

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2022

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.)

485C Route One South, 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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MSEX	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Large accelerated filer
Smaller reporting company

Accelerated filer

Non-accelerated filer
Emerging growth company

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

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

Yes No

The number of shares outstanding of each of the registrant's classes of common stock, as of April 29, 2022: Common Stock, No Par Value: 17,559,204 shares outstanding.

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

	Three Months Ended March 31,	
	2022	2021
Operating Revenues	\$ 36,196	\$ 32,541
Operating Expenses:		
Operations and Maintenance	19,139	18,356
Depreciation	5,622	4,832
Other Taxes	4,144	3,719
Total Operating Expenses	28,905	26,907
Gain on Sale of Subsidiary	5,232	-
Operating Income	12,523	5,634
Other Income:		
Allowance for Funds Used During Construction	377	1,263
Other Income, net	1,379	775
Total Other Income, net	1,756	2,038
Interest Charges	1,850	1,738
Income before Income Taxes	12,429	5,934
Income Taxes	329	(973)
Net Income	12,100	6,907
Preferred Stock Dividend Requirements	30	30
Earnings Applicable to Common Stock	\$ 12,070	\$ 6,877
Earnings per share of Common Stock:		
Basic	\$ 0.69	\$ 0.39
Diluted	\$ 0.68	\$ 0.39
Average Number of Common Shares Outstanding:		
Basic	17,538	17,476
Diluted	17,653	17,591

See Notes to Condensed Consolidated Financial Statements.

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

ASSETS		March 31,	December 31,
		2022	2021
UTILITY PLANT:	Water Production	\$ 235,675	\$ 247,286
	Transmission and Distribution	692,368	697,200
	General	95,319	95,658
	Construction Work in Progress	37,455	24,947
	TOTAL	1,060,817	1,065,091
	Less Accumulated Depreciation	202,776	199,723
	UTILITY PLANT - NET	858,041	865,368
CURRENT ASSETS:	Cash and Cash Equivalents	3,294	3,533
	Accounts Receivable, net of allowance for uncollectible accounts of \$2,530 and \$2,574, respectively	13,480	15,311
	Unbilled Revenues	8,148	7,273
	Materials and Supplies (at average cost)	5,369	5,358
	Prepayments	2,574	2,880
	TOTAL CURRENT ASSETS	32,865	34,355
OTHER ASSETS:	Operating Lease Right of Use Asset	4,331	4,503
	Preliminary Survey and Investigation Charges	2,779	3,540
	Regulatory Assets	100,191	100,738
	Non-utility Assets - Net	11,310	11,428
	Other	67	83
	TOTAL OTHER ASSETS	118,678	120,292
	TOTAL ASSETS	\$ 1,009,584	\$ 1,020,015
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$ 225,092	\$ 221,919
	Retained Earnings	152,790	145,807
	TOTAL COMMON EQUITY	377,882	367,726
	Preferred Stock	2,084	2,084
	Long-term Debt	306,518	306,520
	TOTAL CAPITALIZATION	686,484	676,330
CURRENT LIABILITIES:	Current Portion of Long-term Debt	6,710	6,731
	Notes Payable	15,000	13,000
	Accounts Payable	18,059	21,125
	Accrued Taxes	14,029	8,621
	Accrued Interest	1,960	1,986
	Unearned Revenues and Advanced Service Fees	1,320	1,330
	Other	2,591	3,826
	TOTAL CURRENT LIABILITIES	59,669	56,619
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
OTHER LIABILITIES:	Customer Advances for Construction	23,006	23,529
	Lease Obligations - Operating	4,200	4,367
	Accumulated Deferred Income Taxes	72,002	69,500
	Employee Benefit Plans	10,217	11,290
	Regulatory Liabilities	46,190	49,431
	Other	1,081	1,086
	TOTAL OTHER LIABILITIES	156,696	159,203
CONTRIBUTIONS IN AID OF CONSTRUCTION		106,735	127,863
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 1,009,584	\$ 1,020,015

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 12,100	\$ 6,907
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6,825	6,296
Provision for Deferred Income Taxes and Investment Tax Credits	(2,137)	(2,359)
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(202)	(732)
Cash Surrender Value of Life Insurance	187	27
Stock Compensation Expense	267	203
Gain on Sale of Subsidiary	(5,232)	-
Changes in Assets and Liabilities:		
Accounts Receivable	1,831	1,860
Unbilled Revenues	(875)	(145)
Materials and Supplies	(11)	(81)
Prepayments	306	664
Accounts Payable	(3,066)	(6,029)
Accrued Taxes	5,408	3,887
Accrued Interest	(26)	173
Employee Benefit Plans	(653)	95
Unearned Revenue and Advanced Service Fees	(10)	(18)
Other Assets and Liabilities	(737)	(1,306)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,975	9,442
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of \$175 in 2022, \$531 in 2021	(16,631)	(22,033)
Proceeds from Sale of Subsidiary	3,122	-
NET CASH USED IN INVESTING ACTIVITIES	(13,509)	(22,033)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(1,228)	(1,324)
Proceeds from Issuance of Long-term Debt	1,250	687
Net Short-term Bank Borrowings	2,000	11,000
Deferred Debt Issuance Expense	(9)	(2)
Proceeds from Issuance of Common Stock	2,906	322
Payment of Common Dividends	(5,087)	(4,762)
Payment of Preferred Dividends	(30)	(30)
Construction Advances and Contributions-Net	(507)	505
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(705)	6,396
NET CHANGES IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(239)	(6,195)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	3,533	10,404
CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	\$ 3,294	\$ 4,209
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	\$ 2,401	\$ 1,169
Non-Cash Consideration for Sale of Subsidiary	\$ 2,100	\$ -
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 2,038	\$ 1,726
Interest Capitalized	\$ 175	\$ 531
Income Taxes	\$ 125	\$ -

See Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2022	December 31, 2021
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2022 - 17,551; 2021 - 17,522	\$ 225,092	\$ 221,919
Retained Earnings	152,790	145,807
TOTAL COMMON EQUITY	\$ 377,882	\$ 367,726
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 120		
Shares Outstanding - 20		
Convertible:		
Shares Outstanding, \$7.00 Series - 10	\$ 1,005	\$ 1,005
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	79	79
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 2,084	\$ 2,084
Long-term Debt:		
First Mortgage Bonds, 0.00% - 5.50%, due 2023 - 2059	\$ 203,440	\$ 203,892
Amortizing Secured Notes, 3.94% - 7.05%, due 2028 - 2046	46,939	47,613
State Revolving Trust Notes, 2.00% - 4.22%, due 2022 - 2041	8,658	7,510
Construction Loans, 0.00%	52,131	52,131
SUBTOTAL LONG-TERM DEBT	311,168	311,146
Add: Premium on Issuance of Long-term Debt	7,172	7,271
Less: Unamortized Debt Expense	(5,112)	(5,166)
Less: Current Portion of Long-term Debt	(6,710)	(6,731)
TOTAL LONG-TERM DEBT	\$ 306,518	\$ 306,520

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands except per share amounts)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance at January 1, 2021	17,473	\$ 217,451	\$ 128,757	\$ 346,208
Net Income	-	-	6,907	6,907
Dividend Reinvestment & Common Stock Purchase Plan	5	322	-	322
Restricted Stock Award - Net - Employees	-	203	-	203
Cash Dividends on Common Stock (\$0.2725 per share)	-	-	(4,762)	(4,762)
Cash Dividends on Preferred Stock	-	-	(30)	(30)
Balance at March 31, 2021	17,478	\$ 217,976	\$ 130,872	\$ 348,848
Balance at January 1, 2022	17,522	\$ 221,919	\$ 145,807	\$ 367,726
Net Income	-	-	12,100	12,100
Dividend Reinvestment & Common Stock Purchase Plan	29	2,906	-	2,906
Restricted Stock Award - Net - Employees	-	267	-	267
Cash Dividends on Common Stock (\$0.2900 per share)	-	-	(5,087)	(5,087)
Cash Dividends on Preferred Stock	-	-	(30)	(30)
Balance at March 31, 2022	17,551	\$ 225,092	\$ 152,790	\$ 377,882

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Recent Developments

Middlesex Water Company (Middlesex or the Company) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), Utility Service Affiliates, Inc. (USA), and Utility Service Affiliates (Perth Amboy) Inc. (USA-PA). Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh) are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

The consolidated notes within the 2021 Annual Report on Form 10-K (the 2021 Form 10-K) are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of March 31, 2022 and the results of operations and cash flows for the three month periods ended March 31, 2022 and 2021. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2021, has been derived from the Company's December 31, 2021 audited financial statements included in the 2021 Form 10-K.

Recent Developments

Regulatory Notice of Non-Compliance - In September 2021, the New Jersey Department of Environmental Protection (NJDEP) issued a Notice of Non-Compliance (Notice) to Middlesex based on self-reporting by Middlesex that the level of Perfluorooctanoic Acid (PFOA) in water treated at its Park Avenue Wellfield Treatment Plant in South Plainfield, New Jersey exceeded a recently promulgated NJDEP standard effective in 2021. Neither the NJDEP nor Middlesex has characterized this exceedance as an acute health threat. However, Middlesex was required to notify its affected customers and complied in November 2021 as required by the regulation. Further, the Notice required the Company to take any action necessary to comply with the new standard by September 7, 2022.

The NJDEP standard for PFOA was developed based on a Health-based Maximum Contaminant Level (MCL) of 14 parts per trillion (ppt). Although the United States Environmental Protection Agency (USEPA) has not yet implemented a regulation relative to PFOA, the water distributed from the Park Avenue Wellfield Treatment Plant does meet the USEPA's current health advisory level of 70 ppt and would meet the NJDEP's pre-2021 standard guidance level of 40 ppt, which was not a regulation. Construction of an enhanced treatment process at the Park Avenue Wellfield Treatment Plant to comply with an anticipated NJDEP standard, at a level which is unknown at this time, had already begun prior to the regulation being enacted. Since completion is not expected until mid-2023, in December 2021, the Company implemented an interim solution to meet the Notice requirements. The Park Avenue Wellfield Treatment Plant was taken off-line and alternate sources of supply have been obtained. The Company is in the process of implementing an acceleration of a portion of the Park Avenue Wellfield treatment upgrades in order to meet anticipated increases in the historical higher water demand periods during the summer months. This is also intended to result in compliance with the requirements of the Notice.

In November 2021, the Company was served with two PFOA-related class action lawsuits seeking restitution for medical, water replacement and other claimed related costs. These lawsuits are in the early stages of the legal process and their ultimate resolution cannot be predicted at this time. The Company's insurance provider has acknowledged coverage of potential liability which may result from these lawsuits.

In January 2022, the Company filed a petition with the New Jersey Board of Public Utilities (NJBPU) seeking to establish a regulatory asset and deferred accounting treatment until its next base rate setting proceeding for all costs associated with the interim solution to comply with the Notice.

While the Company believes monetary penalties are unlikely, the issuance of the Notice does not preclude the State of New Jersey or any of its agencies from initiating formal administrative and/or judicial enforcement action, including assessment of penalties of up to \$25,000 per day per offense if the Company is not in compliance with the requirements of the Notice by September 7, 2022.

Sale of Subsidiary – In January 2022, Middlesex closed on the Delaware Public Service Commission (DEPSC) approved sale of 100% of the common stock of its subsidiary Tidewater Environmental Services, Inc. to Artesian Wastewater Management, Inc. for \$6.4 million in cash and other consideration, resulting in a \$5.2 million pre-tax gain. The Company will continue to own and operate its non-regulated water and wastewater contract operations business in Delaware.

Coronavirus (COVID-19) Pandemic – On April 13, 2022, the United States Secretary of Health and Human Services renewed the determination that a nationwide health emergency exists as a result of the COVID-19 Pandemic. While the Company's operations and capital construction program have not been materially disrupted to date from the pandemic, the COVID-19 impact on economic conditions nationally continues to be uncertain and could affect the Company's results of operations, financial condition and liquidity in the future. In New Jersey, the declared COVID-19 State of Emergency ended on March 7, 2022. In Delaware, the declared COVID-19 State of Emergency Order ended in July 2021.

The NJBPU and the DEPSC have approved the tracking of COVID-19 related incremental costs for potential recovery in customer rates in future rate proceedings. Neither jurisdiction has established a timetable or definitive formal procedures for seeking cost recovery. Since March 2020, the Company has increased its allowance for doubtful accounts for expected increases in accounts receivable write-offs due to the financial impact of COVID-19 on customers. Since the ultimate rate treatment to be determined by the NJBPU regarding incremental costs related to COVID-19 is not definitively known at this time, the Company has not deferred any such costs. We will continue to monitor the effects of COVID-19 and evaluate its impact on the Company's results of operations, financial condition and liquidity.

Recent Accounting Guidance

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

Note 2 – Rate and Regulatory Matters

Middlesex – In December 2021, Middlesex's petition to the NJBPU seeking permission to increase its base water rates was concluded, based on a negotiated settlement, resulting in an expected increase in annual operating revenues of \$27.7 million. The approved tariff rates were designed to recover increased operating costs as well as a return on invested capital of \$513.5 million, based on an authorized return on common equity of 9.6%. The increase is being implemented in two phases with \$20.7 million of the increase effective January 1, 2022 and the remaining \$7.0 million effective January 1, 2023. As part of the negotiated settlement, the Purchased Water Adjustment Clause (PWAC), which is a rate mechanism that allows for recovery of increased purchased water costs between base rate case filings, was reset to zero.

In March 2022, Middlesex filed a petition with the NJBPU seeking approval to set its PWAC tariff rate to recover additional costs of \$3.7 million for the purchase of treated water from a non-affiliated water utility regulated by the NJBPU. We cannot predict whether the NJBPU will ultimately approve, deny or reduce the amount of our request.

Twin Lakes Utilities, Inc. (Twin Lakes) - Twin Lakes provides water services to approximately 115 residential customers in Shohola, Pennsylvania. Pursuant to the Pennsylvania Public Utility Code, Twin Lakes filed a petition requesting the Pennsylvania Public Utilities Commission (PAPUC) to order the acquisition of Twin Lakes by a capable public utility. The PAPUC assigned an Administrative Law Judge (ALJ) to adjudicate the matter and submit a recommended decision (Recommended Decision) to the PAPUC. As part of this legal proceeding the PAPUC also issued an Order in January 2021 appointing a large Pennsylvania based investor-owned water utility as the receiver (the Receiver Utility) of the Twin Lakes system until the petition is fully adjudicated by the PAPUC. In November 2021, the PAPUC issued an Order affirming the ALJ's Recommended Decision, ordering the Receiver Utility to acquire the Twin Lakes water system and for Middlesex to submit \$1.7 million into an escrow account within 30 days. Twin Lakes immediately filed a Petition For Review (PFR) with the Commonwealth Court of Pennsylvania (the Pennsylvania Court) seeking reversal and vacation of the escrow requirement on the grounds that it violates the Pennsylvania Public Utility Code as well as the United States Constitution. In addition, Twin Lakes filed an emergency petition for stay of the PAPUC Order pending the Pennsylvania Court's review of the merits arguments contained in Twin Lakes' PFR. In December 2021, the Pennsylvania Court granted Twin Lakes' emergency petition, pending its review. A final decision by the Pennsylvania Court is not expected before June 2022. The final adjudication of this matter cannot be predicted at this time.

The financial results, total assets and financial obligations of Twin Lakes are not material to Middlesex.

Note 3 – Capitalization

Common Stock - For the three months ended March 31, 2022 and 2021, the Company received proceeds of \$2.9 million and \$0.3 million, respectively, for the issuance of shares of its common stock under the Middlesex Water Company Investment Plan (the Investment Plan). On September 1, 2021, the Company began offering shares of its common stock for purchase at a 3% discount to participants in the Investment Plan. The discount offering will continue until 200,000 shares are purchased at the discounted price or August 1, 2022, whichever event occurs first. Through March 31, 2022, 60,096 shares have been purchased through the discounted offering. The discount applies to all common stock purchases made under the Investment Plan, whether by optional cash payment or by dividend reinvestment.

Long-term Debt - Middlesex currently has two projects that are in the construction loan phase of the New Jersey State Revolving Fund (SRF) program:

- 1) In April 2018, the NJBPU approved Middlesex's request to participate in the New Jersey Infrastructure Bank (NJIB) loan program to fund the construction of a 4.5 mile large-diameter transmission pipeline from the Carl J. Olsen water treatment plant in Edison, New Jersey and interconnect with our distribution system. Middlesex closed on a \$43.5 million NJIB interest-free construction loan in August 2018 and completed withdrawal of the proceeds in June 2021; and
- 2) In March 2018, the NJBPU approved Middlesex's request to participate in the NJIB loan program to fund the 2018 RENEW Program, which is an ongoing initiative to rehabilitate or replace water distribution mains in the Middlesex system. Middlesex closed on an \$8.7 million interest-free NJIB construction loan in September 2018 and completed withdrawal of the proceeds in October 2019.

The Company anticipates that these two interest-free construction loans will be converted into long-term securitized loans by the NJIB during the second quarter of 2022.

In November 2021, Tidewater received approval from the DEPSC to borrow up to \$5.0 million under the Delaware SRF Program for construction of a one million gallon elevated storage tank. Tidewater closed on the \$5.0 million loan in December 2021 and began receiving disbursements in January 2022. Through March 31, 2022, Tidewater has drawn a total of \$1.3 million and expects borrowing under this loan to continue through mid-2023. The final maturity date on the loan is 2044.

Fair Value of Financial Instruments - The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the condensed consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and notes payable approximate their respective fair values due to the short-term maturities of these instruments. The fair value of First Mortgage Bonds (FMBs) 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 FMBs in the table below are classified as Level 2 measurements. The carrying amount and fair value of the FMBs were as follows:

	(Thousands of Dollars)			
	March 31, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FMBs	\$98,441	\$102,282	\$98,828	\$107,781

It was not practicable to estimate their fair value on our outstanding long-term debt for which there is no quoted market price and there is not an active trading market. 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 titled “Amortizing Secured Notes”, “State Revolving Trust Notes”, and “Construction Loans” on the Consolidated Statements of Capital Stock and Long-Term Debt. The carrying amount of these instruments was \$212.7 million and \$212.3 million at March 31, 2022 and December 31, 2021, respectively. Customer advances for construction have carrying amounts of \$23.0 million and \$23.5 million at March 31, 2022 and December 31, 2021, 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.

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.

Note 4 – Earnings Per Share

Basic earnings per share (EPS) are computed on the basis of the weighted average number of shares outstanding during the period presented. Diluted EPS assumes the conversion of the Convertible Preferred Stock \$7.00 Series.

Basic:	2022		2021	
	Income	Shares	Income	Shares
Net Income	\$ 12,100	17,538	\$ 6,907	17,476
Preferred Dividend	(30)		(30)	
Earnings Applicable to Common Stock	\$ 12,070	17,538	\$ 6,877	17,476
Basic EPS	\$ 0.69		\$ 0.39	
Diluted:				
Earnings Applicable to Common Stock	\$ 12,070	17,538	\$ 6,877	17,476
\$7.00 Series Preferred Dividend	17	115	17	115
Adjusted Earnings Applicable to Common Stock	\$ 12,087	17,653	\$ 6,894	17,591
Diluted EPS	\$ 0.68		\$ 0.39	

Note 5 – Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey and Delaware. This segment also includes regulated wastewater systems in New Jersey and Delaware. The Company is subject to regulations as to its rates, services and other matters by New Jersey and Delaware with respect to utility services within these states. The other segment is primarily comprised of non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

	(In Thousands)	
	Three Months Ended	
	March 31,	
Operations by Segments:	2022	2021
Revenues:		
Regulated	\$ 33,325	\$ 29,421
Non – Regulated	3,009	3,257
Inter-segment Elimination	(138)	(137)
Consolidated Revenues	\$ 36,196	\$ 32,541
Operating Income:		
Regulated	\$ 11,705	\$ 4,716
Non – Regulated	818	918
Consolidated Operating Income	\$ 12,523	\$ 5,634
Net Income:		
Regulated	\$ 11,513	\$ 6,240
Non – Regulated	587	667
Consolidated Net Income	\$ 12,100	\$ 6,907
Capital Expenditures:		
Regulated	\$ 16,585	\$ 21,963
Non – Regulated	46	70
Total Capital Expenditures	\$ 16,631	\$ 22,033
	As of	As of
	March 31,	December 31,
	2022	2021
Assets:		
Regulated	\$ 1,015,059	\$ 1,022,116
Non – Regulated	8,378	7,811
Inter-segment Elimination	(13,853)	(9,912)
Consolidated Assets	\$ 1,009,584	\$ 1,020,015

Note 6 – Short-term Borrowings

The Company maintains lines of credit aggregating \$140.0 million.

	(Millions)		Maximum	Credit Type	Renewal Date
	Outstanding	Available			
Bank of America	\$ -	\$ 60.0	\$ 60.0	Uncommitted	January 26, 2023
PNC Bank	15.0	53.0	68.0	Committed	January 31, 2024
CoBank	-	12.0	12.0	Committed	November 30, 2023
	<u>\$ 15.0</u>	<u>\$ 125.0</u>	<u>\$ 140.0</u>		

The interest rate for borrowings under the Bank of America and PNC Bank lines of credit is set using the Bloomberg Short-Term Bank Yield Index and adding a credit spread, which varies by financial institution. The interest rate for borrowings under the CoBank line of credit are set weekly using CoBank's internal cost of funds index that is similar to the Standard Overnight Financing Rate and adding a credit spread. There is no requirement for a compensating balance under any of the established lines of credit.

The weighted average interest rate on the outstanding borrowings at March 31, 2022 under these credit lines is 1.20%.

The weighted average daily amounts of outstanding borrowings under the Company's credit lines and the weighted average interest rates on those amounts were \$13.4 million and \$8.0 million at 1.12% and 1.12% for the three months ended March 31, 2022 and 2021, respectively.

The maturity dates for the \$15.0 million outstanding as of March 31, 2022 are in April 2022 and May 2022 and were or are expected to be extended at the discretion of the Company.

Note 7 – Commitments and Contingent Liabilities

Water Supply - Middlesex has an agreement with the New Jersey Water Supply Authority (NJWSA) for the purchase of untreated water through November 30, 2023, which provides for an average purchase of 27.0 million gallons a day (mgd). Pricing is set annually by the NJWSA through a public rate making process. The agreement has provisions for additional pricing in the event Middlesex overdrafts or exceeds certain monthly and annual thresholds.

Middlesex has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement, which expires February 27, 2026, provides for the minimum purchase of 3.0 mgd of treated water with provisions for additional purchases.

Tidewater contracts with the City of Dover, Delaware to purchase 15.0 million gallons of treated water annually.

Purchased water costs are shown below:

	(In Thousands)	
	Three Months Ended March 31,	
	2022	2021
Treated	\$ 747	\$ 877
Untreated	811	861
Total Costs	<u>\$ 1,558</u>	<u>\$ 1,738</u>

Guarantees - As part of an agreement with the County of Monmouth, New Jersey (County), prior to 2020 Middlesex had served as guarantor of the performance of an unaffiliated wastewater treatment contractor and partner (Contractor), to operate a County-owned leachate pretreatment facility.

In November 2019, Middlesex was notified that the County terminated its Agreement with the Contractor. The Contractor had initiated legal action against the County that in part contests the County's exercise of this termination. The County filed a counter-claim against the Contractor's parent company and has brought Middlesex into the suit as a third-party defendant. Our ongoing monitoring of this litigation has led to the conclusion that we do not anticipate the ultimate outcome will have a material impact on the Company's results of operations or financial condition.

Leases - The Company determines if an arrangement is a lease at inception. Generally, a lease agreement exists if the Company determines that the arrangement gives the Company control over the use of an identified asset and obtains substantially all of the benefits from the identified asset.

The Company has entered into an operating lease of office space for administrative purposes, expiring in 2030. The Company has not entered into any finance leases. The exercise of a lease renewal option for the Company's administrative offices is solely at the discretion of the Company.

The right-of-use (ROU) asset recorded represents the Company's right to use an underlying asset for the lease term and lease liability represents the Company's obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Company's operating lease does not provide an implicit discount rate and as such the Company used an estimated incremental borrowing rate (4.03%) based on the information available at commencement date in determining the present value of lease payments.

Given the impacts of accounting for regulated operations, and the resulting recognition of expense at the amounts recovered in customer rates, expenditures for operating leases are consistent with lease expense and were \$0.2 million for each of the three months ended March 31, 2022 and 2021, respectively.

Information related to operating lease ROU assets and lease liabilities is as follows:

	(In Millions)	
	As of	
	March 31, 2022	December 31, 2021
ROU Asset at Lease Inception	\$ 7.3	\$ 7.3
Accumulated Amortization	(3.0)	(2.8)
Current ROU Asset	\$ 4.3	\$ 4.5

The Company's future minimum operating lease commitments as of March 31, 2022 are as follows:

(In Millions)		
2022	\$	0.6
2023		0.8
2024		0.8
2025		0.8
2026		0.9
Thereafter		2.7
Total Lease Payments	\$	6.6
Imputed Interest		(1.7)
Present Value of Lease Payments		4.9
Less Current Portion*		(0.7)
Non-Current Lease Liability	\$	4.2
*Included in Other Current Liabilities		

Construction - The Company has forecasted to spend approximately \$90 million for its construction program in 2022. The Company has entered into several construction contracts that, in the aggregate, obligate expenditure of an estimated \$39 million in the future. 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, supply chain issues and continued refinement of project scope and costs and could be impacted if the effects of new variants of COVID-19 pandemic arise and continue for an extended period of time (for further discussion of the impact of COVID-19 on the Company, see *Note 1 - Coronavirus (COVID-19) Pandemic*). There is no assurance that projected customer growth and residential new home construction and sales will occur.

PFOA Matter - In November 2021, the Company was served with two PFOA-related class action lawsuits seeking restitution for medical, water replacement and other related costs and economic damages. These lawsuits are in the early stages of the legal process and their ultimate resolution cannot be predicted at this time. The Company's insurance provider has acknowledged coverage of potential liability resulting from these lawsuits (for further discussion of this matter, see *Note 1 - Regulatory Notice of Non-Compliance*).

Contingencies - Based on our operations in the heavily-regulated water and wastewater industries, the Company is routinely involved in disputes, claims, lawsuits and other regulatory and legal matters, including responsibility for fines and penalties related to regulatory compliance. At this time, Management does not believe the final resolution of any such matters, whether asserted or unasserted, will have a material adverse effect on the Company's financial position, results of operations or cash flows. In addition, the Company maintains business insurance coverage that may mitigate the effect of any current or future loss contingencies.

Change in Control Agreements - The Company has Change in Control Agreements with certain of its officers that provide compensation and benefits in the event of termination of employment in connection with a change in control of the Company.

Note 8 – Employee Benefit Plans

Pension Benefits - The Company's Pension Plan covers all active employees hired prior to April 1, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides for a potential annual contribution in an amount that is at the discretion of the Company, based upon a percentage of the participants' annual paid compensation. In order to be eligible for a contribution, the participant must be employed by the Company on December 31st of the year to which the contribution relates. For each of the three month periods ended March 31, 2022 and 2021, the Company did not make Pension Plan cash contributions. The Company expects to make Pension Plan cash contributions of approximately \$3.4 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company officers and currently pays \$0.4 million in annual benefits to the retired participants.

Other Postretirement Benefits - The Company's retirement plan other than pensions (Other Benefits Plan) covers substantially all of its current retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. For the three month periods ended March 31, 2022 and 2021, the Company did not make Other Benefits Plan cash contributions. The Company expects to make additional Other Benefits Plan cash contributions of \$0.8 million over the remainder of the current year.

The following table sets forth information relating to the Company's periodic cost (benefit) for its employee retirement benefit plans:

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Three Months Ended March 31,			
	2022	2021	2022	2021
Service Cost	\$ 591	\$ 674	\$ 200	\$ 229
Interest Cost	761	677	331	309
Expected Return on Assets	(1,760)	(1,556)	(887)	(786)
Amortization of Unrecognized Losses	418	717	-	132
Net Periodic Benefit Cost (Benefit)*	\$ 10	\$ 512	\$ (356)	\$ (116)

*Service cost is included in Operations and Maintenance expense on the Condensed Consolidated Statements of Income; all other amounts are included in Other Income/Expense, net.

Note 9 – Revenue Recognition from Contracts with Customers

The Company's revenues are primarily generated from regulated tariff-based sales of water and wastewater services and non-regulated operation and maintenance contracts for services on water and wastewater systems owned by others. Revenue from contracts with customers is recognized when control of a promised good or service is transferred to customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

The Company's regulated revenue from contracts with customers results from tariff-based sales from the provision of water and wastewater services to residential, industrial, commercial, fire-protection and wholesale customers. Residential customers are billed quarterly while most industrial, commercial, fire-protection and wholesale customers are billed monthly. Payments by customers are due between 15 to 30 days after the invoice date. Revenue is recognized as the water and wastewater services are delivered to customers as well as from accrual of unbilled revenues estimated from the last meter reading date to the end of the accounting period utilizing factors such as historical customer data, regional weather indicators and general economic conditions in the relevant service territories. Unearned Revenues and Advance Service Fees include fixed service charge billings in advance to Tidewater customers recognized as service is provided to the customer.

Non-regulated service contract revenues consist of base service fees as well as fees for additional billable services provided to customers. Fees are billed monthly and are due within 30 days after the invoice date. The Company considers the amounts billed to represent the value of these services provided to customers. These contracts expire at various times through June 2030 and contain remaining performance obligations for which the Company expects to recognize revenue in the future. These contracts also contain customary termination provisions.

Substantially all of the amounts included in operating revenues and accounts receivable are from contracts with customers. The Company records its allowance for doubtful accounts based on historical write-offs combined with an evaluation of current economic conditions within its service territories.

The Company's contracts do not contain any significant financing components.

The Company's operating revenues are comprised of the following:

	(In Thousands)	
	Three Months Ended March 31,	
	2022	2021
Regulated Tariff Sales		
Residential	\$ 19,152	\$ 16,957
Commercial	4,427	3,576
Industrial	2,595	2,177
Fire Protection	3,120	3,104
Wholesale	3,964	3,539
Non-Regulated Contract Operations	2,900	3,151
Total Revenue from Contracts with Customers	\$ 36,158	\$ 32,504
Other Regulated Revenues	67	68
Other Non-Regulated Revenues	109	106
Inter-segment Elimination	(138)	(137)
Total Revenue	\$ 36,196	\$ 32,541

Note 10 – Income Taxes

The Company's federal income tax returns for the tax years 2014 through 2017 were selected for examination by the Internal Revenue Service (IRS), which included the tax year in which the Company had adopted the final IRS tangible property regulations and changed its accounting method for the tax treatment of expenditures that qualified as deductible repairs. As a result of the audit examination, the Company agreed to certain modifications of its accounting method for expenditures that qualify as deductible repairs. In 2019, the Company paid \$2.7 million in income taxes and \$0.1 million in interest in connection with the conclusion of the 2014 through 2017 federal income tax return audits. As of March 31, 2022, the Company's income tax reserve provision and interest expense liability are \$0.5 million and \$0.2 million, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Middlesex Water Company (Middlesex or the Company) included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Forward-Looking Statements

Certain statements contained in this periodic report and in the documents incorporated by reference constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The Company intends that these statements be covered by the safe harbors created under those laws. They include, but are not limited to statements as to:

- expected financial condition, performance, prospects and earnings of the Company;
- strategic plans for growth;
- the amount and timing of rate increases and other regulatory matters, including the recovery of certain costs recorded as regulatory assets;
- the Company's expected liquidity needs during the upcoming fiscal year and beyond and the sources and availability of funds to meet its liquidity needs;
- expected customer rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- financial projections;
- the expected amount of cash contributions to fund the Company's retirement benefit plans, anticipated discount rates and rates of return on 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 and compliance with related regulatory requirements;
- weather variations and other natural phenomena impacting utility operations;
- financial and operating risks associated with acquisitions and, or privatizations;
- acts of war or terrorism;
- cyber - attacks;
- changes in the pace of housing development;
- availability and cost of capital resources;
- timely availability of materials and supplies for operations and critical infrastructure projects;
- impact of the Novel Coronavirus (COVID-19) pandemic; and
- other factors discussed elsewhere in this quarterly report.

Many of these factors are beyond the Company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak to the Company's understanding as of the date of this report. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Overview

Middlesex Water Company (Middlesex or the Company) has operated as a water utility in New Jersey since 1897 and in Delaware through our wholly-owned subsidiary, Tidewater Utilities, Inc. (Tidewater), since 1992. We are in the business of collecting, treating and distributing water for domestic, commercial, municipal, industrial and fire protection purposes. We operate water and wastewater systems under contract for governmental entities and private entities primarily in New Jersey and Delaware and also provide regulated wastewater services in New Jersey. We are regulated by state public utility commissions as to rates charged to customers for water and wastewater services, as to the quality of water and wastewater services we provide and as to certain other matters in the states in which our regulated subsidiaries operate. 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 public utilities as related to rates and services quality. All municipal or commercial entities whose utility operations are managed by these entities however, are subject to environmental regulation at the federal and state levels.

Our principal 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 sales under contract to municipalities in central New Jersey with a total population of over 0.2 million. Our Bayview system provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company and Pinelands Wastewater Company, provide water and wastewater services to approximately 2,500 customers in Southampton Township, New Jersey.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC, provide water services to approximately 55,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services approximately 4,500 customers in Kent and Sussex Counties through various operations and maintenance contracts.

USA-PA operates the water and wastewater systems for the City of Perth Amboy, New Jersey (Perth Amboy) under a 10-year operations and maintenance contract expiring in 2028. In addition to performing day-to-day operations, USA-PA is also responsible for emergency response and management of capital projects funded by Perth Amboy.

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system under a 10-year operations and maintenance contract expiring in June 2022. USA participated in the public proposal process for the Borough's procurement of a new contract and a decision on this proposal is expected in the second quarter of 2022. In addition to performing day-to-day service operations, USA is responsible for billing, collections, customer service, emergency response and management of capital projects funded by Avalon. USA operates the Borough of Highland Park, New Jersey's water and wastewater systems under a 10-year operations and maintenance contract expiring in June 2030. Under a marketing agreement with HomeServe USA Corp. (HomeServe) expiring in 2031, USA offers residential customers in New Jersey and Delaware water and wastewater related services and 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 functions associated with HomeServe's service contracts.

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 maintain and improve service for the current and future generations of water and wastewater customers. The Company plans to invest approximately \$90 million in 2022 in connection with projects that include, but are not limited to:

- Construction of a facility to provide an enhanced treatment process at the Company's largest New Jersey wellfield in South Plainfield to comply with new state water quality regulations relative to poly- and perfluoroalkyl substances, collectively referred to as PFAS, and integrate surge protection to mitigate spikes in water pressures along with enhancements to corrosion control and disinfection processes;
- Replacement of approximately six miles of water mains including full main and service line replacements, meter pit installations and fire hydrant replacements in the Township of Woodbridge, New Jersey;
- Upgrade of our Work and Asset Management Information Technology System;
- Construction of two elevated water storage tanks in our Tidewater service territory; and
- Various other water main replacements and improvements.

Regulatory Notice of Non-Compliance— In September 2021, the New Jersey Department of Environmental Protection (NJDEP) issued a Notice of Non-Compliance (Notice) to Middlesex based on self-reporting by Middlesex that the level of Perfluorooctanoic Acid (PFOA) in water treated at its Park Avenue Wellfield Treatment Plant in South Plainfield, New Jersey exceeded a recently promulgated NJDEP standard effective in 2021. Neither the NJDEP nor Middlesex has characterized this exceedance as an acute health threat. However, Middlesex was required to notify its affected customers and complied in November 2021 as required by the regulation. Further, the Notice required the Company to take any action necessary to comply with the new standard by September 7, 2022.

The NJDEP standard for PFOA was developed based on a Health-based Maximum Contaminant Level (MCL) of 14 parts per trillion (ppt). Although the United States Environmental Protection Agency (USEPA) has not yet implemented a regulation relative to PFOA, the water distributed from the Park Avenue Wellfield Treatment Plant does meet the USEPA's current health advisory level of 70 ppt and would meet the NJDEP's pre-2021 standard guidance level of 40 ppt, which was not a regulation. Construction of an enhanced treatment process at the Park Avenue Wellfield Treatment Plant to comply with an anticipated NJDEP standard, at a level which was unknown at that time, had already begun prior to the regulation being enacted. Since completion is not expected until mid-2023, in December 2021, the Company implemented an interim solution to meet the Notice requirements. The Park Avenue Wellfield Treatment Plant was taken off-line and alternate sources of supply have been obtained. The Company is in the process of implementing an acceleration of a portion of the Park Avenue Wellfield treatment upgrades in order to meet anticipated increases in the historical higher water demand periods during the summer months. This is also intended to result in compliance with the requirements of the Notice.

In November 2021, the Company was served with two PFOA-related class action lawsuits seeking restitution for medical, water replacement and other claimed related costs. These lawsuits are in the early stages of the legal process and their ultimate resolution cannot be predicted at this time. The Company's insurance provider has acknowledged coverage of potential liability which may result from these lawsuits.

In January 2022, the Company filed a petition with the New Jersey Board of Public Utilities (NJBPU) seeking to establish a regulatory asset and deferred accounting treatment until its next base rate setting proceeding for all costs associated with the interim solution to comply with the Notice.

While the Company believes monetary penalties are unlikely, the issuance of the Notice does not preclude the State of New Jersey, or any of its agencies, from initiating formal administrative and/or judicial enforcement action, including assessment of penalties of up to \$25,000 per day per offense if the Company is not in compliance with the requirements of the Notice by September 7, 2022.

Rate and Regulatory Matters - In December 2021, Middlesex's petition to the NJBPU seeking permission to increase its base water rates was concluded, based on a negotiated settlement, resulting in an expected increase in annual operating revenues of \$27.7 million. The approved tariff rates were designed to recover increased operating costs as well as a return on invested capital of \$513.5 million, based on an authorized return on common equity of 9.6%. The increase is being implemented in two phases with \$20.7 million of the increase effective January 1, 2022 and the remaining \$7.0 million effective January 1, 2023. As part of the negotiated settlement, the Purchased Water Adjustment Clause (PWAC), which is a rate mechanism that allows for recovery of increased purchased water costs between base rate case filings, was reset to zero.

In March 2022, Middlesex filed a petition with the NJBPU seeking approval to set its PWAC tariff rate to recover additional costs of \$3.7 million for the purchase of treated water from a non-affiliated regulated water utility regulated by the NJBPU. We cannot predict whether the NJBPU will ultimately approve, deny or reduce the amount of our request.

Sale of Subsidiary - In January 2022, Middlesex closed on the Delaware Public Service Commission (DEPSC) approved sale of 100% of the common stock of its subsidiary Tidewater Environmental Services, Inc. (TESI) to Artesian Wastewater Management, Inc. for \$6.4 million in cash and other consideration, resulting in a \$5.2 million pre-tax gain. The Company will continue to own and operate its non-regulated water and wastewater contract operations business in Delaware.

COVID-19 – On April 13, 2022, the United States Secretary of Health and Human Services renewed the determination that a nationwide health emergency exists as a result of the COVID-19 Pandemic. While the Company's operations and capital construction program have not been materially disrupted to date from the pandemic, the COVID-19 impact on economic conditions nationally continues to be uncertain and could affect the Company's results of operations, financial condition and liquidity in the future. In New Jersey, the declared COVID-19 State of Emergency ended on March 7, 2022. In Delaware, the declared COVID-19 State of Emergency Order ended in July 2021.

The NJBPU and the DEPSC have approved the tracking of COVID-19 related incremental costs for potential recovery in customer rates in future rate proceedings. Neither jurisdiction has established a timetable or definitive formal procedures for seeking cost recovery. Since March 2020, the Company has increased its allowance for doubtful accounts for expected increases in accounts receivable write-offs due to the financial impact of COVID-19 on customers. Since the ultimate rate treatment to be determined by the NJBPU regarding incremental costs related to Covid-19 is not definitively known at this time, the Company has not deferred any such costs. We will continue to monitor the effects of COVID-19 and evaluate its impact on the Company's results of operations, financial condition and liquidity.

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. These factors are evident in comparison discussions in the Results of Operations section below. Unfavorable weather patterns may occur at any time, which can result in lower customer demand for water. Our investments in system infrastructure continue to grow significantly and our operating costs are anticipated to increase in 2022 in a variety of categories. These factors, among others, may require the need to file requests during 2022 for increases in customer rates.

An additional factor that we continue to actively monitor is the impact of new variants of COVID-19 on the general economy, our suppliers and our workforce (for further discussion of the impact of COVID-19 on the Company, see *Recent Developments, COVID-19* above).

Overall, organic residential customer growth for our Tidewater system is expected to be above historical averages. However, builders and developers are experiencing longer home sales closing cycles due to supply chain issues.

The Company has projected to spend approximately \$229 million for the 2022-2024 capital investment program, including approximately \$39 million for PFAS-related treatment upgrades in the Middlesex System, \$33 million on the RENEW Program, which is our ongoing initiative to replace water mains in the Middlesex System, \$13 million for construction of elevated storage tanks in our Tidewater and Middlesex Systems and \$10 million for the rehabilitation and other improvements associated with Middlesex's main field operations and inventory facilities.

Our strategy for profitable growth is focused on the following key areas:

A non-controllable factor that may affect our outlook in 2021 is the pace at which remediation of the COVID-19 pandemic continues to occur, and the related impact on the regional and national economic recoveries. In addition, the New Jersey SEO moratorium on customer service terminations remains in effect, currently through June 30, 2021. For further discussion of the impact of COVID-19 on the Company, see *Recent Developments, COVID-19* above.

Organic residential customer growth for our Tidewater system is expected to continue at the 5% pace achieved in 2020, delaying any foreseeable need to seek an increase in customer base rates in 2021.

Our strategy for profitable growth is focused on the following key areas:

- Invest in projects, products and services that complement our core water and wastewater competencies;
- Timely and adequate recovery of infrastructure investments and other costs to maintain service quality;
- Prudent acquisitions of investor and municipally-owned water and wastewater utilities; and
- Operation of municipal and industrial water and wastewater systems on a contract basis which meet our risk profile.

Operating Results by Segment

The discussion of the Company's operating results is on a consolidated basis and includes significant factors by subsidiary. The Company has two operating segments, Regulated and Non-Regulated. The operations of the Regulated segment are subject to regulations promulgated by state public utility commissions as to rates and level of service. Rates and level of service in the Non-Regulated segment are subject to the terms of individually-negotiated and executed contracts with municipal, industrial and other clients. Both segments are subject to federal and state environmental, water and wastewater quality and other associated legal and regulatory requirements.

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

Results of Operations – Three Months Ended March 31, 2022

	(In Thousands)					
	Three Months Ended March 31,					
	2022			2021		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 33,296	\$ 2,900	\$ 36,196	\$ 29,390	\$ 3,151	\$ 32,541
Operations and maintenance expenses	17,179	1,960	19,139	16,249	2,107	18,356
Depreciation expense	5,563	59	5,622	4,774	58	4,832
Other taxes	4,081	63	4,144	3,651	68	3,719
Gain on Sale Of Subsidiary	5,232	-	5,232	-	-	-
Operating income	11,705	818	12,523	4,716	918	5,634
Other income, net	1,702	54	1,756	1,979	59	2,038
Interest expense	1,850	-	1,850	1,738	-	1,738
Income taxes	44	285	329	(1,283)	310	(973)
Net income	\$ 11,513	\$ 587	\$ 12,100	\$ 6,240	\$ 667	\$ 6,907

Operating Revenues

Operating revenues for the three months ended March 31, 2022 increased \$3.7 million from the same period in 2021 due to the following factors:

- Middlesex System revenues increased \$3.8 million due primarily to its approved base rate increase effective January 1, 2022;
- Tidewater System revenues increased \$0.7 million due to additional customers and a one-time customer credit refund issued in the first quarter of 2021, which were partially offset by lower customer demand and lower new customer connection fees;
- The sale of our regulated Delaware wastewater subsidiary in January 2022 reduced revenues by \$0.6 million; and
- Non-regulated revenues decreased \$0.2 million due to decreased supplemental services provided under operating contracts.

Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended March 31, 2022 increased \$0.8 million from the same period in 2021 due to the following factors:

- Higher weather-related main break activity in our Middlesex system during the winter months resulted in \$0.3 million of additional non-labor costs;
- Labor costs increased \$0.3 million due to higher overtime for Middlesex system main breaks and wage increases;
- Water treatment costs increased \$0.3 million due to weather-driven changes in water quality;
- Employee benefit expenses decreased \$0.4 million primarily due to lower actuarially-determined retirement benefit plans service expense; and
- All other operation and maintenance expense categories increased \$0.3 million.

Depreciation

Depreciation expense for the three months ended March 31, 2022 increased \$0.8 million from the same period in 2021 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the three months ended March 31, 2022 increased \$0.4 million from the same period in 2021 primarily due to higher revenue related taxes on increased revenues in our Middlesex system.

Gain on Sale of Subsidiary

Middlesex recognized a \$5.2 million gain on the sale of its regulated Delaware wastewater subsidiary in January 2022 (for further discussion on the sales transaction, see *Recent Developments, Sale of Subsidiary* above).

Other Income, net

Other Income, net for the three months ended March 31, 2022 decreased \$0.3 million from the same period in 2021 primarily attributable to \$0.9 million of lower Allowance for Funds Used During Construction due to a lower number of construction projects, partially offset by \$0.6 million of higher actuarially-determined retirement benefit plans non-service benefit.

Interest Charges

Interest charges for the three months ended March 31, 2022 increased \$0.1 million from the same period in 2021 due to higher average short-term and long-term debt outstanding in 2022 as compared to 2021.

Income Taxes

Income taxes for the three months ended March 31, 2022 increased by \$1.3 million from the same period in 2021, primarily due to income taxes on the gain on the sale of the subsidiary and higher pre-tax operating income. Partially offsetting the taxes on the sales gain were higher income tax benefits associated with increased repair expenditures on tangible property owned by Middlesex.

Net Income and Earnings Per Share

Net income for the three months ended March 31, 2022 increased \$5.2 million as compared with the same period in 2021. Basic earnings per share were \$0.69 and \$0.39 for the three months ended March 31, 2022 and 2021, respectively. Diluted earnings per share were \$0.68 and \$0.39 for the three months ended March 31, 2022 and 2021, respectively

Liquidity and Capital Resources

Operating Cash Flows

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

Operating Cash Flows

For the three months ended March 31, 2022, cash flows from operating activities increased \$4.5 million to \$14.0 million. The increase in cash flows from operating activities primarily resulted from the timing of payments to vendors.

Investing Cash Flows

For the three months ended March 31, 2022, cash flows used in investing activities decreased \$8.5 million to \$13.5 million. The decrease in cash flows used in investing activities resulted from decreased utility plant expenditures and cash received from the sale of Middlesex's regulated wastewater subsidiary in January 2022 (for further discussion on the sales transaction, see *Recent Developments, Sale of Subsidiary* above).

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

Financing Cash Flows

For the three months ended March 31, 2022, cash flows used in financing activities increased \$7.1 million to \$0.7 million. The increase in cash flows used in financing activities is due to a reduction in net short-term bank borrowings partially offset by increased proceeds from the issuance of common stock under the Middlesex Water Company Investment Plan (the Investment Plan).

Capital Expenditures and Commitments

To fund our capital program, we use internally generated funds, short-term and long-term debt borrowings, proceeds from sales of common stock under the Investment Plan and proceeds from sales offerings to the public of our common stock. See below for a more detailed discussion regarding the funding of our capital program.

The capital investment program for 2022 is currently estimated to be approximately \$90 million. Through March 31, 2022 we have expended \$17 million and expect to incur approximately \$73 million for capital projects for the remainder of 2022.

We currently project that we may expend approximately \$139 million for capital projects in 2023 and 2024. 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 and, could be impacted if new variants of the COVID-19 pandemic arise and continue for an extended period of time.

To pay for our capital program for the remainder of 2022, we plan on utilizing some or all of the following:

- Internally generated funds;
- Short-term borrowings, as needed, through \$140 million of lines of credit established with three financial institutions. As of March 31, 2022, there was \$125.0 million of available credit under these lines (for further discussion on Company lines of credit, see *Note 6 – Short Term Borrowings*);
- Proceeds from the Delaware State Revolving Fund (SRF). SRF programs provide low cost financing for projects that meet certain water quality and system improvement;
- Proceeds from the sale and issuance of First Mortgage Bonds in private placement offerings; and
- Proceeds from the Company Investment Plan.

On September 1, 2021, the Company began offering shares of its common stock for purchase at a 3% discount to participants in the Investment Plan. The discount offering will continue until 200,000 shares are purchased at the discounted price or August 1, 2022, whichever event occurs first.

In order to fully fund the ongoing large investment program in our utility plant infrastructure and maintain a balanced capital structure for a regulated water utility, Middlesex may offer for sale additional shares of its common stock. The amount, the timing and the sales method of the common stock is dependent on the timing of the construction expenditures, the level of additional debt financing and financial market conditions. As previously approved by the NJBPU in 2019, the Company is authorized to issue and sell up to 0.7 million shares of its common stock in one or more transactions through December 31, 2022.

Recent Accounting Pronouncements – See Note 1 of the Notes to Unaudited Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements and guidance.

Item 3. Quantitative and Qualitative Disclosures of Market Risk

We are exposed to market risk associated with changes in interest rates and commodity prices. The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2023 to 2059. Over the next twelve months, approximately \$6.7 million of the current portion of existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

Our risks associated with commodity price increases for chemicals, electricity and other commodities are 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 subject to fluctuating market prices of debt and equity securities. Changes to the Company's retirement benefit plan asset values can impact the Company's retirement benefit plan expense, funded status and future minimum funding requirements. Our risk is mitigated by our ability to recover retirement benefit plan costs through rates for regulated utility services charged to our customers.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The following information updates and amends the information provided in the Company's Annual Report on Form 10-K (the Form 10-K) for the year ended December 31, 2021 in Part I, Item 3—Legal Proceedings. Capitalized terms used but not otherwise defined herein have the meanings set forth in the Company's Form 10-K.

PFOA Regulatory Notice of Non-Compliance

Vera et al. v. Middlesex Water Company – On April 21, 2022, the Judge granted Vera's Motion for Class Certification and granted in part and denied in part Middlesex's Motion to Dismiss.

Lonsk et al. v. Middlesex Water Company and 3M Company - On March 4, 2022, Middlesex filed a Motion to Dismiss Plaintiffs' complaint. On April 15, 2022, Plaintiffs filed an Amended Complaint. Motions to Dismiss or Answers to Plaintiffs' Amended Complaint are due on May 16, 2022.

Item 1A. Risk Factors

The information about risk factors does not differ materially from those set forth in Part I, Item 1A. of the Company's Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
31.2	Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
32.1	Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.2	Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
104	Cover Page Interactive Data File – the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

SIGNATURES

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

MIDDLESEX WATER COMPANY

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

Date: April 29, 2022

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

I, Dennis W. Doll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Middlesex Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

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

Date: April 29, 2022

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

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

1. I have reviewed this quarterly report on Form 10-Q of Middlesex Water Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ A. Bruce O'Connor

A. Bruce O'Connor
Chief Financial Officer

Date: April 29, 2022

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: April 29, 2022

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.

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: April 29, 2022

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.
