making of the Loan, additional covenants and requirements have been included in Exhibit F hereto and made a part hereof. Such covenants and requirements may include, but need not be limited to, the maintenance of specified levels of Environmental Infrastructure System rates, the issuance of additional debt of the Borrower, and the transfer of revenues and receipts from the Borrower's Environmental Infrastructure System. The Borrower agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto. (ii) Additional defined terms, covenants, representations and requirements have been included in Schedule A attached hereto and made a part hereof. Such additional defined terms, covenants, representations and requirements are incorporated in this Loan Agreement by reference thereto as if set forth in full herein and the Borrower hereby agrees to observe and comply with each such additional term, covenant, representation and requirement included in Schedule A as if the same were set forth in their entirety where reference thereto is made in this Loan Agreement.

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

SECTION 3.01. Loan; Loan Term.

(a) The State hereby agrees (i) to make the Loan as described in Exhibit A-2 attached hereto and made a part hereof, to the Borrower, and (ii) to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof. The Borrower hereby agrees to borrow and accept the Loan from the State upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof. The Borrower hereby agrees to borrow and accept the Loan from the State upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof. The Borrower agrees that the aggregate principal amount set forth in Exhibit A-2 hereto shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and the State shall have no obligation thereafter to loan any additional amounts to the Borrower.

(b) Notwithstanding the provisions of subsection (a) of this Section 3.01 to the contrary, the State shall be under no obligation (i) to make the Loan to the Borrower if (1) at the Loan Closing, the Borrower does not deliver to the State a Borrower Bond and such other documents as are required pursuant to Section 2.02(l) hereof, or (2) an Event of Default has occurred and is continuing pursuant to this Loan Agreement, or (ii) to disburse the proceeds of the Loan to the Borrower in accordance with section 3.02 and Exhibit C hereof, unless each of the conditions precedent to such disbursement, as set forth in section 3.02 hereof, have been satisfied in full. The State intends to disburse the proceeds of the Loan to the Borrower at the times and in the amounts set forth in Exhibit C hereof in order to pay a portion of the Costs of the Project, subject to compliance by the Borrower with the procedures for disbursement as set forth in Section 3.02 hereof; nevertheless, due to unforeseen circumstances, there may not be a sufficient amount on deposit in the State Fund on a given disbursement date in order for the State to make the disbursement in the amount indicated in Exhibit C hereof so as to satisfy a Loan disbursement request by the Borrower pursuant to the provisions of Section 3.02 hereof, in which case (1) the State shall have no obligation hereunder to make such disbursement until such time as sufficient funds are on deposit in the State Fund, and (2) the obligations of the Borrower hereunder shall not be affected.

(c) The Borrower shall have no legal or equitable interest in the Federal Funds received by and available to the State or in moneys from repayments of loans previously made from Federal Fund by the State.

(d) The Borrower shall use the proceeds of the Loan strictly in compliance with the provisions of Section 2.01(h) hereof.

(e) The payment obligations of the Borrower created pursuant to the terms of this Loan Agreement and the obligations of the Borrower to pay the principal of and other amounts due under the Borrower Bond are each direct, general, irrevocable and unconditional obligations of the Borrower payable from any source legally available to the Borrower in accordance with the terms of and to the extent provided in the Borrower Bond Resolution.

SECTION 3.02. Disbursement of Loan Proceeds.

(a) The State shall disburse Federal Funds to the Borrower (i) upon receipt of a requisition executed by an Authorized Officer of the Borrower in a form satisfying the requirements of the Regulations, and (ii) consistent with the schedule for disbursement as set forth in Exhibit C hereof.

(b) The State shall not be under any obligation to disburse any Loan proceeds to the Borrower pursuant to this Loan Agreement, unless:

(i) the Loan Closing shall have occurred on the date established therefor by the State;

(ii) there shall be Federal Funds for disbursement, as determined by the State in its sole and absolute discretion;

(iii) in accordance with the "New Jersey Environmental Infrastructure Trust Act", P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 *et seq.*), and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Trust Loan for a portion of the Allowable Costs (as defined in such Regulations) of the Project, plus the amount of: (i) capitalized interest during the Project construction period, if any, (ii) the cost of funding reserve capacity for the Project, if any, as well as that portion of the Debt Service Reserve Fund (as defined in the Trust Loan Agreement) (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) attributable to the cost of funding such reserve capacity for the Project, (iii) certain issuance expenses related thereto, including, if applicable, a municipal bond insurance policy premium, and (iv) if applicable, an amount sufficient to pay the interest that accrued on the short-term loan by the Trust to the Borrower;

(iv) the Borrower shall have on hand moneys to pay for the greater of (A) that portion of the total Costs of the Project that is not eligible to be funded from the Loan or the Trust Loan, or (B) that portion of the total Costs of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the Loan and the Trust Loan; and

(v) no Event of Default nor any event that, with the passage of time or service of notice or both, would constitute an Event of Default shall have occurred and be continuing hereunder.

(c) Notwithstanding any provision of this Loan Agreement to the contrary, the State, at the request of the Borrower but at the sole discretion of the State, may disburse Loan proceeds to the Borrower from Federal Funds either prior to or subsequent to the scheduled date for disbursement thereof as such scheduled date is identified in the disbursement schedule set forth in Exhibit C hereof, provided that (A) the Borrower has otherwise satisfied the requirements of this Section 3.02, and (B) such disbursement, in a manner that is inconsistent with the disbursement schedule as set forth in Exhibit C hereof, does not conflict with any restrictions set forth in the Regulations.

In the event that, in the submission of its requisition(s), the Borrower fails to comply with the disbursement schedule as set forth in Exhibit C hereof, and such non-compliance by the Borrower consists of (i) a failure to timely seek disbursement of Loan proceeds which failure results in an amount of non-disbursed funds, subsequent to the date on which such funds should have been disbursed pursuant to the disbursement schedule set forth in Exhibit C hereof, that, in the aggregate, represents twenty-five percent (25%) of the original principal amount of the Loan, or (ii) a failure to timely seek disbursement of Loan proceeds which failure results in an amount of funds disbursed earlier than the date on which such funds were scheduled to have been disbursed pursuant to the disbursement schedule set forth in Exhibit C hereof, that, in the aggregate, represents twenty-five percent (25%) of the original principal amount of the Loan, then the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower providing a revised disbursement schedule, in a form similar to Exhibit C heretofore and approved by the Department. Any reference to Exhibit C in Section 3.01, Section 3.02 and Section 3.03A hereof shall mean Exhibit C as such exhibit may have been revised from time to time pursuant to the provisions of the preceding sentence.

SECTION 3.03. Amounts Payable.

(a) The Borrower shall repay the Loan at zero-interest in principal installments payable to the Trustee semiannually on the Principal Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by the State, in particular, without limitation, to make any adjustments to the amount of the Loan in accordance with the definition thereof; provided, however, that the amount of any reduction in the principal amount of the Loan pursuant to N.J.A.C. 7:22-3.26 shall be credited to the principal payments set forth in Exhibit A-2 in inverse order of their maturity. The obligations of the Borrower under the Borrower Bond shall be deemed to be amounts payable under this Section 3.03. Each payment made to the Trustee pursuant to the Borrower Bond shall be deemed to be a credit against the corresponding obligation of the Borrower under this Section 3.03, and any such payment made to the Trustee shall fulfill the Borrower's obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trustee pursuant to this Section 3.03 shall be applied to the principal of the Loan.

(b) In addition to the principal payments on the Loan required by subsection (a) of this Section 3.03, the Borrower shall pay a late charge for any such payment that is received by the Trustee later than its due date in an amount equal to the greater of twelve percent (12%) per annum or the Prime Rate plus one half of one percent per annum on such late payment from its due date to the date actually paid; provided, however, that such late charge payable on the Loan shall not be in excess of the maximum interest rate permitted by law.

(c) In addition to the Loan Repayments payable under subsections (a) and (b) of this Section 3.03, the Borrower shall pay one-half of the Administrative Fee, if any, to the Trustee semiannually on each February 1 and August 1, commencing August 1, 2018.

(d) Upon thirty (30) days prior written notice to the Borrower, an Authorized Officer of the State may, in the sole discretion of such Authorized Officer, prescribe the particular method by which payments pursuant to, and in satisfaction of, this Section 3.03 shall be made by the Borrower. Such method as prescribed by an Authorized Officer of the State may include,

without limitation, the automatic debit by the State or the Trustee of the respective amounts of such payments, as required by this Section 3.03, from an account that shall be identified by the Borrower in writing and recorded on file with the State. In the absence of any such written notice to the Borrower by an Authorized Officer of the State pursuant to this subsection (d), the Borrower shall implement the payments required pursuant to, and in satisfaction of, this Section 3.03 either via electronic transfer of immediately available funds or via check.

SECTION 3.03A. Amounts on Deposit in Project Loan Account after Completion of Project Draws.

(a) If, on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to the disbursement schedule contained in Exhibit C hereto, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised disbursement schedule, in a form similar to Exhibit C hereto and approved by the Department.

(b) If, on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to the revised disbursement schedule certified to the Trust and the Department in accordance with Section 3.03A(a) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a further revised disbursement schedule, in a form similar to Exhibit C hereto and approved by the Department.

(c) If (i) the Borrower fails to provide the certificate described in paragraphs (a) or (b) of this Section 3.03A, when due, or (ii) a certificate provided pursuant to paragraphs (a) or (b) of this Section 3.03A states that the Borrower does not require all or any portion of the amount on deposit in the Project Loan Account for completion of the Project, or (iii) on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to a further revised disbursement schedule certified to the Trust and the Department in accordance with Section 3.03A(b) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, then such amounts on deposit in the Project Loan Account, which are amounts that have not been certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds"), be applied by the State as a prepayment of the Borrower's Loan Repayments, and shall be applied to the principal payments (including premium, if any) on the Loan in inverse order of their maturity.

SECTION 3.04. 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 or to any extent whatsoever while any Loan Repayments remain unpaid, for any reason, 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 State to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project or this Loan Agreement, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the State, the Trustee or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements.

SECTION 3.05. Loan Agreement to Survive Loan. The Borrower acknowledges that its duties, covenants, obligations and agreements set forth in Sections 3.06(a) and (b) hereof shall survive the payment in full of the Loan.

SECTION 3.06. Disclaimer of Warranties and Indemnification.

(a) The Borrower acknowledges and agrees that: (i) the State does not make any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the State or its agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the State harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the State may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed, or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

(b) It is mutually agreed by the Borrower and the State that the State and its commissioners, officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed under this Loan Agreement and any claim or suit of whatsoever nature, except in the event of loss or damage resulting from their own negligence or willful misconduct.

(c) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the State and its employees and officers as additional "named insureds" on (A) any certificate of liability

insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the later of the date of the Loan Closing or the date of the initiation of construction of the Project until the date the Borrower receives the written certificate of Project completion from the State, the Borrower shall maintain said liability insurance covering the State and said employees and officers in good standing; and (ii) the Borrower shall include the State as an additional "named insured" on any certificate of insurance providing against risk of direct physical loss, damage or destruction of the Environmental Infrastructure System, and during the Loan Term the Borrower shall maintain said insurance covering the State in good standing.

The Borrower shall provide the State with a copy of each of any such original, supplemental, amendatory or reissued certificates of insurance (or other similar documents evidencing the insurance coverage) required pursuant to this Section 3.06(c).

SECTION 3.07. Option to Prepay Loan Repayments. The Borrower may prepay the Loan Repayments, in whole or in part, upon not less than ninety (90) days' prior written notice to the State; provided, however, that, with respect to any prepayment other than those required by Section 3.03A hereof, any such full or partial prepayment may only be made (i) if the Borrower is not then in arrears on its Trust Loan, (ii) if the Borrower is contemporaneously making a full or partial prepayment of the Trust Loan such that, after the prepayment of the Loan and the Trust Loan, the Trust gives its consent required under Section 3.07(iii) of the Trust Loan Agreement, (iii) upon the prior written approval of the State; and (iv) provided that the Borrower shall agree to pay all costs and expenses of the State in connection with such prepayment. Prepayments shall be applied to the principal payments on the portion of the Loan to be prepaid in inverse order of their maturity.

SECTION 3.08. Priority of Loan and Trust Loan.

(a) The Borrower hereby agrees that, to the extent allowed by law, including, without limitation, the appropriations act of the New Jersey State Legislature authorizing the expenditure of Trust bond proceeds to finance a portion of the Costs of the Project, or the Borrower Bond Resolution, any loan repayments then due and payable on the Borrower's Trust Loan, including, without limitation, any administrative fees and any late payment charges then due and payable under the Trust Loan Agreement, shall be satisfied by the Trustee before any Loan Repayments then due and payable hereunder on the Loan shall be satisfied by the Trustee. The Borrower agrees not to interfere with any such action by the Trustee.

(b) The Borrower hereby acknowledges that in the event the Borrower fails or is unable to pay promptly to the Trustee in full any loan repayments on the Trust Loan, then any Loan Repayments paid by the Borrower on the Loan under this Loan Agreement and received by the Trustee during the time of any such loan repayment deficiency under the Trust Loan Agreement shall be applied by the Trustee *first* to satisfy such Trust Loan Agreement loan repayment deficiency as a credit against the obligations of the Borrower to make loan repayments of that portion of interest under the Trust Loan Agreement that is allocable to the interest payable on the Trust Bonds (as defined in the Trust Loan Agreement) and to make payments of that portion of interest under the bond or note issued by the Borrower to the Trust

that is allocable to the interest payable on the Trust Bonds, *second*, to the extent available, to make loan repayments of principal under the Trust Loan Agreement and payments of principal on the bond or note issued by the Borrower to the Trust pursuant to the Trust Loan Agreement, *third*, to the extent available, to the payment of the administrative fee payable under the Trust Loan Agreement and to make payments of that portion of interest under the bond or note issued by the Borrower to the Trust that is allocable to the administrative fee payable under the Trust Loan Agreement, *fourth*, to the extent available, to the payment of late charges payable under the Trust Loan Agreement and to make payments of that portion of interest under the bond issued by the Borrower to the Trust that is allocable to the late charges payable under the Trust Loan Agreement, and *finally*, to the extent available, to make Loan Repayments on the Loan.

(c) The Borrower hereby further acknowledges that any Loan Repayments paid by the Borrower on the Loan under this Loan Agreement shall be applied according to the provisions of the Master Program Trust Agreement.

SECTION 3.09. Approval of the New Jersey State Treasurer. The Borrower and the State hereby acknowledge that prior to or simultaneously with the Loan Closing the New Jersey State Treasurer, in satisfaction of the requirements of Section 9a of the Act, issued the “Certificate of the New Jersey State Treasurer Regarding the Approval of the Trust Loan and the Fund Loan” (the “Treasurer’s Certificate”). Pursuant to the terms of the Treasurer’s Certificate, the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

SECTION 4.01. Assignment and Transfer by State. The Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement and the Borrower Bond that the State deems to be necessary in connection with the environmental infrastructure loan program of the State under the Regulations.

SECTION 4.02. Assignment by Borrower. Neither this Loan Agreement nor the Borrower Bond may be assigned by the Borrower for any reason, unless the following conditions shall be satisfied: (i) the State shall have approved said assignment in writing; (ii) the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Borrower's duties, covenants, obligations and agreements under this Loan Agreement and, to the extent permitted under applicable law, the Borrower Bond; and (iii) immediately after such assignment, the assignee shall not be in default in the observance or performance of any duties, covenants, obligations or agreements of the Borrower under this Loan Agreement or the Borrower Bond.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.01. Events of Default. If any of the following events occur, it is hereby defined as and declared to be and to constitute an “Event of Default”:

(a) failure by the Borrower to pay, or cause to be paid, any Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;

(b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

(c) failure by the Borrower to pay, or cause to be paid, any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d)(ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the State, unless the State shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the State may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;

(d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;

(e) 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 Loan Agreement 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 (including, without limitation, a receiver, liquidator or trustee 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;

(f) the Borrower shall generally fail to pay its debts as such debts become due; and

(g) failure of the Borrower to observe or perform such additional duties, covenants, obligations, agreements or conditions as are required by the State and specified in Exhibit F attached hereto and made a part hereof.

SECTION 5.02. Notice of Default. The Borrower shall give the State prompt telephonic notice of the occurrence of any Event of Default referred to in Section 5.01(e) or (f) hereof and of the occurrence of any other event or condition that constitutes an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

SECTION 5.03. Remedies on Default. Whenever an Event of Default referred to in Section 5.01 hereof shall have occurred and be continuing, the State shall have the right to take whatever action at law or in equity may appear necessary or desirable 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.

In addition, if an Event of Default referred to in Section 5.01(a) hereof shall have occurred and be continuing, the State shall, to the extent allowed by applicable law, have the right to declare all Loan Repayments and all other amounts due hereunder (including, without limitation, payments under the Borrower Bond) to be immediately due and payable, and upon notice to the Borrower the same shall become due and payable without further notice or demand.

SECTION 5.04. Attorneys' Fees and Other Expenses. The Borrower shall on demand pay to the State 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 by the State in the collection of Loan Repayments or any other sum due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

SECTION 5.05. Application of Moneys. Any moneys collected by the State pursuant to Section 5.03 hereof shall be applied (a) *first* to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 5.04 hereof, (b) *second*, to the extent available, to pay principal due and payable on the Loan (to the extent permitted by Section 3.08(b) hereof), (c) *third*, to the extent available, to pay any other amounts due and payable hereunder, and (d) *fourth*, to the extent available, to pay principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

SECTION 5.06. No Remedy Exclusive; Waiver; Notice. No remedy herein conferred upon or reserved to the State is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the State to exercise any remedy reserved to it in this Article V, it shall not be necessary to give any notice other than such notice as may be required in this Article V.

SECTION 5.07. Retention of State's Rights. Notwithstanding any assignment or transfer of this Loan Agreement pursuant to the provisions hereof, or anything else to the contrary contained herein, the State shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Borrower at law or in equity, as the State may, in its discretion, deem necessary to enforce the obligations of the Borrower to the State pursuant to Section 5.03 hereof.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified in Exhibit A-1 attached hereto and made a part hereof and to the State and the Trustee at the following addresses:

(a) State:

New Jersey Department of Environmental Protection
Municipal Finance and Construction Element
401 East State Street – 3rd Floor
Trenton, New Jersey 08625-0425
Attention: Assistant Director

New Jersey Department of the Treasury
Office of Public Finance
State Street Square – 5th Floor
Trenton, New Jersey 08625-0002
Attention: Director

(b) Trustee:

Zions Bank, a Division of ZB, National Association
600 Superior Ave., Suite 1300
Cleveland, Ohio 44114
Attention: Corporate Trust Department

Any of the foregoing parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent by notice in writing given to the others.

SECTION 6.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the State and the Borrower and their respective successors and assigns.

SECTION 6.03. Severability. In the event any provision of this Loan Agreement shall be 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.

SECTION 6.04. Amendments, Supplements and Modifications. This Loan Agreement may not be amended, supplemented or modified without the prior written consent of the State and the Borrower.

SECTION 6.05. Execution in Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.06. Applicable Law and Regulations. This Loan Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey, including the Regulations, which Regulations are, by this reference thereto, incorporated herein as part of this Loan Agreement.

SECTION 6.07. Consents and Approvals. Whenever the written consent or approval of the State shall be required under the provisions of this Loan Agreement, such consent or approval may only be given by the State.

SECTION 6.08. Captions. The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

SECTION 6.09. Further Assurances. The Borrower shall, at the request of the State, authorize, execute, attest, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other 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 Loan Agreement and the Borrower Bond.

IN WITNESS WHEREOF, the State and the Borrower have caused this Loan Agreement to be executed, sealed and delivered as of the date first above written.

**THE STATE OF NEW JERSEY
ACTING BY AND THROUGH THE
NEW JERSEY DEPARTMENT OF
ENVIRONMENTAL PROTECTION**

[SEAL]

ATTEST:

/s/Eugene J. Chebra, P.E.
Eugene J. Chebra, P.E.
Assistant Director
Municipal Finance and Construction Element
Department of Environmental Protection

By: /s/Daniel Kennedy
Daniel Kennedy
Assistant Commissioner
Water Resource Management
Department of Environmental Protection

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

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

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

[signature page]

SCHEDULE A

Certain Additional Loan Agreement Provisions

In addition to the terms defined in subsection (a) of Section 1.01 of this Loan Agreement, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in this Schedule A.

Additional Definitions:

“**Borrower**” means Middlesex Water Company, a corporation duly created and validly existing under the laws of the State of New Jersey.

“**Borrower Bond Resolution**” means the indenture of the Borrower dated as of April 1, 1927 and entitled “Indenture of Mortgage”, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond dated as of November 1, 2017 and entitled “Forty Ninth Supplemental Indenture” (the “Supplemental Indenture”), pursuant to which the Borrower Bond has been issued.

“**Principal Payment Dates**” means February 1 and August 1 of each year, commencing on February 1, 2018.

SECTION 2.02(e):

Disposition of Environmental Infrastructure System. The Borrower shall not permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a "Disposition"), except on ninety (90) days' prior written notice to the State, and, in any event, shall not permit a Disposition unless the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond.

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Section 3: EX-10.45 (EX-10.45)

Exhibit 10.45

LOAN AGREEMENT

BY AND BETWEEN

NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

AND

MIDDLESEX WATER COMPANY

DATED AS OF NOVEMBER 1, 2017

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of November 1, 2017, by and between the NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, a public body corporate and politic with corporate succession, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings ascribed thereto in Section 1.01 hereof);

WITNESSETH THAT:

WHEREAS, the Trust, in accordance with the Act, the Bond Resolution and a financial plan approved by the State Legislature in accordance with Sections 22 and 22.1 of the Act, will issue its Trust Bonds on or prior to the Loan Closing for the purpose of making the Loan to the Borrower and the Loans to the Borrowers from the proceeds of the Trust Bonds to finance a portion of the Costs of Environmental Infrastructure Facilities;

WHEREAS, the Borrower has, in accordance with the Act and the Regulations, made timely application to the Trust for a Loan to finance a portion of the Costs of the Project;

WHEREAS, the State Legislature, in accordance with Sections 20 and 20.1 of the Act, has in the form of an appropriations act approved a project priority list that includes the Project and that authorizes an expenditure of proceeds of the Trust Bonds to finance a portion of the Costs of the Project;

WHEREAS, the Trust has approved the Borrower's application for a Loan from available proceeds of the Trust Bonds to finance a portion of the Costs of the Project;

WHEREAS, in accordance with the applicable Bond Act (as defined in the Fund Loan Agreement), and the Regulations, the Borrower has been awarded a Fund Loan for a portion of the Costs of the Project; and

WHEREAS, the Borrower, in accordance with the Act, the Regulations, the Business Corporation Law and all other applicable law, will issue a Borrower Bond to the Trust evidencing said Loan at the Loan Closing.

NOW, THEREFORE, for and in consideration of the award of the Loan by the Trust, the Borrower agrees to complete the Project and to perform under this Loan Agreement in accordance with the conditions, covenants and procedures set forth herein and attached hereto as part hereof, as follows:

ARTICLE I
DEFINITIONS

SECTION 1.01. Definitions.

(a) The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, 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 that portion of Interest on the Loan or Interest on the Borrower Bond payable hereunder as an annual fee of up to four-tenths of one percent (.40%) of the initial principal amount of the Loan or such lesser amount, if any, as may be authorized by any act of the State Legislature and as the Trust may approve from time to time.

“Authorized Officer” means, in the case of the Borrower, any person or persons authorized pursuant to a resolution of the board of directors of the Borrower to perform any act or execute any document relating to the Loan, the Borrower Bond or this Loan Agreement.

“Bond Counsel” means a law firm appointed or approved by the Trust, as the case may be, having a reputation in the field of municipal law whose opinions are generally acceptable by purchasers of municipal bonds.

“Borrower” means the corporation that is a party to and is described in Schedule A to this Loan Agreement, and its successors and assigns

“Borrower Bond” means the general obligation bond, note, debenture or other evidence of indebtedness, authorized, executed, attested and delivered by the Borrower to the Trust and, if applicable, authenticated on behalf of the Borrower to evidence the Loan, a specimen of which is attached hereto as Exhibit D and made a part hereof.

“Borrowers” means any other Local Government Unit or Private Entity (as such terms are defined in the Regulations) authorized to construct, operate and maintain Environmental Infrastructure Facilities that have entered into Loan Agreements with the Trust pursuant to which the Trust will make Loans to such recipients from moneys on deposit in the Project Fund, excluding the Project Loan Account.

“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.

“**Costs**” means those costs that are eligible, reasonable, necessary, allocable to the Project and permitted by generally accepted accounting principles, including Allowances and Building Costs (as defined in the Regulations), as shall be determined on a project-specific basis in accordance with the Regulations as set forth in Exhibit B hereto, as the same may be amended by subsequent eligible costs as evidenced by a certificate of an authorized officer of the Trust.

“**Debt Service Reserve Fund**” means the Debt Service Reserve Fund, if any, as defined in the Bond Resolution.

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

“**Environmental Infrastructure Facilities**” means 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, described in Exhibit A-1 attached hereto and made a part hereof for which the Borrower is borrowing the Loan under this Loan Agreement.

“**Event of Default**” means any occurrence or event specified in Section 5.01 hereof.

“**Excess Project Funds**” shall have the meaning set forth in Section 3.03A hereof.

“**Fund Loan**” means the loan made to the Borrower by the State, acting by and through the Department, pursuant to the Fund Loan Agreement dated as of November 1, 2017 by and between the Borrower and the State, acting by and through the Department, to finance or refinance a portion of the Costs of the Project.

“**Fund Loan Agreement**” means the loan agreement dated as of November 1, 2017 by and between the Borrower and the State, acting by and through the Department, regarding the terms and conditions of the Fund Loan.

“**Interest on the Loan**” or “**Interest on the Borrower Bond**” means the sum of (i) the Interest Portion, (ii) the Administrative Fee, and (iii) any late charges incurred hereunder.

“**Interest Portion**” means that portion of Interest on the Loan or Interest on the Borrower Bond payable hereunder that is necessary to pay the Borrower’s proportionate share of interest on the Trust Bonds (i) as set forth in Exhibit A-2 hereof under the column heading entitled “Interest”, or (ii) with respect to any prepayment of Trust Bond Loan Repayments in accordance with Section 3.07 or 5.03 hereof, to accrue on any principal amount of Trust Bond Loan Repayments to the date of the optional redemption or acceleration, as the case may be, of the Trust Bonds allocable to such prepaid or accelerated Trust Bond Loan Repayment.

“**Loan**” means the loan made by the Trust to the Borrower to finance or refinance a portion of the Costs of the Project pursuant to this Loan Agreement, as further described in Schedule A attached hereto.

“Loan Agreement” means this Loan Agreement, including Schedule A and the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof and of the Bond Resolution.

“Loan Agreements” means any other loan agreements entered into by and between the Trust and one or more of the Borrowers pursuant to which the Trust will make Loans to such Borrowers from moneys on deposit in the Project Fund, excluding the Project Loan Account, financed with the proceeds of the Trust Bonds.

“Loan Closing” means the date upon which the Trust shall issue and deliver the Trust Bonds and the Borrower shall deliver its Borrower Bond, as previously authorized, executed, attested and, if applicable, authenticated, to the Trust.

“Loan Repayments” means the sum of (i) Trust Bond Loan Repayments, (ii) the Administrative Fee, and (iii) any late charges incurred hereunder.

“Loan Term” means the term of this Loan Agreement provided in Sections 3.01 and 3.03 hereof and in Exhibit A-2 attached hereto and made a part hereof.

“Loans” means the loans made by the Trust to the Borrowers under the Loan Agreements from moneys on deposit in the Project Fund, excluding the Project Loan Account.

“Master Program Trust Agreement” means that certain Master Program Trust Agreement, dated as of November 1, 1995, by and among the Trust, the State, United States Trust Company of New York, as Master Program Trustee thereunder, The Bank of New York (NJ), in several capacities thereunder, and First Fidelity Bank, N.A. (predecessor to Wachovia Bank, National Association), in several capacities thereunder, as supplemented by that certain Agreement of Resignation of Outgoing Master Program Trustee, Appointment of Successor Master Program Trustee and Acceptance Agreement, dated as of November 1, 2001, by and among United States Trust Company of New York, as Outgoing Master Program Trustee, State Street Bank and Trust Company, N.A. (predecessor to U.S. Bank Trust National Association), as Successor Master Program Trustee, and the Trust, as the same may be amended and supplemented from time to time in accordance with its terms.

“Official Statement” means the Official Statement relating to the issuance of the Trust Bonds.

“Preliminary Official Statement” means the Preliminary Official Statement relating to the issuance of the Trust Bonds.

“Prime Rate” means the prevailing commercial interest rate announced by the Trustee from time to time in the State as its prime lending rate.

“Project” means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the Trust is permitted to make a loan to the Borrower pursuant to the Act, the Regulations and the Bond Resolution, all or a portion of the Costs of which is financed or refinanced by the Trust through the making of the Loan under this Loan Agreement and which may be identified under

either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

“Project Fund” means the Project Fund as defined in the Bond Resolution.

“Project Loan Account” means the project loan account established on behalf of the Borrower in the Project Fund in accordance with the Bond Resolution to finance all or a portion of the Costs of the Project.

“Regulations” means the rules and regulations, as applicable, now or hereafter promulgated under 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” means 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.

“Trust Bond Loan Repayments” means the repayments of the principal amount of the Loan plus the payment of any premium associated with prepaying the principal amount of the Loan in accordance with Section 3.07 hereof plus the Interest Portion.

“Trust Bonds” means bonds authorized by Section 2.03 of the Bond Resolution, together with any refunding bonds authenticated, if applicable, and delivered pursuant to Section 2.04 of the Bond Resolution, in each case issued in order to finance (i) the portion of the Loan deposited in the Project Loan Account, (ii) the portion of the Loans deposited in the balance of the Project Fund, (iii) any capitalized interest related to such bonds, (iv) a portion of the costs of issuance related to such bonds, and (v) that portion of the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution), if any, allocable to the Loan or Loans, as the case may be, a portion of which includes the funding of reserve capacity, if applicable, for the Environmental Infrastructure Facilities of the Borrower or Borrowers, as the case may be, or to refinance any or all of the above.

“Trustee” means, initially, Zions Bank, a Division of ZB, National Association, the Trustee appointed by the Trust and its successors as Trustee under the Bond Resolution, as provided in Article X of the Bond Resolution.

(b) In addition to the capitalized terms defined in subsection (a) of this Section 1.01, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in Schedule A attached hereto and made a part hereof.

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

SECTION 2.01. Representations of Borrower. The Borrower represents for the benefit of the Trust, the Trustee and the holders of the Trust Bonds as follows:

(a) Organization and Authority.

(i) The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State, including the Business Corporation Law.

(ii) The acting officers of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in this Loan Agreement either are or, at the time any such action was performed, were the duly appointed or elected officers of such Borrower empowered by applicable State law and, if applicable, authorized by resolution of the Borrower to perform such actions. To the extent any such action was performed by an officer no longer the duly acting officer of such Borrower, all such actions previously taken by such officer are still in full force and effect.

(iii) The Borrower has full legal right and authority and all necessary licenses and permits required as of the date hereof to own, operate and maintain its Environmental Infrastructure System, to carry on its activities relating thereto, to execute, attest and deliver this Loan Agreement and the Borrower Bond, to authorize the authentication of the Borrower Bond, to sell the Borrower Bond to the Trust, to undertake and complete the Project and to carry out and consummate all transactions contemplated by this Loan Agreement.

(iv) The proceedings of the Borrower's board of directors approving this Loan Agreement and the Borrower Bond, authorizing the execution, attestation and delivery of this Loan Agreement and the Borrower Bond, authorizing the sale of the Borrower Bond to the Trust, authorizing the authentication of the Borrower Bond on behalf of the Borrower and authorizing the Borrower to undertake and complete the Project, including, without limitation, the Borrower Bond Resolution (collectively, the "Proceedings"), have been duly and lawfully adopted in accordance with the Business Corporation Law and other applicable State law at a meeting or meetings that were duly called and held in accordance with the Borrower By-Laws and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the Borrower Bond and the sale thereof to the Trust upon the terms set forth herein; (C)

the approval of the inclusion, if such inclusion is deemed necessary in the sole discretion of the Trust, in the Preliminary Official Statement and the Official Statement of all statements and information relating to the Borrower set forth in "APPENDIX B" thereto (the "Borrower Appendices") and any amendment thereof or supplement thereto; and (D) the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement, including, without limitation, the designation of the Borrower Appendices portion of the Preliminary Official Statement, if any, as "deemed final" for the purposes and within the meaning of Rule 15c2-12 ("Rule 15c2-12") of the Securities and Exchange Commission ("SEC") promulgated under the Securities Exchange Act of 1934, as amended or supplemented, including any successor regulation or statute thereto.

(vi) This Loan Agreement and the Borrower Bond have each been duly authorized by the Borrower and duly executed, attested and delivered by Authorized Officers of the Borrower, and the Borrower Bond has been duly sold by the Borrower to the Trust, duly authenticated by the trustee or paying agent, if applicable, under the Borrower Bond Resolution and duly issued by the Borrower in accordance with the terms of the Borrower Bond Resolution; and assuming that the Trust has all the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, this Loan Agreement, and assuming further that this Loan Agreement is the legal, valid and binding obligation of the Trust, enforceable against the Trust in accordance with its terms, each of this Loan Agreement and the Borrower Bond constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective 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; and the information contained under "Description of Loan" in Exhibit A-2 attached hereto and made a part hereof is true and accurate in all respects.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the Trust in writing on the Borrower's application for the Loan or otherwise that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or the ability of the Borrower to make all Loan Repayments and any other payments required under this Loan Agreement or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect (i) the undertaking or completion of the Project, (ii) the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, (iii) the ability of the Borrower to make all Loan Repayments or any other payments required under this Loan Agreement, (iv) the authorization, execution, attestation or

delivery of this Loan Agreement or the Borrower Bond, (v) the issuance of the Borrower Bond and the sale thereof to the Trust, (vi) the adoption of the Borrower Bond Resolution, or (vii) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond, which proceedings have not been previously disclosed in writing to the Trust either in the Borrower's application for the Loan or otherwise.

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the Trust, (iii) the adoption of the Borrower Bond Resolution, (iv) the observation and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, 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 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 is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it, its Environmental Infrastructure System or its properties may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System or the ability of the Borrower to make all Loan Repayments, to pay all other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, for the issuance of the Borrower Bond and the sale thereof to the Trust, for the adoption of the Borrower Bond Resolution, for the

making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond and for the undertaking or completion of the Project and the financing or refinancing thereof, including, but not limited to, if required, the approval by the New Jersey Board of Public Utilities (the "BPU") of the issuance by the Borrower of the Borrower Bond to the Trust, as required by Section 9a of the Act, and any other approvals required therefor by the BPU; and the Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond or with the undertaking or completion of the Project and the financing or refinancing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental body or officer that has not been obtained is required on the part of the Borrower as a condition to the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

(g) Compliance with Law. The Borrower:

(i) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject, the failure to comply with which would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System; and

(ii) has obtained all licenses, permits, franchises or other governmental authorizations presently necessary for the ownership of its properties or for the conduct of its activities that, if not obtained, would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the Trust as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the Costs of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Costs of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the Trust and is eligible for such reimbursement under and pursuant to the Regulations, the Code and any other applicable law. All of such costs constitute Costs for which the Trust is authorized to make Loans to the Borrower pursuant to the Act and the Regulations.

(i) Official Statement. The descriptions and information set forth in the Borrower Appendices, if any, contained in the Official Statement relating to the Borrower, its operations and the transactions contemplated hereby, as of the date of the Official Statement, were and, as of the date of delivery hereof, are true and correct in all material respects, and did not and do not

contain any untrue statement of a material fact or omit to state a material fact that is necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(j) Preliminary Official Statement. As of the date of the Preliminary Official Statement, the descriptions and information set forth in the Borrower Appendices, if any, contained in the Preliminary Official Statement relating to the Borrower, its operations and the transactions contemplated hereby (i) were “deemed final” by the Borrower for the purposes and within the meaning of Rule 15c2-12 and (ii) were true and correct in all material respects, and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

SECTION 2.02. Particular Covenants of Borrower.

(a) Promise to Pay. The Borrower unconditionally and irrevocably promises in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal and redemption premium, if any, of the Loan and the Borrower Bond, the Interest on the Loan, the Interest on the Borrower Bond and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable state and federal laws, rules and regulations in the performance of this Loan Agreement; (ii) to maintain its Environmental Infrastructure System in good repair and operating condition; (iii) to cooperate with the Trust in the observance and performance of the respective duties, covenants, obligations and agreements of the Borrower and the Trust under this Loan Agreement; and (iv) to establish, levy and collect rents, rates and other charges for the products and services provided by its Environmental Infrastructure System, which rents, rates and other charges shall be at least sufficient to comply with all covenants pertaining thereto contained in, and all other provisions of, any bond resolution, trust indenture or other security agreement, if any, relating to any bonds, notes or other evidences of indebtedness issued or to be issued by the Borrower, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of and Interest on the Borrower Bond, plus all other amounts due hereunder.

(c) Borrower Bond; No Prior Liens. Except for (i) the Borrower Bond, (ii) any bonds or notes at parity with the Borrower Bond and currently outstanding or issued on the date hereof, (iii) any future bonds or notes of the Borrower issued under the Borrower Bond Resolution at parity with the Borrower Bond, and (iv) any Permitted Encumbrances (as defined in the Borrower Bond Resolution), the assets of the Borrower that are subject to the Borrower Bond Resolution are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

(d) Completion of Project and Provision of Moneys Therefor. The Borrower covenants and agrees (i) to exercise its best efforts in accordance with prudent environmental

infrastructure utility practice to complete the Project and to accomplish such completion on or before the estimated Project completion date set forth in Exhibit C hereto and made a part hereof; (ii) to comply with the terms and provisions contained in Exhibit G hereto; and (iii) to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives under the Loan and Fund Loan, required to complete the Project.

(e) See Section 2.02(e) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(e) by reference as if set forth in full herein.

(f) Exclusion of Interest from Federal Gross Income and Compliance with Code.

(i) The Borrower covenants and agrees that it shall not take any action or omit to take any action that would result in the loss of the exclusion of the interest on any Trust Bonds now or hereafter issued from gross income for purposes of federal income taxation as that status is governed by Section 103(a) of the Code.

(ii) The Borrower shall not directly or indirectly use, or permit the use of, any proceeds of the Trust Bonds to pay costs of a facility that is not a facility described in Section 142(a)(4), (5) or (6) of the Code, or property that is functionally related and subordinate thereto. All of the costs paid by the Borrower with proceeds of the Trust Bonds will be properly chargeable to a capital account (or would be so chargeable with a proper election or with the application of the definition of "placed in service" under Treasury Regulations §1.150-2(c)) under general federal income tax principles to such a facility. No costs paid by the Borrower with proceeds of the Trust Bonds will be for the acquisition of any property, or an interest therein, which was first used by another person, within the meaning of Section 147(d) of the Code, other than possibly land. No more than twenty-five percent of the proceeds of the Trust Bonds will be used (directly or indirectly) for the acquisition of land or an interest therein. No costs paid by the Borrower with proceeds of the Trust Bonds will be for "costs of issuance," within the meaning of Section 147(g) of the Code, of the Trust Bonds.

(iii) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds (or amounts replaced with such proceeds) or any other funds or take any action or omit to take any action that would cause the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds) to be "arbitrage bonds" within the meaning of Section 148(a) of the Code.

(iv) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay the principal of or the interest or redemption premium on or any other amount in connection with the retirement or redemption of any issue of state or local governmental obligations ("refinancing of indebtedness"), unless the Borrower shall (A) establish to the satisfaction of the Trust, prior to the issuance of the Trust Bonds, that such refinancing of indebtedness will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds, and (B) provide to the Trust an opinion of Bond Counsel to that effect in form and substance satisfactory to the Trust.

(v) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to reimburse the Borrower for an expenditure with respect to a Costs of the Borrower's Project paid by the Borrower prior to the issuance of the Trust Bonds, unless (A) the allocation by the Borrower of the proceeds of the Trust Bonds to reimburse such expenditure complies with the requirements of Treasury Regulations §1.150-2 necessary to enable the reimbursement allocation to be treated as an expenditure of the proceeds of the Trust Bonds for purposes of applying Sections 103 and 141-150, inclusive, of the Code, or (B) such proceeds of the Trust Bonds will be used for refinancing of indebtedness that was used to pay Costs of the Borrower's Project or to reimburse the Borrower for expenditures with respect to Costs of the Borrower's Project paid by the Borrower prior to the issuance of such indebtedness in accordance with a reimbursement allocation for such expenditures that complies with the requirements of Treasury Regulations §1.150-2.

(vi) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay any costs which are not Costs of the Borrower's Project that constitute a "capital expenditure" within the meaning of Treasury Regulations §1.150-1.

(vii) The Borrower shall not use the proceeds of the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds) in any manner that would cause the Trust Bonds to be considered "federally guaranteed" within the meaning of Section 149(b) of the Code or "hedge bonds" within the meaning of Section 149(g) of the Code.

(viii) The Borrower shall not issue any debt obligations that (A) are sold at substantially the same time as the Trust Bonds and finance or refinance the Loan made to the Borrower, (B) are sold pursuant to the same plan of financing as the Trust Bonds and finance or refinance the Loan made to the Borrower, and (C) are reasonably expected to be paid out of substantially the same source of funds as the Trust Bonds and finance or refinance the Loan made to the Borrower.

(ix) Neither the Borrower nor any "related party" (within the meaning of Treasury Regulations §1.150-1) shall purchase Trust Bonds in an amount related to the amount of the Loan.

(x) The Borrower will not issue or permit to be issued obligations that will constitute an "advance refunding" of the Borrower Bond within the meaning of Section 149(d)(5) of the Code without the express written consent of the Trust, which consent may only be delivered by the Trust after the Trust has received notice from the Borrower of such contemplated action no later than sixty (60) days prior to any such contemplated action, and which consent is in the sole discretion of the Trust.

(xi) See Section 2.02(f)(xi) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02 (f)(xi) by reference as if set forth in full herein.

(xii) No “gross proceeds” of the Trust Bonds held by the Borrower (other than amounts in a “bona fide debt service fund”) will be held in a “commingled fund” (as such terms are defined in Treasury Regulations §1.148-1(b)).

(xiii) Based upon all of the objective facts and circumstances in existence on the date of issuance of the Trust Bonds used to finance the Project, (A) within six months of the date of issuance of the Trust Bonds used to finance the Project, the Borrower will incur a substantial binding obligation to a third party to expend on the Project at least five percent (5%) of the “net sale proceeds” (within the meaning of Treasury Regulations §1.148-1) of the Loan used to finance the Project (treating an obligation as not being binding if it is subject to contingencies within the control of the Borrower, the Trust or a “related party” (within the meaning of Treasury Regulations §1.150-1)), (B) completion of the Project and the allocation to expenditures of the “net sale proceeds” of the Loan used to finance the Project will proceed with due diligence, and (C) all of the proceeds of the Loan used to finance the Project (other than amounts deposited into the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) allocable to that portion of the Loan used to finance reserve capacity, if any) and investment earnings thereon will be spent prior to the period ending three (3) years subsequent to the date of issuance of the Trust Bonds used to finance the Project. Accordingly, the proceeds of the Loan deposited in the Project Loan Account used to finance the Project will be eligible for the 3-year arbitrage temporary period since the expenditure test, time test and due diligence test, as set forth in Treasury Regulations §1.148-2(e)(2), will be satisfied.

(xiv) The weighted average maturity of the Loan does not exceed 120% of the average reasonably expected economic life of the Project financed or refinanced with the Loan, determined in the same manner as under Section 147(b) of the Code. Accordingly, the term of the Loan will not be longer than is reasonably necessary for the governmental purposes of the Loan within the meaning of Treasury Regulations §1.148-1(c)(4).

(xv) The Borrower shall, within thirty (30) days of date the Borrower concludes that no additional proceeds of the Loan will be required to pay costs of the Project, provide to the Trust a certificate of the Borrower evidencing such conclusion.

For purposes of this subsection and subsection (h) of this Section 2.02, quoted terms not otherwise defined, shall have the meanings given thereto by Sections 148 and 150 of the Code, including, particularly, Treasury Regulations §§1.148-1 through 1.148-11, inclusive, and Treasury Regulations §1.150-1 and (2), and any successor Treasury Regulations applicable to the Trust Bonds.

(g) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall, in accordance with prudent environmental infrastructure utility practice, (i) at all times operate the properties of its Environmental Infrastructure System and any business in connection therewith in an efficient manner, (ii) maintain its Environmental Infrastructure System in good repair, working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Environmental

Infrastructure System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(h) Records and Accounts.

(i) The Borrower shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent certified public accountant, which may be part of the annual audit of the General Records of the Borrower. Such System Records and General Records shall be made available for inspection by the Trust at any reasonable time upon prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the Trust within 150 days of the close of the fiscal year being so audited or, with the consent of the Trust, such additional period as may be provided by law.

(ii) Within thirty (30) days following receipt of any Loan proceeds, including without limitation the "Allowance for Administrative Costs" or the "Allowance for Planning and Design" set forth in Exhibit B hereto, the Borrower shall allocate such proceeds to an expenditures in a manner that satisfies the requirements of Treasury Regulation §1.148-6(d) and transmit a copy of each such allocation to the Trust. No portion of the Allowance for Administrative Costs will be allocated to a cost other than a cost described in N.J.A.C. 7:22-5.11(a) 3, 4 or 6. No portion of the Allowance for Planning and Design will be allocated to a cost other than a cost described N.J.A.C. 7:22-5.12, or other costs of the Borrower's Environmental Infrastructure System which are "capital expenditures," within the meaning of Treasury Regulations §1.150-1. The Borrower shall retain records of such allocations for at least until the date that is three years after the scheduled maturity date of the Trust Bonds. The Borrower shall make such records available to the Trust within 15 days of any request by the Trust.

(iii) Unless otherwise advised in writing by the Trust, in furtherance of the covenant of the Borrower contained in subsection (f) of this Section 2.02 not to cause the Trust Bonds to be arbitrage bonds, the Borrower shall keep, or cause to be kept, accurate records of each investment it makes in any "nonpurpose investment" acquired with, or otherwise allocated to, "gross proceeds" of the Trust Bonds not held by the Trustee and each "expenditure" it makes allocated to "gross proceeds" of the Trust Bonds. Such records shall include the purchase price, including any constructive "payments" (or in the case of a "payment" constituting a deemed acquisition of a "nonpurpose investment" (e.g., a "nonpurpose investment" first allocated to "gross proceeds" of the Trust Bonds after it is actually acquired because it is deposited in a sinking fund for the Trust Bonds)), the "fair market value" of the "nonpurpose investment" on the date first allocated to the "gross proceeds" of the Trust Bonds, nominal interest rate, dated date, maturity date, type of property, frequency of periodic payments, period of compounding, yield to maturity, amount actually or constructively received on disposition (or in the case of a "receipt" constituting a deemed disposition of a "nonpurpose investment" (e.g., a "nonpurpose investment" that ceases to be allocated to the "gross proceeds" of the Trust Bonds because it is removed from a sinking fund for the Trust Bonds)), the "fair market value"

of the “nonpurpose investment” on the date it ceases to be allocated to the “gross proceeds” of the Trust Bonds, the purchase date and disposition date of the “nonpurpose investment” and evidence of the “fair market value” of such property on the purchase date and disposition date (or deemed purchase or disposition date) for each such “nonpurpose investment”. The purchase date, disposition date and the date of determination of “fair market value” shall be the date on which a contract to purchase or sell the “nonpurpose investment” becomes binding, i.e., the trade date rather than the settlement date. For purposes of the calculation of purchase price and disposition price, brokerage or selling commissions, administrative expenses or similar expenses shall not increase the purchase price of an item and shall not reduce the amount actually or constructively received upon disposition of an item, except to the extent such costs constitute “qualified administrative costs”.

(iv) Within thirty (30) days of the last day of the fifth and each succeeding fifth “bond year” (which, unless otherwise advised by the Trust, shall be the five-year period ending on the date five years subsequent to the date immediately preceding the date of issuance of the Trust Bonds and each succeeding fifth “bond year”) and within thirty (30) days of the date the last bond that is part of the Trust Bonds is discharged (or on any other periodic basis requested in writing by the Trust), the Borrower shall (A) calculate, or cause to be calculated, the “rebate amount” as of the “computation date” or “final computation date” attributable to any “nonpurpose investment” made by the Borrower and (B) remit the following to the Trust: (1) an amount of money that when added to the “future value” as of the “computation date” of any previous payments made to the Trust on account of rebate equals the “rebate amount”, (2) the calculations supporting the “rebate amount” attributable to any “nonpurpose investment” made by the Borrower allocated to “gross proceeds” of the Trust Bonds, and (3) any other information requested by the Trust relating to compliance with Section 148 of the Code (e.g., information related to any “nonpurpose investment” of the Borrower for purposes of application of the “universal cap”).

(v) The Borrower covenants and agrees that it will account for “gross proceeds” of the Trust Bonds, investments allocable to the Trust Bonds and expenditures of “gross proceeds” of the Trust Bonds in accordance with Treasury Regulations §1.148-6. All allocations of “gross proceeds” of the Trust Bonds to expenditures will be recorded on the books of the Borrower kept in connection with the Trust Bonds no later than 18 months after the later of the date the particular Costs of the Borrower’s Project is paid or the date the portion of the project financed by the Trust Bonds is placed in service. All allocations of proceeds of the Trust Bonds to expenditures will be made no later than the date that is 60 days after the fifth anniversary of the date the Trust Bonds are issued or the date 60 days after the retirement of the Trust Bonds, if earlier. Such records and accounts will include the particular Costs paid, the date of the payment and the party to whom the payment was made.

(vi) From time to time as directed by the Trust, the Borrower shall provide to the Trust a written report demonstrating compliance by the Borrower with the provisions of Section 2.02(f) of this Loan Agreement, each such written report to be submitted by the Borrower to the Trust in the form of a full and complete written response to a

questionnaire provided by the Trust to the Borrower. Each such questionnaire shall be provided by the Trust to the Borrower not less than fourteen (14) days prior to the date established by the Trust for receipt from the Borrower of the full and complete written response to the questionnaire.

(i) Inspections; Information. The Borrower shall permit the Trust and the Trustee and any party designated by any of such parties, at any and all reasonable times during construction of the Project and thereafter upon prior written notice, to examine, visit and inspect the property, if any, constituting the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the Trust and the Trustee may reasonably require in connection therewith.

(j) Insurance. The Borrower shall maintain or cause to be maintained, in force, insurance policies with responsible insurers or self-insurance programs providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining Environmental Infrastructure Facilities of the nature of the Borrower's Environmental Infrastructure System, including liability coverage, all to the extent available at reasonable cost but in no case less than will satisfy all applicable regulatory requirements.

(k) Costs of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the Trust a certificate from a licensed professional engineer authorized to practice in the State stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds the maturity date of the Borrower Bond.

(l) Delivery of Documents. Concurrently with the delivery of this Loan Agreement (as previously authorized, executed and attested) at the Loan Closing, the Borrower will cause to be delivered to the Trust and the Trustee each of the following items:

(i) an opinion of the Borrower's bond counsel substantially in the form of Exhibit E hereto; provided, however, that the Trust may permit portions of such opinion to be rendered by general counsel to the Borrower and may permit variances in such opinion from the form set forth in Exhibit E if, in the opinion of the Trust, such variances are not to the material detriment of the interests of the holders of the Trust Bonds;

(ii) counterparts of this Loan Agreement as previously executed and attested by the parties hereto;

(iii) copies of those resolutions finally adopted by the board of directors of the Borrower and requested by the Trust, including, without limitation, (A) the resolution of the Borrower authorizing the execution, attestation and delivery of this Loan Agreement, (B) the Borrower Bond Resolution, as amended and supplemented as of the date of the Loan Closing, authorizing the execution, attestation, authentication, sale and delivery of the Borrower Bond to the Trust, (C) the resolution of the Borrower, if any, confirming the

details of the sale of the Borrower Bond to the Trust, (D) the resolution of the Borrower, if any, declaring its official intent to reimburse expenditures for the Costs of the Project from the proceeds of the Trust Bonds, each of said resolutions of the Borrower being certified by an Authorized Officer of the Borrower as of the date of the Loan Closing, (E) the resolution of the BPU approving the issuance by the Borrower of the Borrower Bond to the Trust and setting forth any other approvals required therefor by the BPU, if applicable, and (F) any other Proceedings;

(iv) if the Loan is being made to reimburse the Borrower for all or a portion of the Costs of the Borrower's Project or to refinance indebtedness or reimburse the Borrower for the repayment of indebtedness previously incurred by the Borrower to finance all or a portion of the Costs of the Borrower's Project, an opinion of Bond Counsel, in form and substance satisfactory to the Trust, to the effect that such reimbursement or refinancing will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds; and

(v) the certificates of insurance coverage as required pursuant to the terms of Section 3.06(d) hereof and such other certificates, documents, opinions and information as the Trust may require in Exhibit F hereto, if any.

(m) Execution and Delivery of Borrower Bond. Concurrently with the delivery of this Loan Agreement at the Loan Closing, the Borrower shall also deliver to the Trust the Borrower Bond, as previously executed, attested and, if applicable, authenticated, upon the receipt of a written certification of the Trust that a portion of the net proceeds of the Trust Bonds shall be deposited in the Project Loan Account simultaneously with the delivery of the Borrower Bond.

(n) Notice of Material Adverse Change. The Borrower shall promptly notify the Trust of any material adverse change in the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or in the ability of the Borrower to make all Loan Repayments and otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(o) Continuing Representations. The representations of the Borrower contained herein shall be true at the time of the execution of this Loan Agreement and at all times during the term of this Loan Agreement.

(p) Continuing Disclosure Covenant. To the extent that the Trust, in its sole discretion, determines, at any time prior to the termination of the Loan Term, that the Borrower is a material "obligated person", as the term "obligated person" is defined in Rule 15c2-12, with materiality being determined by the Trust pursuant to criteria established, from time to time, by the Trust in its sole discretion and set forth in a bond resolution or official statement of the Trust, the Borrower hereby covenants that it will authorize and provide to the Trust, for inclusion in any preliminary official statement or official statement of the Trust, all statements and information relating to the Borrower deemed material by the Trust for the purpose of satisfying Rule 15c2-12 as well as Rule 10b-5 promulgated pursuant to the Securities Exchange Act of 1934, as amended or supplemented, including any successor regulation or statute thereto ("Rule

10b-5”), including certificates and written representations of the Borrower evidencing its compliance with Rule 15c2-12 and Rule 10b-5; and the Borrower hereby further covenants that the Borrower shall execute and deliver the Continuing Disclosure Agreement, in substantially the form attached hereto as Exhibit H, with such revisions thereto prior to execution and delivery thereof as the Trust shall determine to be necessary, desirable or convenient, in its sole discretion, for the purpose of satisfying Rule 15c2-12 and the purposes and intent thereof, as Rule 15c2-12, its purposes and intent may hereafter be interpreted from time to time by the SEC or any court of competent jurisdiction; and pursuant to the terms and provisions of the Continuing Disclosure Agreement, the Borrower shall thereafter provide on-going disclosure with respect to all statements and information relating to the Borrower in satisfaction of the requirements set forth in Rule 15c2-12 and Rule 10b-5, including, without limitation, the provision of certificates and written representations of the Borrower evidencing its compliance with Rule 15c2-12 and Rule 10b-5.

(q) Additional Covenants and Requirements. (i) No later than the Loan Closing and, if necessary, in connection with the Trust’s issuance of the Trust Bonds or the making of the Loan, additional covenants and requirements have been included in Exhibit F hereto and made a part hereof. Such covenants and requirements may include, but need not be limited to the maintenance of specified levels of Environmental Infrastructure System rates, the issuance of additional debt of the Borrower, the use by or on behalf of the Borrower of certain proceeds of the Trust Bonds as such use relates to the exclusion from gross income for federal income tax purposes of the interest on any Trust Bonds, the transfer of revenues and receipts from the Borrower’s Environmental Infrastructure System, compliance with Rule 15c2-12, Rule 10b-5 and any other applicable federal or state securities laws, and matters in connection with the appointment of the Trustee under the Bond Resolution and any successors thereto. The Borrower hereby agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto as if the same were set forth herein in its entirety. (ii) Additional defined terms, covenants, representations and requirements have been included in Schedule A attached hereto and made a part hereof. Such additional defined terms, covenants, representations and requirements are incorporated in this Loan Agreement by reference thereto as if set forth in full herein and the Borrower hereby agrees to observe and comply with each such additional term, covenant, representation and requirement included in Schedule A as if the same were set forth in its entirety where reference thereto is made in this Loan Agreement.

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

SECTION 3.01. Loan; Loan Term.

(a) The Trust hereby agrees (i) to make the Loan, as described in Exhibit A-2 attached hereto and made a part hereof, to the Borrower, and (ii) to disburse the proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof. The Borrower hereby agrees to borrow and accept the Loan from the Trust upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof. The Borrower agrees that the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of (i) certain costs of issuance and underwriter's discount for all Trust Bonds issued to finance the Loan; (ii) capitalized interest during the Project construction period, if applicable; and (iii) that portion of the Debt Service Reserve Fund (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) attributable to the cost of funding reserve capacity for the Project, if applicable, shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and neither the Trust nor the Trustee shall have any obligation thereafter to loan any additional amounts to the Borrower.

(b) Notwithstanding the provisions of subsection (a) of this Section 3.01 to the contrary, the Trust shall be under no obligation (i) to make the Loan to the Borrower if (1) at the Loan Closing, the Borrower does not deliver to the Trust a Borrower Bond and such other documents as are required pursuant to Section 2.02(l) hereof, or (2) an Event of Default has occurred and is continuing pursuant to, and as defined in, the Bond Resolution or pursuant to this Loan Agreement, or (ii) to disburse the proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, unless each of the conditions precedent to such disbursement, as set forth in Section 3.02 hereof, have been satisfied in full. The Trust intends to disburse the proceeds of the Loan to the Borrower at the times and in the amounts set forth in Exhibit C hereof in order to pay a portion of the Costs of the Project, subject to compliance by the Borrower with the procedures for disbursement as set forth in Section 3.02 hereof; nevertheless, due to unforeseen circumstances, there may not be a sufficient amount on deposit in the Project Loan Account on a given disbursement date in order for the Trust to make the disbursement in the amount indicated in Exhibit C hereof so as to satisfy a Loan disbursement request by the Borrower pursuant to the provisions of Section 3.02 hereof, in which case (1) the Trust shall have no obligation hereunder to make such disbursement until such time as sufficient funds are on deposit in the Project Loan Account, and (2) the obligations of the Borrower hereunder shall not be affected.

(c) The Borrower shall use the proceeds of the Loan strictly in compliance with the provisions of Section 2.01(h) hereof.

(d) The payment obligations of the Borrower created pursuant to the terms of this Loan Agreement and the obligations of the Borrower to pay the principal of the Borrower Bond, Interest on the Borrower Bond and other amounts due under the Borrower Bond are direct, general, irrevocable and unconditional obligations of the Borrower payable from any source

legally available to the Borrower in accordance with the terms of and to the extent provided in the Borrower Bond Resolution.

SECTION 3.02. Disbursement of Loan Proceeds.

(a) The Trustee, as the agent of the Trust, shall disburse the amounts on deposit in the Project Loan Account to the Borrower upon (i) receipt of a requisition executed by an Authorized Officer of the Borrower, and approved by the Trust, in a form satisfying the requirements of Section 5.02(3) of the Bond Resolution, and (ii) consistent with the schedule for disbursement as set forth in Exhibit C hereof.

(b) The Trust and the Trustee shall not be required to disburse any Loan proceeds to the Borrower pursuant to this Loan Agreement, unless:

(i) the proceeds of the Trust Bonds shall be available for disbursement, as determined by the Trust in its sole and absolute discretion;

(ii) in accordance with the Bond Act, and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed, a Fund Loan for a portion of the Allowable Costs (as defined in such Regulations) of the Project;

(iii) the Borrower shall have on hand moneys to pay for the greater of (A) that portion of the total Costs of the Project that is not eligible to be funded from the Fund Loan or the Loan, or (B) that portion of the total Costs of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the Fund Loan and the Loan; and

(iv) no Event of Default nor any event that, with the passage of time or service of notice or both, would constitute an Event of Default shall have occurred and be continuing hereunder.

(c) Notwithstanding any provision of this Loan Agreement to the contrary, the Trust and the Trustee, at the request of the Borrower but at the sole discretion of the Trust, may disburse Loan proceeds to the Borrower from the Project Loan Account either prior to or subsequent to the scheduled date for disbursement thereof as such scheduled date is identified in the disbursement schedule set forth in Exhibit C hereof, provided that (A) the Borrower has otherwise satisfied the requirements of this Section 3.02, and (B) such disbursement, in a manner that is inconsistent with the disbursement schedule as set forth in Exhibit C hereof, does not conflict with any restrictions set forth in the Regulations.

In the event that, in the submission of its requisition(s), the Borrower fails to comply with the disbursement schedule as set forth in Exhibit C hereof, and such non-compliance by the Borrower consists of (i) a failure to timely seek disbursement of Loan proceeds which failure results in an amount of non-disbursed funds remaining on deposit in the Project Loan Account, subsequent to the date on which such funds should have been disbursed pursuant to the disbursement schedule set forth in Exhibit C hereof, that, in the aggregate, represents twenty-five percent (25%) of the original deposit to such Project Loan Account, or (ii)

a failure to timely seek disbursement of Loan proceeds which failure results in an amount of funds disbursed from the Project Loan Account earlier than the date on which such funds were scheduled to have been disbursed pursuant to the disbursement schedule set forth in Exhibit C hereof, that, in the aggregate, represents twenty-five percent (25%) of the original deposit to such Project Loan Account, then the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower providing a revised disbursement schedule, in a form similar to Exhibit C hereto and approved by the Department. Any reference to Exhibit C in Section 3.01, Section 3.02 and Section 3.03A hereof shall mean Exhibit C as such exhibit may have been revised from time to time pursuant to the provisions of the preceding sentence.

SECTION 3.03. Amounts Payable.

(a) The Borrower shall repay the Loan in installments payable to the Trustee as follows:

(i) the principal of the Loan shall be repaid annually on the Principal Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by any credits applicable to the Borrower as set forth in the Bond Resolution;

(ii) the Interest Portion described in clause (i) of the definition thereof shall be paid semiannually on the Interest Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by any credits applicable to the Borrower as set forth in the Bond Resolution; and

(iii) the Interest Portion described in clause (ii) of the definition thereof shall be paid upon the date of optional redemption or acceleration, as the case may be, of the Trust Bonds allocable to any prepaid or accelerated Trust Bond Loan Repayment.

The obligations of the Borrower under the Borrower Bond shall be deemed to be amounts payable under this Section 3.03. Each Loan Repayment, whether satisfied through a direct payment by the Borrower to the Trustee or (with respect to the Interest Portion) through the use of Trust Bond proceeds and income thereon on deposit in the Interest Account (as defined in the Bond Resolution) to pay interest on the Trust Bonds, shall be deemed to be a credit against the corresponding obligation of the Borrower under this Section 3.03 and shall fulfill the Borrower's obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trustee pursuant to this Section 3.03 shall be applied *first* to the Interest Portion then due and payable, *second* to the principal of the Loan then due and payable, *third* to the payment of the Administrative Fee, and *finally* to the payment of any late charges hereunder.

(b) The Interest on the Loan described in clause (iii) of the definition thereof shall (i) consist of a late charge for any Trust Bond Loan Repayment that is received by the Trustee later than its due date and (ii) be payable immediately thereafter in an amount equal to the greater of twelve percent (12%) per annum or the Prime Rate plus one half of one percent per annum on such late payment from its due date to the date it is actually paid; provided, however, that the rate

of Interest on the Loan, including, without limitation, any late payment charges incurred hereunder, shall not exceed the maximum interest rate permitted by law.

(c) The Borrower shall receive, as a credit against its semiannual payment obligations of the Interest Portion, the amounts, if any, certified by the Trust pursuant to Section 5.10 of the Bond Resolution. Such amounts shall represent the Borrower's allocable share of the interest earnings on certain funds and accounts established under the Bond Resolution, as calculated and determined in accordance with Section 5.10 of the Bond Resolution.

(d) In accordance with the provisions of the Bond Resolution, the Borrower shall receive, as a credit against its Trust Bond Loan Repayments, the amounts, if any, set forth in the certificate of the Trust filed with the Trustee pursuant to Section 5.02(4) of the Bond Resolution.

(e) The Interest on the Loan described in clause (ii) of the definition thereof shall be paid by the Borrower in the amount of one-half of the Administrative Fee, if any, to the Trustee semiannually on each February 1 and August 1, commencing August 1, 2018.

(f) The "DEP Loan Surcharge or Loan Origination Fee" as defined in Section 8 of Exhibit B attached hereto and made a part hereof, as additionally identified in Exhibit A-2 attached hereto and made a part hereof, (the "DEP Fee") shall be paid by the Borrower to the Trustee on the date indicated therein in satisfaction of the payment obligation of the Borrower to the Department, and the obligation of the Borrower with respect to the payment of such DEP Fee shall be an obligation of the Borrower under the Borrower Bond and an amount payable pursuant to this Section 3.03. For purposes of crediting and applying the payment by the Borrower of the DEP Fee upon receipt thereof as provided hereby, the Trustee shall credit and apply such payment of the DEP Fee pursuant to the terms and provisions of the Bond Resolution that relate to the payment, crediting and application of the State Administrative Fee (as defined in the Bond Resolution), notwithstanding that fact that (i) the DEP Fee and the State Administrative Fee are separate and distinct fee payment obligations to be satisfied by the Borrower, and (ii) as of the date hereof, there is no State Administrative Fee due and payable by the Borrower. The Trustee, as assignee hereof, hereby agrees to the credit and application of the DEP Fee upon payment thereof as provided hereby.

(g) The Borrower hereby agrees to pay to the Trust at the Loan Closing a "Security Review Fee" in the amount necessary to reimburse the Trust for all of its costs and expenses incurred in connection with reviewing the additional security securing the Trust Loan as set forth in Exhibit F hereto, if any, including without limitation the fees and expenses of any professional advisers hired by the Trust in connection therewith.

(h) Upon thirty (30) days prior written notice to the Borrower, an Authorized Officer of the Trust may, in the sole discretion of such Authorized Officer, prescribe the particular method by which payments pursuant to, and in satisfaction of, this Section 3.03 shall be made by the Borrower. Such method as prescribed by an Authorized Officer of the Trust may include, without limitation, the automatic debit by the Trust or the Trustee of the respective amounts of such payments, as required by this Section 3.03, from an account that shall be identified by the Borrower in writing and recorded on file with the Trust and the Trustee. In the absence of any such written notice to the Borrower by an Authorized Officer of the Trust pursuant to this

subsection (g), the Borrower shall implement the payments required pursuant to, and in satisfaction of, this Section 3.03 either via electronic transfer of immediately available funds or via check.

SECTION 3.03A. Amounts on Deposit in Project Loan Account After Completion of Project Draws.

(a) If, on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to the disbursement schedule contained in Exhibit C hereto, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised disbursement schedule, in a form similar to Exhibit C hereto and approved by the Department.

(b) If, on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to the revised disbursement schedule certified to the Trust and the Department in accordance with Section 3.03A(a) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower shall provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a further revised disbursement schedule, in a form similar to Exhibit C hereto and approved by the Department.

(c) If, on the date which the Borrower has completed the Project, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must within thirty (30) days following such date provide to the Trust and the Department a certificate (i) stating that the Project is complete and (ii) setting forth the remaining costs, if any, of the Project for which a disbursement of Loan will be required.

(d) If (i) the Borrower fails to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, when due, or (ii) a certificate provided pursuant to paragraphs (a), (b) or (c) of this Section 3.03A states that the Borrower does not require all or any portion of the amount on deposit in the Project Loan Account for completion of the Project, or (iii) on the date which is thirty (30) days following the final date on which a disbursement of Loan proceeds is scheduled to be made pursuant to a further revised disbursement schedule certified to the Trust and the Department in accordance with Section 3.03A(b) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, then such amounts on deposit in the Project Loan Account, which are amounts that have not been certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds"), shall be applied as follows:

(i) If Trust Bonds can be redeemed within sixty (60) days of the date the Borrower is required to provide the certificate described in paragraphs (a), (b) or (c) of

this Section 3.03A, the Excess Project Funds shall be used by the Trust within such sixty (60) day period to redeem Trust Bonds, including payment of the premium, if any, associated with such redemption . The Trust Bonds shall be redeemed in inverse order of their maturity. The amount of any maturity redeemed shall not exceed the same proportion as the Loan bears to all Loans made from proceeds of the Trust Bonds rounded down to whole denominations or any integral multiple. The aggregate amount of Trust Bonds so redeemed shall not be less than the amount of nonqualified bonds allocable to the Borrower under Treasury Regulations §1.142-12. The Excess Project Funds used to redeem Trust Bonds shall be applied by the Trust as a prepayment of the Borrower's Loan Repayments with respect to the redeemed bonds. Any excess shall be held by Trust invested at a yield which does not exceed the yield on the Trust Bonds.

(ii) If Trust Bonds cannot be redeemed within sixty (60) days of the date the Borrower is required to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, the Trust shall, within such sixty (60) day period, (A) deposit all of the Excess Project Funds in a defeasance escrow established to defease Trust Bonds in inverse order of their maturity, in the same proportion as the Loan bears to all Loans made from proceeds of the Trust Bonds, (B) provide the notice to the Internal Revenue Service required pursuant to Treasury Regulations §1.142-2(c)(2), or any successor income tax regulations, and (C) apply the Excess Project Funds as a prepayment of the Borrower's Loan Repayments (including the premium, if any, associated with any optional or mandatory redemption of Trust Bonds) for the defeased Trust Bonds. The aggregate amount of Trust Bonds so defeased shall not be less than the amount of nonqualified bonds allocable to the Borrower under Treasury Regulations §1.142-12.

SECTION 3.04. 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 or to any extent whatsoever while any Trust Bonds remain outstanding or any Loan Repayments remain unpaid, for any reason, 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 or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project, this Loan Agreement or the Bond Resolution, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the Trust, the Trustee or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements or the Bond Resolution.

The Borrower acknowledges that payment of the Trust Bonds by the Trust, including payment from moneys drawn by the Trustee from the Debt Service Reserve Fund (to the extent

the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution), does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond. If at any time the amount in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Requirement as the result of any transfer of moneys from the Debt Service Reserve Fund to the Debt Service Fund (as all such terms are defined in the Bond Resolution) as the result of a failure by the Borrower to make any Trust Bond Loan Repayments required hereunder, the Borrower agrees to replenish (i) such moneys so transferred and (ii) any deficiency arising from losses incurred in making such transfer as the result of the liquidation by the Trust of Investment Securities (as defined in the Bond Resolution) acquired as an investment of moneys in the Debt Service Reserve Fund, by making payments to the Trust in equal monthly installments for the lesser of six (6) months or the remaining term of the Loan at an interest rate to be determined by the Trust necessary to make up any loss caused by such deficiency.

The Borrower acknowledges that payment of the Trust Bonds from moneys that were originally received by the Trustee from repayments by the Borrowers of loans made to the Borrowers by the State, acting by and through the Department, pursuant to loan agreements dated as of November 1, 2017 by and between the Borrowers and the State, acting by and through the Department, to finance or refinance a portion of the Costs of the Environmental Infrastructure Facilities of the Borrowers, and which moneys were upon such receipt by the Trustee deposited in the Trust Bonds Security Account (as defined in the Bond Resolution) does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond.

SECTION 3.05. Loan Agreement to Survive Bond Resolution and Trust Bonds. The Borrower acknowledges that its duties, covenants, obligations and agreements hereunder shall survive the discharge of the Bond Resolution applicable to the Trust Bonds and shall survive the payment of the principal and redemption premium, if any, of and the interest on the Trust Bonds until the Borrower can take no action or fail to take any action that could adversely affect the exclusion from gross income of the interest on the Trust Bonds for purposes of federal income taxation, at which time such duties, covenants, obligations and agreements hereunder shall, except for those set forth in Sections 3.06(a) and (b) hereof, terminate.

SECTION 3.06. Disclaimer of Warranties and Indemnification.

(a) The Borrower acknowledges and agrees that (i) neither the Trust nor the Trustee makes any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the Trust or the Trustee or their respective agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the Trust and the Trustee harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the Trust and the Trustee may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed,

or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

(b) It is mutually agreed by the Borrower, the Trust and the Trustee that the Trust and its officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed under this Loan Agreement and any claim or suit of whatsoever nature, except in the event of loss or damage resulting from their own negligence or willful misconduct. It is further agreed that the Trustee and its directors, officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed pursuant to this Loan Agreement, except in the event of loss or damage resulting from their own negligence or willful misconduct.

(c) The Borrower and the Trust agree that all claims shall be subject to and governed by the provisions of the New Jersey Contractual Liability Act, N.J.S.A. 59:13-1 *et seq.* (except for N.J.S.A. 59:13-9 thereof), although such Act by its express terms does not apply to claims arising under contract with the Trust.

(d) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the Trust and its directors, employees and officers as additional "named insureds" on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the later of the date of the Loan Closing or the date of the initiation of construction of the Project until the date the Borrower receives the written certificate of Project completion from the Trust, the Borrower shall maintain said liability insurance covering the Trust and said directors, employees and officers in good standing; and (ii) the Borrower shall include the Trust as an additional "named insured" on any certificate of insurance providing against risk of direct physical loss, damage or destruction of the Environmental Infrastructure System, and during the Loan Term the Borrower shall maintain said insurance covering the Trust in good standing.

The Borrower shall provide the Trust with a copy of each of any such original, supplemental, amendatory or reissued certificates of insurance (or other similar documents evidencing the insurance coverage) required pursuant to this Section 3.06(d).

SECTION 3.07. Option to Prepay Loan Repayments. The Borrower may prepay the Trust Bond Loan Repayments, in whole or in part (but if in part, in the amount of \$100,000 or any integral multiple thereof), upon prior written notice to the Trust and the Trustee not less than ninety (90) days in addition to the number of days' advance notice to the Trustee required for any optional redemption of the Trust Bonds, and upon payment by the Borrower to the Trustee of amounts that, together with investment earnings thereon, will be sufficient to pay the principal amount of the Trust Bond Loan Repayments to be prepaid plus the Interest Portion described in clause (ii) of the definition thereof on any such date of redemption; provided, however, that, with respect to any prepayment other than those required by Section 3.03A hereof, any such full or partial prepayment may only be made (i) if the Borrower is not then in arrears on

its Fund Loan, (ii) if the Borrower is contemporaneously making a full or partial prepayment of the Fund Loan such that, after the prepayment of the Loan and the Fund Loan, the Trust, in its sole discretion, determines that the interests of the owners of the Trust Bonds are not adversely affected by such prepayments, (iii) upon the prior written approval of the Trust, and (iv) provided that the Borrower shall agree to pay all costs and expenses of the Trust in connection with such prepayment, including, without limitation, the fees of Bond Counsel to the Trust and any other professional advisors to the Trust. In addition, if at the time of such prepayment the Trust Bonds may only be redeemed at the option of the Trust upon payment of a premium, the Borrower shall add to its prepayment of Trust Bond Loan Repayments an amount, as determined by the Trust, equal to such premium allocable to the Trust Bonds to be redeemed as a result of the Borrower's prepayment. Prepayments shall be applied first to the Interest Portion that accrues on the portion of the Loan to be prepaid until such prepayment date as described in clause (ii) of the definition thereof and then to principal payments (including premium, if any) on the Loan in inverse order of their maturity.

SECTION 3.08. Priority of Loan and Fund Loan.

(a) The Borrower hereby acknowledges that, to the extent allowed by law or the Borrower Bond Resolution, any Loan Repayments then due and payable on the Loan shall be satisfied by the Trustee before any loan repayments on the Borrower's Fund Loan shall be satisfied by the Trustee. The Borrower agrees not to interfere with any such action by the Trustee.

(b) The Borrower hereby acknowledges that in the event the Borrower fails or is unable to pay promptly to the Trust in full any Trust Bond Loan Repayments under this Loan Agreement when due, then any (i) Administrative Fee paid hereunder, (ii) late charges paid hereunder, and (iii) loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor, any of which payments shall be received by the Trustee during the time of any such Trust Bond Loan Repayment deficiency, shall be applied by the Trustee *first* to satisfy such Trust Bond Loan Repayment deficiency as a credit against the obligations of the Borrower to make payments of the Interest Portion under the Loan and the Borrower Bond, *second*, to the extent available, to make Trust Bond Loan Repayments of principal hereunder and payments of principal under the Borrower Bond, *third*, to the extent available, to pay the Administrative Fee, *fourth*, to the extent available, to pay any late charges hereunder, *fifth*, to the extent available, to satisfy the repayment of the Borrower's Fund Loan under its related loan agreement therefor, and *finally*, to the extent available, to satisfy the repayment of the administrative fee under any such related loan agreement.

(c) The Borrower hereby further acknowledges that any loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor shall be applied according to the provisions of the Master Program Trust Agreement.

SECTION 3.09. Approval of the New Jersey State Treasurer. The Borrower and the Trust hereby acknowledge that prior to or simultaneously with the Loan Closing the New Jersey State Treasurer, in satisfaction of the requirements of Section 9a of the Act, issued the "Certificate of the New Jersey State Treasurer Regarding the Approval of the Trust Loan and the Fund Loan" (the "Treasurer's Certificate"). Pursuant to the terms of the Treasurer's Certificate,

the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

SECTION 4.01. Assignment and Transfer by Trust.

(a) The Borrower hereby expressly acknowledges that, other than the provisions of Section 2.02(d)(ii) hereof, the Trust's right, title and interest in, to and under this Loan Agreement and the Borrower Bond have been assigned to the Trustee as security for the Trust Bonds as provided in the Bond Resolution, and that if any Event of Default shall occur, the Trustee or any Bond Insurer (as such term may be defined in the Bond Resolution), if applicable, pursuant to the Bond Resolution, shall be entitled to act hereunder in the place and stead of the Trust. The Borrower hereby acknowledges the requirements of the Bond Resolution applicable to the Trust Bonds and consents to such assignment and appointment. This Loan Agreement and the Borrower Bond, including, without limitation, the right to receive payments required to be made by the Borrower hereunder and to compel or otherwise enforce observance and performance by the Borrower of its other duties, covenants, obligations and agreements hereunder, may be further transferred, assigned and reassigned in whole or in part to one or more assignees or subassignees by the Trustee at any time subsequent to their execution without the necessity of obtaining the consent of, but after giving prior written notice to, the Borrower.

The Trust shall retain the right to compel or otherwise enforce observance and performance by the Borrower of its duties, covenants, obligations and agreements under Section 2.02(d)(ii) hereof; provided, however, that in no event shall the Trust have the right to accelerate the Borrower Bond in connection with the enforcement of Section 2.02(d)(ii) hereof.

(b) The Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement and the Borrower Bond that the Trust deems to be necessary in connection with any refunding of the Trust Bonds or the issuance of additional bonds under the Bond Resolution or otherwise, all in connection with the pooled loan program of the Trust.

SECTION 4.02. Assignment by Borrower. Neither this Loan Agreement nor the Borrower Bond may be assigned by the Borrower for any reason, unless the following conditions shall be satisfied: (i) the Trust and the Trustee shall have approved said assignment in writing; (ii) the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Borrower's duties, covenants, obligations and agreements under this Loan Agreement and, to the extent permitted under applicable law, the Borrower Bond; (iii) immediately after such assignment, the assignee shall not be in default in the observance or performance of any duties, covenants, obligations or agreements of the Borrower under this Loan Agreement or the Borrower Bond; and (iv) the Trust shall have received an opinion of Bond Counsel to the effect that such assignment will not adversely affect the security of the holders of the Trust Bonds or the exclusion of the interest on the Trust Bonds from gross income for purposes of federal income taxation under Section 103(a) of the Code.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.01. Events of Default. If any of the following events occur, it is hereby defined as and declared to be and to constitute an “Event of Default”:

(a) failure by the Borrower to pay, or cause to be paid, any Trust Bond Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;

(b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

(c) failure by the Borrower to pay, or cause to be paid, the Administrative Fee or any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d) (ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the Trustee may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;

(d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;

(e) 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 Loan Agreement or thereafter enacted, and/or any proceeding with respect to such petition and/or pursuant to any such law shall occur or be pending (including, without limitation, the operation and administration of the Borrower pursuant to any plan of reorganization approved and implemented under any such law), unless in the case of any such petition filed against the Borrower or any such proceeding such petition and such proceeding shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal or the further jurisdiction of any court; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or trustee 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;

(f) the Borrower shall generally fail to pay its debts as such debts become due; and

(g) failure of the Borrower to observe or perform such additional duties, covenants, obligations, agreements or conditions as are required by the Trust and specified in Exhibit F attached hereto and made a part hereof.

SECTION 5.02. Notice of Default. The Borrower shall give the Trustee and the Trust prompt telephonic notice of the occurrence of any Event of Default referred to in Section 5.01(d) or (e) hereof and of the occurrence of any other event or condition that constitutes an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

SECTION 5.03. Remedies on Default. Whenever an Event of Default referred to in Section 5.01 hereof shall have occurred and be continuing, the Borrower acknowledges the rights of the Trustee and of any Bond Insurer to direct any and all remedies in accordance with the terms of the Bond Resolution, and the Borrower also acknowledges that the Trust shall have the right to take, or to direct the Trustee to take, any action permitted or required pursuant to the Bond Resolution and to take whatever other action at law or in equity may appear necessary or desirable 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.

In addition, if an Event of Default referred to in Section 5.01(a) hereof shall have occurred and be continuing, the Trust shall, to the extent allowed by applicable law and to the extent and in the manner set forth in the Bond Resolution, have the right to declare, or to direct the Trustee to declare, all Loan Repayments and all other amounts due hereunder (including, without limitation, payments under the Borrower Bond) together with the prepayment premium, if any, calculated pursuant to Section 3.07 hereof to be immediately due and payable, and upon notice to the Borrower the same shall become due and payable without further notice or demand.

SECTION 5.04. Attorneys' Fees and Other Expenses. The Borrower shall on demand pay to the Trust or the Trustee 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 by either of them in the collection of Trust Bond Loan Repayments or any other sum due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

SECTION 5.05. Application of Moneys. Any moneys collected by the Trust or the Trustee pursuant to Section 5.03 hereof shall be applied (a) *first* to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 5.04 hereof, (b) *second*, to the extent available, to pay the Interest Portion then due and payable, (c) *third*, to the extent available, to pay the principal due and payable on the Loan, (d) *fourth*, to the extent available, to pay the Administrative Fee, any late charges incurred hereunder or any other amounts due and

payable under this Loan Agreement, and (e) *fifth*, to the extent available, to pay the Interest Portion and the principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

SECTION 5.06. No Remedy Exclusive; Waiver; Notice. No remedy herein conferred upon or reserved to the Trust or the Trustee is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trust or the Trustee to exercise any remedy reserved to it in this Article V, it shall not be necessary to give any notice other than such notice as may be required in this Article V.

SECTION 5.07. Retention of Trust's Rights. Notwithstanding any assignment or transfer of this Loan Agreement pursuant to the provisions hereof or of the Bond Resolution, or anything else to the contrary contained herein, the Trust shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Borrower at law or in equity, as the Trust may, in its discretion, deem necessary to enforce the obligations of the Borrower to the Trust pursuant to Section 5.03 hereof.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified in Exhibit A-1 attached hereto and made a part hereof and to the Trust and the Trustee at the following addresses:

(a) Trust:

New Jersey Environmental Infrastructure Trust
3131 Princeton Pike
Building 4, Suite 216
Lawrenceville, New Jersey 08648-2201
Attention: Executive Director

(b) Trustee:

Zions Bank, a Division of ZB, National Association
600 Superior Ave., Suite 1300
Cleveland, Ohio 44114
Attention: Corporate Trust Department

Any of the foregoing parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent by notice in writing given to the others.

SECTION 6.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Trust and the Borrower and their respective successors and assigns.

SECTION 6.03. Severability. In the event any provision of this Loan Agreement shall be 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.

SECTION 6.04. Amendments, Supplements and Modifications.

(a) Except as otherwise provided in this Section 6.04, this Loan Agreement may not be amended, supplemented or modified without the prior written consent of the Trust and the Borrower and without the satisfaction of all conditions set forth in Section 11.12 of the Bond Resolution. Notwithstanding the conditions set forth in Section 11.12 of the Bond Resolution, (i) Section 2.02(p) hereof may be amended, supplemented or modified upon the written consent of the Trust and the Borrower and without the consent of the Trustee, any Bond Insurer or any holders of the Trust Bonds, and (ii) Exhibit H hereto may be amended, supplemented or modified prior to the execution and delivery thereof as the Trust, in its sole discretion, shall determine to be necessary, desirable or convenient for the purpose of satisfying Rule 15c2-12

and the purpose and intent thereof as Rule 15c2-12, its purpose and intent may hereafter be interpreted from time to time by the SEC or any court of competent jurisdiction, and such amendment, supplement or modification shall not require the consent of the Borrower, the Trustee, any Bond Insurer or any holders of the Trust Bonds.

SECTION 6.05. Execution in Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.06. Applicable Law and Regulations. This Loan Agreement shall be governed by and construed in accordance with the laws of the State, including the Act and the Regulations, which Regulations are, by this reference thereto, incorporated herein as part of this Loan Agreement.

SECTION 6.07. Consents and Approvals. Whenever the written consent or approval of the Trust shall be required under the provisions of this Loan Agreement, such consent or approval may only be given by the Trust unless otherwise provided by law or by rules, regulations or resolutions of the Trust or unless expressly delegated to the Trustee and except as otherwise provided in Section 6.09 hereof.

SECTION 6.08. Captions. The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

SECTION 6.09. Benefit of Loan Agreement; Compliance with Bond Resolution. This Loan Agreement is executed, among other reasons, to induce the purchase of the Trust Bonds. Accordingly, all duties, covenants, obligations and agreements of the Borrower herein contained are hereby declared to be for the benefit of and are enforceable by the Trust, the holders of the Trust Bonds and the Trustee. The Borrower covenants and agrees to observe and comply with, and to enable the Trust to observe and comply with, all duties, covenants, obligations and agreements contained in the Bond Resolution.

SECTION 6.10. Further Assurances. The Borrower shall, at the request of the Trust, authorize, execute, attest, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other 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 Loan Agreement and the Borrower Bond.

IN WITNESS WHEREOF, the Trust and the Borrower have caused this Loan Agreement to be executed, sealed and delivered as of the date first above written.

**NEW JERSEY ENVIRONMENTAL
INFRASTRUCTURE TRUST**

[SEAL]

ATTEST:

/s/David E. Zimmer
David E. Zimmer
Assistant Secretary

By: /s/Robert A. Briant, Jr.
Robert A. Briant, Jr.
Vice Chairman

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

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

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

[signature page]

SCHEDULE A

Certain Additional Loan Agreement Provisions

Certain Additional Loan Agreement Provisions

In addition to the terms defined in subsection (a) of Section 1.01 of this Loan Agreement, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in this Schedule A.

Additional Definitions:

“Bond Resolution” means the “Environmental Infrastructure Trust Bond Resolution, Series 2017[___]”, as adopted by the Board of Directors of the Trust on or about _____2017, authorizing the issuance of the Trust Bonds, and all further amendments and supplements thereto adopted in accordance with the provisions thereof.

“Borrower Bond Resolution” means the indenture of the Borrower dated as of April 1, 1927 and entitled “Indenture of Mortgage”, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond dated as of November 1, 2017 and entitled “Fiftieth Supplemental Indenture” (the “Supplemental Indenture”), pursuant to which the Borrower Bond has been issued.

“Interest Payment Dates” means February 1 and August 1 of each year, commencing on _____ 1, 201_.

“Loan” means the loan made by the Trust to the Borrower to finance or refinance a portion of the Cost of the Project pursuant to this Loan Agreement. For all purposes of this Loan Agreement, the amount of the Loan at any time shall be the initial aggregate principal amount of the Borrower Bond (which amount equals the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of certain costs of issuance, and underwriter's discount for all Trust Bonds issued to finance the Loan, less any amount of such principal amount that has been repaid by the Borrower under this Loan Agreement and less any adjustment made pursuant to the provisions of the Bond Resolution, including, without limitation, Section 5.02(4) thereof, N.J.A.C. 7:22-4.26 and the appropriations act of the State Legislature authorizing the expenditure of Trust Bond proceeds to finance a portion of the Costs of the Project.

“Principal Payment Dates” means August 1 of each year, commencing on August 1, 201_.

SECTION 2.02(e)

Disposition of Environmental Infrastructure System. The Borrower shall not permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or

indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a “Disposition”), except on ninety (90) days' prior written notice to the Trust, and, in any event, shall not permit a Disposition unless the following conditions are met: (i) the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond; and (ii) the Trust shall by appropriate action determine, in its sole discretion, that such sale, lease, abandonment or other disposition will not adversely affect (A) the Trust's ability to meet its duties, covenants, obligations and agreements under the Bond Resolution, (B) the value of this Loan Agreement or the Borrower Bond as security for the payment of Trust Bonds and the interest thereon, or (C) the excludability from gross income for federal income tax purposes of the interest on Trust Bonds then outstanding or that could be issued in the future.

SECTION 2.02(f)(xi)

The Borrower will not have a reserve or replacement fund (within the meaning of Section 148(d)(1) of the Code) allocable to the Borrower Bond evidencing the Loan.

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Section 4: EX-21 (EX-21)

Exhibit 21

Middlesex Water Company

Subsidiaries

	Jurisdiction of Organization
Tidewater Utilities, Inc.	Delaware
Tidewater Environmental Services, Inc.	Delaware
Pinelands Water Company	New Jersey
Pinelands Wastewater Company	New Jersey
Utility Service Affiliates (Perth Amboy) Inc.	New Jersey
Utility Service Affiliates, Inc.	New Jersey
Twin Lakes Utilities, Inc.	Pennsylvania

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Section 5: EX-23.1 (EX-23.1)

Exhibit 23.1

We consent to the incorporation by reference in the Registration Statements on Form S-3 (File No. 333-205698) and Form S-8 (File No. 333-156269) of Middlesex Water Company of our report dated March 9, 2018, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ Baker Tilly Virchow Krause, LLP

Wyomissing, Pennsylvania
March 9, 2018

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Section 6: EX-31 (EX-31)

Exhibit 31

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 Annual Report on Form 10-K 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

Date: March 9, 2018

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Section 7: 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, A. Bruce O'Connor, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 9, 2018

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Section 8: EX-32 (EX-32)

Exhibit 32

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: March 9, 2018

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 9: EX-32.1 (EX-32.1)

Exhibit 32.1

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: March 9, 2018

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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