

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the fiscal year ended December 31, 2018**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-422

**MIDDLESEX WATER COMPANY**

(Exact name of registrant as specified in its charter)

**New Jersey**  
(State of Incorporation)

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

**485C Route 1 South, Suite 400, Iselin New Jersey 08830**

(Address of principal executive offices, including zip code)

**(732) 634-1500**

(Registrant's telephone number, including area code)

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

**Title of Each Class:**  
Common Stock, No Par Value

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

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

**None**

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on their corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files). Yes  No

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

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

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

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

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

Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2018 was \$664,121,962 based on the closing market price of \$42.17 per share.

The number of shares outstanding for each of the registrant's classes of common stock, as of February 28, 2019:

Common Stock, No par Value 16,429,308 shares outstanding

Documents Incorporated by Reference

Proxy Statement to be filed in connection with the Registrant's Annual Meeting of Stockholders to be held on May 21, 2019, which will be filed with the Securities and Exchange Commission within 120 days of the end of our 2018 fiscal year, is incorporated by reference into Part III.

**MIDDLESEX WATER COMPANY  
FORM 10-K**

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## FORWARD-LOOKING STATEMENTS

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

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

These forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by the forward-looking statements. Important factors that could cause actual results to differ materially from anticipated results and outcomes include, but are not limited to:

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

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

For an additional discussion of factors that may affect the Company’s business and results of operations, see Item 1A - Risk Factors.

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**PART I**

**Item 1. Business.**

**Overview**

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

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

The Company’s principal executive offices are located at 485C Route 1 South, Suite 400, Iselin, New Jersey 08830. Our telephone number is (732) 634-1500. Our website address is <http://www.middlesexwater.com>. We make available, free of charge through our website, reports and amendments filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, after such material is electronically filed with or furnished to the United States Securities and Exchange Commission (the SEC).

***Middlesex System***

The Middlesex System in New Jersey provides water services to approximately 61,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the City of Rahway, Townships of Edison and Marlboro, the Borough of Highland Park and the Old Bridge Municipal Utilities Authority. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire protection purposes. The Middlesex System also provides water treatment and pumping services to the Township of East Brunswick under contract. The amount of water supply allocated to the Township of East Brunswick is granted directly to the Township by the New Jersey Water Supply Authority. The Middlesex System produced approximately 59% of our 2018 consolidated operating revenues.

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

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

Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview, and is not physically interconnected with the Middlesex System. Bayview produced less than 1% of our 2018 consolidated operating revenues.

### ***Tidewater System***

Tidewater, together with its wholly-owned subsidiary, Southern Shores, provides water services to approximately 47,000 retail customers for residential, commercial and fire protection purposes in approximately 415 separate communities in New Castle, Kent and Sussex Counties, Delaware. White Marsh is a wholly-owned subsidiary of Tidewater that is unregulated as to rates and operates or maintains more than 55 water and/or wastewater systems under contracts that serve approximately 4,000 residential customers. White Marsh owns two commercial properties that are leased to Tidewater as its administrative office campus and its field operations center. The Tidewater System produced approximately 28% of our 2018 consolidated operating revenues.

### ***Utility Service Affiliates-Perth Amboy***

USA-PA continues to operate the City of Perth Amboy, New Jersey's (Perth Amboy) water and wastewater systems under a 10-year agreement, which expires in December 2028. USA-PA previously operated Perth Amboy's systems under a 20-year agreement which expired December 31, 2018. Under the new agreement, USA-PA no longer manages the billing, collections and customer service functions of Perth Amboy. There are approximately 12,000 customers comprised of residential, commercial and industrial connections, most of which are served by both the water and wastewater systems. In addition to performing day-to-day operations, USA-PA is also responsible for emergency responses and management of capital projects funded by Perth Amboy. USA-PA produced approximately 8% of our 2018 consolidated operating revenues.

### ***Pinelands System***

Pinelands Water provides water services to approximately 2,500 residential customers in Burlington County, New Jersey. Pinelands Water produced less than 1% of our 2018 consolidated operating revenues. Pinelands Water is not physically interconnected with the Middlesex System.

Pinelands Wastewater provides wastewater collection and treatment services to approximately 2,500 residential customers. Under contract, it also services one municipal wastewater system in Burlington County, New Jersey with approximately 200 residential customers. Pinelands Wastewater produced approximately 1% of our 2018 consolidated operating revenues.

### ***Utility Service Affiliates, Inc.***

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system under a ten-year operations and maintenance contract expiring in 2022. USA serves approximately 6,300 Avalon homes and businesses, most of which are served by both the water system and wastewater collection 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.

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

Under a marketing agreement with HomeServe USA (HomeServe), USA offers residential customers in New Jersey and Delaware various water and wastewater related home maintenance programs. HomeServe is a leading national provider of such home maintenance service programs. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts. The agreement expires in 2021.

USA produced approximately 2% of our 2018 consolidated operating revenues.

### ***TESI System***

TESI provides wastewater collection and treatment services to approximately 3,600 residential customers in Sussex County, Delaware. TESI produced approximately 2% of our 2018 consolidated operating revenues.

**Twin Lakes System**

Twin Lakes provides water services to approximately 120 residential customers in Shohola, Pennsylvania. Twin Lakes produced less than 1% of our 2018 consolidated operating revenues.

**Financial Information**

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

	<b>(Thousands of Dollars)</b>		
	<b>Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Operating Revenues	\$ 138,077	\$ 130,775	\$ 132,906
Operating Income	\$ 37,142	\$ 37,798	\$ 40,302
Net Income	\$ 32,452	\$ 22,809	\$ 22,742

Operating revenues were earned from the following sources:

	<b>Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Residential	50.5%	50.8%	50.3%
Commercial	10.7	10.7	10.7
Industrial	7.4	7.1	7.2
Fire Protection	8.8	9.0	8.8
Contract Sales	10.6	10.4	11.6
Contract Operations	11.9	11.9	11.3
Other	0.1	0.1	0.1
Total	100.0%	100.0%	100.0%

**Water Supplies and Contracts**

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

**Middlesex System**

Our Middlesex System, which produced approximately 13.5 billion gallons in 2018, obtains water from surface sources and wells (groundwater sources). In 2018, surface sources of water provided approximately 69% of the Middlesex System's water supply, groundwater sources provided approximately 22% from 31 wells and the balance was purchased from a non-affiliated water utility regulated by the New Jersey Board of Public Utilities (the NJBPU) under an agreement which expires February 27, 2021. This agreement provides for minimum purchases of 3.0 million gallons per day (mgd) of treated water with provisions for additional purchases. The Middlesex System's distribution storage facilities are used to supply water to customers at times of peak demand, outages and emergencies.

The principal source of surface water for the Middlesex System is the Delaware & Raritan Canal, which is owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority (NJWSA). Middlesex is under contract with the NJWSA, which expires November 30, 2023, and provides for average purchases of 27.0 mgd of untreated water from the Delaware & Raritan Canal, augmented by the Round Valley/Spruce Run Reservoir System. The untreated surface water is pumped to, and treated at, the Middlesex Carl J. Olsen (CJO) Water Treatment Plant.

### ***Tidewater System***

Our Tidewater System produced approximately 2.3 billion gallons in 2018, primarily from 159 wells. Tidewater expects to submit applications to Delaware regulatory authorities for the approval of additional wells as growth, customer demand and water quality warrant. Tidewater augments its water production with annual minimum purchases of 15.0 million gallons of treated water under contract from the City of Dover, Delaware. Tidewater does not have a central water treatment facility for the nearly 415 separate communities it serves. As the number has grown, many of Tidewater's individual systems have been interconnected, forming several regional systems that are served by multiple water treatment facilities.

### ***Pinelands Water System***

Water supply to our Pinelands Water System is derived from four wells which produced approximately 133.1 million gallons in 2018. The aggregate pumping capacity of the four wells is 2.2 mgd.

### ***Pinelands Wastewater System***

The Pinelands Wastewater System discharges into the South Branch of the Rancocas Creek through a tertiary treatment plant that provides clarification, sedimentation, filtration and disinfection. The total capacity of the plant is 0.5 mgd, and the system treated approximately 101.9 million gallons in 2018.

### ***Bayview System***

Water supply to Bayview customers is derived from two wells, which produced approximately 6.9 million gallons in 2018.

### ***TESI System***

The TESI System is comprised of seven wastewater treatment systems in Sussex County, Delaware, which are not interconnected. The treatment plants provide clarification, sedimentation, and disinfection. The combined total treatment capacity of the plants is 0.7 mgd. The TESI System treated approximately 116.5 million gallons in 2018.

### ***Twin Lakes System***

Water supply to Twin Lakes' customers is derived from one well, which produced approximately 15.8 million gallons in 2018.

### **Employees**

As of December 31, 2018, we had a total of 330 employees. None of our employees are subject to a collective bargaining agreement. We believe our employee relations are positive. Wages and benefits are reviewed annually and are considered competitive within both the industry and the regions where we operate.

### **Competition**

Our business in our franchised service areas is substantially free from direct competition with other public utilities, municipalities and other entities. However, our ability to provide contract water supply and wastewater services and operations and maintenance services that are not under the jurisdiction of a state public utility commission is subject to competition from other public utilities, municipalities and other entities. Although Tidewater and TESI have been granted exclusive franchises for each of their existing community water and wastewater systems, their ability to expand service areas can be affected by the Delaware Public Service Commission awarding franchises to other regulated water and wastewater utilities with whom we compete for such franchises and for projects.

## **Regulation**

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

- NJBPU
- Delaware-Delaware Public Service Commission (DEPSC)
- Pennsylvania-Pennsylvania Public Utilities Commission (PAPUC)

Our USA, USA-PA and White Marsh subsidiaries are not regulated public utilities as related to rates and service quality. However, they are subject to federal and state environmental regulations with respect to water quality and wastewater effluent quality to the extent such services are provided.

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

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

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

### ***Regulation of Rates and Services***

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

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

### ***Middlesex Rate Matters***

In March 2018, Middlesex's petition to the NJBPU seeking permission to increase its base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$5.5 million. In its initial October 2017 filing with the NJBPU, Middlesex had sought an increase of \$15.3 million to recover costs for capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the prior filing in New Jersey in 2015 as well as increased operations and maintenance costs. During the pendency of this rate matter, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. Under the Tax Act the maximum corporate income tax rate was reduced from 35% to 21% effective January 1, 2018. Because income tax is one of the cost components used to determine a regulated utility's revenue requirement, Middlesex was able to reduce its original rate increase request by \$4.9 million to \$10.4 million. The approved base water rates were designed to recover increased operating costs as well as a return on invested capital in rate base of \$245.5 million, based on an authorized return on common equity of 9.6%. As part of the settlement, Middlesex received approval for regulatory accounting treatment of accumulated deferred income tax benefits associated with required adoption of tangible property regulations issued by the Internal Revenue Service. The settlement agreement allowed for a four-year amortization period for \$28.7 million of deferred income tax benefits as well as immediate and prospective recognition of the tangible property regulations' tax benefits in future years. The rate increase became effective April 1, 2018.

In December 2018, the NJBPU approved Middlesex's petition to establish its Purchased Water Adjustment Clause (PWAC) tariff rate to recover additional annual costs of less than \$0.1 million, primarily for the purchase of treated water from a non-affiliated water utility regulated by the NJBPU. A PWAC is a rate mechanism that allows for recovery of increased purchased water costs between base rate case filings. The PWAC is reset to zero once those increased costs are included in base rates. The PWAC tariff rate became effective on January 1, 2019.

#### ***Tidewater Rate Matters***

Effective January 1, 2019, Tidewater increased its DEPSC-approved Distribution System Improvement Charge rate, which is expected to generate revenues of approximately \$0.2 million annually.

In February 2019, Tidewater received approval from the DEPSC to reduce its rates, effective March 1, 2019, to reflect the lower corporate income tax rate enacted by the Tax Act, resulting in a 3.35% rate decrease for certain customer classes.

#### ***Pinelands Rate Matters***

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

#### ***Southern Shores Rate Matters***

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

#### ***Twin Lakes Rate Matters***

In 2016, the PAPUC approved a \$0.1 million increase in Twin Lakes' base water rates. The rate increase was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase is being phased in with the final phases implemented subsequent to completion of specific utility plant projects.

#### ***Future Rate Filings***

Management monitors the need for rate relief for our regulated entities on an ongoing basis. When capital improvements and/or increases in operation and maintenance costs require rate relief, base rate increase requests are expeditiously filed with the respective Utility Commissions.

#### ***Water and Wastewater Quality and Environmental Regulations***

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

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

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

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

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

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

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

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

### Seasonality

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

### Management

This table lists information concerning our executive management team:

<b>Name</b>	<b>Age</b>	<b>Principal Position(s)</b>
Dennis W. Doll	60	President, Chief Executive Officer and Chairman of the Board of Directors
A. Bruce O'Connor	60	Senior Vice President, Treasurer and Chief Financial Officer
Richard M. Risoldi	62	Senior Vice President-Operations and Chief Operating Officer
Jay L. Kooper	46	Vice President-General Counsel and Secretary
Bernadette M. Sohler	58	Vice President-Corporate Affairs
Lorrie B. Ginegaw	43	Vice President-Human Resources

*Dennis W. Doll* – Mr. Doll joined the Company in 2004 as Executive Vice President and was named President and Chief Executive Officer and a Director of Middlesex effective January 1, 2006. In May 2010, he was elected Chairman of the Board. He is also Chairman for all subsidiaries of Middlesex. Prior to joining the Company, Mr. Doll had been employed in various executive leadership roles in the regulated water utility business since 1985. Mr. Doll also serves as a volunteer Director on selected non-profit Boards including The Water Research Foundation (presently Chairman) and Court Appointed Special Advocates of Middlesex County, New Jersey, serving the needs of children living in foster care.

*A. Bruce O'Connor* – Mr. O'Connor, a Certified Public Accountant, joined the Company in 1990 and was named Vice President and Chief Financial Officer in 1996, Treasurer in 2014 and Senior Vice President in 2019. In 2019, he was named President of Tidewater, TESI and White Marsh. He is Treasurer and a Director of Tidewater, USA, White Marsh and TESI. He is Vice President, Treasurer and a Director of Pinelands Water, USA-PA, Pinelands Wastewater and Twin Lakes.

*Richard M. Risoldi* – Mr. Risoldi joined the Company in 1989 as Director of Production. He was appointed Assistant Vice President of Operations in 2003. He was named Vice President-Subsidiary Operations in May 2004. In January 2010, he was named Vice President – Operations and Chief Operating Officer and Senior Vice President – Operations in 2019. He is a Director of Tidewater, White Marsh and TESI. He also serves as a Director and President of Pinelands Water, USA, USA-PA, Pinelands Wastewater and Twin Lakes.

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

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

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

#### **ITEM 1A. RISK FACTORS.**

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

The NJBPU regulates our public utility companies in New Jersey with respect to rates and charges for service, classification of accounts, awards of new service territory, acquisitions, financings and other matters. That means, for example, that we cannot raise the utility rates we charge to our customers without first filing a petition with the NJBPU and going through a lengthy administrative process. In much the same way, the DEPSC and the PAPUC regulate our public utility companies in Delaware and Pennsylvania, respectively. We cannot give assurance of when we will request approval for any such matter, nor can we predict whether these Utility Commissions will approve, deny or reduce the amount of such requests.

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

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

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

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

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

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

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

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

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

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

We require financing to fund the ongoing capital program for the improvement in our utility system assets and for planned expansion of those systems. We expect to spend approximately \$295 million for capital projects through 2021. We must obtain prior approval from our economic regulators to sell debt or equity securities to raise money for these projects. If sufficient capital is not available, or the cost of capital is too high, or if the regulatory authorities deny a petition of ours to sell debt or equity securities, we may not be able to meet the costs of complying with environmental laws and regulations or the costs of improving and expanding our utility system assets to the level we believe operationally prudent. This may result in the imposition of fines from environmental regulators or restrictions on our operations which could curtail our ability to upgrade or replace utility system assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

USA-PA operates and maintains the water and wastewater systems of Perth Amboy under a 10-year contract expiring in 2028. USA operates and maintains the water, wastewater and storm water systems of Avalon under a 10-year contract expiring in 2022. These contracts do not protect us against incurring costs in excess of revenues we earn pursuant to the contracts. There can be no absolute assurance that we will not experience losses resulting from these contracts. Losses under these contracts, or our failure or inability to perform or renew such agreements, may have a material adverse effect on our financial condition and results of operations.

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

Middlesex entered into agreements, expiring in 2029, with Applied Water Management, Inc. (AWM), Natural Systems Utilities, LLC, (NSU) the parent company of AWM, and the County of Monmouth, New Jersey (County) for the operation of a leachate pretreatment facility at the Monmouth County Reclamation Center in Tinton Falls, New Jersey. Under the terms of the agreement, AWM operates the County-owned landfill leachate pretreatment facility. Middlesex is the guarantor of AWM's performance under the agreement (the Guaranty), for which Middlesex earns a fee, in addition to providing operational support if necessary. If asked to perform under the Guaranty, Middlesex could be required to fulfill the remaining operational commitments of AWM. There can be no absolute assurance that we will not experience losses if asked to perform under the Guaranty. Losses from performance under this Guaranty, or our failure or inability to perform, may have a material adverse effect on our financial condition and results of operations. NSU and AWM have indemnified Middlesex for any costs Middlesex may incur in connection with its Guaranty to the County.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

***Utility Plant***

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

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

***Middlesex System***

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

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

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

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

The transmission and distribution system is comprised of 741 miles of mains and includes 24,300 feet of 48-inch concrete transmission main connecting the CJO Water Treatment Plant to our distribution pipe network and related storage facilities. Also included are a 58,600 foot transmission main and a 38,800 foot transmission main, augmented with a long-term, non-exclusive agreement with East Brunswick to transport water through the East Brunswick system to several of our other contract customers.

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

In New Jersey, we own the properties on which the Middlesex System's 31 wells are located, the properties on which our storage tanks are located as well as the property where the CJO Water Treatment Plant is located. We own our operations center located at 1500 Ronson Road, Iselin, New Jersey, consisting of a 27,000 square foot office building, 16,500 square foot maintenance facility and a 1.96 acre equipment and materials storage and staging yard. We lease 29,036 square feet of commercial office space across the street from the Ronson Road complex. The leased space, which is under contract through 2028, is home to our corporate administrative departments including executive, accounting, customer service and billing, engineering, human resources, information technology and legal.

***Tidewater System***

The Tidewater System is comprised of 84 production plants that vary in pumping capacity from 46,000 gallons per day to 4.4 mgd. Water is transported to our customers through 765 miles of transmission and distribution mains. Storage facilities include 47 tanks, with an aggregate capacity of 7.9 million gallons. The Delaware office property, located on an eleven-acre parcel owned by White Marsh, consists of two office buildings totaling approximately 17,000 square feet. In addition, Tidewater maintains a field operations center servicing its largest service territory area in Sussex County, Delaware. The operations center is located on a 2.9 acre parcel owned by White Marsh, and consists of two buildings totaling approximately 8,400 square feet.

***Pinelands Water System***

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

***Pinelands Wastewater System***

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

***Bayview System***

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

***TESI System***

The TESI System is comprised of seven wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total capacity of the plants is 0.7 mgd. TESI's wastewater collection system is comprised of approximately 47.1 miles of sewer lines.

***Twin Lakes System***

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

***USA-PA, USA and White Marsh***

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

**ITEM 3. LEGAL PROCEEDINGS.**

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

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## PART II

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

The Company's common stock is traded on the NASDAQ Stock Market, LLC, under the symbol MSEX. As of December 31, 2018, there were 1,604 holders of record.

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

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

The Company issues shares of common stock in connection with its Middlesex Water Company Investment Plan (the Investment Plan), a direct share purchase and sale and dividend reinvestment plan for the Company's common stock. Since the inception of the Investment Plan and its predecessor plan, the Company has periodically replenished the level of authorized shares in the plans. Currently, there are three million shares registered with the SEC under the Investment Plan, of which there remains 0.6 million shares available for potential issuance to participants. The Company raised approximately \$1.2 million through the issuance of 26,685 shares under the Investment Plan during 2018. The Company is offering shares of its common stock at a 5% discount to participants in the Investment Plan for purchases made by participants commencing January 2, 2019 which will continue until 200,000 shares are purchased at the discounted price or December 30, 2019, whichever event occurs first. This offer applies to all common stock purchases made under the Investment Plan, whether by optional cash payment or by dividend reinvestment.

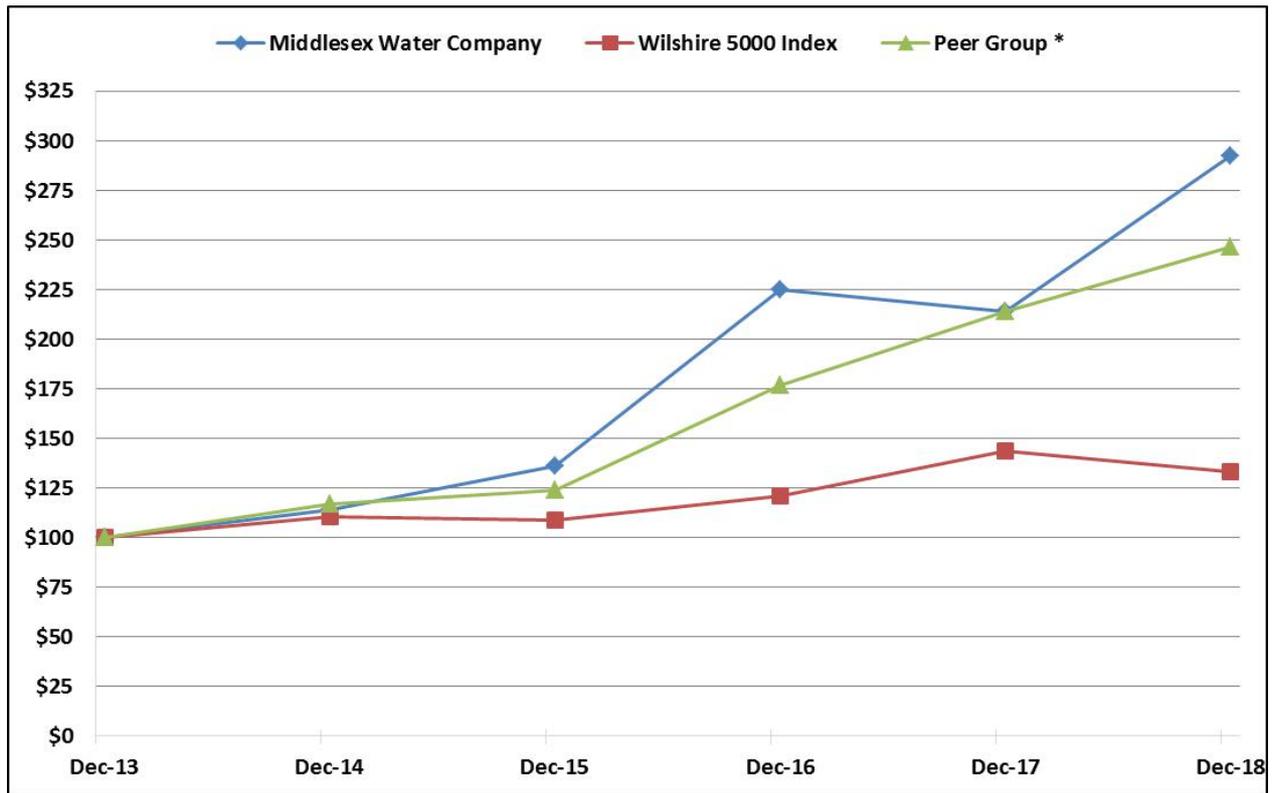
The Company maintains a stock incentive compensation plan for certain management employees (the 2018 Restricted Stock Plan). Shares issued in connection with the 2018 Restricted Stock Plan are subject to forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of normal retirement, death, disability or change in control. The maximum number of shares authorized for grant under the 2018 Restricted Stock Plan is 0.3 million shares, all of which remain available for award under the 2018 Restricted Stock Plan.

The Company maintains a stock compensation plan for its outside directors (the Outside Director Stock Compensation Plan). In 2018, 4,004 shares of the Company's common stock were granted and issued to the Company's outside directors under the Outside Director Stock Compensation Plan. The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 100,000. Of this total, 60,164 shares remain available for future grants under the Outside Director Stock Compensation Plan.

Set forth below is a line graph comparing the yearly change in the cumulative total return (which includes reinvestment of dividends) of a \$100 investment for the Company's common stock, a peer group of investor-owned water utilities, and the Dow Jones Wilshire 5000 Stock Index for the period of five years commencing December 31, 2013. The Dow Jones Wilshire 5000 Stock Index measures the performance of all U.S. headquartered equity securities with readily available price data.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**

Among Middlesex Water Company, the Dow Jones Wilshire 5000 Stock Index and a Peer Group\*



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

	<b>December 31,</b>					
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Middlesex Water Company	100.00	114.23	135.97	225.22	214.14	292.38
Dow Jones Wilshire 5000 Stock Index	100.00	110.57	108.96	120.78	143.69	133.36
Peer Group	100.00	116.92	123.62	176.61	213.69	246.31

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

	2018	2017	2016	2015	2014
Operating Revenues	\$ 138,077	\$ 130,775	\$ 132,906	\$ 126,025	\$ 117,139
Operating Expenses:					
Operations and Maintenance	71,570	65,490	65,864	64,759	60,572
Depreciation	15,037	13,922	12,796	12,051	11,444
Other Taxes	14,328	13,565	13,944	12,967	12,174
Total Operating Expenses	100,935	92,977	92,604	89,777	84,190
Operating Income	37,142	37,798	40,302	36,248	32,949
Other Income (Expense), Net	2,992	1,617	(532)	(115)	1,040
Interest Charges	6,758	5,506	5,293	5,554	5,607
Income Taxes	924	11,100	11,735	10,551	9,937
Net Income	32,452	22,809	22,742	20,028	18,445
Preferred Stock Dividend	144	144	144	144	151
Earnings Applicable to Common Stock	\$ 32,308	\$ 22,665	\$ 22,598	\$ 19,884	\$ 18,294
Earnings per Share:					
Basic	\$ 1.97	\$ 1.39	\$ 1.39	\$ 1.23	\$ 1.14
Diluted	\$ 1.96	\$ 1.38	\$ 1.38	\$ 1.22	\$ 1.13
Average Shares Outstanding:					
Basic	16,384	16,330	16,270	16,175	16,052
Diluted	16,540	16,486	16,426	16,331	16,226
Dividends Declared and Paid	\$ 0.911	\$ 0.858	\$ 0.808	\$ 0.776	\$ 0.763
Total Assets	\$ 767,830	\$ 661,140	\$ 620,161	\$ 581,383	\$ 572,298
Convertible Preferred Stock	\$ 1,354	\$ 1,354	\$ 1,356	\$ 1,356	\$ 1,356
Long-term Debt	\$ 152,851	\$ 139,045	\$ 134,538#	\$ 132,908	\$ 132,565

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

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

**Management's Overview****Operations**

Middlesex Water Company (Middlesex) has operated as a water utility in New Jersey since 1897, in Delaware through our wholly-owned subsidiary, Tidewater Utilities, Inc. (Tidewater), since 1992 and in Pennsylvania through our wholly-owned subsidiary, Twin Lakes Utilities, Inc. (Twin Lakes), since 2009. We are in the business of collecting, treating and distributing water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate two New Jersey municipal water and wastewater systems under contract and provide regulated wastewater services in New Jersey and Delaware through four of our other 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.

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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 approximately 2,500 customers in Southampton Township, New Jersey.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC (Southern Shores), provide water services to approximately 47,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services approximately 4,000 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. (TESI) subsidiary provides wastewater services to approximately 3,600 residential retail customers in Sussex Counties, Delaware.

USA-PA operates the water and wastewater systems for the City of Perth Amboy, New Jersey (Perth Amboy) under a 10-year operations and maintenance contract expiring in 2028. In addition to performing day-to-day operations, USA-PA is also responsible for emergency responses and management of capital projects funded by Perth Amboy. USA-PA does not manage the billing, collections and customer service functions of Perth Amboy.

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system under a ten-year operations and maintenance contract expiring in 2022. In addition to performing day to day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon. Under a marketing agreement with HomeServe USA (HomeServe), USA offers residential customers in New Jersey and Delaware a menu of water and wastewater related home maintenance programs. HomeServe is a leading national provider of such home maintenance service programs. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts. USA also provides unregulated water and wastewater services under contract with several New Jersey municipalities.

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

### **Recent Developments**

**Capital Construction Program** - The Company's multi-year capital construction program encompasses numerous projects designed to upgrade and replace utility infrastructure as well as enhance the integrity and reliability of assets to better serve the current and future generations of water and wastewater customers. The Company plans to invest approximately \$118 million in 2019 in connection with this plan for projects that include, but are not limited to;

- Construction of a 4.6 mile water transmission pipeline to provide critical resiliency and redundancy to the Company's water transmission system in New Jersey;
- Replacement of four miles of water mains including service lines, valves, fire hydrants and meters in Carteret, New Jersey;
- Enhanced treatment process at the Company's largest water plant in Edison, New Jersey, to mitigate the formation of disinfection by-products that can develop during treatment;
- Construction of a new wastewater treatment plant to serve our customers in the Town of Milton, Delaware;
- Relocation of water meters from inside customers' premises to exterior meter pits to allow quicker access by crews in emergencies, enhanced customer safety and convenience and reduced unmetered water; and
- Additional standby emergency power generation.

**Contract Operations** - USA-PA successfully renewed an expiring contract to operate Perth Amboy's water and wastewater collection systems. In July 2018, through a competitive proposal process, Perth Amboy awarded a \$67 million base professional services contract to USA-PA through 2028.

**Discount on Middlesex Common Stock** - The Company is offering shares of its common stock at a 5% discount to participants in the Middlesex Water Company Investment Plan for purchases made by participants commencing January 2, 2019 which will continue until 200,000 shares are purchased at the discounted price or December 30, 2019, whichever event occurs first. This offer applies to all common stock purchases made under the Investment Plan, whether by optional cash payment or by dividend reinvestment.

### **Strategy for Growth**

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

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

### **Rates**

**Middlesex** - In March 2018, Middlesex's petition to the New Jersey Board of Public Utilities (the NJBPU) seeking permission to increase its base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$5.5 million. In its initial October 2017 filing with the NJBPU, Middlesex had sought an increase of \$15.3 million to recover costs for capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the prior filing in New Jersey in 2015 as well as increased operations and maintenance costs. During the pendency of this rate matter, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. Under the Tax Act the maximum corporate income tax rate was reduced from 35% to 21% effective January 1, 2018. Because income tax is one of the cost components used to determine a regulated utility's revenue requirement, Middlesex was able to reduce its original rate increase request by \$4.9 million to \$10.4 million. The approved base water rates were designed to recover increased operating costs as well as a return on invested capital in rate base of \$245.5 million, based on an authorized return on common equity of 9.6%. As part of the settlement, Middlesex received approval for regulatory accounting treatment of accumulated deferred income tax benefits associated with required adoption of tangible property regulations issued by the Internal Revenue Service (IRS). The settlement agreement allowed for a four-year amortization period for \$28.7 million of deferred income tax benefits as well as immediate and prospective recognition of the tangible property regulations' tax benefits in future years. The rate increase became effective April 1, 2018.

In December 2018, the NJBPU approved Middlesex's petition to establish its Purchased Water Adjustment Clause (PWAC) tariff rate to recover additional annual costs of less than \$0.1 million, primarily for the purchase of treated water from a non-affiliated water utility regulated by the NJBPU. A PWAC is a rate mechanism that allows for recovery of increased purchased water costs between base rate case filings. The PWAC is reset to zero once those increased costs are included in base rates. The PWAC tariff rate became effective on January 1, 2019.

**Tidewater** - Effective January 1, 2019, Tidewater increased its Delaware Public Service Commission (the DEPSC) approved Distribution System Improvement Charge rate, which is expected to generate revenues of approximately \$0.2 million annually.

In February 2019, Tidewater received approval from the DEPSC to reduce its rates, effective March 1, 2019, to reflect the lower corporate income tax rate enacted by the Tax Act, resulting in a 3.35% rate decrease for certain customer classes.

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

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

**Twin Lakes** - In 2016, the Pennsylvania Public Utilities Commission approved a \$0.1 million increase in Twin Lakes' base water rates. The rate increase was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase is being phased in with the final phases implemented subsequent to completion of specific utility plant projects.

### **Outlook**

Our ability to increase operating income and net income is based significantly on four factors: weather, adequate and timely rate relief, effective cost management, and customer growth (which are evident in comparison discussions in the Results of Operations section below). Revenues in 2019 are expected to be favorably impacted by the full year effect of Middlesex's April 2018 base water rate increase. Weather patterns experienced in 2017 and 2018, which resulted in lower customer demand, may reoccur in 2019. Actuarially-determined non-service retirement benefit plan costs are expected to increase significantly in 2019. As operating costs are anticipated to increase in 2019 in a variety of categories, we continue to implement plans to further streamline operations and further reduce, and mitigate increases in, operating costs. Changes in customer water usage habits, as well as increases in capital expenditures and operating costs, are significant factors in determining the timing and extent of rate increase requests.

Organic residential customer growth for 2019 is expected to be consistent with that experienced in recent years.

The Company has projected to spend approximately \$295 million on its 2019-2021 capital investment program, including approximately \$42 million for the upgrade of Middlesex's main water treatment plant in New Jersey, \$29 million to construct a large-diameter transmission pipeline that will provide a second connection between Middlesex's main water treatment plant and distribution system in New Jersey, \$34 million on our RENEW Program, our ongoing initiative to eliminate unlined mains in the Middlesex System and \$25 million to relocate water meters from inside customers' premises to exterior meter pits.

### **Operating Results by Segment**

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed approximately 88%, 88% and 89% of total revenues for the years ended December 31, 2018, 2017 and 2016, respectively and approximately 94%, 94% and 98% of net income for the years ended December 31, 2018, 2017 and 2016, respectively. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below are comprised of the following companies: Regulated- Middlesex, Tidewater, Pinelands, Southern Shores, TESI and Twin Lakes; Non-Regulated- USA, USA-PA, and White Marsh.

**Results of Operations for 2018 as Compared to 2017**

	(In Millions)					
	Years Ended December 31,					
	2018			2017		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 121.7	\$ 16.4	\$ 138.1	\$ 115.3	\$ 15.5	\$ 130.8
Operations and maintenance expenses	58.8	12.8	71.6	53.2	12.3	65.5
Depreciation expense	14.8	0.2	15.0	13.7	0.2	13.9
Other taxes	13.9	0.4	14.3	13.2	0.4	13.6
<b>Operating income</b>	<b>34.2</b>	<b>3.0</b>	<b>37.2</b>	<b>35.2</b>	<b>2.6</b>	<b>37.8</b>
Other income (expense), net	2.9	0.1	3.0	1.5	0.1	1.6
Interest expense	6.7	0.1	6.8	5.4	0.1	5.5
Income taxes	(0.1)	1.0	0.9	9.8	1.3	11.1
<b>Net income</b>	<b>\$ 30.5</b>	<b>\$ 2.0</b>	<b>\$ 32.5</b>	<b>\$ 21.5</b>	<b>\$ 1.3</b>	<b>\$ 22.8</b>

**Operating Revenues**

Operating revenues for the year ended December 31, 2018 increased \$7.3 million from the same period in 2017. This increase was related to the following factors:

- Middlesex System revenues increased \$4.9 million due to the following:
  - o Effective April 1, 2018, a NJBPU-approved base rate increase resulted in higher revenues of \$4.3 million;
  - o Higher water demand from Contract customers of \$0.6 million;
- Tidewater System revenues increased \$1.4 million due to additional customers;
- Non-Regulated revenues rose by \$0.9 million as White Marsh increased the number of contracts to operate water and wastewater systems and increased the level of supplemental services to existing customers under contract.; and
- All other operating revenue categories increased \$0.1 million.

**Operation and Maintenance Expense**

Operation and maintenance expenses for the year ended December 31, 2018 increased \$6.1 million from the same period in 2017, primarily related to the following factors:

- Variable production costs increased \$1.2 million due to increased volumes and higher rates paid for purchased water and higher treatment costs due to weather-impacted changes in raw water quality;
- Labor costs rose \$1.5 million due to increases in headcount for regulatory and other operational needs, wage increases overall averaging approximately 3% and overtime costs for weather related water main break activity;
- Employee healthcare and business liability insurance costs increased \$0.9 million due to higher net policy premiums;
- Higher employee retirement related incentive compensation costs of \$0.4 million;
- Higher rent expense of \$0.4 million due to an increase in the square footage of commercial office space under lease to accommodate various operational and administrative needs;
- Compliance with the recently enacted State of New Jersey Water Quality Accountability Act increased regulatory related costs by \$0.3 million;
- Transportation expenses increased \$0.3 million due to higher fuel prices;

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- Higher weather-related water main break repair activity in our Middlesex system resulted in additional \$0.3 million of non-labor costs;
- Higher information technology costs of \$0.2 million due to increased licensing fees; and
- All other operation and maintenance expense categories increased \$0.6 million.

### *Depreciation*

Depreciation expense for the year ended December 31, 2018 increased \$1.1 million from the same period in 2017 due to a higher level of utility plant in service.

### *Other Taxes*

Other taxes for the year ended December 31, 2018 increased \$0.8 million from the same period in 2017 primarily due to higher revenue related taxes on increased revenues in our Middlesex system.

### *Other Income, net*

Other Income, net for the year ended December 31, 2018 increased \$1.4 million from the same period in 2017 primarily due to higher Allowance for Funds Used During Construction resulting from a higher level of capital projects in progress, higher actuarially-determined postretirement benefit plan non-service credits and the sale of wastewater franchise rights by our TESI subsidiary.

### *Interest Charges*

Interest charges for the year ended December 31, 2018 increased \$1.3 million from the same period in 2017 due to higher average amounts of total debt outstanding, increased short-term debt interest rates and accrued interest associated with the IRS examination of the Company's 2014 federal income tax return (see *Note 3 – Income Taxes* for further discussion of this matter).

### *Income Taxes*

Income taxes for the year ended December 31, 2018 decreased \$10.2 million from the same period in 2017, primarily due to regulatory accounting treatment of tangible property regulations tax deductions, which were approved in Middlesex's most recent base rate case (see "*Middlesex*" in Rates above and *Note 3 – Income Taxes* for further discussion of this matter) and a lower effective tax rate resulting from the Tax Act.

### *Net Income and Earnings Per Share*

Net income for the year ended December 31, 2018 increased \$9.6 million as compared with the same period in 2017. Basic earnings per share were \$1.97 and \$1.39 for the years ended December 31, 2018 and 2017, respectively. Diluted earnings per share were \$1.96 and \$1.38 for the years ended December 31, 2018 and 2017, respectively.

**Results of Operations for 2017 as Compared to 2016**

	(In Millions)					
	Years Ended December 31,					
	2017			2016		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 115.3	\$ 15.5	\$ 130.8	\$ 117.9	\$ 15.0	\$ 132.9
Operations and maintenance expenses	53.2	12.3	65.5	53.9	12.0	65.9
Depreciation expense	13.7	0.2	13.9	12.6	0.2	12.8
Other taxes	13.2	0.4	13.6	13.6	0.4	14.0
<b>Operating income</b>	<b>35.2</b>	<b>2.6</b>	<b>37.8</b>	<b>37.8</b>	<b>2.4</b>	<b>40.2</b>
Other income (expense), net	1.5	0.1	1.6	0.7	(1.2)	(0.5)
Interest expense	5.4	0.1	5.5	5.2	0.1	5.3
Income taxes	9.8	1.3	11.1	11.1	0.6	11.7
<b>Net income</b>	<b>\$ 21.5</b>	<b>\$ 1.3</b>	<b>\$ 22.8</b>	<b>\$ 22.2</b>	<b>\$ 0.5</b>	<b>\$ 22.7</b>

*Operating Revenues*

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

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

*Operation and Maintenance Expense*

Operation and maintenance expenses for the year ended December 31, 2017 decreased \$0.4 million from the same period in 2016, primarily related to the following factors:

- Lower retirement benefit plan expenses of \$0.8 million due to reimbursement of retiree healthcare insurance premiums;
- Decreased liability insurance costs of \$0.7 million, primarily due to prior policy year refunds;
- Higher water production costs of \$0.6 million in our Middlesex System, primarily due to a rate increase by the municipal wastewater utility that receives the water treatment residuals in the Middlesex System and increased chemical costs as a result of intermittent changes in raw water quality; and
- Higher water main break repair activity in our Middlesex System in 2017 as compared to 2016 resulted in higher costs of \$0.5 million.

*Depreciation*

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

*Other Taxes*

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

*Other Income (Expense), net*

Other Income (Expense), net for year ended December 31, 2017 increased \$2.1 million from the same period in 2016 due to a \$1.9 million charge in 2016 in connection with Middlesex's joint venture equity investment in, and loan to, Ridgewood Green RME, LLC, higher retirement benefit plan non-service credits and higher Allowance for Funds Used During Construction resulting from a higher level of capital projects in progress partially offset by the 2016 recognition by USA of previously deferred income associated with the 10-year marketing agreement with HomeServe.

*Interest Charges*

Interest charges for the year ended December 31, 2017 increased \$0.2 million from the same period in 2016 due to higher average short-term debt balances outstanding and higher average interest rates on short-term debt.

*Income Taxes*

Income taxes for the year ended December 31, 2017 decreased \$0.6 million from the same period in 2016, due to the Company's re-measurement of certain accumulated deferred income taxes based on the rates at which they are expected to reverse in the future, resulting from the Tax Act. On December 22, 2017, the Tax Act was signed into law making significant changes to the Internal Revenue Code, including a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017.

*Net Income and Earnings Per Share*

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

**Liquidity and Capital Resources**

***Cash Flows from Operating Activities***

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

For the year ended December 31, 2018 cash flows from operating activities were \$45.9 million, which enabled us to internally fund approximately 35% of utility plant expenditures in 2018. This was an increase in cash flows of \$3.0 million from 2017 and resulted primarily from higher revenues and timing of payments to vendors.

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

**Cash Flows from Investing Activities**

For the year ended December 31, 2018, cash flows used in investing activities increased \$21.8 million to \$72.1 million, which was attributable to higher utility plant expenditures.

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

**Cash Flows from Financing Activities**

For the year ended December 31, 2018, cash flows provided by financing activities increased \$16.0 million to \$25.5 million. The majority of the increase in cash flows provided by financing activities is due to the net increase in short-term and long-term debt funding, which was partially offset by increased common stock dividend payments.

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

**Capital Expenditures and Commitments**

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

The table below summarizes our estimated capital expenditures for the years 2019-2021.

	(Millions)			
	2019	2020	2021	2019-2021
Distribution/Network System	74	48	53	\$ 175
Production System	36	41	16	93
Information Technology (IT) Systems	1	3	2	6
Other	7	9	5	21
<b>Total Estimated Capital Expenditures</b>	<b>\$ 118</b>	<b>\$ 101</b>	<b>\$ 76</b>	<b>\$ 295</b>

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

- **Distribution/Network System**-Projects associated with installation and relocation of water mains and service lines and wastewater collection systems, construction of water storage tanks, installation and replacement of hydrants and meters and our RENEW Program. RENEW is our ongoing initiative to eliminate unlined water mains in the Middlesex System. In connection with our RENEW Program, we expect to spend approximately \$11 million in 2019, \$12 million in 2020 and \$11 million in 2021. Construction of a large-diameter transmission pipeline that will provide a second connection between Middlesex's Carl J. Olsen (CJO) water treatment plant and our distribution system is expected to result in approximately \$29 million of expenditures between 2019 and 2020.
- **Production System**-Projects associated with our water production and water/wastewater treatment plants, including \$42 million of expenditures between 2019 and 2020 for the upgrade of the CJO water treatment plant and \$9 million of expenditures between 2019 and 2020 for construction of a new wastewater treatment plant to serve the town of Milton, Delaware.
- **IT Systems**-Further upgrade of our enterprise resource planning system and hardware and software purchases for our other IT systems.
- **Other**-Purchase of transportation equipment, tools, furniture, laboratory equipment, security systems and other general infrastructure needs including improvements to our operations center in Iselin, New Jersey.

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

To pay for our capital program in 2019, we plan on utilizing some or all of the following:

- Internally generated funds;
- Short-term borrowings, as needed, through \$100 million of available lines of credit with several financial institutions. As of December 31, 2018, there was \$43.5 million of available credit under these lines (see discussion under “*Sources of Liquidity-Short-term Debt*” below);
- Proceeds from the New Jersey and Delaware State Revolving Fund (SRF). SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks (see discussion under “*Sources of Liquidity-Long-term Debt*” below);
- Proceeds from the issuance and sale of First Mortgage Bonds through the New Jersey Economic Development Authority (NJEDA) (see discussion under “*Sources of Liquidity-Long-term Debt*” below);
- Proceeds from the Investment Plan, which includes a 5% discount purchase program for 2019 (see discussion under “*Sources of Liquidity-Common Stock*” below); and
- Proceeds from a common stock sale (see discussion under “*Sources of Liquidity-Common Stock*” below).

### **Sources of Liquidity**

**Short-term Debt.** The Company had available lines of credit of \$92.0 million at December 31, 2018, and the outstanding borrowings under the credit lines were \$48.5 million, at a weighted average interest rate of 3.57%. The Company increased its available lines of credit to \$100.0 million in February 2019.

The weighted average daily amounts of borrowings outstanding under the Company’s credit lines and the weighted average interest rates on those amounts were \$37.3 million and \$18.6 million at 3.17% and 2.15% for the years ended December 31, 2018 and 2017, respectively.

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

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

In September 2018, the NJIB announced changes to the SRF program for project funding priority ranking, the proportions of interest free loans and market interest rate loans and overall loan limits on interest free loan balances to investor-owned water utilities. These changes affect SRF projects for which the construction loan closes after September 2018. Under the new guidelines, the principal balance having a stated interest rate of zero percent (0%) is 25% of the loan balance with the remaining portion of 75% having a market based interest rate. This is limited to the first \$10.0 million of the loan. Loan amounts above \$10.0 million do not participate in the 0% rate program, but do participate at the market based interest rate. The only project financing currently affected by these changes is the upgrade to the Company’s CJO water treatment plant. In April 2018, the NJBPU approved Middlesex’s request to participate in the NJIB loan program and borrow up to \$55.0 million for this upgrade project. It is uncertain at this time if the CJO water treatment plant upgrade project will continue to qualify for the funding under the new SRF program ranking system. The Company is awaiting further guidance from the NJIB. These changes in the SRF program are presently anticipated to result in an overall increase in the Company’s long-term borrowing costs for which the Company would expect to seek rate relief at the appropriate time.

In order to maintain the estimated financing time schedule for the CJO water treatment plant upgrade project and other projects that were expected to qualify under the prior SRF program ranking system, Middlesex requested approval from the NJBPU to issue and sell up to \$140 million of First Mortgage Bonds through the NJEDA in whole or in phases periodically through December 31, 2022. The request was filed with the NJBPU in December 2018 and approved in February 2019. The Company expects to issue and sell the first phase of First Mortgage Bonds by the third quarter of 2019. The amount of the offering could be between \$25 million and \$75 million depending on the guidance received from the NJIB.

In May 2018, Middlesex closed out its \$9.5 million RENEW 2017 construction loan by issuing to the NJIB first mortgage bonds designated as Series 2018A (\$7.1 million) and Series 2018B (\$2.4 million). The interest rate on the Series 2018A bond is zero and the interest rate on the Series 2018B bond ranges between 3.0% and 5.0%. Through December 31, 2018, Middlesex has drawn down a total of \$9.3 million and expects to draw down the remaining proceeds during the first quarter of 2019. The final maturity date for both bonds is August 1, 2047, with scheduled debt service payments over the life of the loans.

In April 2018, the NJBPU approved Middlesex's request to participate in the NJIB loan program to fund the construction of a large-diameter transmission pipeline from the CJO water treatment plant and interconnect with our distribution system. Middlesex closed on a \$43.5 million NJIB construction loan in August 2018. Through December 31, 2018, Middlesex has drawn down a total of \$10.5 million and expects to draw down the remaining proceeds through the end of 2019.

In March 2018, the NJBPU approved Middlesex's request to borrow up to \$14.0 million under the NJIB program to fund the 2018 RENEW Program, which is an ongoing initiative to eliminate all unlined water distribution mains in the Middlesex system. Middlesex closed on an \$8.7 million NJIB construction loan in September 2018. Through December 31, 2018, Middlesex has drawn down a total of \$6.1 million and expects to draw down the remaining proceeds during the remainder of 2019. The NJIB has informed the Company that the RENEW 2018 construction loan is scheduled for the May 2019 long-term debt financing program.

In March 2018, the DEPSC approved Tidewater's request to borrow up to \$0.9 million under the Delaware SRF program to fund the replacement of an entire water distribution system of a small Delaware subdivision. Tidewater closed on the SRF loan in May 2018. Management is currently evaluating revised project cost estimates and the potential need for additional Delaware SRF program funding.

In November 2017, Middlesex closed out three of its NJIB construction loans (booster station upgrade, RENEW 2015 and RENEW 2016 projects) by issuing to the NJIB first mortgage bonds designated as Series XX (\$11.3 million) and Series YY (\$3.9 million). The interest rate on the Series XX bond is zero and the interest rate on the Series YY bond range between 3.0% and 5.0%. Through December 31, 2018, Middlesex has drawn down \$15.1 million and expects to draw down the remaining proceeds during the first quarter of 2019. The final maturity date for both bonds is August 1, 2047, with scheduled debt service payments over the life of the loan.

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

**Common Stock.** The Company raised \$1.2 million through the issuance of 26,685 shares under the Investment Plan during 2018. The Company is offering shares of its common stock at a 5% discount to participants in the Investment Plan for purchases made by participants commencing January 2, 2019 which will continue until 200,000 shares are purchased at the discounted price or December 30, 2019, whichever event occurs first. This offer applies to all common stock purchases made under the Investment Plan, whether by optional cash payment or by dividend reinvestment.

In order to fully fund the ongoing large investment program in our utility plant infrastructure and maintain a balanced capital structure for a regulated water utility, Middlesex expects to offer for sale additional shares of its common stock. The amount, the timing and the sales method of the common stock is dependent on the timing of the construction expenditures, the level of additional debt financing and financial market conditions.

### **Contractual Obligations**

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

The table below presents our known contractual obligations for the periods specified as of December 31, 2018.

	<b>Payment Due by Period (Millions of Dollars)</b>				
	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Long-term Debt	\$ 162.9	\$ 7.3	\$ 14.4	\$ 12.9	\$ 128.3
Notes Payable	48.5	48.5	—	—	—
Interest on Long-term Debt	70.0	5.3	9.7	8.7	46.3
Purchased Water Contracts	23.4	6.6	10.5	6.3	—
Commercial Office Leases	9.2	0.7	1.6	1.6	5.3
<b>Total</b>	<b>\$ 314.0</b>	<b>\$ 68.4</b>	<b>\$ 36.2</b>	<b>\$ 29.5</b>	<b>\$ 179.9</b>

The table above does not reflect any anticipated cash payments for postretirement benefit plan obligations. The effect on the timing and amount of these payments resulting from potential changes in actuarial assumptions and returns on plan assets cannot be estimated. In 2018, the Company contributed \$5.1 million to its postretirement benefit plans and expects to contribute approximately \$5.0 million in 2019.

### **Critical Accounting Policies and Estimates**

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

Our critical accounting policies are set forth below.

#### **Regulatory Accounting**

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

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

### **Revenues**

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

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

Non-regulated service contract revenues consist of base service fees as well as fees for additional billable services provided to customers, are billed monthly and are due within 30 days after the invoice date. The Company considers the amounts billed to represent the value of these services provided to customers. These contracts expire at various times through December 2028 and thus contain remaining performance obligations for which the Company expects to recognize revenue in the future. These contracts also contain customary termination provisions.

Almost all of the amounts included in operating revenues are from contracts with customers.

### **Retirement Benefit Plans**

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

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

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

The allocation by asset category of retirement benefit plan assets at December 31, 2018 and 2017 is as follows:

<u>Asset Category</u>	<u>Pension Plan</u>			<u>Other Benefits Plan</u>		
	<u>2018</u>	<u>2017</u>	<u>Target</u>	<u>2018</u>	<u>2017</u>	<u>Target</u>
Equity Securities	59.5%	62.8%	55%	54.7%	57.7%	43%
Debt Securities	36.5%	33.6%	38%	37.3%	32.9%	50%
Cash	1.6%	1.0%	2%	8.0%	9.4%	2%
Real Estate/Commodities	2.4%	2.6%	5%	0.0%	0.0%	5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	<b>100.0%</b>	

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

- **Discount Rate** - calculated based on market rates for long-term, high-quality corporate bonds specific to the expected duration of our Pension Plan and Other Benefits Plan's liabilities;
- **Compensation Increase** - based on management projected future employee compensation increases;
- **Long-Term Rate of Return** - determined based on expected returns from our asset allocation for our Pension Plan and Other Benefits Plan assets;
- **Mortality** -The Company utilizes the Society of Actuaries' mortality table (RP 2014) (Mortality Improvement Scale MP2018 for the 2018 valuation); and
- **Healthcare Cost Trend Rate** - based on management projected future healthcare costs.

The discount rate, compensation increase rate and long-term rate of return used to determine future obligations of our postretirement benefit plans as of December 31, 2018 are as follows:

	<u>Pension Plan</u>	<u>Other Benefits Plan</u>
Discount Rate	4.15%	4.15%
Compensation Increase	3.00%	3.00%
Long-term Rate of Return	7.00%	7.00%

For the 2018 valuation, costs and obligations for our Other Benefits Plan assumed a 8.0% annual rate of increase in the per capita cost of covered healthcare benefits in 2019 with the annual rate of increase declining 1.0% per year for 2020-2021 and 0.5% per year for 2022-2023, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2023.

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

**Pension Plan**

<u>Actuarial Assumptions</u>	<u>Estimated Increase/ (Decrease) on PBO (000s)</u>	<u>Estimated Increase/ (Decrease) on Expense (000s)</u>
Discount Rate 1% Increase	\$ (10,937)	\$ (1,271)
Discount Rate 1% Decrease	13,721	1,537

**Other Benefits Plan**

	<b>Estimated Increase/ (Decrease) on PBO (000s)</b>	<b>Estimated Increase/ (Decrease) on Expense (000s)</b>
Discount Rate 1% Increase	\$ (6,942)	\$ (974)
Discount Rate 1% Decrease	8,916	1,231
Healthcare Cost Trend Rate 1% Increase	7,593	1,633
Healthcare Cost Trend Rate 1% Decrease	(6,054)	(1,270)

**Recent Accounting Standards**

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

**ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK.**

We are exposed to market risk associated with changes in interest rates and commodity prices. The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, variable rate short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2019 to 2047. Over the next twelve months, approximately \$7.3 million of the current portion of existing long-term debt instruments will mature. The Company manages its interest rate risk related to existing variable-rate short-term debt by limiting our variable rate exposure. Applying a hypothetical change in the rate of interest charged by 10% on those fixed- and variable-rate borrowings would not have a material effect on our earnings.

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

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

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

**Opinions on the Financial Statements and Internal Control over Financial Reporting**

We have audited the accompanying consolidated balance sheets and consolidated statements of capital stock and long-term debt of Middlesex Water Company (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by COSO.

**Basis for Opinions**

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

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

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

## **Definition and Limitations of Internal Control Over Financial Reporting**

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

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

/s/ Baker Tilly Virchow Krause, LLP

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

Wyomissing, Pennsylvania

March 8, 2019

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

	Years Ended December 31,		
	2018	2017	2016
Operating Revenues	\$ 138,077	\$ 130,775	\$ 132,906
Operating Expenses:			
Operations and Maintenance	71,570	65,490	65,864
Depreciation	15,037	13,922	12,796
Other Taxes	14,328	13,565	13,944
Total Operating Expenses	100,935	92,977	92,604
Operating Income	37,142	37,798	40,302
Other Income (Expense):			
Allowance for Funds Used During Construction	1,362	702	619
Other Income (Expense), net	1,630	915	(1,151)
Total Other Income (Expense), net	2,992	1,617	(532)
Interest Charges	6,758	5,506	5,293
Income before Income Taxes	33,376	33,909	34,477
Income Taxes	924	11,100	11,735
Net Income	32,452	22,809	22,742
Preferred Stock Dividend Requirements	144	144	144
Earnings Applicable to Common Stock	\$ 32,308	\$ 22,665	\$ 22,598
Earnings per share of Common Stock:			
Basic	\$ 1.97	\$ 1.39	\$ 1.39
Diluted	\$ 1.96	\$ 1.38	\$ 1.38
Average Number of Common Shares Outstanding :			
Basic	16,384	16,330	16,270
Diluted	16,540	16,486	16,426
Cash Dividends Paid per Common Share	\$ 0.911	\$ 0.858	\$ 0.808

See Notes to Consolidated Financial Statements.

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

<b>ASSETS</b>		<b>December 31, 2018</b>	<b>December 31, 2017</b>
<b>UTILITY PLANT:</b>	Water Production	\$ 156,423	\$ 153,844
	Transmission and Distribution	512,202	468,649
	General	74,371	69,457
	Construction Work in Progress	32,878	11,562
	<b>TOTAL</b>	<b>775,874</b>	<b>703,512</b>
	Less Accumulated Depreciation	157,387	146,272
	<b>UTILITY PLANT - NET</b>	<b>618,487</b>	<b>557,240</b>
<b>CURRENT ASSETS:</b>	Cash and Cash Equivalents	3,705	4,937
	Accounts Receivable, net	11,762	10,785
	Unbilled Revenues	7,293	6,999
	Materials and Supplies (at average cost)	5,411	4,118
	Prepayments	2,644	2,408
	<b>TOTAL CURRENT ASSETS</b>	<b>30,815</b>	<b>29,247</b>
<b>DEFERRED CHARGES AND OTHER ASSETS:</b>	Preliminary Survey and Investigation Charges	5,254	4,676
	Regulatory Assets	99,236	58,423
	Restricted Cash	1,956	1,460
	Non-utility Assets - Net	9,989	9,478
	Other	2,093	616
	<b>TOTAL DEFERRED CHARGES AND OTHER ASSETS</b>	<b>118,528</b>	<b>74,653</b>
	<b>TOTAL ASSETS</b>	<b>\$ 767,830</b>	<b>\$ 661,140</b>
<b>CAPITALIZATION AND LIABILITIES</b>			
<b>CAPITALIZATION:</b>	Common Stock, No Par Value	\$ 157,354	155,120
	Retained Earnings	91,433	74,055
	<b>TOTAL COMMON EQUITY</b>	<b>248,787</b>	<b>229,175</b>
	Preferred Stock	2,433	2,433
	Long-term Debt	152,851	139,045
	<b>TOTAL CAPITALIZATION</b>	<b>404,071</b>	<b>370,653</b>
<b>CURRENT LIABILITIES:</b>	Current Portion of Long-term Debt	7,343	6,865
	Notes Payable	48,500	28,000
	Accounts Payable	19,325	13,929
	Accrued Taxes	14,230	11,418
	Accrued Interest	1,289	1,093
	Unearned Revenues and Advanced Service Fees	1,036	951
	Other	2,640	2,281
	<b>TOTAL CURRENT LIABILITIES</b>	<b>94,363</b>	<b>64,537</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)</b>			
<b>DEFERRED CREDITS AND OTHER LIABILITIES:</b>	Customer Advances for Construction	22,572	21,423
	Accumulated Deferred Income Taxes	47,270	43,160
	Employee Benefit Plans	30,661	36,686
	Regulatory Liabilities	79,112	43,745
	Other	2,730	1,315
	<b>TOTAL DEFERRED CREDITS AND OTHER LIABILITIES</b>	<b>182,345</b>	<b>146,329</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		<b>87,051</b>	<b>79,621</b>
	<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 767,830</b>	<b>\$ 661,140</b>

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 32,452	\$ 22,809	\$ 22,742
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	15,780	14,846	13,532
Provision for Deferred Income Taxes and ITC	(8,724)	7,944	3,553
Equity Portion of AFUDC	(919)	(481)	(423)
Cash Surrender Value of Life Insurance	27	(209)	(101)
Stock Compensation Expense	1,084	840	829
Changes in Assets and Liabilities:			
Accounts Receivable	(977)	(656)	(69)
Unbilled Revenues	(294)	(409)	(344)
Materials & Supplies	(1,293)	(24)	(1,494)
Prepayments	(236)	(384)	11
Accounts Payable	5,396	1,586	5,818
Accrued Taxes	2,812	(967)	3,259
Accrued Interest	196	9	(20)
Employee Benefit Plans	(2,114)	(1,920)	(1,601)
Unearned Revenue & Advanced Service Fees	85	28	43
Other Assets and Liabilities	2,589	(169)	1,336
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>45,864</b>	<b>42,843</b>	<b>47,071</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Utility Plant Expenditures, Including AFUDC of \$443 in 2018, \$221 in 2017 and \$196 in 2016	(72,094)	(50,301)	(47,375)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(72,094)</b>	<b>(50,301)</b>	<b>(47,375)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Redemption of Long-term Debt	(7,024)	(6,159)	(5,898)
Proceeds from Issuance of Long-term Debt	22,076	11,523	8,585
Net Short-term Bank Borrowings	20,500	16,000	9,000
Deferred Debt Issuance Expense	(880)	(230)	(152)
Proceeds from Issuance of Common Stock	1,150	1,234	1,453
Payment of Common Dividends	(14,930)	(14,002)	(13,137)
Payment of Preferred Dividends	(144)	(144)	(144)
Construction Advances and Contributions-Net	4,746	1,315	1,007
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>25,494</b>	<b>9,537</b>	<b>714</b>
<b>NET CHANGES IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>(736)</b>	<b>2,079</b>	<b>410</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD</b>	<b>6,397</b>	<b>4,318</b>	<b>3,908</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD</b>	<b>\$ 5,661</b>	<b>\$ 6,397</b>	<b>\$ 4,318</b>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:</b>			
Utility Plant received as Construction Advances and Contributions	\$ 3,835	\$ 3,778	\$ 1,439
Long-term Debt Deobligation	\$ —	\$ —	\$ 476
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>			
Cash Paid During the Year for:			
Interest	\$ 6,113	\$ 5,616	\$ 5,430
Interest Capitalized	\$ 443	\$ 221	\$ 196
Income Taxes	\$ 4,689	\$ 2,754	\$ 5,729

See Notes to Consolidated Financial Statements.

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

	December 31, 2018	December 31, 2017
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2018 - 16,403; 2017 - 16,352	\$ 157,354	\$ 155,120
Retained Earnings	91,433	74,055
<b>TOTAL COMMON EQUITY</b>	<b>\$ 248,787</b>	<b>\$ 229,175</b>
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 126		
Shares Outstanding - 23		
Convertible:		
Shares Outstanding, \$7.00 Series - 10	1,005	1,005
Shares Outstanding, \$8.00 Series - 3	349	349
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	79	79
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
<b>TOTAL PREFERRED STOCK</b>	<b>\$ 2,433</b>	<b>\$ 2,433</b>
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 924	\$ 1,180
6.25%, Amortizing Secured Note, due May 19, 2028	3,955	4,375
6.44%, Amortizing Secured Note, due August 25, 2030	3,267	3,547
6.46%, Amortizing Secured Note, due September 19, 2031	3,547	3,827
4.22%, State Revolving Trust Note, due December 31, 2022	228	279
3.60%, State Revolving Trust Note, due May 1, 2025	1,632	1,851
3.30% State Revolving Trust Note, due March 1, 2026	351	392
3.49%, State Revolving Trust Note, due January 25, 2027	389	427
4.03%, State Revolving Trust Note, due December 1, 2026	501	553
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	111	162
0.00%, State Revolving Fund Bond, due August 1, 2021	88	128
3.64%, State Revolving Trust Note, due July 1, 2028	235	256
3.64%, State Revolving Trust Note, due January 1, 2028	77	84
3.45%, State Revolving Trust Note, due August 1, 2031	907	962
6.59%, Amortizing Secured Note, due April 20, 2029	3,604	3,953
7.05%, Amortizing Secured Note, due January 20, 2030	2,771	3,021
5.69%, Amortizing Secured Note, due January 20, 2030	5,684	6,197
4.45%, Amortizing Secured Note, due April 20, 2040	9,387	9,827
4.47%, Amortizing Secured Note, due April 20, 2040	3,483	3,646
3.75%, State Revolving Trust Note, due July 1, 2031	1,954	2,075
2.00%, State Revolving Trust Note, due February 1, 2036	1,064	1,115
3.75%, State Revolving Trust Note, due November 30, 2030	1,024	1,090
0.00% Construction Loans	16,509	3,874
First Mortgage Bonds:		
0.00%, Series X, due August 1, 2018	—	55
4.25% to 4.63%, Series Y, due August 1, 2018	—	61
0.00%, Series Z, due August 1, 2019	113	224
5.25% to 5.75%, Series AA, due August 1, 2019	155	300
0.00%, Series BB, due August 1, 2021	362	482
4.00% to 5.00%, Series CC, due August 1, 2021	489	636
0.00%, Series EE, due August 1, 2023	1,876	2,296
3.00% to 5.50%, Series FF, due August 1, 2024	2,980	3,495
0.00%, Series GG, due August 1, 2026	723	813
4.00% to 5.00%, Series HH, due August 1, 2026	795	880
0.00%, Series II, due August 1, 2024	520	610
3.40% to 5.00%, Series JJ, due August 1, 2027	671	750
0.00%, Series KK, due August 1, 2028	898	988
5.00% to 5.50%, Series LL, due August 1, 2028	1,010	1,095
0.00%, Series MM, due August 1, 2030	1,137	1,237
3.00% to 4.375%, Series NN, due August 1, 2030	1,415	1,505
0.00%, Series OO, due August 1, 2031	1,956	2,107
2.00% to 5.00%, Series PP, due August 1, 2031	700	740
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	2,107	2,258
3.00% to 3.25%, Series UU, due August 1, 2032	800	845
0.00%, Series VV, due August 1, 2033	2,147	2,290

3.00% to 5.00%, Series WW, due August 1, 2033	795	830
0.00%, Series XX, due August 1, 2047	11,006	11,259
3.00% to 5.00%, Series YY, due August 1, 2047	3,860	3,860
0.00%, Series 2018A, due August 1, 2047	6,917	—
3.00%-5.00%, Series 2018B, due August 1, 2047	2,365	—
<b>SUBTOTAL LONG-TERM DEBT</b>	<b>162,904</b>	<b>147,852</b>
Add: Premium on Issuance of Long-term Debt	1,259	1,367
Less: Unamortized Debt Expense	(3,969)	(3,309)
Less: Current Portion of Long-term Debt	(7,343)	(6,865)
<b>TOTAL LONG-TERM DEBT</b>	<b>\$ 152,851</b>	<b>\$ 139,045</b>

See Notes to Consolidated Financial Statements.

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance at January 1, 2016	16,225	\$ 150,763	\$ 55,931	206,694
Net Income			22,742	22,742
Dividend Reinvestment & Common Stock Purchase Plan	43	1,453		1,453
Restricted Stock Award, Net - Employees	24	682		682
Stock Award - Board Of Directors	4	147		147
Cash Dividends on Common Stock			(13,137)	(13,137)
Cash Dividends on Preferred Stock			(144)	(144)
Balance at December 31, 2016	<u>16,296</u>	<u>\$ 153,045</u>	<u>\$ 65,392</u>	<u>\$ 218,437</u>
Net Income			22,809	22,809
Dividend Reinvestment & Common Stock Purchase Plan	32	1,234		1,234
Restricted Stock Award, Net - Employees	22	724		724
Stock Award - Board Of Directors	4	147		147
Shares Forfeited	(2)	(30)		(30)
Cash Dividends on Common Stock			(14,002)	(14,002)
Cash Dividends on Preferred Stock			(144)	(144)
Balance at December 31, 2017	<u>16,352</u>	<u>\$ 155,120</u>	<u>\$ 74,055</u>	<u>\$ 229,175</u>
Net Income			32,452	32,452
Dividend Reinvestment & Common Stock Purchase Plan	27	1,150		1,150
Restricted Stock Award, Net - Employees	22	975		975
Stock Award - Board Of Directors	4	147		147
Shares Forfeited	(2)	(38)		(38)
Cash Dividends on Common Stock			(14,930)	(14,930)
Cash Dividends on Preferred Stock			(144)	(144)
Balance at December 31, 2018	<u>16,403</u>	<u>\$ 157,354</u>	<u>\$ 91,433</u>	<u>\$ 248,787</u>

See Notes to Consolidated Financial Statements.

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

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

**(a) Organization** - Middlesex Water Company (Middlesex) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Tidewater Environmental Services, Inc. (TESI), Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), Utility Service Affiliates, Inc. (USA), Utility Service Affiliates (Perth Amboy) Inc. (USA-PA) and Twin Lakes Utilities, Inc. (Twin Lakes). Southern Shores Water Company, LLC (Southern Shores) and White Marsh Environmental Systems, Inc. (White Marsh) are wholly-owned subsidiaries of Tidewater.

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

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

**(b) Principles of Consolidation** – The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated. Other financial investments in which the Company holds a 50% or less voting interest and cannot exercise control over the operation and policies of the investments are accounted for under the equity method of accounting. Under the equity method of accounting, the Company records its investment interests in Non-Utility Assets and its percentage share of the earnings or losses of the investees in Other Income (Expense).

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

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

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

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

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

**(f) Utility Plant** – Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 2018, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

**(g) Depreciation** – Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The accumulated provision for depreciation is charged with the cost of property retired, less salvage. The following table sets forth the range of depreciation rates for the major utility plant categories used to calculate depreciation for the years ended December 31, 2018, 2017 and 2016. These rates have been approved by the NJBPU, DEPSC or PAPUC:

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

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

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

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

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

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

**(j) Allowance for Funds Used During Construction (AFUDC)** - Middlesex and its regulated subsidiaries capitalize AFUDC, which represents the cost of financing projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost and construction period thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. AFUDC is calculated using each company's weighted cost of debt and equity as approved in their most recent respective regulatory rate order. The AFUDC rates for the years ended December 31, 2018, 2017 and 2016 for Middlesex and Tidewater are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Middlesex	6.50%	6.73%	6.73%
Tidewater	7.92%	7.92%	7.92%

**(k) Accounts Receivable** – We record bad debt expense based on historical write-offs combined with an evaluation of current conditions. The allowance for doubtful accounts was \$1.0 million and \$0.9 million as of December 31, 2018 and 2017, respectively. For the years ended December 31, 2018, 2017 and 2016, bad debt expense was \$0.8 million, \$0.5 million and \$0.7 million, respectively. For the years ended December 31, 2018, 2017 and 2016, write-offs were \$0.7 million, \$0.5 million and \$0.6 million, respectively.

In 2011, Middlesex entered into a joint venture agreement that established the legal entity RGRME for the purpose of owning and operating a renewable energy facility at a municipal wastewater treatment plant in New Jersey. Construction was completed and the facility began operating in 2013. This public-private partnership includes the production of electricity from solar panels and biogas to meet the electric power needs of the municipal wastewater treatment plant. A major element of the project's profitability is the ability to procure, and process, an adequate supply of high quality feedstock material from outside sources to supplement the production of biogas. Such feedstock is in the form of fats, oils, grease and other materials from various commercial operations. During the fourth quarter of 2016, RGRME determined that significant additional investment would need to be made to optimize the liquid waste disposal and biogas electricity generation process. As of December 31, 2018, Middlesex had an investment of \$0.2 million of equity capital and a \$1.7 million loan to RGRME. The Company has determined that it is more likely than not that RGRME will be unable to satisfy its remaining debt service obligation to Middlesex and therefore, an allowance for uncollectible notes receivable of \$1.7 million has been recorded. Furthermore, Middlesex has recognized a noncash impairment charge of \$0.2 million, representing the Middlesex's equity investment in RGRME. These charges are included in "Other Expense" for the year ended December 31, 2016 on the consolidated statement of income.

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

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

Non-regulated service contract revenues consist of base service fees as well as fees for additional billable services provided to customers, are billed monthly and are due within 30 days after the invoice date. The Company considers the amounts billed to represent the value of these services provided to customers. These contracts expire at various times through December 2028 and thus contain remaining performance obligations for which the Company expects to recognize revenue in the future. These contracts also contain customary termination provisions.

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

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

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

	(In Thousands)		
	Years Ended December 31,		
	2018	2017	2016
<b>Regulated Tariff Sales</b>			
Residential	\$ 69,785	\$ 66,483	\$ 66,849
Commercial	14,844	13,956	14,189
Industrial	10,183	9,321	9,558
Fire Protection	12,099	11,812	11,732
Wholesale	14,655	13,553	15,428
<b>Non-Regulated Contract Operations</b>	<b>16,374</b>	<b>15,508</b>	<b>14,988</b>
<b>Total Revenue from Contracts with Customers</b>	<b>\$ 137,940</b>	<b>\$ 130,633</b>	<b>\$ 132,744</b>
Other Regulated Revenues	335	329	261
Other Non-Regulated Revenues	404	404	400
Inter-segment Elimination	(602)	(591)	(499)
<b>Total Revenue</b>	<b>\$ 138,077</b>	<b>\$ 130,775</b>	<b>\$ 132,906</b>

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

**(n) Income Taxes** - Middlesex files a consolidated federal income tax return for the Company and income taxes are allocated based on the separate return method. Investment tax credits have been deferred and are amortized over the estimated useful life of the related property. In the event that there are interest and penalties associated with income tax adjustments from income tax authority examinations, these amounts will be reported under interest and other expense, respectively. For more information on income taxes, see Note 3 – *Income Taxes*.

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

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

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

**(r) Recent Accounting Pronouncements**

**Inventory** - In July 2015, the Financial Accounting Standards Board (FASB) issued guidance on simplifying the measurement of inventory. The new guidance replaces the current lower of cost or market test with a lower of cost and net realizable value test when cost is determined on a first-in, first-out or average cost basis. The guidance was effective January 1, 2017 and did not have a material impact on the Company's financial statements.

**Accounting for Share-Based Payments** - In March 2016, the FASB issued guidance which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance was effective January 1, 2017 and did not have a material impact on the Company's financial statements.

**Revenue Recognition** - The FASB issued guidance, which replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. The guidance became effective January 1, 2018 and did not have a material impact on the Company's financial statements. Disclosures related to Revenue Recognition are included above in *Revenues*.

**Recognition and Measurement of Financial Assets and Financial Liabilities** - The FASB issued guidance which (i) requires all investments in equity securities, except those accounted for under the equity method of accounting or that result in consolidation of the investee, 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 became effective January 1, 2018 and did not have a material impact on the Company's financial statements.

**Statement of Cash Flows** - The FASB issued guidance which amends the previous guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the amendment is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The guidance became effective January 1, 2018 and did not have a material impact on the Company's financial statements.

**Restricted Cash** - The FASB issued guidance related to the classification and presentation of restricted cash in the statement of cash flows, which requires entities to a) include restricted cash balances in its cash and cash-equivalent balances in the statement of cash flows and b) include a reconciliation of cash and cash-equivalents per the statement of financial position as compared to the statement of cash flows. Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents will not be presented as cash flow activities in the statement of cash flows. In addition, an entity with a material balance of amounts described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The guidance became effective January 1, 2018 and did not have a material impact on the Company's financial statements. As a result of adopting this guidance, the consolidated statements of cash flows for the years ended December 31, 2017 and 2016 were revised, which resulted in \$0.4 million and \$1.5 million increases in Cash, Cash Equivalents and Restricted Cash at the Beginning and End of the Period for the year ended December 31, 2017, respectively and \$0.4 million increases in Cash, Cash Equivalents and Restricted Cash at the Beginning and End of the Period for the year ended December 31, 2016.

**Employee Benefit Plans-Net Periodic Benefit Cost** - The FASB issued guidance which requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if that subtotal is presented. In addition, the guidance requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The guidance became effective January 1, 2018 and did not have a material impact on the Company's financial statements. As a result of adopting this guidance, the consolidated statements of income for the years ended December 31, 2017 and 2016 were revised, which resulted in increases in Operations and Maintenance expense and Other Income (Expense), net of \$0.8 million and \$0.3 million, respectively.

**Leases** - The FASB issued guidance related to leases which will require lessees to recognize a lease liability (a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis) and a right-of-use asset (an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term). In January 2018, the FASB issued additional guidance related to leases which permits entities to forgo the evaluation of existing land easement arrangements to determine if they contain a lease as part of the adoption of this guidance. Land easement arrangements, or modifications to existing arrangements, entered into after adoption of this guidance will need to be evaluated to determine if they meet the definition of a lease. The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The adoption of this guidance on January 1, 2019 is expected to result in the Company recording an approximate \$7.3 million lease liability and right-of-use asset on the Company's consolidated balance sheet.

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 consolidated financial statements.

## **Note 2 - Rate and Regulatory Matters**

### ***Rate Matters***

**Middlesex** - In March 2018, Middlesex's petition to the New Jersey Board of Public Utilities (the NJBPU) seeking permission to increase its base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$5.5 million. In its initial October 2017 filing with the NJBPU, Middlesex had sought an increase of \$15.3 million to recover costs for capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the prior filing in New Jersey in 2015 as well as increased operations and maintenance costs. During the pendency of this rate matter, the Tax Cuts and Jobs Act of 2017 (the Tax Act) was signed into law. Under the Tax Act the maximum corporate income tax rate was reduced from 35% to 21% effective January 1, 2018. Because income tax is one of the cost components used to determine a regulated utility's revenue requirement, Middlesex was able to reduce its original rate increase request by \$4.9 million to \$10.4 million. The approved base water rates were designed to recover increased operating costs as well as a return on invested capital in rate base of \$245.5 million, based on an authorized return on common equity of 9.6%. As part of the settlement, Middlesex received approval for regulatory accounting treatment of accumulated deferred income tax benefits associated with required adoption of tangible property regulations issued by the Internal Revenue Service (IRS). The settlement agreement allowed for a four-year amortization period for \$28.7 million of deferred income tax benefits as well as immediate and prospective recognition of the tangible property regulations' tax benefits in future years. The rate increase became effective April 1, 2018.

In December 2018, the NJBPU approved Middlesex's petition to establish its Purchased Water Adjustment Clause (PWAC) tariff rate to recover additional annual costs of less than \$0.1 million, primarily for the purchase of treated water from a non-affiliated water utility regulated by the NJBPU. A PWAC is a rate mechanism that allows for recovery of increased purchased water costs between base rate case filings. The PWAC is reset to zero once those increased costs are included in base rates. The PWAC tariff rate became effective on January 1, 2019.

**Tidewater** - Effective January 1, 2019, Tidewater increased its Delaware Public Service Commission (DEPSC) approved Distribution System Improvement Charge rate, which is expected to generate revenues of approximately \$0.2 million annually.

In February 2019, Tidewater received approval from the DEPSC to reduce its rates, effective March 1, 2019, to reflect the lower corporate income tax rate enacted by the Tax Act, resulting in a 3.35% rate decrease for certain customer classes.

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

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

**Twin Lakes** - In 2016, the Pennsylvania Public Utilities Commission approved a \$0.1 million increase in Twin Lakes' base water rates. The rate increase was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase is being phased in with the final phases implemented subsequent to completion of specific utility plant projects.

### Regulatory Matters

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

<b>Regulatory Assets</b>	<b>(Thousands of Dollars)</b>		<b>Remaining Recovery Periods</b>
	<b>December 31, 2018</b>	<b>December 31, 2017</b>	
Retirement Benefits	\$ 39,158	\$ 43,070	Various
Income Taxes	55,232	9,876	Various
Rate Cases, Tank Painting, and Other	4,846	5,477	2-10 years
Total	<u>\$ 99,236</u>	<u>\$ 58,423</u>	

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

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

In December 2017, the Tax Act was signed into law making significant changes to the Internal Revenue Code, including a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. The tariff rates charged to customers in the Company's regulated companies include recovery of income taxes at the statutory rate at the time those rates are approved by the respective state public utility commissions that regulate each of our regulated subsidiaries. As of December 31, 2018 and 2017, the Company has recorded regulatory liabilities of \$31.7 million and \$31.6 million, respectively for excess income taxes collected through rates due to the lower income tax rate under the Tax Act. These regulatory liabilities are overwhelmingly related to utility plant depreciation deduction timing differences, which are subject to Internal Revenue Service (IRS) normalization rules. The IRS rules limit how quickly the excess taxes attributable to accelerated taxes can be returned to customers. The conclusion of Middlesex's base rate case and the resulting rates implemented April 1, 2018 reflect the impact of the Tax Act on its revenue requirements. In February 2019, Tidewater received approval from the DEPSC to reduce its rates to reflect the lower corporate income tax rate enacted by the Tax Act (see *Rate Matters-Tidewater* above).

As part of Middlesex's March 2018 base water rate settlement with the NJBPU, Middlesex received approval for regulatory accounting treatment of accumulated deferred income tax benefits associated with the adoption of tangible property regulations issued by the IRS (see *Rate Matters-Middlesex* above), and, as of December 31, 2018, the Company has recorded \$34.6 million of related regulatory liabilities.

The Company uses composite depreciation rates for its regulated utility assets, which is currently an acceptable method under generally accepted accounting principles and is widely used in the utility industry. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. The Company recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of December 31, 2018 and 2017, the Company has approximately \$12.8 million and \$12.2 million, respectively, of expected costs of removal recovered currently in rates in excess of actual costs incurred as regulatory liabilities.

### Note 3 – Income Taxes

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

	(Thousands of Dollars)		
	Years Ended December 31,		
	2018	2017	2016
Income Tax at Statutory Rate	\$ 7,009	\$ 11,868	\$ 12,007
Tax Effect of:			
Utility Plant Related	422	(1,016)	(1,059)
Tangible Property Repairs	(7,763)	—	—
State Income Taxes – Net	1,207	895	770
Tax Act	—	(610)	—
Other	49	(37)	17
<b>Total Income Tax Expense</b>	<b>\$ 924</b>	<b>\$ 11,100</b>	<b>\$ 11,735</b>

Income tax expense is comprised of the following:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ (188)	\$ 2,090	\$ 7,305
State	2,073	1,066	877
Deferred:			
Federal	(338)	7,713	3,325
State	(545)	310	307
Investment Tax Credits	(78)	(79)	(79)
<b>Total Income Tax Expense</b>	<b>\$ 924</b>	<b>\$ 11,100</b>	<b>\$ 11,735</b>

As part of Middlesex's March 2018 base water rate settlement with the NJBPU, Middlesex received approval for regulatory accounting treatment of accumulated deferred income tax benefits associated with the adoption of tangible property regulations issued by the IRS as well as immediate recognition of current year tangible property regulations tax benefits (see Note 2 – *Rate and Regulatory Matters*). This results in significant reductions in the Company's effective income tax rate, current income tax expense and deferred income tax expense.

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

	<b>(Thousands of Dollars)</b>	
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Utility Plant Related	\$ 44,777	\$ 41,259
Customer Advances	(3,702)	(3,749)
Employee Benefits	5,490	4,903
Investment Tax Credits (ITC)	596	675
Other	109	72
Total Deferred Tax Liability and ITC	\$ 47,270	\$ 43,160

The staff of the United States Securities and Exchange Commission (SEC) recognized the complexity of reflecting the impacts of the Tax Act, and issued guidance in December 2017 which clarified accounting for income taxes if information is not yet available or complete and provides for up to a one year period in which to complete the required analyses and accounting. The guidance described three scenarios associated with a company's status of accounting for income tax reform: (1) a company is complete with its accounting for certain effects of tax reform, (2) a company is able to determine a reasonable estimate for certain effects of tax reform and records that estimate as a provisional amount, or (3) a company is not able to determine a reasonable estimate and therefore continues to account for income taxes based on the provisions of the tax laws that were in effect immediately prior to the Tax Act being enacted. The one-year analysis period ended in December 2018 and there were no material changes to the Company's accounting for the Tax Act, which had resulted in the re-measurement of deferred income taxes at the new federal tax rate and decreased deferred income tax expense by \$0.6 million for the year ending December 31, 2017 and decreased accumulated deferred income taxes by \$24.2 million as of December 31, 2017.

As part of its 2014 Federal income tax return, the Company adopted the final IRS tangible property regulations and changed its accounting method for the tax treatment of expenditures that qualified as deductible repairs. 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 the tax refunds. A reserve provision against refunded taxes of \$2.3 million was recorded in 2015 at the time of filing its change in accounting method based on a possible challenge by the IRS during an audit examination. The Company's 2014 federal income tax return was subsequently selected for examination by the IRS in 2016. In 2018, the Company received information from the IRS regarding certain aspects of the its adopted accounting method used to calculate qualifying tangible property repair cost deductions and increased its reserve provision to \$4.1 million. As the IRS examination continues, and pending its completion, the final tax liability could be different than the recorded reserve provision. For the year ended December 31, 2018, the Company has recorded \$0.6 million in interest expense related to this reserve provision.

The statutory review periods for income tax returns for the years prior to 2012 have been closed. Other than the effects of the provision against refundable taxes discussed above, there are no unrecognized tax benefits resulting from prior period tax positions.

**Note 4 - Commitments and Contingent Liabilities**

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

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

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

Purchased water costs are shown below:

<u>Purchased Water</u>	<b>(Millions of Dollars)</b>		
	<b>Years Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Untreated	\$ 3.6	\$ 2.8	\$ 2.6
Treated	3.2	3.3	3.2
<b>Total Costs</b>	<b>\$ 6.8</b>	<b>\$ 6.1</b>	<b>\$ 5.8</b>

*Guarantees* - As part of an agreement with the County of Monmouth, New Jersey (County), Middlesex serves as guarantor of the performance of Applied Water Management, Inc. (AWM), an unaffiliated wastewater treatment contractor, to operate a County-owned leachate pretreatment facility at the Monmouth County Reclamation Center in Tinton Falls, New Jersey. The performance guaranty is effective through 2029 unless another guarantor, acceptable to the County, replaces Middlesex before such date. Under agreements with AWM and Natural Systems Utilities, LLC (NSU), the parent company of AWM, Middlesex earns a fee for providing the performance guaranty. In addition, Middlesex may provide operational support to the facility, as needed, and AWM and NSU, serving as guarantor to Middlesex with respect to the performance of AWM, agree to indemnify Middlesex against any claims that may arise under the Middlesex guaranty to the County.

If requested to perform under the guaranty to the County and, if AWM and NSU, as guarantor to Middlesex, do not fulfill their obligations to indemnify Middlesex against any claims that may arise under the Middlesex guaranty to the County, Middlesex would be required to fulfill the remaining operational commitment of AWM. The liability and asset for the guaranty are included in Other Non-Current Liabilities and Other Non-Current Assets on the balance sheet and are approximately \$1.5 million and \$0.1 million as of December 31, 2018 and 2017, respectively. The increase in 2018 in the liability and asset for the guaranty resulted from the Company reassessing the expected term that the Company would serve as guarantor.

*Leases* - The Company has entered into office space operating leases. Rental expenses under operating leases were \$0.5 million and \$0.1 million for the years ended December 31, 2018 and 2017, respectively. The Company did not incur rental expenses for the year ended December 31, 2016. The operating leases for these facilities expire in 2030. The minimum annual future rental commitment under operating leases that have initial or remaining non-cancelable lease terms over the next 5 years and thereafter are as follows:

<u>Year</u>	<b>(Millions of Dollars)</b> <u>Annual Maturities</u>
2019	\$ 0.7
2020	\$ 0.8
2021	\$ 0.8
2022	\$ 0.8
2023	\$ 0.8
Thereafter	\$ 5.3

**Construction** –The Company has projected to spend approximately \$118 million in 2019, \$101 million in 2020 and \$76 million in 2021 on its construction program. The Company has entered into several contractual construction agreements that in total obligate it to expend an estimated \$28 million in the future. The actual amount and timing of capital expenditures is dependent on the need for replacement of existing infrastructure, customer growth, residential new home construction and sales, project scheduling and continued refinement of project scope and costs. There is no assurance that projected customer growth and residential new home construction and sales will occur.

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

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

#### **Note 5 – Short-term Borrowings**

Information regarding the Company’s short-term borrowings for the years ended December 31, 2018 and 2017 is summarized below:

	<b>(Millions of Dollars)</b>	
	<b>2018</b>	<b>2017</b>
Established Lines at Year-End	\$ 92.0	\$ 92.0
Maximum Amount Outstanding	48.5	28.0
Average Outstanding	37.3	18.6
Notes Payable at Year-End	48.5	28.0
Weighted Average Interest Rate	3.17%	2.15%
Weighted Average Interest Rate at Year-End	3.57%	2.54%

The maturity dates for the Notes Payable as of December 31, 2018 are in January 2019 through March 2019 and are extendable at the discretion of the Company.

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

The Company increased its available lines of credit to \$100.0 million in February 2019.

#### **Note 6 - Capitalization**

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

##### **Common Stock**

The Company issues shares of its common stock in connection with its Middlesex Water Company Investment Plan (the Investment Plan), a direct share purchase and sale and dividend reinvestment plan for Middlesex common stock. Since the inception of the Investment Plan and its predecessor plan, the Company has periodically replenished the level of authorized shares in the plans. Currently, there are three million shares registered with the SEC, of which there remains 0.6 million for potential issuance to participants. For the years ended December 31, 2018, 2017 and 2016, the Company raised approximately \$1.2 million, \$1.2 million and \$1.5 million, respectively, through the issuance of shares under the Investment Plan. The Company is offering shares of its common stock at a 5% discount to participants in the Investment Plan for purchases made by participants commencing January 2, 2019 which will continue until 200,000 shares are purchased at the discounted price or December 30, 2019, whichever event occurs first. This offer applies to all common stock purchases made under the Investment Plan, whether by optional cash payment or by dividend reinvestment.

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

The Company maintains a stock plan for its outside directors (the Outside Director Stock Compensation Plan). For the years ended December 31, 2018, 2017 and 2016, 4,004, 3,976, and 3,976 shares, respectively, of Middlesex common stock were granted and issued to the Company's outside directors under the Outside Director Stock Compensation Plan and 60,164 shares remain available for future awards. The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 100,000.

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

### ***Preferred Stock***

At December 31, 2018 and 2017, there were 0.1 million shares of preferred stock authorized and less than 0.1 million shares of preferred stock outstanding. There were no preferred stock dividends in arrears.

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

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

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

### ***Long-term Debt***

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

In September 2018, the NJIB announced changes to the SRF program for project funding priority ranking, the proportions of interest free loans and market interest rate loans and overall loan limits on interest free loan balances to investor-owned water utilities. These changes affect SRF projects for which the construction loan closes after September 2018. Under the new guidelines, the principal balance having a stated interest rate of zero percent (0%) is 25% of the loan balance with the remaining portion of 75% having a market based interest rate. This is limited to the first \$10.0 million of the loan. Loan amounts above \$10.0 million do not participate in the 0% rate program, but do participate at the market based interest rate. The only project financing currently affected by these changes is the upgrade to the Company's Carl J. Olsen (CJO) water treatment plant. In April 2018, the NJBPU approved Middlesex's request to participate in the NJIB loan program and borrow up to \$55.0 million for this upgrade project. It is uncertain at this time if the CJO water treatment plant upgrade project will continue to qualify for the funding under the new SRF program ranking system. The Company is awaiting further guidance from the NJIB.

In order to maintain the estimated financing time schedule for the CJO water treatment plant upgrade project and other projects that were expected to qualify under the prior SRF program ranking system, Middlesex requested approval from the NJBPU to issue and sell up to \$140 million of First Mortgage Bonds through the New Jersey Economic Development Authority (NJEDA) in whole or in phases periodically through December 31, 2022. The request was filed with the NJBPU in December 2018 and approved in February 2019. The Company expects to issue and sell the first phase of First Mortgage Bonds by the third quarter of 2019. The amount of the offering could be between \$25 million and \$75 million depending on the guidance received from the NJIB.

In May 2018, Middlesex closed out its \$9.5 million RENEW 2017 construction loan by issuing to the NJIB first mortgage bonds designated as Series 2018A (\$7.1 million) and Series 2018B (\$2.4 million). The interest rate on the Series 2018A bond is zero and the interest rate on the Series 2018B bond ranges between 3.0% and 5.0%. Through December 31, 2018, Middlesex has drawn down a total of \$9.3 million and expects to draw down the remaining proceeds during the first quarter of 2019. The final maturity date for both bonds is August 1, 2047, with scheduled debt service payments over the life of the loans.

In April 2018, the NJBPU approved Middlesex's request to participate in the NJIB loan program to fund the construction of a large-diameter transmission pipeline from the CJO water treatment plant and interconnect with our distribution system. Middlesex closed on a \$43.5 million NJIB construction loan in August 2018. Through December 31, 2018, Middlesex has drawn down a total of \$10.5 million and expects to draw down the remaining proceeds through the end of 2019.

In March 2018, the NJBPU approved Middlesex's request to borrow up to \$14.0 million under the NJIB program to fund the 2018 RENEW Program, which is an ongoing initiative to eliminate all unlined water distribution mains in the Middlesex system. Middlesex closed on an \$8.7 million NJIB construction loan in September 2018. Through December 31, 2018, Middlesex has drawn down a total of \$6.1 million and expects to draw down the remaining proceeds during the remainder of 2019. The NJIB has informed the Company that the RENEW 2018 construction loan is scheduled for the May 2019 long-term debt financing program.

In March 2018, the DEPSC approved Tidewater's request to borrow up to \$0.9 million under the Delaware SRF program to fund the replacement of an entire water distribution system of a small Delaware subdivision. Tidewater closed on the SRF loan in May 2018. Management is currently evaluating revised project cost estimates and the potential need for additional Delaware SRF program funding.

In November 2017, Middlesex closed out three of its NJIB construction loans (booster station upgrade, RENEW 2015 and RENEW 2016 projects) by issuing to the NJIB first mortgage bonds designated as Series XX (\$11.3 million) and Series YY (\$3.9 million). The interest rate on the Series XX bond is zero and the interest rate on the Series YY bond range between 3.0% and 5.0%. Through December 31, 2018, Middlesex has drawn down \$15.1 million and expects to draw down the remaining proceeds during the first quarter of 2019. The final maturity date for both bonds is August 1, 2047, with scheduled debt service payments over the life of the loan.

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

Bond Series QQ, RR and SS are term bonds with single maturity dates subsequent to 2022. Principal repayments for all series of the Company's long-term debt except for Bond Series Z, AA, BB, CC and EE extend beyond 2023. The aggregate annual principal repayment obligations for all long-term debt over the next five years are shown below:

<u>Year</u>	<u>(Millions of Dollars)</u> <u>Annual Maturities</u>
2019	\$ 7.3
2020	\$ 7.2
2021	\$ 7.2
2022	\$ 6.7
2023	\$ 6.2

The weighted average interest rate on all long-term debt at December 31, 2018 and 2017 was 3.30% and 3.77%, respectively. Except for the Amortizing Secured Notes (\$36.6 million), all of the Company's outstanding long-term debt has been issued through the NJEDA (\$55.4 million), the NJIB SRF program (\$62.5 million) and the Delaware SRF program (\$8.4 million).

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

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

### **Earnings Per Share**

The following table presents the calculation of basic and diluted earnings per share (EPS) for the three years ended December 31, 2018. Basic EPS is computed on the basis of the weighted average number of shares outstanding. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and \$8.00 Series.

	<b>2018</b>		<b>2017</b>		<b>2016</b>	
	<b>Income</b>	<b>Shares</b>	<b>Income</b>	<b>Shares</b>	<b>Income</b>	<b>Shares</b>
Basic:						
Net Income	\$ 32,452	16,384	\$ 22,809	16,330	\$ 22,742	16,270
Preferred Dividend	(144)		(144)		(144)	
Earnings Applicable to Common Stock	\$ 32,308	16,384	\$ 22,665	16,330	\$ 22,598	16,270
Basic EPS	\$ 1.97		\$ 1.39		\$ 1.39	
Diluted:						
Earnings Applicable to Common Stock	\$ 32,308	16,384	\$ 22,665	16,330	\$ 22,598	16,270
\$7.00 Series Dividend	67	115	67	115	67	115
\$8.00 Series Dividend	24	41	24	41	24	41
Adjusted Earnings Applicable to Common Stock	\$ 32,399	16,540	\$ 22,756	16,486	\$ 22,689	16,426
Diluted EPS	\$ 1.96		\$ 1.38		\$ 1.38	

**Fair Value of Financial Instruments**

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and notes payable approximate their respective fair values due to the short-term maturities of these instruments. The fair value of First Mortgage and State Revolving Fund Bonds (collectively, the Bonds) issued by Middlesex is based on quoted market prices for similar issues. Under the fair value hierarchy, the fair value of cash and cash equivalents is classified as a Level 1 measurement and the fair value of notes payable and the Bonds in the table below are classified as Level 2 measurements. The carrying amount and fair value of the Bonds were as follows:

	(Thousands of Dollars)			
	At December 31,			
	<u>2018</u>		<u>2017</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bonds	\$ 101,411	\$ 102,789	\$ 95,322	\$ 98,036

For other long-term debt issuances for which there is no quoted market price and there is not an active trading market, it was not practicable to estimate their fair value. For details, including carrying value, interest rate and due date on these series of long-term debt, please refer to those series of long-term debt described as “Amortizing Secured Note”, “State Revolving Trust Note” and “Construction Loans” on the Consolidated Statements of Capital Stock and Long-Term Debt. The carrying amount of these instruments was \$61.5 million and \$52.5 million at December 31, 2018 and December 31, 2017, respectively. Customer advances for construction have carrying amounts of \$22.6 million and \$21.4 million at December 31, 2018 and December 31, 2017, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

**Note 7 - Employee Benefit Plans****Pension Benefits**

The Company’s Pension Plan covers all active employees hired prior to April 1, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but can participate in a defined contribution profit sharing plan that provides an annual contribution at the discretion of the Company, based upon a percentage of the participants’ annual paid compensation. In order to be eligible for contribution, the eligible employee must be employed by the Company on December 31<sup>st</sup> of the year to which the contribution relates. The Company maintains an unfunded supplemental plan for its executive officers. The Accumulated Benefit Obligation for the Company’s Pension Plan at December 31, 2018 and 2017 was \$73.1 million and \$75.7 million, respectively.

**Other Benefits**

The Company’s Other Benefits Plan covers substantially all of its current retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. Accrued retirement benefit costs are recorded each year.

**Regulatory Treatment of Over/Underfunded Retirement Obligations**

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

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The Company uses a December 31 measurement date for all of its employee benefit plans. The tables below set forth information relating to the Company's Pension Plan and Other Benefits Plan for 2018 and 2017.

	(Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	December 31,			
	2018	2017	2018	2017
Change in Projected Benefit Obligation:				
Beginning Balance	\$ 88,013	\$ 78,601	\$ 54,345	\$ 48,888
Service Cost	2,426	2,399	1,135	1,089
Interest Cost	3,061	3,143	1,898	1,964
Actuarial (Gain) Loss	(7,018)	6,203	(8,160)	3,052
Benefits Paid	(2,555)	(2,333)	(744)	(648)
Ending Balance	\$ 83,927	\$ 88,013	\$ 48,474	\$ 54,345

	(Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	December 31,			
	2018	2017	2018	2017
Change in Fair Value of Plan Assets:				
Beginning Balance	\$ 69,215	\$ 59,370	\$ 36,083	\$ 31,607
Actual Return on Plan Assets	(3,524)	8,543	(2,161)	3,521
Employer Contributions	3,635	3,635	1,444	1,603
Benefits Paid	(2,555)	(2,333)	(744)	(648)
Ending Balance	\$ 66,771	\$ 69,215	\$ 34,622	\$ 36,083
Funded Status	\$ (17,156)	\$ (18,798)	\$ (13,852)	\$ (18,262)

	(Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	December 31,			
	2018	2017	2018	2017
Amounts Recognized in the Consolidated Balance Sheets consist of :				
Current Liability	347	374	—	—
Noncurrent Liability	16,809	18,424	13,852	18,262
Net Liability Recognized	\$ 17,156	\$ 18,798	\$ 13,852	\$ 18,262

	(Thousands of Dollars)					
	Pension Plan			Other Benefits Plan		
	Years Ended December 31,					
	2018	2017	2016	2018	2017	2016
Components of Net Periodic Benefit Cost						
Service Cost	\$ 2,426	\$ 2,399	\$ 2,308	\$ 1,135	\$ 1,089	\$ 1,099
Interest Cost	3,061	3,143	3,046	1,898	1,964	1,952
Expected Return on Plan Assets	(4,871)	(4,489)	(4,014)	(2,550)	(2,406)	(2,213)
Amortization of Net Actuarial Loss	1,658	1,566	1,426	1,787	1,781	1,773
Amortization of Prior Service Credit	—	—	—	(1,607)	(1,728)	(1,728)
Net Periodic Benefit Cost*	\$ 2,274	\$ 2,619	\$ 2,766	\$ 663	\$ 700	\$ 883

\*Service cost is included in Operations and Maintenance expense on the consolidated statements of income; all other amounts are included in Other Income (Expense), net.

Amounts that are expected to be amortized from Regulatory Assets into Net Periodic Benefit Cost in 2019 are as follows:

	(Thousands of Dollars)	
	Pension Plan	Other Benefits Plan
Actuarial Loss	\$ 1,618	\$ 1,319

The discount rate and compensation increase rate for determining our postretirement benefit plans' benefit obligations and costs as of and for the years ended December 31, 2018, 2017 and 2016, respectively, are as follows:

	Pension Plan			Other Benefits Plan		
	2018	2017	2016	2018	2017	2016
Weighted Average Assumptions:						
Expected Return on Plan Assets	7.00%	7.50%	7.50%	7.00%	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	4.15%	3.53%	4.06%	4.15%	3.53%	4.06%
Benefit Cost	3.53%	4.06%	4.26%	3.53%	4.06%	4.26%
Compensation Increase for:						
Benefit Obligation	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Benefit Cost	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

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

The Company utilizes the Society of Actuaries' mortality table (RP 2014) (Mortality Improvement Scale MP2018 for the 2018 valuation).

For the 2018 valuation, costs and obligations for our Other Benefits Plan assumed a 8.0% annual rate of increase in the per capita cost of covered healthcare benefits in 2019 with the annual rate of increase declining 1.0% per year for 2020-2021 and 0.5% per year for 2022-2023, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2023.

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

	(Thousands of Dollars)	
	1 Percentage Point	
	Increase	Decrease
Effect on Current Year Service and Interest Costs	\$ 658	\$ (504)
Effect on Projected Benefit Obligation	\$ 7,593	\$ (6,054)

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

Year	(Thousands of Dollars)	
	Pension Plan	Other Benefits Plan
2019	\$ 2,771	\$ 1,353
2020	2,983	1,614
2021	2,976	1,800
2022	3,376	2,032
2023	3,778	2,103
2024-2028	26,037	11,817
Totals	<u>\$ 41,921</u>	<u>\$ 20,719</u>

### Benefit Plans Assets

The allocation of plan assets at December 31, 2018 and 2017 by asset category is as follows:

Asset Category	Pension Plan			Other Benefits Plan		
	2018	2017	Target	2018	2017	Target
Equity Securities	59.5%	62.8%	55%	54.7%	57.7%	43%
Debt Securities	36.5%	33.6%	38%	37.3%	32.9%	50%
Cash	1.6%	1.0%	2%	8.0%	9.4%	2%
Real Estate/Commodities	2.4%	2.6%	5%	0.0%	0.0%	5%
Total	<u>100.0%</u>	<u>100.0%</u>		<u>100.0%</u>	<u>100.0%</u>	

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

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

Equity securities include Middlesex common stock in the amounts of \$1.0 million (1.6% of total Pension Plan assets) and \$0.8 million (1.1% of total Pension Plan assets) and as of December 31, 2018 and 2017, respectively.

**Fair Value Measurements**

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

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

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

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

	<b>(Thousands of Dollars)</b>			
	<b>As of December 31, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual Funds	\$ 57,014	\$ —	\$ —	\$ 57,014
Money Market Funds	1,074	—	—	1,074
Common Equity Securities	8,683	—	—	8,683
Total Investments	<u>\$ 66,771</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 66,771</u>

	<b>(Thousands of Dollars)</b>			
	<b>As of December 31, 2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Mutual Funds	\$ 57,608	\$ —	\$ —	\$ 57,608
Money Market Funds	677	—	—	677
Common Equity Securities	10,930	—	—	10,930
Total Investments	<u>\$ 69,215</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 69,215</u>

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

	(Thousands of Dollars) As of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 18,924	\$ —	\$ —	\$ 18,924
Money Market Funds	2,769	—	—	2,769
Agency/US/State/Municipal Debt	—	12,929	—	12,929
Total Investments	<u>\$ 21,693</u>	<u>\$ 12,929</u>	<u>\$ —</u>	<u>\$ 34,622</u>

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

### Benefit Plans Contributions

For the Pension Plan, Middlesex made total cash contributions of \$3.6 million in 2018 and expects to make approximately \$3.6 million of cash contributions in 2019.

For the Other Benefits Plan, Middlesex made total cash contributions of \$1.4 million in 2018 and expects to make approximately \$1.4 million of cash contributions in 2019.

### 401(k) Plan

The Company maintains a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1%, but not more than 6%. The Company's matching contribution was \$0.6 million for each of the years ended December 31, 2018, 2017 and 2016.

For those employees hired after March 31, 2007, and still actively employed on December 31, 2018, the Company approved, and will fund, a discretionary contribution of \$0.6 million which was based on 5.0% of eligible 2018 compensation. For the years ended December 31, 2017 and 2016, the Company made discretionary contributions of \$0.5 million and \$0.4 million, respectively, for qualifying employees.

### Stock-Based Compensation

The Company has a stock compensation plan for certain management employees (the 2018 Restricted Stock Plan). Shares issued in connection with the 2018 Restricted Stock Plan are subject to forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of normal retirement, death, disability or change in control. The maximum number of shares authorized for grant under the 2018 Restricted Stock Plan is 0.3 million shares, all of which remain available for award.

The Company recognizes compensation expense at fair value for the 2018 Restricted Stock Plan awards in accordance with ASC 718, *Compensation – Stock Compensation*. Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period.

The following table presents information on the 2018 Restricted Stock Plan:

	Shares (thousands)	Unearned Compensation (thousands)	Weighted Average Grant Price
Balance, January 1, 2016	148	\$ 1,696	
Granted	24	750	\$ 30.85
Vested	(25)	—	
Forfeited	—	—	
Amortization of Compensation Expense	—	(682)	
Balance, December 31, 2016	147	\$ 1,764	
Granted	22	799	\$ 36.95
Vested	(20)	—	
Forfeited	(2)	(54)	
Amortization of Compensation Expense	—	(724)	
Balance, December 31, 2017	147	\$ 1,785	
Granted	22	827	\$ 36.53
Vested	(27)	—	
Forfeited	(2)	(18)	
Amortization of Compensation Expense	—	(956)	
Balance, December 31, 2018	140	\$ 1,638	

The fair value of vested restricted shares was \$1.3 million and \$0.8 million as of December 31, 2018 and 2017, respectively.

#### Note 8 – Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey, Delaware and Pennsylvania. This segment also includes regulated wastewater systems in New Jersey and Delaware. The Company is subject to regulations as to its rates, services and other matters by the states of New Jersey, Delaware and Pennsylvania with respect to utility service within these states. The other segment is primarily comprised of non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware.

Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

**(Thousands of Dollars)**  
**Years Ended December 31,**

<b>Operations by Segments:</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>			
Regulated	\$ 121,901	\$ 115,454	\$ 118,017
Non – Regulated	16,778	15,912	15,388
Inter-segment Elimination	(602)	(591)	(499)
<b>Consolidated Revenues</b>	<b>\$ 138,077</b>	<b>\$ 130,775</b>	<b>\$ 132,906</b>
<b>Operating Income:</b>			
Regulated	\$ 34,127	\$ 35,130	\$ 37,871
Non – Regulated	3,015	2,668	2,431
<b>Consolidated Operating Income</b>	<b>\$ 37,142</b>	<b>\$ 37,798</b>	<b>\$ 40,302</b>
<b>Depreciation:</b>			
Regulated	\$ 14,846	\$ 13,732	\$ 12,606
Non – Regulated	191	190	190
<b>Consolidated Depreciation</b>	<b>\$ 15,037</b>	<b>\$ 13,922</b>	<b>\$ 12,796</b>
<b>Other Income (Expense), Net:</b>			
Regulated	\$ 3,284	\$ 2,020	\$ 1,109
Non – Regulated	119	64	(1,308)
Inter-segment Elimination	(411)	(467)	(333)
<b>Consolidated Other Income (Expense), Net</b>	<b>\$ 2,992</b>	<b>\$ 1,617</b>	<b>\$ (532)</b>
<b>Interest Expense:</b>			
Regulated	\$ 7,060	\$ 5,855	\$ 5,293
Non – Regulated	109	118	89
Inter-segment Elimination	(411)	(467)	(89)
<b>Consolidated Interest Charges</b>	<b>\$ 6,758</b>	<b>\$ 5,506</b>	<b>\$ 5,293</b>
<b>Income Taxes:</b>			
Regulated	\$ (54)	\$ 9,848	\$ 11,091
Non – Regulated	978	1,252	644
<b>Consolidated Income Taxes</b>	<b>\$ 924</b>	<b>\$ 11,100</b>	<b>\$ 11,735</b>
<b>Net Income:</b>			
Regulated	\$ 30,405	\$ 21,447	\$ 22,353
Non – Regulated	2,047	1,362	389
<b>Consolidated Net Income</b>	<b>\$ 32,452</b>	<b>\$ 22,809</b>	<b>\$ 22,742</b>
<b>Capital Expenditures:</b>			
Regulated	\$ 71,493	\$ 50,078	\$ 47,189
Non – Regulated	601	223	186
<b>Total Capital Expenditures</b>	<b>\$ 72,094</b>	<b>\$ 50,301</b>	<b>\$ 47,375</b>

**(Thousands of Dollars)**

**As of December 31, 2018      As of December 31, 2017**

<b>Assets:</b>			
Regulated	\$ 764,749	\$ 661,816	
Non – Regulated	8,994	7,093	
Inter-segment Elimination	(5,913)	(7,769)	
<b>Consolidated Assets</b>	<b>\$ 767,830</b>	<b>\$ 661,140</b>	

**Note 9 - Quarterly Data - Unaudited**

Financial information for each quarter of 2018 and 2017 is as follows:

2018	(Thousands of Dollars, Except per Share Data)					Total
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>		
Operating Revenues	\$ 31,177	\$ 34,919	\$ 38,713	\$ 33,268	\$ 138,077	
Operating Income	6,350	10,721	12,918	7,153	37,142	
Net Income	4,494	8,675	12,290	6,993	32,452	
Basic Earnings per Share	\$ 0.27	\$ 0.52	\$ 0.75	\$ 0.43	\$ 1.97	
Diluted Earnings per Share	\$ 0.27	\$ 0.52	\$ 0.74	\$ 0.43	\$ 1.96	
Common Dividend Per Share	\$ 0.2238	\$ 0.2238	\$ 0.2238	\$ 0.2400	\$ 0.9114	
High/Low Common Stock Price	\$ 41.45/\$33.96	\$ 45.24/\$34.74	\$ 49.00/\$41.77	\$ 60.31/\$43.12		

2017	(Thousands of Dollars, Except per Share Data)					Total
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>		
Operating Revenues	\$ 30,131	\$ 33,014	\$ 36,174	\$ 31,456	\$ 130,775	
Operating Income	7,575	9,358	12,601	8,264	37,798	
Net Income	4,441	5,381	7,642	5,345	22,809	
Basic Earnings per Share	\$ 0.27	\$ 0.33	\$ 0.47	\$ 0.32	\$ 1.39	
Diluted Earnings per Share	\$ 0.27	\$ 0.33	\$ 0.46	\$ 0.32	\$ 1.38	
Common Dividend Per Share	\$ 0.2113	\$ 0.2113	\$ 0.2113	\$ 0.2238	\$ 0.8577	
High/Low Common Stock Price	\$ 42.80/\$34.55	\$ 41.50/\$32.23	\$ 40.87/\$36.99	\$ 46.74/\$39.10		

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

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

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

As required by Rule 13a-15 under the Exchange Act, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer for the quarter ended December 31, 2018. Based upon that evaluation the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded:

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

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

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

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

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

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the adequacy of financial statement preparation and presentation. Middlesex's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* (2013 framework). Based on our assessment, we believe that as of December 31, 2018, the Company's internal control over financial reporting is operating as designed and is effective based on those criteria.

Middlesex's independent registered public accounting firm has audited the effectiveness of our internal control over financial reporting as of December 31, 2018 as stated in their report which is included herein.

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

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

Iselin, New Jersey  
March 8, 2019

**ITEM 9B. OTHER INFORMATION.**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

Information with respect to Directors of Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

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

**ITEM 11. EXECUTIVE COMPENSATION.**

This Information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

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

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

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

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2019 Annual Meeting of Stockholders and is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

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

Consolidated Balance Sheets at December 31, 2018 and 2017.

Consolidated Statements of Income for each of the three years in the period ended December 31, 2018.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2018.

Consolidated Statements of Capital Stock and Long-term Debt as of December 31, 2018 and 2017.

Consolidated Statements of Common Stockholders' Equity for each of the three years in the period ended December 31, 2018.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

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

3. Exhibits

See Exhibit listing immediately following the signature page.

**ITEM 16. FORM 10-K SUMMARY.**

None.

**SIGNATURES**

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

MIDDLESEX WATER COMPANY

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

Date: March 8, 2019

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

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

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

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

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

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

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

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

By: /s/ Jeffries Shein  
Jeffries Shein  
Director

## EXHIBIT INDEX

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

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

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Document Description</b>	<b>Previous Registration No.</b>	<b>Filing's Exhibit No.</b>
10.5	Copy of Supply Agreement, dated as of July 14, 1987, between the Company and the Marlboro Township Municipal Utilities Authority, as amended.	33-31476	10.13
10.6	<a href="#">Copy of Water Purchase Contract, dated as of September 25, 2003, between the Company and the New Jersey Water Supply Authority, filed as Exhibit No. 10.7 of the Company's 2003 Form 10-K.</a>		
10.7	<a href="#">Copy of Treatment and Pumping Agreement, dated October 1, 2014, between Middlesex Water Company and the Township of East Brunswick, filed as Exhibit No. 10.7 of the Company's 2016 Form 10-K.</a>		
10.8	Copy of Supply Agreement, dated June 4, 1990, between the Company and Edison Township.	33-54922	10.24
10.9	<a href="#">Copy of amended Supply Agreement between the Company and the Borough of Highland Park filed as Exhibit No. 10.1 of the Company's 2006 First Quarter Form 10-Q.</a>		
10.9(a)	<a href="#">Copy of Amendment to Supply Agreement between the Company and the Borough of Highland Park filed as Exhibit No. 10.9(a) of the Company's 2015 Form 10-K.</a>		
(t)10.10	<a href="#">Copy of Supplemental Executive Retirement Plan, filed as Exhibit 10.13 of the Company's 1999 Third Quarter Form 10-Q.</a>		
(t)10.11(a)	<a href="#">Copy of 2018 Restricted Stock Plan, filed as Appendix A to the Company's Definitive Proxy Statement, dated and filed April 12, 2018.</a>		
(t)10.11(b)	<a href="#">Registration Statement, Form S-8, under the Securities Act of 1933, filed December 18, 2018, relating to the Middlesex Water Company Outside Director Stock Compensation Stock Plan.</a>	333-156269	
(t)10.12(a)	<a href="#">Change in Control Termination Agreement between Middlesex Water Company and Dennis W. Doll, filed as Exhibit 10.13(a) of the Company's 2008 Form 10-K.</a>		
(t)10.12(b)	<a href="#">Change in Control Termination Agreement between Middlesex Water Company and A. Bruce O'Connor, filed as Exhibit 10.13(b) of the Company's 2008 Form 10-K.</a>		
(t)10.12(c)	<a href="#">Change in Control Termination Agreement between Middlesex Water Company and Richard M. Risoldi, filed as Exhibit 10.13(d) of the Company's 2008 Form 10-K.</a>		
(t)10.12(d)	<a href="#">Change in Control Termination Agreement between Middlesex Water Company and Lorrie B. Ginegaw, filed as Exhibit 10.13(e) of the Company's 2011 Form 10-K.</a>		
(t)10.12(e)	<a href="#">Change in Control Termination Agreement between Middlesex Water Company and Bernadette M. Sohler, filed as Exhibit 10.13(h) of the Company's 2008 Form 10-K.</a>		

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Document Description</b>	<b>Previous Registration No.</b>	<b>Filing's Exhibit No.</b>
(t)10.12(f)	<a href="#">Change in Control Termination Agreement between Middlesex Water Company and Jay L. Kooper, filed as Exhibit 10.12(g) of the Company's 2014 Second Quarter Form 10-Q.</a>		
10.13	Copy of Transmission Agreement, dated October 16, 1992, between the Company and the Township of East Brunswick.	33-54922	10.23
10.13(a)	<a href="#">Copy of Amendment of Transmission Agreement, dated October 1, 2014, between the Company and the Township of East Brunswick, filed as Exhibit No. 10.13(a) of the Company's 2016 Form 10-K.</a>		
10.16	<a href="#">Operation, Maintenance and Management Services Agreement dated August 20, 2018 between Utility Service Affiliates (Perth Amboy), Inc. and the City of Perth Amboy, filed as Exhibit 10.16 of the Company's 2018 Third Quarter Form 10-Q.</a>		
10.17	<a href="#">Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the State of New Jersey and Middlesex Water Company (Series Z), filed as Exhibit No. 10.25 of the Company's 1999 Form 10-K.</a>		
10.18	<a href="#">Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series AA), filed as Exhibit No. 10.26 of the Company's 1999 Form 10-K.</a>		
10.19	<a href="#">Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the State of New Jersey and Middlesex Water Company (Series BB). Filed as Exhibit No. 10.22 of the Company's 2001 Form 10-K.</a>		
10.20	<a href="#">Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series CC). Filed as Exhibit No. 10.22 of the Company's 2001 Form 10-K.</a>		
10.21	<a href="#">Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the State of New Jersey and Middlesex Water Company (Series EE), filed as Exhibit No. 10.26 of the Company's 2004 Form 10-K.</a>		

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Document Description</b>	<b>Previous Registration No.</b>	<b>Filing's Exhibit No.</b>
10.22	<a href="#">Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series FF), filed as Exhibit No. 10.27 of the Company's 2004 Form 10-K.</a>		
10.23	<a href="#">Copy of Promissory Notes and Amendment to Combination Water Utility Real Estate Mortgage and Security Agreement, by Tidewater Utilities, Inc., dated October 15, 2014, filed as Exhibit 10.23 of the Company's 2014 Form 10-K.</a>		
10.24	<a href="#">Copy of Supply Agreement, between the Company and the City of Rahway, filed as Exhibit No. 10.2 of the Company's 2006 First Quarter Form 10-Q.</a>		
10.25	<a href="#">Copy of Supplemental Indenture dated October 15, 2006 between Middlesex Water Company and U.S. Bank National Association, as Trustee and copy of Loan Agreement dated November 1, 2006 between the State of New Jersey and Middlesex Water Company (Series GG), filed as Exhibit No. 10.30 of the Company's 2006 Form 10-K.</a>		
10.26	<a href="#">Copy of Supplemental Indenture dated October 15, 2006 between Middlesex Water Company and U.S. Bank National Association, as Trustee and copy of Loan Agreement dated November 1, 2006 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series HH), filed as Exhibit No. 10.31 of the Company's 2006 Form 10-K.</a>		
10.27	<a href="#">Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2007 (Series II), filed as Exhibit No. 10.32 of the Company's 2007 Form 10-K.</a>		
10.28	<a href="#">Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection, and Middlesex Water Company dated as of November 1, 2007 (Series JJ), filed as Exhibit 10.33 of the Company's 2007 Form 10-K.</a>		
10.29	<a href="#">Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2008 (Series KK), filed as Exhibit 10.34 of the Company's 2008 Form 10-K.</a>		
10.30	<a href="#">Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection, and Middlesex Water Company dated as of November 1, 2008 (Series LL), filed as Exhibit 10.35 of the Company's 2008 Form 10-K.</a>		

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Document Description</b>	<b>Previous Registration No.</b>	<b>Filing's Exhibit No.</b>
10.31	<a href="#">Registration Statement, Form S-3, under Securities Act of 1933 filed July 31, 2015, relating to the Middlesex Water Company Investment Plan.</a>	333-205698	
*10.32	<a href="#">Amended and Restated Line of Credit Note between registrant, registrant's subsidiaries and PNC Bank, N.A.</a>		
10.33	<a href="#">Uncommitted Line of Credit Letter Agreement between registrant, registrant's subsidiaries and Bank of America, N.A, filed as Exhibit 10.33 of the Company's 2015 Third Quarter Form 10-Q.</a>		
10.33(a)	<a href="#">Amendment To and Extension of the Expiration Date of the Line of Credit included in the Amended and Restated Loan Agreement between registrant, registrant's subsidiaries and Bank of America, N.A., filed as Exhibit 10.33(a) of the Company's 2017 Third Quarter Form 10-Q.</a>		
10.33(b)	<a href="#">Amendment To and Extension of the Expiration Date of the Line of Credit included in the Amended and Restated Loan Agreement between registrant, registrant's subsidiaries and Bank of America, N.A. , filed as Exhibit 10.33(b) of the Company's 2018 Third Quarter Form 10-Q.</a>		
10.34	<a href="#">Amended Promissory Note for a committed line of credit between registrant's wholly-owned subsidiary Tidewater Utilities, Inc. and CoBank, ACB, filed as Exhibit 10.34 of the Company's 2017 First Quarter Form 10-Q.</a>		
10.35	<a href="#">Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of December 1, 2010 (Series MM), filed as Exhibit 10.41 of the Company's 2010 Form 10-K.</a>		
10.36	<a href="#">Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of December 1, 2010 (Series NN), filed as Exhibit 10.42 of the Company's 2010 Form 10-K.</a>		
10.37	<a href="#">Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of May 1, 2012 (Series OO), filed as Exhibit 10.43 of the Company's 2012 Second Quarter Form 10-Q.</a>		
10.38	<a href="#">Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2012 (Series PP), filed as Exhibit 10.44 of the Company's 2012 Second Quarter Form 10-Q.</a>		

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Document Description</b>	<b>Previous Registration No.</b>	<b>Filing's Exhibit No.</b>
10.39	<a href="#">Copy of Loan Agreement By and Between the New Jersey Economic Development Authority and Middlesex Water Company dated as of November 1, 2012 (Series QQ, RR &amp; SS), filed as Exhibit 10.41 of the Company's 2012 Form 10-K.</a>		
10.40	<a href="#">Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of May 1, 2013 (Series TT), filed as Exhibit 10.42 of the Company's 2013 Second Quarter Form 10-Q.</a>		
10.41	<a href="#">Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2013 (Series UU), filed as Exhibit 10.43 of the Company's 2013 Second Quarter Form 10-Q.</a>		
10.42	<a href="#">Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2014 (Series VV), filed as Exhibit 10.43 of the Company's 2014 Second Quarter Form 10-Q.</a>		
10.43	<a href="#">Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2014 (Series WW), filed as Exhibit 10.44 of the Company's 2014 Second Quarter Form 10-Q.</a>		
10.44	<a href="#">Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2017 (Series XX), filed as Exhibit 10.44 of the Company's 2017 Form 10-K.</a>		
10.45	<a href="#">Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2017 (Series YY), filed as Exhibit 10.45 of the Company's 2017 Form 10-K.</a>		
10.46	<a href="#">Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2018 (Series 2018A), filed as Exhibit 10.46 of the Company's 2018 Second Quarter Form 10-Q.</a>		
10.47	<a href="#">Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2018 (Series 2018B), filed as Exhibit 10.47 of the Company's 2018 Second Quarter Form 10-Q.</a>		

## EXHIBIT INDEX

<b>Exhibit No.</b>	<b>Document Description</b>	<b>Previous Registration No.</b>	<b>Filing's Exhibit No.</b>
10.48	<a href="#">Copy of Construction Loan Agreement (CFP-19-1) By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company, filed as Exhibit 10.48 of the Company's 2018 Third Quarter Form 10-Q.</a>		
10.49	<a href="#">Copy of Construction Loan Agreement (CFP-1) By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company, filed as Exhibit 10.49 of the Company's 2018 Third Quarter Form 10-Q.</a>		
*21	<a href="#">Middlesex Water Company Subsidiaries.</a>		
*23.1	<a href="#">Consent of Independent Registered Public Accounting Firm, Baker Tilly Virchow Krause, LLP.</a>		
*31	<a href="#">Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.</a>		
*31.1	<a href="#">Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.</a>		
*32	<a href="#">Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C.§1350.</a>		
*32.1	<a href="#">Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C.§1350.</a>		
101.INS	XBRL Instance Document		
101.LAB	XBRL Labels Linkbase Document		
101.PRE	XBRL Presentation Linkbase Document		
101.DEF	XBRL Definition Linkbase Document		
101.SCH	XBRL Schema Document		
101.CAL	XBRL Calculation Linkbase Document		

# Amended and Restated Committed Line Of Credit Note

(Multi-Rate Options)



\$48,000,000.00

February 19, 2019

FOR VALUE RECEIVED, MIDDLESEX WATER COMPANY, PINELANDS WASTEWATER COMPANY, PINELANDS WATER COMPANY, TIDEWATER ENVIRONMENTAL SERVICES, INC., TIDEWATER UTILITIES, INC., UTILITY SERVICE AFFILIATES (PERTH AMBOY) INC., UTILITY SERVICE AFFILIATES INC., and WHITE MARSH ENVIRONMENTAL SYSTEMS, INC. (individually and collectively, the "Borrower"), with an address at 1500 Ronson Road, Iselin, NJ 08330-3020, jointly and severally, promise to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the "Bank"), in lawful money of the United States of America in immediately available funds at its offices located at Two Tower Center Boulevard, East Brunswick, New Jersey 08816, or at such other location as the Bank may designate from time to time, the principal sum of FORTY EIGHT MILLION AND 00/100 DOLLARS (\$48,000,000.00) (the "Facility") or such lesser amount as may be advanced to or for the benefit of the Borrower hereunder, together with interest accruing on the outstanding principal balance from the date hereof, all as provided below.

1. **Advances.** The Borrower may request advances, repay and request additional advances hereunder until the Expiration Date, subject to the terms and conditions of this Note and the Loan Documents (as hereinafter defined). The "Expiration Date" shall mean **January 31, 2021**, or such later date as may be designated by the Bank by written notice from the Bank to the Borrower. The Borrower acknowledges and agrees that in no event will the Bank be under any obligation to extend or renew the Facility or this Note beyond the Expiration Date. The Borrower may request advances hereunder upon giving oral or written notice to the Bank by 11:00 a.m. (Eastern, Standard time) East Brunswick, New Jersey (a) on the day of the proposed advance, in the case of advances to bear interest under the Base Rate Option (as hereinafter defined) and (b) three (3) Business Days prior to the proposed advance, in the case of advances to bear interest under the LIBOR Option (as hereinafter defined), followed promptly thereafter by the Borrower's written confirmation to the Bank of any oral notice. The aggregate unpaid principal amount of advances under this Note shall not exceed the face amount of this Note.

2. **Rate of Interest.** Each advance outstanding under this Note will bear interest at a rate or rates per annum as may be selected by the Borrower from the interest rate options set forth below (each, an "Option"):

(i) **Base Rate Option.** A rate of interest per annum which is at all times equal to the Base Rate. If and when the Base Rate (or any component thereof) changes, the rate of interest with respect to any advance to which the Base Rate Option applies will change automatically without notice to the Borrower, effective on the date of any such change. There are no required minimum interest periods for advances bearing interest under the Base Rate Option.

(ii) **LIBOR Option.** A rate per annum equal to (A) LIBOR plus (B) ninety (90) basis points (0.90%), for the applicable LIBOR Interest Period.

For purposes hereof, the following terms shall have the following meanings:

"Base Rate" shall mean the highest of (A) the Prime Rate, and (B) the sum of the Overnight Bank Funding Rate plus fifty (50) basis points (0.50%), and (C) the sum of the Daily LIBOR Rate plus one hundred (100) basis points (1.0%), so long as a Daily LIBOR Rate is offered, ascertainable and not unlawful.

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“**Business Day**” shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in East Brunswick, New Jersey.

“**Daily LIBOR Rate**” shall mean, for any day, the rate per annum determined by the Bank by dividing (x) the Published Rate by (y) a number equal to 1.00 minus the LIBOR Reserve Percentage; provided, however, if the Daily LIBOR Rate determined as provided above would be less than zero, then such rate shall be deemed to be zero.

“**LIBOR**” shall mean, with respect to any advance to which the LIBOR Option applies for the applicable LIBOR Interest Period, the interest rate per annum determined by the Bank by dividing (the resulting quotient rounded upwards, at the Bank’s discretion, to the nearest 1/100th of 1%) (i) the rate of interest determined by the Bank in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the eurodollar rate two (2) Business Days prior to the first day of such LIBOR Interest Period for an amount comparable to such advance and having a borrowing date and a maturity comparable to such LIBOR Interest Period by (ii) a number equal to 1.00 minus the LIBOR Reserve Percentage; provided, however, if LIBOR, determined as provided above, would be less than zero, then LIBOR shall be deemed to be zero.

“**LIBOR Interest Period**” shall mean, as to any advance to which the LIBOR Option applies, the period of one (1), two (2), or three (3) months as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, commencing on the date of disbursement of an advance (or the date of conversion of an advance to the LIBOR Option, as the case may be) and each successive period selected by the Borrower thereafter; provided that, (i) if a LIBOR Interest Period would end on a day which is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the LIBOR Interest Period shall end on the next preceding Business Day, (ii) the Borrower may not select a LIBOR Interest Period that would end on a day after the Expiration Date, and (iii) any LIBOR Interest Period that begins on the last Business Day of a calendar month (or a day for which there is no numerically corresponding day in the last calendar month of such LIBOR Interest Period) shall end on the last Business Day of the last calendar month of such LIBOR Interest Period.

“**LIBOR Reserve Percentage**” shall mean the maximum effective percentage in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including, without limitation, supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as “Eurocurrency liabilities”).

“**Overnight Bank Funding Rate**” shall mean, for any day, the rate comprised of both overnight federal funds and overnight Eurocurrency borrowings by U.S.-managed banking offices of depository institutions, as such composite rate shall be determined by the Federal Reserve Bank of New York (“**NYFRB**”), as set forth on its public website from time to time, and as published on the next succeeding Business Day as the overnight bank funding rate by the NYFRB (or by such other recognized electronic source (such as Bloomberg) selected by the Bank for the purpose of displaying such rate); provided, that if such day is not a Business Day, the Overnight Bank Funding Rate for such day shall be such rate on the immediately preceding Business Day; provided, further, that if such rate shall at any time, for any reason, no longer exist, a comparable replacement rate determined by the Bank at such time (which determination shall be conclusive absent manifest error). If the Overnight Bank Funding Rate determined as above would be less than zero, then such rate shall be deemed to be zero. The rate of interest charged shall be adjusted as of each Business Day based on changes in the Overnight Bank Funding Rate without notice to the Borrower.

“**Prime Rate**” shall mean the rate publicly announced by the Bank from time to time as its prime rate. The Prime Rate is determined from time to time by the Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily

reflect the lowest rate of interest actually charged by the Bank to any particular class or category of customers.

“**Published Rate**” shall mean the rate of interest published each Business Day in the Wall Street Journal “Money Rates” listing under the caption “London Interbank Offered Rates” for a one month period (or, if no such rate is published therein for any reason, then the Published Rate shall be the eurodollar rate for a one month period as published in another publication selected by the Bank).

LIBOR and the Daily LIBOR Rate shall be adjusted with respect to any advance to which the LIBOR Option or Base Rate Option applies, as applicable, on and as of the effective date of any change in the LIBOR Reserve Percentage. The Bank shall give prompt notice to the Borrower of LIBOR or the Daily LIBOR Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

If the Bank determines (which determination shall be final and conclusive) that, by reason of circumstances affecting the eurodollar market generally, deposits in dollars (in the applicable amounts) are not being offered to banks in the eurodollar market for the selected term, or adequate means do not exist for ascertaining LIBOR, then the Bank shall give notice thereof to the Borrower. Thereafter, until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (a) the availability of the LIBOR Option shall be suspended, and (b) the interest rate for all advances then bearing interest under the LIBOR Option shall be converted at the expiration of the then current LIBOR Interest Period(s) to the Base Rate Option.

In addition, if, after the date of this Note, the Bank shall determine (which determination shall be final and conclusive) that any enactment, promulgation or adoption of or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by a governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for the Bank to make or maintain or fund loans based on LIBOR, the Bank shall notify the Borrower. Upon receipt of such notice, until the Bank notifies the Borrower that the circumstances giving rise to such determination no longer apply, (a) the availability of the LIBOR Option shall be suspended, and (b) the interest rate on all advances then bearing interest under the LIBOR Option shall be converted to the Base Rate Option either (i) on the last day of the then current LIBOR Interest Period(s) if the Bank may lawfully continue to maintain advances based on LIBOR to such day, or (ii) immediately if the Bank may not lawfully continue to maintain advances based on LIBOR.

The foregoing notwithstanding, it is understood that the Borrower may select different Options to apply simultaneously to different portions of the advances and may select up to three (3) different interest periods to apply simultaneously to different portions of the advances bearing interest under the LIBOR Option. Interest hereunder will be calculated based on the actual number of days that principal is outstanding over a year of 360 days. In no event will the rate of interest hereunder exceed the maximum rate allowed by law.

**3. Interest Rate Election.** Subject to the terms and conditions of this Note, at the end of each interest period applicable to any advance, the Borrower may renew the Option applicable to such advance or convert such advance to a different Option; provided that, during any period in which any Event of Default (as hereinafter defined) has occurred and is continuing, any advances bearing interest under the LIBOR Option shall, at the Bank’s sole discretion, be converted at the end of the applicable LIBOR Interest Period to the Base Rate Option and the LIBOR Option will not be available to Borrower with respect to any new advances (or with respect to the conversion or renewal of any existing advances) until such Event of Default has been cured by the Borrower or waived by the Bank. The Borrower shall notify the Bank of each election of an Option, each conversion from one Option to another, the amount of the advances then outstanding to be allocated to each Option and where relevant the interest periods therefor. In the case of converting to the LIBOR Option, such notice shall be given at least three (3) Business Days prior to the commencement of any LIBOR Interest Period. If no interest period is specified in any such notice for which the resulting advance is to bear interest under the LIBOR Option, the Borrower shall be deemed to have selected a LIBOR Interest Period of one month’s duration. If no notice of election, conversion or renewal is timely received by the Bank with respect to any advance, the Borrower shall be

deemed to have elected the Base Rate Option. Any such election shall be promptly confirmed in writing by such method as the Bank may require.

4. **Advance Procedures.** If permitted by the Bank, a request for advance may be made by telephone or electronic mail, with such confirmation or verification (if any) as the Bank may require in its discretion from time to time. A request for advance by any Borrower shall be binding upon Borrower, jointly and severally. The Borrower authorizes the Bank to accept telephonic and electronic requests for advances, and the Bank shall be entitled to rely upon the authority of any person providing such instructions. The Borrower hereby indemnifies and holds the Bank harmless from and against any and all damages, losses, liabilities, costs and expenses (including reasonable attorneys' fees and expenses) which may arise or be created by the acceptance of such telephonic and electronic requests or by the making of such advances. The Bank will enter on its books and records, which entry when made will be presumed correct, the date and amount of each advance, as well as the date and amount of each payment made by the Borrower.

5. **Payment Terms.** The Borrower shall pay accrued interest on the unpaid principal balance of this Note in arrears: (a) for the portion of advances bearing interest under the Base Rate Option, on the first day of each month during the term hereof, (b) for the portion of advances bearing interest under the LIBOR Option, on the last day of the respective LIBOR Interest Period for such advance, (c) if any LIBOR Interest Period is longer than three (3) months, then also on the three (3) month anniversary of such interest period and every three (3) months thereafter, and (d) for all advances, at maturity, whether by acceleration of this Note or otherwise, and after maturity, on demand until paid in full. All outstanding principal and accrued interest hereunder shall be due and payable in full on the Expiration Date.

If any payment under this Note shall become due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest in connection with such payment. The Borrower hereby authorizes the Bank to charge the Borrower's deposit account at the Bank for any payment when due hereunder. Payments received will be applied to charges, fees and expenses (including attorneys' fees), accrued interest and principal in any order the Bank may choose, in its sole discretion.

6. **Late Payments; Default Rate.** If the Borrower fails to make any payment of principal, interest or other amount coming due pursuant to the provisions of this Note within fifteen (15) calendar days of the date due and payable, the Borrower also shall pay to the Bank a late charge equal to the lesser of five percent (5%) of the amount of such payment or \$100.00 (the "**Late Charge**"). Such fifteen (15) day period shall not be construed in any way to extend the due date of any such payment. Upon maturity, whether by acceleration, demand or otherwise, and at the Bank's option upon the occurrence of any Event of Default (as hereinafter defined) and during the continuance thereof, each advance outstanding under this Note shall bear interest at a rate per annum (based on the actual number of days that principal is outstanding over a year of 360 days) which shall be three percentage points (3%) in excess of the interest rate in effect from time to time under this Note but not more than the maximum rate allowed by law (the "**Default Rate**"). The Default Rate shall continue to apply whether or not judgment shall be entered on this Note. Both the Late Charge and the Default Rate are imposed as liquidated damages for the purpose of defraying the Bank's expenses incident to the handling of delinquent payments, but are in addition to, and not in lieu of, the Bank's exercise of any rights and remedies hereunder, under the other Loan Documents or under applicable law, and any fees and expenses of any agents or attorneys which the Bank may employ. In addition, the Default Rate reflects the increased credit risk to the Bank of carrying a loan that is in default. The Borrower agrees that the Late Charge and Default Rate are reasonable forecasts of just compensation for anticipated and actual harm incurred by the Bank, and that the actual harm incurred by the Bank cannot be estimated with certainty and without difficulty.

7. **Prepayment.** The Borrower shall have the right to prepay any advance hereunder at any time and from time to time, in whole or in part; subject, however, to payment of any break funding indemnification amounts owing pursuant to paragraph 9 below.

**8. Increased Costs; Yield Protection.** On written demand, together with written evidence of the justification therefor, the Borrower agrees to pay the Bank all direct costs incurred, any losses suffered or payments made by the Bank as a result of any Change in Law (hereinafter defined), imposing any reserve, deposit, allocation of capital or similar requirement (including without limitation, Regulation D of the Board of Governors of the Federal Reserve System) on the Bank, its holding company or any of their respective assets relative to the Facility. “**Change in Law**” means the occurrence, after the date of this Note, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any governmental authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any governmental authority; provided that notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

**9. Break Funding Indemnification.** The Borrower agrees to indemnify the Bank against any liabilities, losses or expenses (including, without limitation, loss of margin, any loss or expense sustained or incurred in liquidating or employing deposits from third parties, and any loss or expense incurred in connection with funds acquired to effect, fund or maintain any advance (or any part thereof) bearing interest under the LIBOR Option) which the Bank sustains or incurs as a consequence of either (i) the Borrower’s failure to make a payment on the due date thereof, (ii) the Borrower’s revocation (expressly, by later inconsistent notices or otherwise) in whole or in part of any notice given to Bank to request, convert, renew or prepay any advance bearing interest under the LIBOR Option, or (iii) the Borrower’s payment or prepayment (whether voluntary, after acceleration of the maturity of this Note or otherwise) or conversion of any advance bearing interest under the LIBOR Option on a day other than the last day of the applicable LIBOR Interest Period. A notice as to any amounts payable pursuant to this paragraph given to the Borrower by the Bank shall, in the absence of manifest error, be conclusive and shall be payable upon demand. The Borrower’s indemnification obligations hereunder shall survive the payment in full of the advances and all other amounts payable hereunder.

**10. Other Loan Documents.** This Note is issued in connection with an Amended and Restated Loan Agreement between the Borrower and the Bank, dated April 29, 2015, and the other agreements and documents executed and/or delivered in connection therewith or referred to therein, the terms of which are incorporated herein by reference (as amended, modified or renewed from time to time, collectively the “**Loan Documents**”), and is secured by the property (if any) described in the Loan Documents and by such other collateral as previously may have been or may in the future be granted to the Bank to secure this Note.

**11. Events of Default.** The occurrence of any of the following events will be deemed to be an “**Event of Default**” under this Note: (i) the nonpayment of any principal, interest or other indebtedness under this Note when due; (ii) the occurrence of any event of default or any default and the lapse of any notice or cure period, or any Obligor’s failure to observe or perform any covenant or other agreement, under or contained in any Loan Document or any other document now or in the future evidencing or securing any debt, liability or obligation of any Obligor to the Bank; (iii) the filing by or against any Obligor of any proceeding in bankruptcy, receivership, insolvency, reorganization, liquidation, conservatorship or similar proceeding (and, in the case of any such proceeding instituted against any Obligor, such proceeding is not dismissed or stayed within 30 days of the commencement thereof, provided that the Bank shall not be obligated to advance additional funds hereunder during such period); (iv) any assignment by any Obligor for the benefit of creditors, or any levy, garnishment, attachment or similar proceeding is instituted against any property of any Obligor held by or deposited with the Bank; (v) a default with respect to any other indebtedness of any Obligor for borrowed money, if the effect of such default is to cause or permit the acceleration of such debt; (vi) the commencement of any foreclosure or forfeiture proceeding, execution or attachment against any collateral securing the obligations of any Obligor to the Bank; (vii) the entry of a final judgment against any Obligor and the failure of such Obligor to discharge the judgment within ten (10) days of the entry thereof; (viii) any change in any Obligor’s business, assets, operations, financial condition or results of operations that has or could reasonably be expected to have any material adverse

effect on any Obligor; (ix) any Obligor ceases doing business as a going concern; (x) any representation or warranty made by any Obligor to the Bank in any Loan Document or any other documents now or in the future evidencing or securing the obligations of any Obligor to the Bank, is false, erroneous or misleading in any material respect; (xi) if this Note or any guarantee executed by any Obligor is secured, the failure of any Obligor to provide the Bank with additional collateral if in the Bank's opinion at any time or times, the market value of any of the collateral securing this Note or any guarantee has depreciated below that required pursuant to the Loan Documents or, if no specific value is so required, then in an amount deemed material by the Bank; (xii) the revocation or attempted revocation, in whole or in part, of any guarantee by any Obligor; or (xiii) the death, incarceration, indictment or legal incompetency of any individual Obligor or, if any Obligor is a partnership or limited liability company, the death, incarceration, indictment or legal incompetency of any individual general partner or member. As used herein, the term "**Obligor**" means any Borrower and any guarantor of, or any pledgor, mortgagor or other person or entity providing collateral support for, the Borrower's obligations to the Bank existing on the date of this Note or arising in the future.

Upon the occurrence of an Event of Default: (a) the Bank shall be under no further obligation to make advances hereunder; (b) if an Event of Default specified in clause (iii) or (iv) above shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder shall be immediately due and payable without demand or notice of any kind; (c) if any other Event of Default shall occur, the outstanding principal balance and accrued interest hereunder together with any additional amounts payable hereunder, at the Bank's option and without demand or notice of any kind, may be accelerated and become immediately due and payable; (d) at the Bank's option, this Note will bear interest at the Default Rate from the date of the occurrence of the Event of Default; and (e) the Bank may exercise from time to time any of the rights and remedies available under the Loan Documents or under applicable law.

**12. Right of Setoff.** In addition to all liens upon and rights of setoff against the Borrower's money, securities or other property given to the Bank by law, the Bank shall have, with respect to the Borrower's obligations to the Bank under this Note and to the extent permitted by law, a contractual possessory security interest in and a contractual right of setoff against, and the Borrower hereby grants the Bank a security interest in, and hereby assigns, conveys, delivers, pledges and transfers to the Bank, all of the Borrower's right, title and interest in and to, all of the Borrower's deposits, moneys, securities and other property now or hereafter in the possession of or on deposit with, or in transit to, the Bank or any other direct or indirect subsidiary of The PNC Financial Services Group, Inc., whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding, however, all IRA, Keogh, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to the Borrower. Every such right of setoff shall be deemed to have been exercised immediately upon the occurrence of an Event of Default hereunder without any action of the Bank, although the Bank may enter such setoff on its books and records at a later time.

**13. Anti-Money Laundering/International Trade Law Compliance.** The Borrower represents and warrants to the Bank, as of the date of this Note, the date of each advance of proceeds under the Facility, the date of any renewal, extension or modification of the Facility, and at all times until the Facility has been terminated and all amounts thereunder have been indefeasibly paid in full, that: (a) no Covered Entity (i) is a Sanctioned Person; (ii) has any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person; or (iii) does business in or with, or derives any of its operating income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (b) the proceeds of the Facility will not be used to fund any operations in, finance any investments or activities in, or, make any payments to, a Sanctioned Country or Sanctioned Person in violation of any law, regulation, order or directive enforced by any Compliance Authority; (c) the funds used to repay the Facility are not derived from any unlawful activity; and (d) each Covered Entity is in compliance with, and no Covered Entity engages in any dealings or transactions prohibited by, any laws of the United States, including but not limited to any Anti-Terrorism Laws. Borrower covenants and agrees that it shall immediately notify the Bank in writing upon the occurrence of a Reportable Compliance Event.

As used herein: “**Anti-Terrorism Laws**” means any laws relating to terrorism, trade sanctions programs and embargoes, import/export licensing, money laundering, or bribery, all as amended, supplemented or replaced from time to time; “**Compliance Authority**” means each and all of the (a) U.S. Treasury Department/Office of Foreign Assets Control, (b) U.S. Treasury Department/Financial Crimes Enforcement Network, (c) U.S. State Department/Directorate of Defense Trade Controls, (d) U.S. Commerce Department/Bureau of Industry and Security, (e) U.S. Internal Revenue Service, (f) U.S. Justice Department, and (g) U.S. Securities and Exchange Commission; “**Covered Entity**” means the Borrower, its affiliates and subsidiaries, all guarantors, pledgors of collateral, all owners of the foregoing, and all brokers or other agents of the Borrower acting in any capacity in connection with the Facility; “**Reportable Compliance Event**” means that any Covered Entity becomes a Sanctioned Person, or is indicted, arraigned, investigated or custodially detained, or receives an inquiry from regulatory or law enforcement officials, in connection with any Anti-Terrorism Law or any predicate crime to any Anti-Terrorism Law, or self-discovers facts or circumstances implicating any aspect of its operations with the actual or possible violation of any Anti-Terrorism Law; “**Sanctioned Country**” means a country subject to a sanctions program maintained by any Compliance Authority; and “**Sanctioned Person**” means any individual person, group, regime, entity or thing listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred person or entity, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejection of transactions), under any order or directive of any Compliance Authority or otherwise subject to, or specially designated under, any sanctions program maintained by any Compliance Authority.

**14. Indemnity.** The Borrower agrees to indemnify each of the Bank, each legal entity, if any, who controls, is controlled by or is under common control with the Bank, and each of their respective directors, officers and employees (the “**Indemnified Parties**”), and to defend and hold each Indemnified Party harmless from and against any and all claims, damages, losses, liabilities and expenses (including all fees and charges of internal or external counsel with whom any Indemnified Party may consult and all expenses of litigation and preparation therefor) which any Indemnified Party may incur or which may be asserted against any Indemnified Party by any person, entity or governmental authority (including any person or entity claiming derivatively on behalf of the Borrower), in connection with or arising out of or relating to the matters referred to in this Note or in the other Loan Documents or the use of any advance hereunder, whether (a) arising from or incurred in connection with any breach of a representation, warranty or covenant by the Borrower, or (b) arising out of or resulting from any suit, action, claim, proceeding or governmental investigation, pending or threatened, whether based on statute, regulation or order, or tort, or contract or otherwise, before any court or governmental authority; provided, however, that the foregoing indemnity agreement shall not apply to any claims, damages, losses, liabilities and expenses solely attributable to an Indemnified Party's gross negligence or willful misconduct. The indemnity agreement contained in this Section shall survive the termination of this Note, payment of any advance hereunder and the assignment of any rights hereunder. The Borrower may participate at its expense in the defense of any such action or claim.

**15. Miscellaneous.** All notices, demands, requests, consents, approvals and other communications required or permitted hereunder (“**Notices**”) must be in writing (except as may be agreed otherwise above with respect to borrowing requests or as otherwise provided in this Note) and will be effective upon receipt. Notices may be given in any manner to which the parties may agree. Without limiting the foregoing, first-class mail, postage prepaid, facsimile transmission and commercial courier service are hereby agreed to as acceptable methods for giving Notices. In addition, the parties agree that Notices may be sent electronically to any electronic address provided by a party from time to time. Notices may be sent to a party's address as set forth above or to such other address as any party may give to the other for such purpose in accordance with this paragraph. No delay or omission on the Bank's part to exercise any right or power arising hereunder will impair any such right or power or be considered a waiver of any such right or power, nor will the Bank's action or inaction impair any such right or power. The Bank's rights and remedies hereunder are cumulative and not exclusive of any other rights or remedies which the Bank may have under other agreements, at law or in equity. No modification, amendment or waiver of, or consent to any departure by the Borrower from, any provision of this Note will be effective unless made in a writing signed by the Bank, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Notwithstanding the foregoing, the Bank may modify this Note for the purposes of completing missing content or correcting erroneous content, without the need for a written

amendment, provided that the Bank shall send a copy of any such modification to the Borrower (which notice may be given by electronic mail). The Borrower agrees to pay on demand, to the extent permitted by law, all costs and expenses incurred by the Bank in the enforcement of its rights in this Note and in any security therefor, including without limitation reasonable fees and expenses of the Bank's counsel. If any provision of this Note is found to be invalid, illegal or unenforceable in any respect by a court, all the other provisions of this Note will remain in full force and effect. The Borrower and all other makers and indorsers of this Note hereby forever waive presentment, protest, notice of dishonor and notice of non-payment. The Borrower also waives all defenses based on suretyship or impairment of collateral. If this Note is executed by more than one Borrower, the obligations of such persons or entities hereunder will be joint and several. This Note shall bind the Borrower and its heirs, executors, administrators, successors and assigns, and the benefits hereof shall inure to the benefit of the Bank and its successors and assigns; provided, however, that the Borrower may not assign this Note in whole or in part without the Bank's written consent and the Bank at any time may assign this Note in whole or in part.

This Note has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank's office indicated above is located. **THIS NOTE WILL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE BANK AND THE BORROWER DETERMINED IN ACCORDANCE WITH THE LAWS OF THE STATE WHERE THE BANK'S OFFICE INDICATED ABOVE IS LOCATED, EXCLUDING ITS CONFLICT OF LAWS RULES, INCLUDING WITHOUT LIMITATION THE ELECTRONIC TRANSACTIONS ACT (OR EQUIVALENT) IN EFFECT IN THE STATE WHERE THE BANK'S OFFICE INDICATED ABOVE IS LOCATED (OR, TO THE EXTENT CONTROLLING, THE LAWS OF THE UNITED STATES OF AMERICA, INCLUDING WITHOUT LIMITATION THE ELECTRONIC SIGNATURES IN GLOBAL AND NATIONAL COMMERCE ACT).** The Borrower hereby irrevocably consents to the exclusive jurisdiction of any state or federal court in the county or judicial district where the Bank's office indicated above is located; provided that nothing contained in this Note will prevent the Bank from bringing any action, enforcing any award or judgment or exercising any rights against the Borrower individually, against any security or against any property of the Borrower within any other county, state or other foreign or domestic jurisdiction. The Borrower acknowledges and agrees that the venue provided above is the most convenient forum for both the Bank and the Borrower. The Borrower waives any objection to venue and any objection based on a more convenient forum in any action instituted under this Note.

**16. Amendment and Restatement.** This Note amends and restates, and is in substitution for, that certain Amended and Restated Committed Line of Credit Note in the original principal amount of \$40,000,000.00 payable to the order of the Bank and dated September 26, 2017 (the "**Existing Note**"). However, without duplication, this Note shall in no way extinguish, cancel or satisfy Borrower's unconditional obligation to repay all indebtedness evidenced by the Existing Note or constitute a novation of the Existing Note. Nothing herein is intended to extinguish, cancel or impair the lien priority or effect of any security agreement, pledge agreement or mortgage with respect to any Obligor's obligations hereunder and under any other document relating hereto.

**17. Commercial Purpose.** The Borrower represents that the indebtedness evidenced by this Note is being incurred by the Borrower solely for the purpose of acquiring or carrying on a business, professional or commercial activity, and not for personal, family or household purposes.

**18. USA PATRIOT Act Notice.** To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each Borrower that opens an account. What this means: when the Borrower opens an account, the Bank will ask for the business name, business address, taxpayer identifying number and other information that will allow the Bank to identify the Borrower, such as organizational documents. For some businesses and organizations, the Bank may also need to ask for identifying information and documentation relating to certain individuals associated with the business or organization.

**19. Authorization to Obtain Credit Reports.** By signing below, each Borrower who is an individual provides written authorization to the Bank or its designee (and any assignee or potential assignee hereof) to obtain the Borrower's personal credit profile from one or more national credit bureaus. Such authorization shall extend to obtaining a credit profile in considering this Note and subsequently for the purposes of update, renewal or extension of such credit or additional credit and for reviewing or collecting the resulting account.

20. **Electronic Signatures and Records.** Notwithstanding any other provision herein, the Borrower agrees that this Note, the Loan Documents, any amendments thereto, and any other information, notice, signature card, agreement or authorization related thereto (each, a “**Communication**”) may, at the Bank’s option, be in the form of an electronic record. Any Communication may, at the Bank’s option, be signed or executed using electronic signatures. For the avoidance of doubt, the authorization under this paragraph may include, without limitation, use or acceptance by the Bank of a manually signed paper Communication which has been converted into electronic form (such as scanned into PDF format) for transmission, delivery and/or retention.

21. **WAIVER OF JURY TRIAL.** THE BORROWER IRREVOCABLY WAIVES ANY AND ALL RIGHTS THE BORROWER MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM OF ANY NATURE RELATING TO THIS NOTE, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS NOTE OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. THE BORROWER ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

**The Borrower acknowledges that it has read and understands all the provisions of this Note, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.**

WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

WITNESS / ATTEST:

/s/ Jay Kooper

Print Name: Jay Kooper  
Title: Vice President, General Counsel & Secretary  
(Include title only if an officer of entity signing to the right)

**MIDDLESEX WATER COMPANY**

By: /s/ A. Bruce O’Connor

A. Bruce O’Connor  
Senior Vice President & Treasurer

(SEAL)

WITNESS / ATTEST:

/s/ Jay Kooper

Print Name: Jay Kooper  
Title: General Counsel & Secretary  
(Include title only if an officer of entity signing to the right)

**PINELANDS WASTEWATER COMPANY**

By: /s/ A. Bruce O’Connor

A. Bruce O’Connor  
Vice President & Treasurer

(SEAL)

WITNESS / ATTEST:

/s/ Jay Kooper

Print Name: Jay Kooper  
Title: General Counsel & Secretary  
(Include title only if an officer of entity signing to the right)

**PINELANDS WATER COMPANY**

By: /s/ A. Bruce O’Connor

A. Bruce O’Connor  
Vice President & Treasurer

(SEAL)

WITNESS / ATTEST:

/s/ Jay Kooper

Print Name: Jay Kooper  
Title: General Counsel & Secretary  
(Include title only if an officer of entity signing to the right)

**TIDEWATER UTILITIES, INC.**

By: /s/ A. Bruce O’Connor

A. Bruce O’Connor  
President & Treasurer

(SEAL)

[SIGNATURES CONTINUE ON NEXT PAGE]

WITNESS / ATTEST:

/s/ Jay Kooper

Print Name: Jay Kooper  
Title: General Counsel & Secretary  
(Include title only if an officer of entity signing to the right)

**UTILITY SERVICE AFFILIATES (PERTH AMBOY) INC.**

By: /s/ A. Bruce O'Connor

A. Bruce O'Connor  
Vice President & Treasurer

(SEAL)

WITNESS / ATTEST:

/s/ Jay Kooper

Print Name: Jay Kooper  
Title: General Counsel & Secretary  
(Include title only if an officer of entity signing to the right)

**UTILITY SERVICE AFFILIATES INC.**

By: /s/ A. Bruce O'Connor

A. Bruce O'Connor  
Treasurer

(SEAL)

WITNESS / ATTEST:

/s/ Jay Kooper

Print Name: Jay Kooper  
Title: General Counsel & Secretary  
(Include title only if an officer of entity signing to the right)

**TIDEWATER ENVIRONMENTAL SERVICES, INC.**

By: /s/ A. Bruce O'Connor

A. Bruce O'Connor  
President & Treasurer

(SEAL)

WITNESS / ATTEST:

/s/ Jay Kooper

Print Name: Jay Kooper  
Title: General Counsel & Secretary  
(Include title only if an officer of entity signing to the right)

**WHITE MARSH ENVIRONMENTAL SYSTEMS, INC.**

By: /s/ A. Bruce O'Connor

A. Bruce O'Connor  
President & Treasurer

(SEAL)

## Middlesex Water Company

## Subsidiaries

	Jurisdiction of Organization
Tidewater Utilities, Inc.	Delaware
Tidewater Environmental Services, Inc.	Delaware
Pinelands Water Company	New Jersey
Pinelands Wastewater Company	New Jersey
Utility Service Affiliates (Perth Amboy) Inc.	New Jersey
Utility Service Affiliates, Inc.	New Jersey
Twin Lakes Utilities, Inc.	Pennsylvania

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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-205698 and 333-166425) and Form S-8 (File No. 333-156269) of Middlesex Water Company of our report dated March 8, 2019, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ Baker Tilly Virchow Krause, LLP

Wyomissing, Pennsylvania  
March 8, 2019

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

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

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Date: March 8, 2019

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

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

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Date: March 8, 2019

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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: March 8, 2019

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: March 8, 2019

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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