

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended **June 30, 2016**

OR

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

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

Commission File Number 0-422

**MIDDLESEX WATER COMPANY**

(Exact name of registrant as specified in its charter)

**New Jersey**  
(State of incorporation)

**22-1114430**  
(IRS employer identification no.)

**1500 Ronson Road, Iselin, New Jersey 08830**  
(Address of principal executive offices, including zip code)

**(732) 634-1500**  
(Registrant's telephone number, including area code)

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

Yes  No

The number of shares outstanding of each of the registrant's classes of common stock, as of July 31, 2016: Common Stock, No Par Value: 16,280,430 shares outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating Revenues	\$ 32,725	\$ 31,666	\$ 63,304	\$ 60,446
Operating Expenses:				
Operations and Maintenance	15,789	16,229	31,617	32,317
Depreciation	3,180	2,982	6,317	5,930
Other Taxes	3,428	3,220	6,740	6,280
Total Operating Expenses	22,397	22,431	44,674	44,527
Operating Income	10,328	9,235	18,630	15,919
Other Income (Expense):				
Allowance for Funds Used During Construction	119	103	180	185
Other Income	25	43	73	82
Other Expense	(7)	(18)	(26)	(83)
Total Other Income, net	137	128	227	184
Interest Charges	1,436	1,496	2,413	2,554
Income before Income Taxes	9,029	7,867	16,444	13,549
Income Taxes	3,110	2,778	5,735	4,825
Net Income	5,919	5,089	10,709	8,724
Preferred Stock Dividend Requirements	36	36	72	72
Earnings Applicable to Common Stock	\$ 5,883	\$ 5,053	\$ 10,637	\$ 8,652
Earnings per share of Common Stock:				
Basic	\$ 0.36	\$ 0.31	\$ 0.65	\$ 0.54
Diluted	\$ 0.36	\$ 0.31	\$ 0.65	\$ 0.53
Average Number of Common Shares Outstanding:				
Basic	16,271	16,149	16,252	16,141
Diluted	16,427	16,305	16,408	16,297
Cash Dividends Paid per Common Share	\$ 0.1988	\$ 0.1925	\$ 0.3975	\$ 0.3850

See Notes to Condensed Consolidated Financial Statements.

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

		June 30, 2016	December 31, 2015
<b>ASSETS</b>			
<b>UTILITY PLANT:</b>	Water Production	\$ 144,525	\$ 142,794
	Transmission and Distribution	407,387	398,363
	General	62,137	61,322
	Construction Work in Progress	14,176	5,734
	<b>TOTAL</b>	<b>628,225</b>	<b>608,213</b>
	Less Accumulated Depreciation	131,125	126,343
	<b>UTILITY PLANT - NET</b>	<b>497,100</b>	<b>481,870</b>
<b>CURRENT ASSETS:</b>	Cash and Cash Equivalents	1,229	3,469
	Accounts Receivable, net	10,908	10,060
	Unbilled Revenues	8,154	6,246
	Materials and Supplies (at average cost)	4,732	2,600
	Prepayments	3,242	2,035
	<b>TOTAL CURRENT ASSETS</b>	<b>28,265</b>	<b>24,410</b>
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>	Preliminary Survey and Investigation Charges	2,424	2,199
	Regulatory Assets	58,126	58,552
	Operations Contracts, Developer and Other Receivables	2,868	2,921
	Restricted Cash	439	439
	Non-utility Assets - Net	9,389	9,199
	Federal Income Tax Receivable	1,408	1,408
	Other	343	385
	<b>TOTAL DEFERRED CHARGES AND OTHER ASSETS</b>	<b>74,997</b>	<b>75,103</b>
	<b>TOTAL ASSETS</b>	<b>\$ 600,362</b>	<b>\$ 581,383</b>
<b>CAPITALIZATION AND LIABILITIES</b>			
<b>CAPITALIZATION:</b>	Common Stock, No Par Value	\$ 152,062	\$ 150,763
	Retained Earnings	60,114	55,931
	<b>TOTAL COMMON EQUITY</b>	<b>212,176</b>	<b>206,694</b>
	Preferred Stock	2,436	2,436
	Long-term Debt	130,955	132,908
	<b>TOTAL CAPITALIZATION</b>	<b>345,567</b>	<b>342,038</b>
<b>CURRENT LIABILITIES:</b>	Current Portion of Long-term Debt	5,869	5,739
	Notes Payable	10,500	3,000
	Accounts Payable	9,589	6,525
	Accrued Taxes	9,439	9,126
	Accrued Interest	1,091	1,104
	Unearned Revenues and Advanced Service Fees	899	880
	Other	1,735	1,945
	<b>TOTAL CURRENT LIABILITIES</b>	<b>39,122</b>	<b>28,319</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)</b>			
<b>DEFERRED CREDITS AND OTHER LIABILITIES:</b>	Customer Advances for Construction	21,051	20,461
	Accumulated Deferred Investment Tax Credits	792	832
	Accumulated Deferred Income Taxes	70,927	67,702
	Employee Benefit Plans	35,169	36,515
	Regulatory Liability - Cost of Utility Plant Removal	11,181	10,876
	Other	2,094	1,597
	<b>TOTAL DEFERRED CREDITS AND OTHER LIABILITIES</b>	<b>141,214</b>	<b>137,983</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		<b>74,459</b>	<b>73,043</b>
	<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 600,362</b>	<b>\$ 581,383</b>

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 10,709	\$ 8,724
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	6,800	6,680
Provision for Deferred Income Taxes and Investment Tax Credits	3,321	1,093
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(118)	(113)
Cash Surrender Value of Life Insurance	(44)	(96)
Stock Compensation Expense	468	337
Changes in Assets and Liabilities:		
Accounts Receivable	(848)	(416)
Unbilled Revenues	(1,908)	(1,655)
Materials & Supplies	(2,132)	(70)
Prepayments	(1,207)	(891)
Accounts Payable	3,064	2,571
Accrued Taxes	313	3,552
Accrued Interest	(13)	(16)
Employee Benefit Plans	(580)	151
Unearned Revenue & Advanced Service Fees	19	22
Other Assets and Liabilities	(1,099)	307
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>16,745</b>	<b>20,180</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Utility Plant Expenditures, Including AFUDC of \$62 in 2016, \$72 in 2015	(20,111)	(12,646)
Restricted Cash	—	1,375
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(20,111)</b>	<b>(11,271)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Redemption of Long-term Debt	(2,136)	(2,735)
Proceeds from Issuance of Long-term Debt	861	3,000
Net Short-term Bank Borrowings	7,500	(1,000)
Deferred Debt Issuance Expense	(15)	(4)
Restricted Cash	—	743
Proceeds from Issuance of Common Stock	830	734
Payment of Common Dividends	(6,454)	(6,212)
Payment of Preferred Dividends	(72)	(72)
Construction Advances and Contributions-Net	612	(262)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>1,126</b>	<b>(5,808)</b>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>(2,240)</b>	<b>3,101</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>3,469</b>	<b>2,673</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 1,229</b>	<b>\$ 5,774</b>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:</b>		
Utility Plant received as Construction Advances and Contributions	\$ 1,395	\$ 1,214
Long term Debt Deobligation	\$ 534	\$ 457
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash Paid During the Year for:		
Interest	\$ 2,538	\$ 2,683
Interest Capitalized	\$ 62	\$ 72
Income Taxes	\$ 3,131	\$ 901

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2016	December 31, 2015
<b>Common Stock, No Par Value</b>		
Shares Authorized - 40,000		
Shares Outstanding - 2016 - 16,279	\$ 152,062	\$ 150,763
2015 - 16,225		
<b>Retained Earnings</b>		
	60,114	55,931
<b>TOTAL COMMON EQUITY</b>	<b>\$ 212,176</b>	<b>\$ 206,694</b>
<b>Cumulative Preferred Stock, No Par Value:</b>		
Shares Authorized - 126		
Shares Outstanding - 24		
Convertible:		
Shares Outstanding, \$7.00 Series - 10	1,007	1,007
Shares Outstanding, \$8.00 Series - 3	349	349
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	80	80
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
<b>TOTAL PREFERRED STOCK</b>	<b>\$ 2,436</b>	<b>\$ 2,436</b>
<b>Long-term Debt:</b>		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 1,525	\$ 1,629
6.25%, Amortizing Secured Note, due May 19, 2028	5,005	5,215
6.44%, Amortizing Secured Note, due August 25, 2030	3,967	4,107
6.46%, Amortizing Secured Note, due September 19, 2031	4,247	4,387
4.22%, State Revolving Trust Note, due December 31, 2022	353	376
3.60%, State Revolving Trust Note, due May 1, 2025	2,166	2,267
3.30% State Revolving Trust Note, due March 1, 2026	450	469
3.49%, State Revolving Trust Note, due January 25, 2027	483	501
4.03%, State Revolving Trust Note, due December 1, 2026	627	651
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	247	254
0.00%, State Revolving Fund Bond, due August 1, 2021	198	203
3.64%, State Revolving Trust Note, due July 1, 2028	285	294
3.64%, State Revolving Trust Note, due January 1, 2028	94	97
3.45%, State Revolving Trust Note, due August 1, 2031	1,040	1,066
6.59%, Amortizing Secured Note, due April 20, 2029	4,476	4,651
7.05%, Amortizing Secured Note, due January 20, 2030	3,396	3,521
5.69%, Amortizing Secured Note, due January 20, 2030	6,966	7,222
4.45%, Amortizing Secured Note, due April 20, 2040	14,378	14,707
3.75%, State Revolving Trust Note, due July 1, 2031	2,248	2,303
2.00%, State Revolving Trust Note, due February 1, 2036	861	—
3.75%, State Revolving Trust Note, due November 30, 2030	1,185	1,216
<b>First Mortgage Bonds:</b>		
0.00%, Series X, due September 1, 2018	158	162
4.25% to 4.63%, Series Y, due September 1, 2018	179	185
0.00%, Series Z, due September 1, 2019	437	446
5.25% to 5.75%, Series AA, due September 1, 2019	565	565
0.00%, Series BB, due September 1, 2021	708	723
4.00% to 5.00%, Series CC, due September 1, 2021	875	895
0.00%, Series EE, due August 1, 2023	3,055	3,132
3.00% to 5.50%, Series FF, due August 1, 2024	3,690	3,690
0.00%, Series GG, due August 1, 2026	976	993
4.00% to 5.00%, Series HH, due August 1, 2026	1,020	1,300
0.00%, Series II, due August 1, 2024	771	789
3.40% to 5.00%, Series JJ, due August 1, 2027	904	1,010
0.00%, Series KK, due August 1, 2028	1,146	1,167
5.00% to 5.50%, Series LL, due August 1, 2028	1,250	1,365
0.00%, Series MM, due August 1, 2030	1,404	1,437
3.00% to 4.375%, Series NN, due August 1, 2030	1,675	1,675
0.00%, Series OO, due August 1, 2031	2,358	2,408
2.00% to 5.00%, Series PP, due August 1, 2031	815	815
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	2,508	2,559
3.00% to 3.25%, Series UU, due August 1, 2032	935	935

0.00%, Series VV, due August 1, 2033	2,529	2,577
3.00% to 5.00%, Series WW, due August 1, 2033	900	900
<b>SUBTOTAL LONG-TERM DEBT</b>	<b>138,470</b>	140,279
Add: Premium on Issuance of Long-term Debt	1,602	1,707
Less: Unamortized Debt Expense	(3,248)	(3,339)
Less: Current Portion of Long-term Debt	(5,869)	(5,739)
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 130,955</b>	\$ 132,908

See Notes to Condensed Consolidated Financial Statements.

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

**Note 1 – Basis of Presentation and Recent Developments**

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

The consolidated notes within the 2015 Annual Report on Form 10-K (the 2015 Form 10-K) are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of June 30, 2016 and the results of operations and cash flows for the three and six month periods ended June 30, 2016 and 2015. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2015, has been derived from the Company's audited financial statements for the year ended December 31, 2015 included in the 2015 Form 10-K.

*Recent Accounting Guidance*

**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. As a result of adopting this guidance, the December 31, 2015 balance sheet was revised, which resulted in decreases of \$3.3 million to deferred charges and other assets and long-term debt, respectively. 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.

**Revenue Recognition** - In May 2014, the FASB issued an update to authoritative guidance related to revenue from contracts with customers. The update replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. The FASB has deferred the effective date of these new revenue recognition standards by one year to January 1, 2018. The Company is currently analyzing the impact this standard will have on our financial statements.

**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 or net realizable value test when cost is determined on a first-in, first-out or average cost basis. The guidance is effective January 1, 2017 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.



**Recognition and Measurement of Financial Assets and Financial Liabilities** - In January 2016, the FASB issued guidance which (i) requires all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies, to be carried at fair value through net income, (ii) requires an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected, (iii) amends several disclosure requirements, including the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and (iv) requires disclosure of the fair value of financial assets and liabilities measured at amortized cost at the amount that would be received to sell the asset or paid to transfer the liability. The guidance is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The guidance is required to be applied retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method). The Company is currently analyzing the impact this standard will have on our 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 is effective January 1, 2017. The Company is currently analyzing the impact this standard will have on our 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**

**Middlesex**-In April 2016, Middlesex filed a petition with the New Jersey Board of Public Utilities (the NJBPU) seeking approval to set a tariff rate under a purchased water adjustment clause to recover additional costs of less than \$0.1 million for the purchase of treated water from a non-affiliated regulated water utility. We cannot predict whether the NJBPU will ultimately approve, deny or reduce the amount of the request.

**Tidewater** - Effective July 1, 2016, Tidewater increased its Delaware Public Service Commission-approved Distribution System Improvement Charge (DSIC) rate, which is expected to generate \$0.3 million of annual revenues. A DSIC is a rate-mechanism that allows water utilities to recover investments in, and generate a return on, qualifying capital improvements made between base rate proceedings.

**Pinelands** - In April 2016, the NJBPU approved \$0.2 million and \$0.1 million increases, respectively, in Pinelands Water and Pinelands Wastewater's annual base water and wastewater rates, effective May 7, 2016. In October 2015, the companies had filed petitions with the NJBPU seeking permission to increase base rates by approximately \$0.5 million per year. The rate filings were necessitated by capital infrastructure investments the companies have made, or have committed to make, increased operations and maintenance costs and lower non-fixed fee revenues. The Pinelands Water base water rate increase will be phased-in over two years.

**Twin Lakes** – In June 2016, the Pennsylvania Public Utilities Commission approved a \$0.1 million increase in Twin Lakes' base water rates, effective June 15, 2016. In November 2015, Twin Lakes had filed a petition seeking permission to increase its base water rates by approximately \$0.2 million per year. This request 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 over two years.

**Note 3 – Capitalization***Common Stock*

During the six months ended June 30, 2016 and 2015, there were 26,434 common shares (approximately \$0.8 million) and 32,585 common shares (approximately \$0.7 million), respectively, issued under the Middlesex Water Company Investment Plan.

*Long-term Debt*

In February 2016, Tidewater closed on a \$1.2 million loan with the Delaware State Revolving Fund (SRF) program which allows, but does not obligate, Tidewater to draw against a General Obligation Note to fund the replacement of the water distribution system in a manufactured home community. The interest rate on all draws is 2.0% with a final repayment maturity date of February 1, 2036. Through June 30, 2016, Tidewater has drawn \$0.9 million on this loan and expects to draw down the remainder of the loan proceeds during the third quarter of 2016.

In March 2016, the NJBPU approved Middlesex's request to borrow up to \$16.0 million through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey SRF long-term loan program utilizing first mortgage bonds. Under the SRF program, borrowers first enter into a construction loan with the NJEIT, for which Middlesex closed on an \$11.8 million zero percent (0%) arrangement on June 28, 2016. When construction on a qualifying project is substantially complete, the NJEIT will coordinate the conversion of the construction loan into a twenty year long-term securitized loan with 75% of the principal balance having a stated interest rate of zero percent (0%) and 25% 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 NJEIT generally schedules its long-term debt financings in November and May. Middlesex expects to draw down on the construction loans during the second half of 2016. Proceeds will be used to fund the Middlesex 2016 RENEW Program, which is our ongoing initiative to eliminate all unlined water distribution mains in the Middlesex system.

In 2016, the NJEIT de-obligated principal payments of \$0.5 million on several series of SRF loans.

*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 the Company's long-term debt relating to First Mortgage and SRF Bonds (Bonds) 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 the Bonds in the table below are classified as Level 2 measurements. The carrying amount and fair value of the Company's bonds were as follows:

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$ 84,273	\$ 88,859	\$ 85,143	\$ 87,972
SRF Bonds	\$ 446	\$ 448	\$ 457	\$ 459

For other long-term debt for which there was no quoted market price and there is not an active trading market, it was not practicable to estimate their fair value (for details, including carrying value, interest rate and due date on these series of long-term debt, please refer to those series noted as "Amortizing Secured Note" and "State Revolving Trust Note" on the Condensed Consolidated Statements of Capital Stock and Long-Term Debt). The carrying amount of these instruments was \$53.8 million and \$54.7 million at June 30, 2016 and December 31, 2015, respectively. Customer advances for construction have carrying amounts of \$21.1 million and \$20.5 million at June 30, 2016 and December 31, 2015, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

**Note 4 – Earnings Per Share**

Basic earnings per share (EPS) are computed on the basis of the weighted average number of shares outstanding during the period presented. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and the Convertible Preferred Stock \$8.00 Series.

	(In Thousands Except per Share Amounts)			
	Three Months Ended June 30,			
	2016		2015	
Basic:	Income	Shares	Income	Shares
Net Income	\$ 5,919	16,271	\$ 5,089	16,149
Preferred Dividend	(36)		(36)	
Earnings Applicable to Common Stock	\$ 5,883	16,271	\$ 5,053	16,149
<b>Basic EPS</b>	\$ 0.36		\$ 0.31	
<b>Diluted:</b>				
Earnings Applicable to Common Stock	\$ 5,883	16,271	\$ 5,053	16,149
\$7.00 Series Preferred Dividend	17	115	17	115
\$8.00 Series Preferred Dividend	6	41	6	41
Adjusted Earnings Applicable to Common Stock	\$ 5,906	16,427	\$ 5,076	16,305
<b>Diluted EPS</b>	\$ 0.36		\$ 0.31	

	(In Thousands Except per Share Amounts)			
	Six Months Ended June 30,			
	2016		2015	
Basic:	Income	Shares	Income	Shares
Net Income	\$ 10,709	16,252	\$ 8,724	16,141
Preferred Dividend	(72)		(72)	
Earnings Applicable to Common Stock	\$ 10,637	16,252	\$ 8,652	16,141
<b>Basic EPS</b>	\$ 0.65		\$ 0.54	
<b>Diluted:</b>				
Earnings Applicable to Common Stock	\$ 10,637	16,252	\$ 8,652	16,141
\$7.00 Series Preferred Dividend	34	115	34	115
\$8.00 Series Preferred Dividend	12	41	12	41
Adjusted Earnings Applicable to Common Stock	\$ 10,683	16,408	\$ 8,698	16,297
<b>Diluted EPS</b>	\$ 0.65		\$ 0.53	

**Note 5 – Business Segment Data**

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

	(In Thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
Operations by Segments:	2016	2015	2016	2015
<b>Revenues:</b>				
Regulated	\$ 28,859	\$ 27,972	\$ 55,808	\$ 52,878
Non – Regulated	4,002	3,804	7,736	7,795
Inter-segment Elimination	(136)	(110)	(240)	(227)
<b>Consolidated Revenues</b>	<b>\$ 32,725</b>	<b>\$ 31,666</b>	<b>\$ 63,304</b>	<b>\$ 60,446</b>
<b>Operating Income:</b>				
Regulated	\$ 9,694	\$ 8,672	\$ 17,426	\$ 14,835
Non – Regulated	634	563	1,204	1,084
<b>Consolidated Operating Income</b>	<b>\$ 10,328</b>	<b>\$ 9,235</b>	<b>\$ 18,630</b>	<b>\$ 15,919</b>
<b>Net Income:</b>				
Regulated	\$ 5,583	\$ 4,787	\$ 10,073	\$ 8,141
Non – Regulated	336	302	636	583
<b>Consolidated Net Income</b>	<b>\$ 5,919</b>	<b>\$ 5,089</b>	<b>\$ 10,709</b>	<b>\$ 8,724</b>
<b>Capital Expenditures:</b>				
Regulated	\$ 13,290	\$ 7,734	\$ 19,950	\$ 12,619
Non – Regulated	149	27	161	27
<b>Total Capital Expenditures</b>	<b>\$ 13,439</b>	<b>\$ 7,761</b>	<b>\$ 20,111</b>	<b>\$ 12,646</b>
	As of June 30, 2016	As of December 31, 2015		
<b>Assets:</b>				
Regulated	\$ 597,163	\$ 581,321		
Non – Regulated	7,398	6,436		
Inter-segment Elimination	(4,199)	(6,374)		
<b>Consolidated Assets</b>	<b>\$ 600,362</b>	<b>\$ 581,383</b>		

**Note 6 – Short-term Borrowings**

As of June 30, 2016, the Company has established lines of credit aggregating \$60.0 million. At June 30, 2016, the outstanding borrowings under these credit lines were \$10.5 million at a weighted average interest rate of 1.49%.

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

	(In Thousands)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Average Daily Amounts Outstanding	\$ 3,769	\$ 15,769	\$ 3,368	\$ 16,834
Weighted Average Interest Rates	1.52%	1.18%	1.48%	1.18%

The maturity dates for the \$10.5 million outstanding as of June 30, 2016 are all in July 2016 and are extendable at the discretion of the Company.

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

#### Note 7 – Commitments and Contingent Liabilities

##### Water Supply

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

Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement, which expires February 27, 2021, provides for the minimum purchase of 3.0 mgd of treated water with provisions for additional purchases.

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

Purchased water costs are shown below:

	(In Thousands)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Treated	\$ 754	\$ 766	\$ 1,555	\$ 1,495
Untreated	570	552	1,236	1,195
Total Costs	\$ 1,324	\$ 1,318	\$ 2,791	\$ 2,690

*Contract Operations* - USA-PA operates the City of Perth Amboy, New Jersey's (Perth Amboy) water and wastewater systems under a 20-year agreement, which expires in 2018. In connection with the agreement with Perth Amboy, USA-PA entered into a 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.

*Guarantees* - In September 2013, Middlesex entered into an agreement with the County of Monmouth, New Jersey (Monmouth County) to serve as guarantor of the performance of Applied Water Management, Inc. (AWM) to operate a leachate pretreatment facility, owned by Monmouth County, at the Monmouth County Reclamation Center in Tinton Falls, New Jersey. Middlesex expects to act as guarantor of AWM's performance through at least August 2018 and is contractually obligated to act as guarantor of AWM's performance through 2028 unless another guarantor, acceptable to Monmouth County, is identified. In addition, Middlesex entered into agreements with AWM and Natural Systems Utilities, Inc. (NSU), the parent company of AWM, whereby, Middlesex earns a fee for providing the guaranty of AWM's performance to Monmouth County, Middlesex provides operational support to the project if necessary, and AWM and NSU, serving as guarantor to Middlesex with respect to the performance of AWM, indemnify Middlesex against any claims that may arise under the Middlesex guaranty to Monmouth County.

Middlesex believes it is unlikely any payments would need to be made under Middlesex's guaranty of AWM's performance to Monmouth County. If asked to perform under the guaranty to Monmouth 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 Monmouth County, Middlesex would be required to fulfill the remaining operational commitment of AWM. As of June 30, 2016 and December 31, 2015, the liability recognized in Other Non-Current Liabilities on the balance sheet for the guaranty is approximately \$0.2 million.

#### *Construction*

The Company has budgeted approximately \$49 million for its construction program in 2016. The actual timing and amount of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain projects.

#### *Litigation*

The Company is a defendant in lawsuits in the normal course of business. We believe the resolution of pending claims and legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

#### *Change in Control Agreements*

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

### **Note 8 – Employee Benefit Plans**

#### *Pension Benefits*

The Company's Pension Plan covers all active employees hired prior to April 1, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution at the discretion of the Company, based upon a percentage of the participants' compensation. In order to be eligible for contribution, the eligible employee must be employed by the Company on December 31st of the year to which the contribution relates. For each of the three months ended June 30, 2016 and 2015, the Company made Pension Plan cash contributions of \$1.0 million. For the six months ended June 30, 2016 and 2015, the Company made Pension Plan cash contributions of \$1.5 million and \$1.0 million, respectively. The Company expects to make Pension Plan cash contributions of approximately \$1.8 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company officers and currently pays \$0.3 million in annual benefits to the retired participants.

#### *Other Postretirement Benefits*

The Company's retirement plan other than pensions (Other Benefits Plan) covers substantially all of its current retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. For the three months ended June 30, 2016 and 2015, the Company made Other Benefits Plan cash contributions of \$0.2 million and \$0.8 million, respectively. For the six months ended June 30, 2016 and 2015, the Company made Other Benefits Plan cash contributions of \$0.5 million and \$0.8 million, respectively. The Company expects to make Other Benefits Plan cash contributions of approximately \$0.6 million over the remainder of the current year.

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

	(In Thousands)			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	Three Months Ended June 30,			
	2016	2015	2016	2015
Service Cost	\$ 577	\$ 639	\$ 275	\$ 343
Interest Cost	761	724	488	480
Expected Return on Assets	(1,004)	(980)	(558)	(527)
Amortization of Unrecognized Losses	357	411	443	565
Amortization of Unrecognized Prior Service Cost (Credit)	—	—	(432)	(432)
Net Periodic Benefit Cost	\$ 691	\$ 794	\$ 216	\$ 429

	(In Thousands)			
	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	Six Months Ended June 30,			
	2016	2015	2016	2015
Service Cost	\$ 1,154	\$ 1,279	\$ 550	\$ 686
Interest Cost	1,523	1,447	976	961
Expected Return on Assets	(2,007)	(1,959)	(1,116)	(1,053)
Amortization of Unrecognized Losses	713	823	886	1,131
Amortization of Unrecognized Prior Service Cost (Credit)	—	—	(864)	(864)
Net Periodic Benefit Cost	\$ 1,383	\$ 1,590	\$ 432	\$ 861

#### Note 9 – Income Taxes

As part of its 2014 Federal income tax return, the Company adopted the final Internal Revenue Service (IRS) regulations pertaining to the 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. It is unknown at this time whether the results of this examination will result in any changes to the filed Federal income tax return.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Middlesex Water Company (Middlesex or the Company) included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

### **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. These statements include, but are not limited to:

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

- the effects of general economic conditions;
- increases in competition in the markets served by the Company;
- the ability of the Company to control operating expenses and to achieve efficiencies in its operations;
- the availability of adequate supplies of water;
- actions taken by government regulators, including decisions on rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- acts of war or terrorism;
- significant changes in the pace of housing development in Delaware;
- the availability and cost of capital resources; and
- other factors discussed elsewhere in this quarterly report.

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



For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

## Overview

Middlesex Water Company (Middlesex) has operated as a water utility in New Jersey since 1897, in Delaware through our wholly-owned subsidiary, Tidewater Utilities, Inc. (Tidewater), since 1992 and in Pennsylvania through our wholly-owned subsidiary, Twin Lakes Utilities, Inc. (Twin Lakes), since 2009. We are in the business of collecting, treating and distributing water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate two New Jersey municipal water and wastewater systems under contract and provide regulated wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services, as to the quality of water service we provide and as to certain other matters in New Jersey, Delaware and Pennsylvania. Only our Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy), Inc. (USA-PA) and White Marsh Environmental Services, Inc. (White Marsh) subsidiaries are not regulated utilities.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 61,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 219,000. Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), provide water and wastewater services to residents in Southampton Township, New Jersey.

We have an investment in a joint venture, Ridgewood Green RME, LLC, that owns and operates facilities to produce electricity at the Village of Ridgewood, New Jersey wastewater treatment plant and other municipal facilities.

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

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system. 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, wastewater and other residential-related maintenance programs. HomeServe is a leading provider of such home maintenance service programs. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts. The agreement expires in 2021. USA also provides unregulated water and wastewater services under contract with several New Jersey municipalities.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC, provide water services to approximately 42,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services approximately 4,000 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. subsidiary provides wastewater services to approximately 3,400 residential retail customers.

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

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

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

## Recent Developments

**Pinelands Water, Pinelands Wastewater and Twin Lakes Rate Increases** – In the second quarter of 2016, Pinelands Water, Pinelands Wastewater and Twin Lakes implemented base rate increases of \$0.2 million, \$0.1 million and \$0.1 million, respectively. The rate increases were necessitated by capital infrastructure investments the companies have made and increased operations and maintenance costs. The Pinelands Water and Twin Lakes rate increases will be phased-in over two years.

**Tidewater Distribution System Improvement Charge (DSIC)** - Effective July 1, 2016, Tidewater increased its Delaware Public Service Commission-approved DSIC rate, which is expected to generate \$0.3 million of annual revenues. A DSIC is a rate-mechanism that allows water utilities to recover investments in, and generate a return on, qualifying capital improvements made between base rate proceedings.

## Outlook

Revenues in 2016 are expected to be favorably impacted by the following:

- The full year effect of Middlesex's August 2015 \$5.0 million rate increase;
- Rate increases for Pinelands Water, Pinelands Wastewater and Twin Lakes (see "*Recent Developments*" above regarding rate increases);
- The increase in the Tidewater DSIC (see "*Recent Developments*" above regarding DSIC).

Revenues and earnings are influenced by weather. Changes in water usage patterns, as well as increases in capital expenditures and operating costs, are significant factors in determining the timing and extent of rate increase requests. We continue to implement plans to further streamline operations and further reduce operating costs.

Operating expenses in 2016 will be favorably impacted by lower employee benefit plan expenses, primarily resulting from a market-driven higher discount rate.

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

- Prudent acquisitions of investor- and municipally-owned water and wastewater utilities;
- Timely and adequate recovery of prudent investments in utility plant required to maintain appropriate utility services;
- Operate municipal and industrial water and wastewater systems under contract;
- Invest in renewable energy projects that are complementary to the provision of water and wastewater services, and to our core water and wastewater competencies; and
- Invest in other products, services and opportunities that complement our core water and wastewater competencies.

**Operating Results by Segment**

The discussion of the Company's operating results is on a consolidated basis and includes significant factors by subsidiary. The Company has two operating segments, Regulated and Non-Regulated.

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

**Results of Operations – Three Months Ended June 30, 2016**

	(In Thousands)					
	Three Months Ended June 30,					
	<u>2016</u>			<u>2015</u>		
	<u>Regulated</u>	<u>Non-Regulated</u>	<u>Total</u>	<u>Regulated</u>	<u>Non-Regulated</u>	<u>Total</u>
Revenues	\$ 28,832	\$ 3,893	\$ 32,725	\$ 27,952	\$ 3,714	\$ 31,666
Operations and maintenance expenses	12,665	3,124	15,789	13,208	3,021	16,229
Depreciation expense	3,133	47	3,180	2,938	44	2,982
Other taxes	3,340	88	3,428	3,134	86	3,220
<b>Operating income</b>	<b>9,694</b>	<b>634</b>	<b>10,328</b>	<b>8,672</b>	<b>563</b>	<b>9,235</b>
Other income, net	143	(6)	137	133	(5)	128
Interest expense	1,436	—	1,436	1,496	—	1,496
Income taxes	2,818	292	3,110	2,522	256	2,778
<b>Net income</b>	<b>\$ 5,583</b>	<b>\$ 336</b>	<b>\$ 5,919</b>	<b>\$ 4,787</b>	<b>\$ 302</b>	<b>\$ 5,089</b>

*Operating Revenues*

Operating revenues for the three months ended June 30, 2016 increased \$1.1 million from the same period in 2015. This increase was primarily related to the following factors:

- Middlesex System revenues increased \$1.3 million, primarily due to the following:
  - o Sales to General Metered Service and Public/Private Fire customers increased by \$1.3 million, primarily resulting from a New Jersey Board of Public Utilities (NJBPU)-approved rate increase implemented in August 2015 (\$1.2 million) and higher weather-driven customer demand, primarily in June 2016 (\$0.1 million);
  - o Sales to Contract customers increased by \$0.2 million primarily due to higher water demand; and
  - o All other revenue categories decreased \$0.2 million;
- Tidewater System revenues decreased \$0.4 million due to lower weather-driven water demand (\$0.5 million), partially offset by additional customers (\$0.1 million); and
- USA's revenues increased \$0.2 million due to higher supplemental service revenues earned under our contract to operate the Avalon water utility, sewer utility and storm water system (see corresponding increase in USA's operation and maintenance expenses below).

### *Operation and Maintenance Expense*

Operation and maintenance expenses for the three months ended June 30, 2016 decreased \$0.4 million from the same period in 2015, primarily related to the following factors:

- Employee benefit expenses decreased \$0.4 million, primarily due to lower retirement plan costs resulting from a higher discount rate than in the prior year used in the calculation of our 2016 net periodic plan costs;
- Decreased cold weather main break activity, as compared to 2015, resulted in lower costs of \$0.2 million in our Middlesex System;
- Variable production costs decreased \$0.3 million, due to improved non-revenue water management and higher raw water quality in our Middlesex System;
- Higher labor costs of \$0.3 million, primarily due to company-wide higher average labor rates and lower capitalized labor at Tidewater;
- USA's operation and maintenance costs increased \$0.1 million, primarily due to higher expenditures for billable supplemental services under USA's contract to serve Avalon (see corresponding increase in USA's operating revenues above); and
- All other operation and maintenance expense categories increased \$0.1 million.

### *Depreciation*

Depreciation expense for the three months ended June 30, 2016 increased \$0.2 million from the same period in 2015 due to a higher level of utility plant in service.

### *Other Taxes*

Other taxes for the three months ended June 30, 2016 increased \$0.2 million from the same period in 2015, primarily due to higher gross revenue taxes on increased Middlesex system revenues.

### *Other Income, net*

Other Income, net for the three months ended June 30, 2016 remained consistent with the same period in 2015.

### *Interest Charges*

Interest charges for the three months ended June 30, 2016 decreased by almost \$0.1 million from the same period in 2015, primarily due to lower average long-term and short-term debt balances outstanding.

### *Income Taxes*

Income taxes for the three months ended June 30, 2016 increased \$0.3 million from the same period in 2015, primarily due to increased pre-tax income in 2016 as compared to 2015.

### *Net Income and Earnings Per Share*

Net income for the three months ended June 30, 2016 increased \$0.8 million as compared with the same period in 2015. Basic and diluted earnings per share were \$0.36 and \$0.31 for the three months ended June 30, 2016 and 2015, respectively.

**Results of Operations – Six Months Ended June 30, 2016**(In Thousands)  
Six Months Ended June 30,

	<u>2016</u>			<u>2015</u>		
	<u>Regulated</u>	<u>Non-Regulated</u>	<u>Total</u>	<u>Regulated</u>	<u>Non-Regulated</u>	<u>Total</u>
Revenues	\$ 55,767	\$ 7,537	\$ 63,304	\$ 52,830	\$ 7,616	\$ 60,446
Operations and maintenance expenses	25,548	6,069	31,617	26,039	6,278	32,317
Depreciation expense	6,225	92	6,317	5,843	87	5,930
Other taxes	6,568	172	6,740	6,113	167	6,280
<b>Operating income</b>	<b>17,426</b>	<b>1,204</b>	<b>18,630</b>	<b>14,835</b>	<b>1,084</b>	<b>15,919</b>
Other income, net	233	(6)	227	190	(6)	184
Interest expense	2,413	—	2,413	2,554	—	2,554
Income taxes	5,173	562	5,735	4,330	495	4,825
<b>Net income</b>	<b>\$ 10,073</b>	<b>\$ 636</b>	<b>\$ 10,709</b>	<b>\$ 8,141</b>	<b>\$ 583</b>	<b>\$ 8,724</b>

*Operating Revenues*

Operating revenues for the six months ended June 30, 2016 increased \$2.9 million from the same period in 2015. This increase was primarily related to the following factors:

- Middlesex System revenues increased \$3.2 million, primarily due to the following:
  - o Sales to General Metered Service and Public/Private Fire customers increased by \$2.8 million, primarily resulting from a NJBPU-approved rate increase implemented in August 2015;
  - o Sales to Contract customers increased by \$0.5 million primarily due to higher water demand; and
  - o All other revenue categories decreased \$0.1 million;
- Tidewater System revenues decreased \$0.3 million due to lower weather-driven water demand (\$0.6 million) partially offset by additional customers (\$0.3 million).

*Operation and Maintenance Expense*

Operation and maintenance expenses for the six months ended June 30, 2016 decreased \$0.7 million from the same period in 2015, primarily related to the following factors:

- Employee benefit expenses decreased \$0.6 million, primarily due to lower retirement plan costs resulting from a higher discount rate than in the prior year used in the calculation of our 2016 net periodic plan costs;
- Decreased cold weather main break activity, as compared to 2015, resulted in lower costs of \$0.3 million in our Middlesex System;
- Variable production costs decreased \$0.2 million, primarily due to improved non-revenue water management and higher raw water quality in our Middlesex System; and
- Higher labor costs of \$0.4 million, primarily due to company-wide higher average labor rates and lower capitalized labor at Tidewater.

*Depreciation*

Depreciation expense for the six months ended June 30, 2016 increased \$0.4 million from the same period in 2015 due to a higher level of utility plant in service.

#### *Other Taxes*

Other taxes for the six months ended June 30, 2016 increased \$0.5 million from the same period in 2015, primarily due to higher gross revenue taxes on increased Middlesex system revenues.

#### *Other Income, net*

Other Income, net for the six months ended June 30, 2016 remained consistent with the same period in 2015.

#### *Interest Charges*

Interest charges for the six months ended June 30, 2016 decreased \$0.1 million from the same period in 2015, primarily due to lower average long-term and short-term debt balances outstanding.

#### *Income Taxes*

Income taxes for the six months ended June 30, 2016 increased \$0.9 million from the same period in 2015, primarily due to increased pre-tax income in 2016 as compared to 2015.

#### *Net Income and Earnings Per Share*

Net income for the six months ended June 30, 2016 increased \$2.0 million as compared with the same period in 2015. Basic earnings per share were \$0.65 and \$0.54 for the six months ended June 30, 2016 and 2015, respectively. Diluted earnings per share were \$0.65 and \$0.53 for the six months ended June 30, 2016 and 2015, respectively.

### **Liquidity and Capital Resources**

#### *Operating Cash Flows*

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

For the six months ended June 30, 2016, cash flows from operating activities decreased \$3.4 million to \$16.7 million. The decrease in cash flows resulted from increased income tax payments and higher inventory expenditures. The \$16.7 million of net cash flow from operations enabled us to fund 83.3% of utility plant expenditures internally for the period.

#### *Investing Cash Flows*

For the six months ended June 30, 2016, cash flows used in investing activities increased \$8.8 million to \$20.1 million. The increase in cash flows used in investing activities resulted from increased utility plant expenditures and lower restricted cash inflows.

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

#### *Financing Cash Flows*

For the six months ended June 30, 2016, cash flows provided by financing activities increased \$6.9 million to \$1.1 million. The increase in cash flows provided by financing activities resulted from increased short-term debt funding offset by lower net cash inflows from long-term debt.

#### *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 (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 2016 is currently estimated to be \$49 million. Through June 30, 2016, we have spent \$20.1 million and expect to expend approximately \$29 million on capital projects for the remainder of 2016.

We currently project that we may invest approximately \$112 million in 2017 and 2018 on capital projects. The actual amount and timing is dependent on project scheduling and refinement of engineering estimates for certain capital projects.

To fund our capital program for the remainder of 2016, we plan on utilizing:

- Internally generated funds;
- Proceeds from the sale of common stock through the Investment Plan;
- Proceeds from the 2016 New Jersey and Delaware State Revolving Fund programs (up to \$11.8 million and \$0.3 million, respectively); and
- Short-term borrowings, if necessary, through \$60.0 million of available lines of credit with several financial institutions. As of June 30, 2016, there remains \$49.5 million to draw upon.

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

### **Item 3. Quantitative and Qualitative Disclosures of Market Risk**

We are exposed to market risk associated with changes in interest rates and commodity prices. The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2047. Over the next twelve months, approximately \$5.9 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 exposed to fluctuating market prices of debt and equity securities. Changes to the Company's retirement benefit plan assets' value can impact the Company's retirement benefit plan expense, funded status and future minimum funding requirements. Our risk is reduced through our ability to recover retirement benefit plan costs through rates.

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

### *Disclosure Controls and Procedures*

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

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

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

None.

### **Item 1A. Risk Factors**

The information about risk factors does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.



**Item 6. Exhibits**

- 10.44 Copy of Construction Loan Agreement (CFP-16-1) By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company
- 10.45 Copy of Construction Loan Agreement (CFP-16-2) By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company
- 31.1 Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- 31.2 Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- 32.1 Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.2 Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.LAB XBRL Labels Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document

**SIGNATURES**

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

MIDDLESEX WATER COMPANY

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

Date: August 2, 2016

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

\$7,000,000

June 28, 2016

CFP-16- 1

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

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

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

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

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

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

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

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

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**RESOLUTION OF MIDDLESEX WATER COMPANY, DETERMINING THE FORM AND OTHER DETAILS OF ITS “NOTE RELATING TO THE CONSTRUCTION FINANCING PROGRAM OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST”, TO BE ISSUED IN THE PRINCIPAL AMOUNT OF UP TO \$7.0 MILLION, AND PROVIDING FOR THE ISSUANCE AND SALE OF SUCH NOTE TO THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, AND AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH NOTE BY MIDDLESEX WATER COMPANY IN FAVOR OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, ALL PURSUANT TO THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST CONSTRUCTION FINANCING PROGRAM.**

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

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

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

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

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

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

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

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

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

**“Maturity Date”** means June 28, 2017, or such earlier or later date to be determined by the Trust in its sole discretion, which date shall be determined by the Trust to be the date of the closing for the Anticipated Financing Program; provided that the maturity may not be more than one year after the date hereof..

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

**“Principal”** means the principal amount of the Loan, at any time being the lesser of (i) Seven Million Dollars (\$7,000,000), or (ii) the aggregate outstanding amount as shall actually be disbursed to the Borrower by the Trust pursuant to one or more Loan Disbursement Requisitions, which Principal shall be payable by the Borrower to the Trust (i) on the Maturity Date or (ii) with respect to any optional prepayment or acceleration of the Loan, on the date of such optional prepayment or acceleration, as the case may be.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

**MIDDLESEX WATER COMPANY**

[SEAL]

ATTEST:

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

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

**EXHIBIT A-2**

**Loan Disbursements**

<b>Date of Loan Disbursement</b>	<b>Amount of Loan Disbursement</b>	<b>Interest Rate</b>
		0.00%
		0.00%
		0.00%
		0.00%
		0.00%
		0.00%
		0.00%

**EXHIBIT A-1**

1) Name and Address of Local Unit:

Middlesex Water Company  
500 Ronson Road  
Iselin, New Jersey 08830

Attention: Richard M. Risoldi, Vice President Operations

2) Description of the Project:

The project consists of replacing 24,400 linear feet of 6 to 8-inch ductile iron and 3,710 linear feet of 10 to 12 inch ductile iron watermains. Contract A consists of replacing 8,850 linear feet of 6 to 8-inch ductile iron and 110 linear feet of 10 to 12 inch ductile iron watermains located on Cedar, Center, David, Elm, Henry, Main, North Feltus, 6th Street, Walnut, Washington, and Welsh Street. Contract B consists of replacing 15,550 linear feet of 6 to 8-inch ductile iron and 3,600 linear feet of 10 to 12 inch ductile iron watermains located on Betram, Bordentown, Campbell, Catherine, Charles, Church, Dayton, Division, Ferris, Fourth, George, Gordon, Highland, Hillcrest, Lefferts, Lousia, Mamie, Meacham, Prospect, Robert, Rt. 35, South Feltus, Thomas and Ward Streets. The cement mortar lining on the interior of the pipe inhibits the corrosive effects of the water and is an effective deterrent to the deterioration of the metal pipe. However over time, unlined pipe will corrode and tuberculate (an accumulation of iron oxide) affecting the carrying capacity of the pipe. A reduction in the carrying capacity impacts the service to area customers through reduced pressure and volume, reduces the ability of the mains to flow sufficient water to fight fires, and increase in pumping costs due to the restriction in the pipes. Water quality is impacted, as the corrosion will cause "red water" problems.

3) Description of the Water Treatment System:

The Middlesex Water Company is an investor-owned water utility that provides water service to retail customers primarily in eastern Middlesex County. Water services are now furnished to approximately 59,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield and the City of South Amboy in Middlesex County, and a portion of the Township of Clark in Union County.

The Middlesex Water Company obtains water from both surface and groundwater sources; however, the principal source of supply is the Delaware and Raritan Canal, owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority.

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**EXHIBIT B**

**Basis for the Determination of Allowable Costs**

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

Cost Classification	Application Amount	Allowable Amount	IFP Allowable Amount
1. <u>Administrative Expenses</u>	\$ 177,300	\$ 186,058	\$ 98,665
2. Other Costs	\$ 0	\$ 0	\$ 0
3. Engineering Fees	\$ 120,000	\$ 120,000	\$ 120,000
4. Building Costs	\$ 5,910,000	\$ 6,201,931	\$ 6,201,931
5. Contingencies	\$ 295,500	\$ 310,097	\$ 310,097
6. Allowance for Planning and Design	\$ 200,000	\$ 200,000	\$ 200,000
7. Sub-Total	\$ 6,702,800	\$ 7,018,086	\$ 6,930,693
8. DEP Fee (Financed Portion (50%))		\$ 70,181	\$ 69,307
9. Total Project Costs	\$ 6,702,800	\$ 7,088,267	\$ 7,000,000
10. IFP Loan Amount			\$ 7,000,000

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

1. Administrative Expenses:

The total amount requested for this line item on the application was \$177,300. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is \$6,201,931 x 0.03 = \$186,058. However, this line item was reduced to \$98,665 due to local borrowing limits.

Allowable Administrative Expenses are \$98,665.

2. Other Costs:

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

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$120,000. Middlesex Water Company will utilize “in house” engineering and inspection personnel. The scope of work and costs for utilizing “in house” services has been reviewed and approved.

Allowable Engineering Fees are \$120,000.

4. Building Costs:

The amount requested for this line item on the application was \$5,910,000. The allowable amount based on the low bid received is \$5,540,463 (consisting of Contract A of \$1,733,238.21 and Contract B of \$3,807,225) and an additional \$661,468 for materials. Thus, the total building costs are \$5,540,463 + \$661,468 = \$6,201,931 Therefore,

Green Project Reserve (GPR) Funding:	Green Infrastructure - \$0.
	Energy Efficiency- \$0.
	Water Efficiency - \$0.
	Green Innovative - \$0.

Allowable Building Costs are \$6,201,931.

5. Contingencies:

The amount requested for this line item on the application was \$295,500. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is \$6,201,931 x 0.05 = \$310,097.

Allowable Contingencies are \$310,097.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$200,000. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$\$874,232 = \$250,000 + 0.12 \times (\$6,201,931 - \$1,000,000)$ . The maximum allowance for this line item based on allowable building costs is \$874,232. However, this line item has been reduced to the application amount of \$200,000.

Allowable Planning and Design Allowance is \$200,000.

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7. Sub-Total:

The total amount applied for was \$6,702,800. The subtotal line item amount is \$6,930,693.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the 2016 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Construction Loan.

DEP Fee = \$6,930,693 x 2% = \$138,614

\$138,614 x .50 = \$69,307 (financed through the Construction Loan and paid to DEP upon closing of the Construction Loan)

9. Total Project Costs:

The total project costs are (loan amount + DEP Fee) \$7,000,000.

10. IFP Loan Amount:

The IFP Loan Amount is \$7,000,000.

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**EXHIBIT C**

1. Disbursement Schedule

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

Year	Month	DEP Fee (Trust to make payment)	Total
2016	June	\$ 69,307	\$ 1,010,000
	July		\$ 1,010,000
	August		\$ 1,010,000
	September		\$ 1,010,000
	October		\$ 1,010,000
	November		\$ 1,010,000
	December		\$ 870,693
Total		\$ 69,307	\$ 6,930,693

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## 2. Project Schedule

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

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u> 1225001-023	February 3, 2016
<u>Bid Receipt:</u> 1225001-023	May 3, 2016
<u>Award:</u> 1225001-023	May 27, 2016
<u>Issuance of Notice to Proceed:</u> 1225001-023	June 20, 2016
<u>Completion of Construction:</u> 1225001-023	December 24, 2016
<u>Initiation of Operation:</u> 1225001-023	December 25, 2016
<u>Project Performance Certification:</u> 1225001-023	December 26, 2017

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

**\$4,826,540**

**June 28, 2016**

**CFP-16-2**

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

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

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

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

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

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

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

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

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**RESOLUTION OF MIDDLESEX WATER COMPANY, DETERMINING THE FORM AND OTHER DETAILS OF ITS “NOTE RELATING TO THE CONSTRUCTION FINANCING PROGRAM OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST”, TO BE ISSUED IN THE PRINCIPAL AMOUNT OF UP TO \$5.0 MILLION, AND PROVIDING FOR THE ISSUANCE AND SALE OF SUCH NOTE TO THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, AND AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH NOTE BY MIDDLESEX WATER COMPANY IN FAVOR OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, ALL PURSUANT TO THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST CONSTRUCTION FINANCING PROGRAM.**

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

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

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

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

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

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

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

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

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

**“Maturity Date”** means June 28, 2017, or such earlier or later date to be determined by the Trust in its sole discretion, which date shall be determined by the Trust to be the date of the closing for the Anticipated Financing Program; provided that the maturity may not be more than one year after the date hereof..

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

**“Principal”** means the principal amount of the Loan, at any time being the lesser of (i) Four Million Eight Hundred Twenty Six Thousand Five Hundred Forty Dollars (\$4,826,540), or (ii) the aggregate outstanding amount as shall actually be disbursed to the Borrower by the Trust pursuant to one or more Loan Disbursement Requisitions, which Principal shall be payable by the Borrower to the Trust (i) on the Maturity Date or (ii) with respect to any optional prepayment or acceleration of the Loan, on the date of such optional prepayment or acceleration, as the case may be.

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

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

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

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

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

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

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

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

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

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

### SECTION 3. Covenants of the Borrower.

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

**MIDDLESEX WATER COMPANY**

[SEAL]

ATTEST:

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

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

**EXHIBIT A-2**

**Loan Disbursements**

<b>Date of Loan Disbursement</b>	<b>Amount of Loan Disbursement</b>	<b>Interest Rate</b>
		0.00%
		0.00%
		0.00%
		0.00%
		0.00%
		0.00%
		0.00%

**EXHIBIT A-1**

1) Name and Address of Local Unit

Middlesex Water Company  
500 Ronson Road  
Iselin, New Jersey 08830

Attention: Richard M. Risoldi, Vice President Operations

2) Description of the Project:

The project consists of replacing 13,921 Linear Feet of 8-inch ductile iron water mains and the installation of 373 meter pits. Contract A consists of replacing 5,600 linear feet of 8 inch ductile iron water main located on Burchard Street, Carlton Street, Coral Street, Dartmouth Street, Edgegrove Avenue, Glencourt Avenue and Gross Street. Contract B consists of replacing 8, 321 linear feet of 8 inch ductile iron water main located on Albany Street, Bloomfield Avenue, Franklin Pl, Gold Street, Ireland Avenue, Jefferson Avenue, Leghigh Avenue, Lincoln Street, Madison Avenue, Maple Street, Safran Avenue, Walsh Avenue, North Wolf Avenue, Wolf Avenue. The cement mortar lining on the interior of the pipe inhibits the corrosive effects of the water and is an effective deterrent to the deterioration of the metal pipe. However over time, unlined pipe will corrode and tuberculate (an accumulation of iron oxide) affecting the carrying capacity of the pipe. A reduction in the carrying capacity impacts the service to area customers through reduced pressure and volume, reduces the ability of the mains to flow sufficient water to fight fires, and increase in pumping costs due to the restriction in the pipes. Water quality is impacted, as the corrosion will cause "red water" problems.

3) Description of the Water Treatment System:

The Middlesex Water Company is an investor-owned water utility that provides water service to retail customers primarily in eastern Middlesex County. Water services are now furnished to approximately 59,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield and the City of South Amboy in Middlesex County, and a portion of the Township of Clark in Union County.

The Middlesex Water Company obtains water from both surface and groundwater sources; however, the principal source of supply is the Delaware and Raritan Canal, owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority.

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**EXHIBIT B**

**Basis for the Determination of Allowable Costs**

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

Cost Classification	Application Amount	Allowable Amount	IFP Allowable Amount
1. <u>Administrative Expenses</u>	120,000	\$ 113,854	\$ 113,854
2. Other Costs	\$ 0	\$ 0	\$ 0
3. Engineering Fees	\$ 180,000	\$ 180,000	\$ 180,000
4. Building Costs	\$ 4,000,000	\$ 3,795,141	\$ 3,795,141
5. Contingencies	\$ 200,000	\$ 189,757	\$ 189,757
6. Allowance for Planning and Design	\$ 500,000	\$ 500,000	\$ 500,000
7. Sub-Total	\$ 5,000,000	\$ 4,778,752	\$ 4,778,752
8. DEP Fee (Financed Portion (50%))			\$ 47,788
9. Total Project Costs	\$ 5,000,000		\$ 4,826,540
10. IFP Loan Amount			\$ 4,826,540

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

1. Administrative Expenses:

The total amount requested for this line item on the application was \$120,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is  $\$3,795,141 \times 0.03 = \$113,854$ .

Allowable Administrative Expenses are \$113,854.

2. Other Costs:

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

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$180,000. Middlesex Water Company will utilize “in house” engineering and inspection personnel. The scope of work and costs for utilizing “in house” services has been reviewed and approved.

Allowable Engineering Fees are \$180,000.

4. Building Costs:

The amount requested for this line item on the application was \$4,000,000. The allowable amount based on the low bid received is \$3,432,467 (consisting of Contract A of \$1,392,373.50 and Contract B of \$2,040,093.50) and an additional \$362,674 for materials. Thus, the total building costs are  $\$3,432,467 + \$362,674 = 3,795,141$ . Therefore,

Allowable Building Costs are \$3,795,141.

5. Contingencies:

The amount requested for this line item on the application was \$200,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is  $\$3,795,141 \times 0.05 = \$189,757$ . Therefore,

Allowable Contingencies are \$189,757.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$500,000. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$\$250,000 + 12\% \times (\$3,795,141 - 1,000,000) = \$585,417$ . The maximum allowance for this line item based on allowable building costs is \$585,417. However, this line item has been reduced to the application amount of \$500,000.

Allowable Planning and Design Allowance is \$500,000.

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7. Sub-Total:

The total amount applied for was \$5,000,000. The subtotal line item amount is \$4,778,752.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the 2016 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Construction Loan.

DEP Fee =  $\$4,778,752 \times 2\% = \underline{\$95,576}$

$\underline{\$95,576} \times .50 = \underline{\$47,778}$  (financed through the Construction Loan and paid to DEP upon closing of the Construction Loan)

9. Total Project Costs:

The total project costs are (loan amount + DEP Fee) \$4,826,540.

10. IFP Loan Amount:

The IFP Loan Amount is \$4,826,540.

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**EXHIBIT C**

1. Disbursement Schedule

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

Year	Month	DEP Fee (Trust to make payment)	Total
2016	June	\$ 47,778	860,900
	July		647,900
	August		647,900
	September		647,900
	October		647,900
	November		647,900
	December		678,352
Total		\$ 47,778	\$ 4,778,752

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## 2. Project Schedule

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

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u>	<u>February 3, 2016</u>
<u>Bid Receipt:</u>	<u>May 10, 2016</u>
<u>Award:</u>	<u>June 6, 2016</u>
<u>Issuance of Notice to Proceed:</u>	<u>June 27, 2016</u>
<u>Completion of Construction:</u>	<u>December 24, 2016</u>
<u>Initiation of Operation:</u>	<u>December 25, 2016</u>
<u>Project Performance Certification:</u>	<u>December 26, 2017</u>

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

I, Dennis W. Doll, certify that:

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

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

Date: August 2, 2016

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

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

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

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

Date: August 2, 2016

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

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

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

Date: August 2, 2016

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 906 CERTIFICATION PURSUANT TO 18 U.S.C. §1350**

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

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

Date: August 2, 2016

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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