

TIDEWATER
UTILITIES, INC.

A Middlesex Water Company Affiliate

February 20, 2018

Via DelaFile

Ms. Donna L. Nickerson
Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

Re: In the Matter of the Application of Tidewater Utilities, Inc. for
Approval Pursuant to 26 Del. C. § 215 to enter into a Long-Term
Debt Obligation – PSC Docket No. 18-

Dear Ms. Nickerson:

Tidewater Utilities, Inc. has submitted an application for approval of the issuance of long-term debt pursuant to 26 Del.C. § 215 through the DelaFile electronic system. A Notice of Intent to File was previously submitted pursuant to the minimum filing requirements of the Public Service Commission of the State of Delaware. An electronic copy has been submitted by e-mail to Delafileadmin@state.de.us. A payment in the amount of \$250 to satisfy the required filing fee was also submitted through the DelaFile system.

Please have this docketed as appropriate pursuant to the Rules.

If you have any question regarding this application, please contact me at (732) 638-7502.

Sincerely,



A. Bruce O'Connor
Treasurer

Enclosures

cc: Andrew Slater, Delaware Public Advocate (Electronic Delivery)
Todd A. Coomes, Esq. (Electronic Delivery)
Sara Toner, Esq. (Electronic Delivery)
Jay L. Kooper, Esq. (Electronic Delivery)

BEFORE THE PUBLIC SERVICE COMMISSION
OF
THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION :
TIDEWATER UTILITIES, INC. :
FOR APPROVAL PURSUANT TO : PSC DOCKET NO. 18-xxxx
26 Del. C. § 215 OF THE ISSUANCE OF :
A LONG-TERM DEBT OBLIGATION :
(FILED February 20, 2018) :

**TIDEWATER UTILITIES, INC. APPLICATION FOR APPROVAL
OF THE ISSUANCE OF A LONG-TERM DEBT OBLIGATION**

Pursuant to Section 215(a) (2) of Title 26 of the Delaware Code, Tidewater Utilities, Inc., a Delaware corporation (“Tidewater”), respectfully requests that the Public Service Commission of the State of Delaware (the “Commission”) approve the issuance of a long-term debt obligation in the principal amount of up to \$933,300 with a fixed interest rate from the Delaware Drinking Water State Revolving Fund (the "SRF Loan").

APPLICANT’S NAME AND ADDRESS

1. The name and address of Applicant is:

A. Bruce O’Connor, Treasurer
Tidewater Utilities, Inc.
1100 South Little Creek Road
Dover, DE 19901
Telephone: (732) 638-7502
Facsimile: (732) 638-7515
E-Mail: aboconnor@middlesexwater.com

Mailing Address:

A. Bruce O'Connor, Treasurer
Tidewater Utilities, Inc
C/O 1500 Ronson Road
P.O. Box 1500
Iselin, New Jersey 08830

2. Tidewater, a Delaware corporation, has provided water service to the public since 1964. Tidewater is presently providing public water service to approximately 45,000 customers in New Castle, Kent and Sussex Counties.

3. Tidewater seeks the Commission's approval of the above-referenced request in conjunction with its efforts in collaboration with state officials to replace the outdated and stressed existing water system located at the Holiday Pines subdivision located in Millsboro, Delaware. The existing water system is currently owned by E. A. Timmons Mobile Home Park, Inc., which is unlawfully operating as a public utility. Tidewater will install a new water distribution system, including fire protection, to preserve the public health, safety and welfare at this subdivision.

APPLICANT'S ATTORNEY'S NAME AND ADDRESS

4. Applicant's attorney is:

Todd A. Coomes, Esquire
Richards, Layton & Finger, P.A.
One Rodney Square
920 North King Street
Wilmington, DE 19801
Telephone: (302) 651-7507
Facsimile: (302) 651-7701
E-mail: coomes@rlf.com

OWNERSHIP OF VOTING STOCK OF APPLICANT

5. One hundred percent of the voting stock of Tidewater is owned by Middlesex Water Company, a New Jersey corporation, which is an investor-owned, regulated water utility traded on NASDAQ.

DETAILED DESCRIPTION OF THE DEBT TO BE ISSUED

6. In connection with the SRF Loan, Tidewater will enter into a long-term debt obligation to the Delaware Drinking Water State Revolving Fund (by and through the Delaware Department of Health and Social Services) (the "Fund") in order to finance capital improvements to the Tidewater's water system, specifically the replacement of the existing water distribution system and the installation of a new water distribution system, including fire hydrants at the Holiday Pines subdivision located in Millsboro, Delaware, and the installation of a water transmission main from Tidewater's Meadow District to the Holiday Pines subdivision. The SRF Loan will be in the principal amount of up to \$933,300 and will carry a fixed annual interest rate of 2.0%. The term of the loan is twenty (20) years. Tidewater will be obligated to pay the principal of, and interest on, the loan, as prescribed by the Fund Binding Commitment Letter, a copy of which is attached to this Application and marked as Exhibit A.

PROPOSED USE OF PROCEEDS

7. The proceeds will be used to fund the installation of a new water distribution system, including fire hydrants, at the Holiday Pines subdivision located in Millsboro, Delaware, and the installation of a water transmission main from Tidewater's Meadow District to the Holiday Pines subdivision.

SELECTION OF TRANSACTION

8. Part of Tidewater's financing strategy is to obtain long-term debt financing, when necessary, with a minimum final maturity of 20 years at a favorable interest rate. At this time, Tidewater does not envision the need to issue additional long-term debt as part of its financing requirements over the next three years.

9. The SRF Loan offering is a low-interest, attractive long-term debt financing that

Tidewater has used in the past.

SECURITIES AND EXCHANGE COMMISSION FILINGS

10. Tidewater is not required to submit filings with the Securities and Exchange Commission. Middlesex submits Form 10-K and 10-Q to the Securities and Exchange Commission and the latest filings are included under the Exhibit B tab of this Application.

REGISTRATION STATEMENT

11. No Registration Statement or Prospectus will be issued.

OPINION OF COUNSEL

12. Exhibit C contains the proposed Opinion of Counsel. A signed opinion will be provided when available.

OTHER DOCUMENTS

13. Exhibit A contains a copy of the executed Fund Binding Commitment Letter for the SRF Loan.

EXHIBIT LISTING

- A. Fund Binding Commitment Letter.
- B. Middlesex Water Company's 2016 Form 10-K and 2017 Third Quarter Form 10-Q.
- C. Proposed Opinion of Counsel.
- D. Tidewater Board of Directors Consent to Borrow
- E. Application Letter
- F. Schedules:
 - 1. Capitalization Ratios, Actual and Proforma, as of September 30, 2017.
 - 2. Rate of Return, Actual, Proforma, and Annualized, as of September 30, 2017.
 - 3. Fixed Charged Coverage Ratios for the 12 months ended September 30, 2017.



STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES &
ENVIRONMENTAL CONTROL
OFFICE OF THE SECRETARY
ENTERPRISE BUSINESS PARK
97 COMMERCE WAY, SUITE 106
DOVER, DELAWARE 19904

ENVIRONMENTAL FINANCE

TELEPHONE: (302) 739-9941
FAX: (302) 739-2137

January 16, 2018

Tidewater Utilities, Inc.
Attention: Gerard L. Esposito, President
1100 South Little Creek Road
Dover, DE 19901

RE: Delaware Drinking Water Revolving Fund Binding Commitment Offer - Tidewater Utilities, Holiday Pines Distribution System Replacement

Mr. Esposito:

On behalf of the Delaware Drinking Water Revolving Fund (Fund), the Department of Health and Social Services (Department) is pleased to advise you that a Project Construction Loan (Loan) has been authorized from the Fund to Tidewater Utilities (Tidewater) in the amount of **\$933,300**. The Loan will be used for project costs, namely: to install a new water system in the subdivision of Holiday Pines. The current distribution system will be properly abandoned and fire hydrant system will be installed. The new water system will entail installing approximately 4,500 feet of 12-inch main; 3,900 feet of 6-inch main; valves and fire hydrants in this 65-home residential community.

The loan interest rate shall be **2.0%**; Tidewater shall pay interest only payments semi-annually during project construction. Upon project completion, semi-annual principal and interest payments will be paid in an amount sufficient to amortize the outstanding principal balance over the **20-year term** at the rate of **2.0%**.

It is understood that a General Obligation Bond Pledge of Tidewater will secure the Loan with full faith and credit. All legal costs, incurred by the Fund, associated with loan closing shall be borne by Tidewater and will become a part of loan proceeds.

The Fund reserves the right to withdraw or alter the terms of the commitment if, between the date of Tidewater's loan application and the date of the closing, Tidewater incurs any debt or its financial condition changes in any way deemed material by the Fund at its sole discretion. Loan closing and the disbursement of funds shall remain subject to the satisfaction of any conditions established by the Fund.

Tidewater shall comply in all respects with all applicable Fund requirements and reporting, federal laws, regulations and other requirements related to or arising out of, or in connection with funding by the Fund. Tidewater shall also comply in all respects with the Federal Single Audit Act and OMB Circular A-133, 2 CFR 200 Subpart F, as a sub-recipient of Federal funds. The Catalog of Federal Domestic Assistance (CFDA) number for the Fund is

Delaware's Good Nature Depends on You!

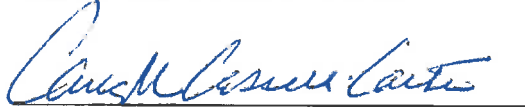
Tidewater Utilities, Inc.
January 16, 2018
DWSRF Binding Commitment Letter for Holiday Pines
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66.458. Where noncompliance of such requirements is determined by the Fund or the Department, the issue shall be referred to the Proper Federal authority and/or agency for consultation and/or enforcement action.

If you have any questions concerning the foregoing, please contact this office at (302) 739-9941. If you concur with the terms and conditions herein stated, please acknowledge your acceptance thereof by signing below and returning the original to this office no later than February 28, 2018.

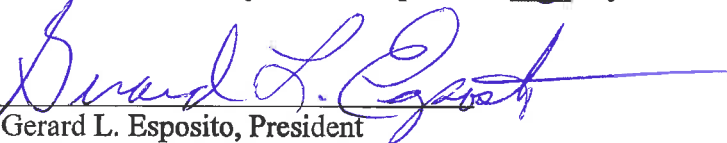
If Loan closing shall not have occurred within 120 days of receipt of this letter, the Fund reserves the right to discontinue processing Tidewater's application.

Sincerely,
FOR THE DELAWARE DRINKING
WATER STATE REVOLVING FUND



Carla M. Cassell-Carter
Acting Chief of Administration
DNREC, Office of the Secretary
Environmental Finance

The foregoing terms and conditions are hereby acknowledged and accepted this 30 day of January, 2018.

By: 
Gerard L. Esposito, President

cc: Dr. Karyl Rattay, DHSS-DPH
Jamie Mack, DHSS-DPH
Heather Warren, DHSS-DPH
Robert J. Zimmerman, DNREC
Jeremy Kalmbacher, Tidewater

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, 2016**

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)

22-114430
(IRS employer identification no.)

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

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

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

Title of Each Class:
Common Stock, No Par Value

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted 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 or a smaller reporting company.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2016 was \$681,909,915 based on the closing market price of \$43.38 per share.

The number of shares outstanding for each of the registrant's classes of common stock, as of February 28, 2017:
Common Stock, No par Value 16,297,496 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 23, 2017, which will be filed with the Securities and Exchange Commission within 120 days of the end of our 2016 fiscal year, is incorporated by reference into Part III.

MIDDLESEX WATER COMPANY
FORM 10-K

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

PART I

Item 1. Business.

Overview

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

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

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

Middlesex System

The Middlesex System in New Jersey provides water services to approximately 61,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the City of Rahway, Townships of Edison and Marlboro, the Borough of Highland Park and the Old Bridge Municipal Utilities Authority. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire protection purposes. The Middlesex System also provides water treatment and pumping services to the Township of East Brunswick under contract. The amount of water supply allocated to the Township of East Brunswick is granted directly to the Township by the New Jersey Water Supply Authority. The Middlesex System produced approximately 60% of our 2016 consolidated operating revenues.

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

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

Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview, and is not physically interconnected with the Middlesex System. Bayview produced less than 1% of our 2016 consolidated operating revenues.

Tidewater System

Tidewater, together with its wholly-owned subsidiary, Southern Shores, provides water services to approximately 43,000 retail customers for residential, commercial and fire protection purposes in nearly 400 separate communities in New Castle, Kent and Sussex Counties, Delaware. White Marsh is a wholly-owned subsidiary of Tidewater that is unregulated as to rates and operates or maintains more than 50 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 26% of our 2016 consolidated operating revenues.

Utility Service Affiliates-Perth Amboy

USA-PA operates the City of Perth Amboy, New Jersey's (Perth Amboy) water treatment and distribution system and its wastewater collection system under a 20-year agreement, which expires in 2018. USA-PA serves approximately 11,700 homes and businesses, most of which are served by both the water and wastewater systems. Under the agreement, USA-PA receives fixed fees, and may receive variable fees, based on customer revenue growth. Fixed fee revenues increase over the term of the 20-year contract based upon a schedule of rates. USA-PA produced approximately 8% of our 2016 consolidated operating revenues.

In connection with the agreement with Perth Amboy, USA-PA entered into a subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater collection system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses and its term is concurrent with USA-PA's contract with Perth Amboy.

Pinelands System

Pinelands Water provides water services to approximately 2,500 residential customers in Burlington County, New Jersey. Pinelands Water produced less than 1% of our 2016 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 2016 consolidated operating revenues.

Utility Service Affiliates, Inc.

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system under a ten-year operations and maintenance contract expiring in 2022. USA serves approximately 6,200 Avalon homes and businesses, most of which are served by both the water and wastewater collection systems. In addition to performing day-to-day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon.

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

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

USA produced approximately 2% of our 2016 consolidated operating revenues.

TESI System

TESI provides wastewater collection and treatment services to approximately 3,400 residential retail customers in Sussex County, Delaware. TESI produced approximately 2% of our 2016 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 2016 consolidated operating revenues.

Financial Information

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

	(Thousands of Dollars)		
	Years Ended December 31,		
	2016	2015	2014
Operating Revenues	\$ 132,906	\$ 126,025	\$ 117,139
Operating Income	\$ 40,632	\$ 35,840	\$ 34,392
Net Income	\$ 22,742	\$ 20,028	\$ 18,445

Operating revenues were earned from the following sources:

	Years Ended December 31,		
	2016	2015	2014
Residential	48.3%	48.5%	48.4%
Commercial	10.6	10.4	10.0
Industrial	6.9	6.5	6.7
Fire Protection	8.8	8.9	9.3
Contract Sales	11.7	11.2	11.3
Contract Operations	11.0	11.5	11.5
Other	2.7	3.0	2.8
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 15.1 billion gallons in 2016, obtains water from surface sources and wells (groundwater sources). In 2016, surface sources of water provided approximately 74% of the Middlesex System's water supply, groundwater sources provided approximately 19% from 31 wells and the balance was purchased from a non-affiliated regulated water utility. The Middlesex System's distribution storage facilities are used to supply water to customers at times of peak demand, outages and emergencies.

The principal source of surface water for the Middlesex System is the Delaware & Raritan Canal, which is owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority (NJWSA). Middlesex is under contract with the NJWSA, which expires November 30, 2023, and provides for

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average purchases of 27.0 million gallons per day (mgd) of untreated water from the Delaware & Raritan Canal, augmented by the Round Valley/Spruce Run Reservoir System. The untreated surface water is pumped to, and treated at, the Middlesex Carl J. Olsen (CJO) Water Treatment Plant. Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement, which expires February 27, 2021, provides for minimum purchase of 3.0 mgd of treated water with provisions for additional purchases.

Tidewater System

Our Tidewater System produced approximately 2.1 billion gallons in 2016 from 162 wells. Tidewater expects to submit applications to Delaware regulatory authorities for the approval of additional wells as growth, customer demand and water quality warrant. Tidewater augments its water production with annual minimum purchases of 15.0 million gallons of treated water under contract from the City of Dover, Delaware. Tidewater does not have a central water treatment facility for the nearly 400 separate communities it serves. As the number has grown, many of Tidewater's individual systems have been interconnected, forming several regional systems that are served by multiple water treatment facilities.

Pinelands Water System

Water supply to our Pinelands Water System is derived from four wells which produced approximately 152.0 million gallons in 2016. 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 95.8 million gallons in 2016.

Bayview System

Water supply to Bayview customers is derived from two wells, which produced approximately 7.3 million gallons in 2016.

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 107.7 million gallons in 2016.

Twin Lakes System

Water supply to Twin Lakes' customers is derived from one well, which produced approximately 15.4 million gallons in 2016.

Employees

As of December 31, 2016, we had a total of 309 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

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

Regulation

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

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

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

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

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

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

Regulation of Rates and Services

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

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

Middlesex Rate Matters

In August 2015, Middlesex's Petition to the NJBPU seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$5.0 million. The new base water rates were needed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$219.0 million, based on a return on equity of 9.75%. The rate increase became effective on August 29, 2015.

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In June 2014, Middlesex's Petition to the NJBPU seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$4.2 million. The new base water rates were designed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$208.6 million, based on a return on equity of 9.75%. The rate increase became effective on July 20, 2014.

On November 1, 2016, Middlesex implemented a NJBPU-approved purchased water adjustment clause sufficient to recover additional costs of less than \$0.1 million for the purchase of treated water from a non-affiliated regulated water utility.

Tidewater Rate Matters

In August 2014, Tidewater's Application to the DEPSC seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$0.8 million. The new base water rates were designed to recover increased costs and a return on invested capital in rate base of \$208.6 million, based on a return on equity of 9.75%. The rate increase became effective on August 19, 2014.

Effective January 1, 2017, Tidewater increased its DEPSC-approved Distribution System Improvement Charge (DSIC) rate, which is expected to generate revenues of approximately \$0.3 million annually.

In April 2014, the DEPSC approved Tidewater's 50-year agreement with the United States Department of Defense for the privatization of the water system of Dover Air Force Base (DAFB) in Dover, Delaware. On October 1, 2014, Tidewater assumed ownership of the DAFB water utility assets and began providing regulated water service to DAFB under Tidewater's DEPSC approved tariff rates.

TESI Rate Matters

In October 2014, TESI implemented a DEPSC-approved 33.5% base wastewater rate increase for residential customers in the Plantations development in Delaware (approximately \$0.1 million annually).

Pinelands Rate Matters

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

Southern Shores Rate Matters

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

Twin Lakes Rate Matters

In June 2016, the PAPUC approved a \$0.1 million increase in Twin Lakes' base water rates, effective June 15, 2016. In November 2015, Twin Lakes had filed a petition seeking permission to increase its base water rates by approximately \$0.2 million per year. This request was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase will be phased in over two years.

Future Rate Filings

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

Water and Wastewater Quality and Environmental Regulations

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

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

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

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, Bayview and Twin Lakes Systems (primary disinfection only) is performed at individual well sites.

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

Seasonality

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

Management

This table lists information concerning our executive management team:

Name	Age	Principal Position(s)
Dennis W. Doll	58	President, Chief Executive Officer and Chairman of the Board of Directors
A. Bruce O'Connor	58	Vice President, Treasurer and Chief Financial Officer
Richard M. Risoldi	60	Vice President-Operations and Chief Operating Officer
Jay L. Kooper	44	Vice President-General Counsel and Secretary
Bernadette M. Sohler	56	Vice President-Corporate Affairs
Lorrie B. Ginegaw	41	Vice President-Human Resources
Gerard L. Esposito	65	President, Tidewater Utilities, Inc.

Dennis W. Doll – Mr. Doll joined the Company in November 2004 as Executive Vice President and was named President and Chief Executive Officer and became a Director of Middlesex effective January 1, 2006. In May 2010, he was elected Chairman of the Board of Directors of Middlesex. 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 New Jersey Utilities Association (Past Chairman of the Board), the Water Research Foundation (presently Vice Chairman of the Board) and the National Association of Water Companies (Past President).

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

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

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

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

Lorrie B. Ginegaw – Ms. Ginegaw joined Tidewater in 2004. In September 2005, Ms. Ginegaw was promoted to Human Resources Manager. In May 2007, Ms. Ginegaw was promoted to Director of Human Resources for Middlesex. In March 2012, Ms. Ginegaw was named Vice President-Human Resources. Prior to joining the Company, Ms. Ginegaw worked in various human resources positions in the healthcare and

transportation/logistics industries. She is the Chair of the New Jersey Utilities Association's Human Resources Committee and a member of the Middlesex County, New Jersey Workforce Investment Board.

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

ITEM 1A. RISK FACTORS.

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

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

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

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

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

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

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

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

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

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

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

We require financing to fund the ongoing capital program for the improvement in our utility system assets and for planned expansion of those systems. We expect to spend approximately \$223 million for capital projects through 2019. We must obtain approval from our economic regulators to sell debt or equity securities to raise money for these projects. If sufficient capital is not available, or the cost of capital is too high, or if the regulatory authorities deny a petition of ours to sell debt or equity securities, we may not be able to meet the costs of complying with environmental laws and regulations or the costs of improving and expanding our utility system assets to the level we believe operationally prudent. This may result in the imposition of fines from environmental regulators or restrictions on our operations which could curtail our ability to upgrade or replace utility system assets.

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

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

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

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

with regulatory and environmental laws and regulation, including standards for drinking water, litigation and reputational damage.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The acquisition and/or operation of water and wastewater systems is an element of our growth strategy. This strategy depends on identifying suitable opportunities and reaching mutually agreeable terms with acquisition candidates or contract partners. Further, acquisitions may result in dilution of our equity securities, incurrence of

debt and contingent liabilities, fluctuations in quarterly results and other related expenses. In addition, the assets, operations, contracts or companies we acquire may not achieve the sales and profitability expected.

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

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

The necessity for ongoing security has 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 growth in our market area is dependent on the residential building market. 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 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.

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 stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

Utility Plant

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

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

Middlesex System

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

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

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

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

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

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

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

Tidewater System

The Tidewater System is comprised of 84 production plants that vary in pumping capacity from 46,000 gallons per day to 4.4 mgd. Water is transported to our customers through 727 miles of transmission and distribution mains. Storage facilities include 46 tanks, with an aggregate capacity of 8.3 million gallons. The Delaware office property, located on an eleven-acre parcel owned by White Marsh, consists of two office buildings totaling approximately 17,000 square feet. In addition, Tidewater maintains a field operations center servicing its largest service territory area in Sussex County, Delaware. The operations center is located on a 2.9 acre parcel owned by White Marsh, and consists of two buildings totaling approximately 8,400 square feet.

Pinelands Water System

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

Pinelands Wastewater System

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

Bayview System

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

TESI System

The TESI System is comprised of seven wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total capacity of the plants is 0.7 mgd. TESI's wastewater collection system is comprised of approximately 42.2 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.

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USA-PA, USA and White Marsh

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

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

The Company's common stock is traded on the NASDAQ Stock Market, LLC, under the symbol MSEX. The following table shows the range of high and low share prices per share for the common stock and the dividend paid to shareholders in such quarter. As of December 31, 2016, there were 1,732 holders of record.

2016	High	Low	Dividend
Fourth Quarter	\$ 44.48	\$ 32.82	\$ 0.2113
Third Quarter	\$ 43.99	\$ 32.51	\$ 0.1988
Second Quarter	\$ 44.11	\$ 30.50	\$ 0.1988
First Quarter	\$ 32.10	\$ 25.00	\$ 0.1988

2015	High	Low	Dividend
Fourth Quarter	\$ 28.02	\$ 23.40	\$ 0.1988
Third Quarter	\$ 24.98	\$ 22.12	\$ 0.1925
Second Quarter	\$ 23.85	\$ 21.24	\$ 0.1925
First Quarter	\$ 23.48	\$ 21.57	\$ 0.1925

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

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

The Company periodically issues shares of common stock in connection with its Middlesex Water Company Investment Plan (the Investment Plan), a direct share purchase and sale and dividend reinvestment plan for the Company's common stock. In July 2015, the Company registered an additional 700,000 common shares for potential issuance under the Investment Plan with the SEC, increasing the number of NJBPU-authorized shares to 3.0 million. The Company raised approximately \$1.5 million through the issuance of 42,604 shares under the Investment Plan during 2016.

The Company maintains a stock compensation plan for certain management employees (the 2008 Restricted Stock Plan). The Company maintains an escrow account for 0.1 million awarded shares of the Company's common stock for the 2008 Restricted Stock Plan. Shares issued in connection with the 2008 Restricted Stock

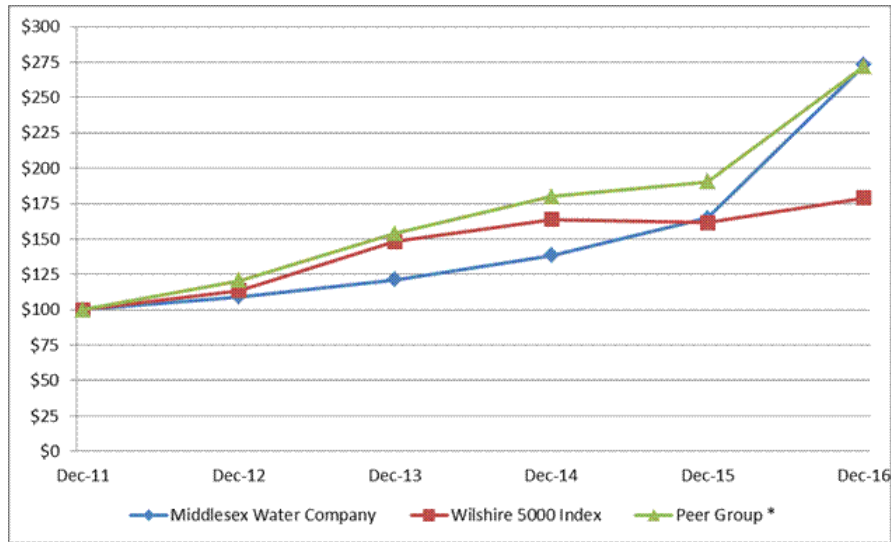
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Plan are subject to forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of normal retirement, death, disability or change in control. The maximum number of shares authorized for grant under the 2008 Restricted Stock Plan is 0.3 million shares and 0.1 million shares remain available for future awards under the 2008 Restricted Stock Plan.

The Company maintains a stock compensation plan for its outside directors (the Outside Director Stock Compensation Plan). In 2016, 3,976 shares of the Company’s common stock were granted and issued to the Company’s outside directors under the Outside Director Stock Compensation Plan. The maximum number of shares authorized for grant under the Outside Director Stock Compensation Plan is 100,000. 68,144 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, 2011. The Dow Jones Wilshire 5000 Stock Index measures the performance of all U.S. headquartered equity securities with readily available price data.

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



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

	December 31,					
	2011	2012	2013	2014	2015	2016
Middlesex Water Company	100.00	109.09	121.15	138.38	164.72	272.84
Dow Jones Wilshire 5000 Stock Index	100.00	113.59	148.18	163.84	161.46	178.96
Peer Group	100.00	120.47	154.02	180.07	190.39	272.02

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

	2016	2015	2014	2013	2012
Operating Revenues	\$ 132,906	\$ 126,025	\$ 117,139	\$ 114,846	\$ 110,379
Operating Expenses:					
Operations and Maintenance	65,534	65,167	59,129	60,748	60,458
Depreciation	12,796	12,051	11,444	10,988	10,409
Other Taxes	13,944	12,967	12,174	12,140	11,865
Total Operating Expenses	92,274	90,185	82,747	83,876	82,732
Operating Income	40,632	35,840	34,392	30,970	27,647
Other Income (Expense), Net	(862)	293	(403)	91	857
Interest Charges	5,293	5,554	5,607	5,807	6,725
Income Taxes	11,735	10,551	9,937	8,621	7,383
Net Income	22,742	20,028	18,445	16,633	14,396
Preferred Stock Dividend	144	144	151	190	206
Earnings Applicable to Common Stock	\$ 22,598	\$ 19,884	\$ 18,294	\$ 16,443	\$ 14,190
Earnings per Share:					
Basic	\$ 1.39	\$ 1.23	\$ 1.14	\$ 1.04	\$ 0.90
Diluted	\$ 1.38	\$ 1.22	\$ 1.13	\$ 1.03	\$ 0.90
Average Shares Outstanding:					
Basic	16,270	16,175	16,052	15,868	15,733
Diluted	16,426	16,331	16,226	16,110	15,995
Dividends Declared and Paid	\$ 0.808	\$ 0.776	\$ 0.763	\$ 0.753	\$ 0.743
Total Assets	\$ 620,161	\$ 581,383	\$ 572,298	\$ 526,815	\$ 558,120
Convertible Preferred Stock	\$ 1,356	\$ 1,356	\$ 1,356	\$ 1,806	\$ 2,273
Long-term Debt	\$ 134,538	\$ 132,908	\$ 132,565	\$ 126,272	\$ 127,861

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

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

Management's Overview**Operations**

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

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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. We also have an investment in a joint venture, Ridgewood Green RME (RGRME), that operates facilities to optimize the production of electricity at the Village of Ridgewood, New Jersey wastewater treatment plant and other municipal facilities. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey (Perth Amboy). Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), provide water and wastewater services to approximately 2,500 customers in Southampton Township, New Jersey.

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system under a ten-year operations and maintenance contract expiring in 2022. In addition to performing day to day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon. Under a marketing agreement with HomeServe USA (HomeServe), USA offers residential customers in New Jersey and Delaware a menu of water and wastewater related home maintenance programs. HomeServe is a leading national provider of such home maintenance service programs. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts. The agreement expires in 2021. USA also provides unregulated water and wastewater services under contract with several New Jersey municipalities.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC (Southern Shores), provide water services to approximately 43,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services approximately 4,000 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. (TESI) subsidiary provides wastewater services to approximately 3,400 residential retail customers in Sussex Counties, Delaware.

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

Recent Developments

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

Tidewater Distribution System Improvement Charge (DSIC) - Effective January 1, 2017, Tidewater increased its Delaware Public Service Commission (DEPSC)-approved DSIC rate, which is expected to generate \$0.3 million of annual revenues. A DSIC is a rate-mechanism that allows water utilities to recover investments in, and generate a return on, qualifying capital improvements made between base rate proceedings.

Strategy for Growth

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

- Prudent acquisitions of investor- and municipally-owned water and wastewater utilities;
- Timely and adequate recovery of prudent investments in utility plant required to maintain appropriate utility services;
- Operate municipal, commercial and industrial water and wastewater systems under contract;

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- Invest in renewable energy projects that are complementary to the provision of water and wastewater services, and to our core water and wastewater competencies; and
- Invest in other products, services and opportunities that complement our core water and wastewater competencies.

Rates

Middlesex - In August 2015, Middlesex's Petition to the New Jersey Board of Public Utilities (the NJBPU) seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$5.0 million. The new base water rates were needed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$219.0 million, based on a return on equity of 9.75%. The rate increase became effective on August 29, 2015.

In June 2014, Middlesex's Petition to the NJBPU seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$4.2 million. The new base water rates were designed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$208.6 million, based on a return on equity of 9.75%. The rate increase became effective on July 20, 2014.

On November 1, 2016, Middlesex implemented an NJBPU-approved purchased water adjustment clause sufficient to recover additional costs of less than \$0.1 million for the purchase of treated water from a non-affiliated regulated water utility.

Tidewater - In August 2014, Tidewater's Application to the DEPSC seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$0.8 million. The new base water rates were designed to recover increased costs and a return on invested capital in rate base of \$208.6 million, based on a return on equity of 9.75%. The rate increase became effective on August 19, 2014.

Effective January 1, 2017, Tidewater increased its DEPSC-approved DSIC rate, which is expected to generate revenues of approximately \$0.3 million annually.

In April 2014, the DEPSC approved Tidewater's 50-year agreement with the United States Department of Defense for the privatization of the water system of Dover Air Force Base (DAFB) in Dover, Delaware. On October 1, 2014, Tidewater assumed ownership of the DAFB water utility assets and began providing regulated water service to DAFB under Tidewater's DEPSC approved tariff rates.

TESI - In October 2014, TESI implemented a DEPSC-approved 33.5% base wastewater rate increase for residential customers in the Plantations development in Delaware (approximately \$0.1 million annually).

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

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

Twin Lakes - In June 2016, the Pennsylvania Public Utilities Commission approved a \$0.1 million increase in Twin Lakes' base water rates, effective June 15, 2016. In November 2015, Twin Lakes had filed a petition seeking permission to increase its base water rates by approximately \$0.2 million per year. This request was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase will be phased in over two years.

Outlook

Our ability to increase operating income and net income is based significantly on four factors: weather, adequate and timely rate relief, effective cost management, and customer growth (which are evident in comparison discussions in the Results of Operations section below). Weather patterns experienced in 2015 and 2016, which contributed to overall increases in operating revenues, may not reoccur in 2017. Changes in customer water usage habits, as well as increases in capital expenditures and operating costs, are significant factors in determining the timing and extent of rate increase requests. As operating costs are anticipated to increase in 2017 in a variety of categories, we continue to implement plans to further streamline operations and further reduce, and mitigate increases in, operating costs.

Organic residential customer growth for 2017 is expected to be consistent with that experienced in recent years.

The Company has projected to spend approximately \$223 million on its 2017-2019 capital investment program, including approximately \$36 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 \$27 million for the upgrade of Middlesex's main water treatment plant in New Jersey.

Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed approximately 89%, 88% and 88% of total revenues for the years ended December 31, 2016, 2015 and 2014, respectively and approximately 98%, 94% and 93% of net income for the years ended December 31, 2016, 2015 and 2014, 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 2016 as Compared to 2015

(In Millions)
Years Ended December 31,

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

Operating Revenues

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

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

Operation and Maintenance Expense

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

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

Depreciation

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

Other Taxes

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

Other Income (Expense), net

Other income (expense), net for the year ended December 31, 2016 decreased \$1.2 million from the same period in 2015, due primarily to a \$1.9 million charge in connection with Middlesex's joint venture equity investment in, and loan to, RGRME. RGRME owns and operates a renewable energy system solution comprised of an anaerobic digester, biogas generator and several solar panel sites for the Village of Ridgewood, New Jersey (Ridgewood). RGRME earns revenues primarily by selling renewable sourced electricity to Ridgewood and charging fees for liquid waste disposal. During the fourth quarter of 2016, RGRME identified that significant additional investment was required to optimize the liquid waste disposal and biogas electric generation process.

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Middlesex concluded that RGRME's inability to effectively operate the renewable energy system without significant additional investment would impair its ability to generate enough cash flow to cover its current and future operating and debt service obligations. Middlesex recorded an allowance for uncollectible notes receivable for \$1.7 million and an impairment charge of \$0.2 million on its equity investment. Offsetting some of these losses was the recognition by USA of previously deferred income associated with the 10-year marketing agreement with HomeServe and higher allowance for funds used during construction due to higher construction expenditures.

Interest Charges

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

Income Taxes

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

Net Income and Earnings Per Share

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

Results of Operations for 2015 as Compared to 2014

	(In Millions)					
	Years Ended December 31,					
	<u>2015</u>		Total	<u>2014</u>		Total
Regulated	Non-Regulated	Regulated		Non-Regulated		
Revenues	\$ 111.1	\$ 14.9	\$ 126.0	\$ 103.3	\$ 13.8	\$ 117.1
Operations and maintenance expenses	53.0	12.2	65.2	48.2	10.9	59.1
Depreciation expense	11.8	0.2	12.0	11.2	0.2	11.4
Other taxes	12.7	0.3	13.0	11.9	0.3	12.2
Operating income	33.6	2.2	35.8	32.0	2.4	34.4
Other income (expense), net	0.3	—	0.3	(0.3)	(0.1)	(0.4)
Interest expense	5.5	0.1	5.6	5.5	0.1	5.6
Income taxes	9.5	1.0	10.5	8.9	1.0	9.9
Net income	\$ 18.9	\$ 1.1	\$ 20.0	\$ 17.3	\$ 1.2	\$ 18.5

Operating Revenues

Operating revenues for the year ended December 31, 2015 increased \$8.9 million from the same period in 2014 due to the following factors:

- Middlesex System revenues increased \$5.6 million due to NJBPU-approved rate increases implemented in July 2014 (approximately \$2.2 million) and August 2015 (approximately \$1.6 million) and higher weather-driven customer demand (approximately \$1.8 million);
- Tidewater System revenues increased \$1.8 million due to higher demand from existing customers and the October 2014 acquisition of the Dover Air Force Base system;

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- USA-PA's revenues increased \$0.8 million from scheduled fixed fees increases under our contract with Perth Amboy (\$1.0 million) partially offset by lower revenues (\$0.2 million) under the same contract for supplemental services;
- TESI's revenues increased \$0.3 million due primarily to base wastewater rate increases effective in October 2014 and April 2015;
- USA's revenues increased \$0.2 million due to a higher amount of billable supplemental services under our contract to operate the Avalon water, wastewater and storm water system (see corresponding expense increase in "Operation and Maintenance Expense" below); and
- All other revenues increased \$0.2 million.

Operation and Maintenance Expenses

Operation and maintenance expenses for the year ended December 31, 2015 increased \$6.0 million from the same period in 2014 due to the following factors:

- Employee benefit expenses increased \$3.4 million due to higher employee healthcare insurance costs and higher retirement plan costs resulting from a lower discount rate than in the prior year and the required adoption of new mortality tables, reflecting longer life expectancies. Both factors impacted the calculation of the 2015 net periodic plan costs;
- Variable production costs increased \$0.9 million due to an increase in the rate the Company pays for residuals removal in our Middlesex System and increased production in our Middlesex and Tidewater systems;
- USA-PA's operation and maintenance costs increased \$0.9 million due mostly to higher subcontractor expenditures (see corresponding increase in "Operating Revenues" above);
- USA's operation and maintenance costs increased \$0.6 million due to expenditures for billable supplemental services under USA's contract to operate the Avalon water, sewer and storm water systems (see corresponding revenue increase in "Operating Revenues" above); and
- All other operation and maintenance expense categories increased \$0.2 million.

Depreciation

Depreciation expense for the year ended December 31, 2015 increased \$0.6 million from the same period in 2014 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the year ended December 31, 2015 increased \$0.8 million from the same period in 2014 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, 2015 increased \$0.7 million from the same period in 2014 due higher allowance for funds used during construction, resulting from a higher level of capital projects in progress, and lower business development costs at our TESI subsidiary.

Interest Charges

Interest charges for the year ended December 31, 2015 decreased \$0.1 million from the same period in 2014 due to lower average interest rates on decreased average total debt outstanding.

Income Taxes

Income taxes for the year ended December 31, 2015 increased \$0.6 million from the same period in 2014 due to increased pre-tax operating income in 2015 as compared to 2014.

Net Income and Earnings Per Share

Net income for the year ended December 31, 2015 increased \$1.6 million as compared with the same period in 2014. Basic and diluted earnings per share increased to \$1.23 and \$1.22, respectively, for the year ended December 31, 2015, as compared to \$1.14 and \$1.13, respectively, for the year ended December 31, 2014.

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, 2016, cash flows from operating activities were \$47.1 million, which enabled us to internally fund approximately 75% of utility plant expenditures in 2016. This was a decrease in cash flows of \$4.1 million from 2015 and resulted primarily from higher payments for income tax and materials and supplies partially offset by higher water sales and timing of payments to vendors.

For the year ended December 31, 2015, cash flows from operating activities increased \$18.6 million to \$51.2 million. The increase in cash flows from operating activities resulted from a net refund of previously paid federal income taxes resulting from the Company's adoption of final IRS regulations pertaining to the deductibility of costs that qualify as repairs on tangible property (approximately \$8.8 million), income taxes paid and higher net income. The \$51.2 million of net cash flow from operations enabled us to internally fund all utility plant expenditures incurred in 2015.

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 Used in Investing Activities

For the year ended December 31, 2016, cash flows used in investing activities increased \$23.0 million to \$47.4 million, which was attributable to higher utility plant expenditures.

For the year ended December 31, 2015, cash flows used in investing activities increased \$2.5 million to \$24.4 million. The increase in cash flows used in investing activities resulted from increased utility plant expenditures partially offset by increased restricted cash inflows.

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

Cash Flows Used in Financing Activities

For the year ended December 31, 2016, cash flows from financing activities positively increased \$26.7 million to \$0.7 million. The majority of the increase in cash flows provided by financing activities is due to the net increase in short-term debt funding.

For the year ended December 31, 2015, cash flows used in financing activities increased \$13.1 million to \$26.0 million. The increase in cash flows used in financing activities resulted from increased short-term debt refunding and lower net cash inflows from long-term debt, as the Company did not require any additional New Jersey State Revolving Fund (SRF) long-term financing in 2015.

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 2017-2019.

	(Millions)			
	2017	2018	2019	2017-2019
Distribution/Network System	\$ 39.2	\$ 49.9	\$ 45.8	\$ 134.9
Production System	11.6	32.1	20.6	64.3
Information Technology (IT) Systems	3.8	0.5	0.7	5.0
Other	5.6	6.4	6.7	18.7
Total Estimated Capital Expenditures	\$ 60.2	\$ 88.9	\$ 73.8	\$ 222.9

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

- **Distribution/Network System**-Projects associated with installation and relocation of water mains and service lines and wastewater collection systems, construction of water storage tanks, installation and replacement of hydrants and meters and our RENEW Program. RENEW is our ongoing initiative to eliminate unlined mains in the Middlesex System. In connection with our RENEW Program, we expect to spend approximately \$11.8 million in 2017 and \$11.2 million in both 2018 and 2019. 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 \$35.5 million of expenditures beginning in 2017 through 2019.
- **Production System**-Projects associated with our water production and water/wastewater treatment plants, including expenditures of approximately \$2.8 million in 2017 for the upgrade of a booster station at one of Middlesex's well fields and approximately \$27.0 million of expenditures beginning in 2017 through 2019 for the upgrade of the CJO water treatment plant.
- **IT Systems**-Upgrade of our enterprise resource planning system and hardware and software purchases for our other IT systems.
- **Other**-Purchase of transportation equipment, tools, furniture, laboratory equipment, security systems and other general infrastructure needs.

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 2017, we plan on utilizing:

- Internally generated funds;
- Proceeds from the Investment Plan;
- Proceeds from the 2016 and 2017 New Jersey SRF program (approximately \$19.0 million depending on construction timing). SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks (see discussion under "*Sources of Liquidity-Long-term Debt*" below); and
- Short-term borrowings, as needed, through \$60.0 million of available lines of credit with several financial institutions. As of December 31, 2016, there remains \$48.0 million of available credit under these lines.

Sources of Liquidity

Short-term Debt. The Company had established lines of credit aggregating \$60.0 million throughout 2016. At December 31, 2016, the outstanding borrowings under these credit lines were \$12.0 million, at a weighted average interest rate of 1.71%.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$7.4 million and \$15.3 million at 1.54% and 1.19% for the years ended December 31, 2016 and 2015, 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 with the New Jersey Environmental Infrastructure Trust (NJEIT) at a below market interest rate. The current interest rate on construction loan borrowings is zero percent (0%). When construction on the qualifying project is substantially complete, the NJEIT 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 NJEIT is up to thirty years. The current portion of the principal balance having a stated interest rate of zero percent (0%) is 75% with the remaining portion of 25% having a market based interest rate. The NJEIT generally schedules its long-term debt financings in May and November.

In January 2017, the NJBPU approved Middlesex's request to borrow up to \$37.0 million under the New Jersey SRF program to fund the construction of a large-diameter transmission pipeline from the CJO water treatment plant and interconnect with our distribution system. Middlesex expects to close on the SRF construction loan in 2017 with proceeds requisitions occurring throughout 2017, 2018 and 2019.

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

In July 2016, the NJBPU approved Middlesex's request to borrow up to \$4.0 million under the New Jersey SRF program to fund the upgrade of a booster station at one of its well fields. Middlesex expects to close on the SRF construction loan in 2017 with proceeds requisitions occurring through September 2017.

In March 2016, the NJBPU approved Middlesex's request to borrow up to \$16.0 million under the New Jersey SRF program to fund the 2016 RENEW Program. Middlesex closed on an \$11.8 million zero percent (0%) SRF construction loan on June 28, 2016. Through December 31, 2016, Middlesex has drawn down \$7.5 million and expects to draw down the remaining proceeds during the first quarter of 2017. The NJEIT notified the Company that it has scheduled this project to be included in the May 2017 long-term loan financing.

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

In 2015, Tidewater completed the drawdown of a \$15.0 million long-term debt transaction. The interest rate on \$11.0 million of the loan is 4.45%. \$4.0 million of the loan was initially set up as a market-based variable

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interest rate transaction, but which was switched to a fixed rate of 4.47% in January 2017. The proceeds were used to pay down short-term debt and for other general corporate purposes. The final maturity date of all borrowings under this loan agreement is April 2040.

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

Common Stock. The Company periodically issues shares of common stock in connection with the Investment Plan. The Company raised \$1.5 million through the issuance of 42,604 shares under the Investment Plan during 2016. In July 2015, the Company registered an additional 700,000 common shares for potential issuance under the Investment Plan with the United States Securities and Exchange Commission, increasing the number of NJBPU-authorized shares to 3.0 million.

Contractual Obligations

In the course of normal business activities, the Company enters into a variety of contractual obligations and commercial commitments. Some of these 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, 2016.

	Payment Due by Period (Millions of Dollars)				
	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Long-term Debt	\$ 142.5	\$ 6.2	\$ 13.1	\$ 12.8	\$ 110.4
Notes Payable	12.0	12.0	—	—	—
Interest on Long-term Debt	77.2	5.6	10.4	9.3	51.9
Purchased Water Contracts	31.1	5.7	11.5	8.8	5.1
Wastewater Operations	11.1	5.6	5.5	—	—
Total	\$ 273.9	\$ 35.1	\$ 40.5	\$ 30.9	\$ 167.4

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 2016, the Company contributed \$5.2 million to its postretirement benefit plans and expects to contribute approximately \$4.9 million in 2017. In addition, the table above does not reflect the provision against refundable taxes of \$2.3 million related to the Company's adoption of IRS tangible property repair cost regulations due to the uncertainty of future cash flows (see Note 3 of the Notes to Consolidated Financial Statements for further discussion).

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.

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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 89% of Operating Revenues and 99% of Total Assets, are subject to regulation in the states in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance in the Financial Accounting Standards Board Accounting Standards Codification Topic 980 *Regulated Operations* (Regulatory Accounting).

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

Revenues

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

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

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

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

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.

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The allocation by asset category of retirement benefit plan assets at December 31, 2016 and 2015 is as follows:

Asset Category	Pension Plan			Other Benefits Plan		
	2016	2015	Target	2016	2015	Target
Equity Securities	59.7%	59.1%	55%	54.1%	50.0%	43%
Debt Securities	36.6%	37.8%	38%	43.3%	47.4%	50%
Cash	1.0%	1.3%	2%	2.6%	2.4%	2%
Real Estate/Commodities	2.7%	1.8%	5%	0.0%	0.2%	5%
Total	100.0%	100.0%		100.0%	100.0%	

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

- **Discount Rate** - calculated based on market rates for long-term, high-quality corporate bonds specific to the expected duration of our Pension Plan and Other Benefits Plan's liabilities;
- **Compensation Increase** - based on management projected future employee compensation increases;
- **Long-Term Rate of Return** - determined based on expected returns from our asset allocation for our Pension Plan and Other Benefits Plan assets;
- **Mortality** -The Company utilizes the Society of Actuaries' mortality table (RP 2014) (Mortality Improvement Scale MP2016 for the 2016 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, 2016 are as follows:

	Pension Plan	Other Benefits Plan
Discount Rate	4.06%	4.06%
Compensation Increase	3.00%	3.00%
Long-term Rate of Return	7.50%	7.50%

For the 2016 valuation, costs and obligations for our Other Benefits Plan assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits in 2017 with the annual rate of increase declining 1.0% per year for 2018-2020 and 0.5% per year for 2021-2022, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2022.

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

Pension Plan

Actuarial Assumptions	Estimated Increase/ (Decrease) on PBO (000s)	Estimated Increase/ (Decrease) on Expense (000s)
Discount Rate 1% Increase	\$ (10,873)	\$ (1,074)
Discount Rate 1% Decrease	13,765	1,306

Other Benefits Plan

Actuarial Assumptions	Estimated Increase/ (Decrease) on PBO (000s)	Estimated Increase/ (Decrease) on Expense (000s)
Discount Rate 1% Increase	\$ (7,508)	\$ (844)
Discount Rate 1% Decrease	9,756	1,070
Healthcare Cost Trend Rate 1% Increase	8,410	1,440
Healthcare Cost Trend Rate 1% Decrease	(6,633)	(1,115)

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 long-term and short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2047. Over the next twelve months, approximately \$6.2 million of the current portion of existing long-term debt instruments will mature. The Company manages its interest rate risk related to existing variable-rate long-term and 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

Board of Directors and Stockholders
Middlesex Water Company

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, 2016 and 2015, and the related consolidated statements of income, common stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middlesex Water Company as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Middlesex Water Company’s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 3, 2017 expressed an unqualified opinion.

Philadelphia, Pennsylvania

/s/ Baker Tilly Virchow Krause, LLP

March 3, 2017

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

	Years Ended December 31,		
	2016	2015	2014
Operating Revenues	\$ 132,906	\$ 126,025	\$ 117,139
Operating Expenses:			
Operations and Maintenance	65,534	65,167	59,129
Depreciation	12,796	12,051	11,444
Other Taxes	13,944	12,967	12,174
Total Operating Expenses	92,274	90,185	82,747
Operating Income	40,632	35,840	34,392
Other Income (Expense):			
Allowance for Funds Used During Construction	619	380	317
Other Income	662	208	281
Other Expense	(2,143)	(295)	(1,001)
Total Other Income (Expense), net	(862)	293	(403)
Interest Charges	5,293	5,554	5,607
Income before Income Taxes	34,477	30,579	28,382
Income Taxes	11,735	10,551	9,937
Net Income	22,742	20,028	18,445
Preferred Stock Dividend Requirements	144	144	151
Earnings Applicable to Common Stock	\$ 22,598	\$ 19,884	\$ 18,294
Earnings per share of Common Stock:			
Basic	\$ 1.39	\$ 1.23	\$ 1.14
Diluted	\$ 1.38	\$ 1.22	\$ 1.13
Average Number of Common Shares Outstanding :			
Basic	16,270	16,175	16,052
Diluted	16,426	16,331	16,226
Cash Dividends Paid per Common Share	\$ 0.808	\$ 0.776	\$ 0.763

See Notes to Consolidated Financial Statements.

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

		December 31, 2016	December 31, 2015
ASSETS			
UTILITY PLANT:	Water Production	\$ 146,914	\$ 142,794
	Transmission and Distribution	430,880	398,363
	General	63,514	61,322
	Construction Work in Progress	12,196	5,734
	TOTAL	653,504	608,213
	Less Accumulated Depreciation	135,728	126,343
	UTILITY PLANT - NET	517,776	481,870
CURRENT ASSETS:	Cash and Cash Equivalents	3,879	3,469
	Accounts Receivable, net	10,129	10,060
	Unbilled Revenues	6,590	6,246
	Materials and Supplies (at average cost)	4,094	2,600
	Prepayments	2,024	2,035
	TOTAL CURRENT ASSETS	26,716	24,410
DEFERRED CHARGES AND OTHER ASSETS:	Preliminary Survey and Investigation Charges	2,365	2,199
	Regulatory Assets	60,894	58,552
	Operations Contracts, Developer and Other Receivables, net	1,139	2,921
	Restricted Cash	439	439
	Non-utility Assets - Net	9,131	9,199
	Federal Income Tax Receivable	1,408	1,408
	Other	293	385
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	75,669	75,103
	TOTAL ASSETS	\$ 620,161	\$ 581,383
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$ 153,045	\$ 150,763
	Retained Earnings	65,392	55,931
	TOTAL COMMON EQUITY	218,437	206,694
	Preferred Stock	2,436	2,436
	Long-term Debt	134,538	132,908
	TOTAL CAPITALIZATION	355,411	342,038
CURRENT LIABILITIES:	Current Portion of Long-term Debt	6,159	5,739
	Notes Payable	12,000	3,000
	Accounts Payable	12,343	6,525
	Accrued Taxes	12,385	9,126
	Accrued Interest	1,084	1,104
	Unearned Revenues and Advanced Service Fees	923	880
	Other	2,162	1,945
	TOTAL CURRENT LIABILITIES	47,056	28,319
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	20,846	20,461
	Accumulated Deferred Investment Tax Credits	753	832
	Accumulated Deferred Income Taxes	72,072	67,702
	Employee Benefit Plans	36,139	36,515
	Regulatory Liability - Cost of Utility Plant Removal	11,337	10,876
	Other	1,443	1,597
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	142,590	137,983
CONTRIBUTIONS IN AID OF CONSTRUCTION		75,104	73,043
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 620,161	\$ 581,383

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 22,742	\$ 20,028	\$ 18,445
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	13,532	13,087	12,191
Provision for Deferred Income Taxes and Investment Tax Credits	3,553	15,753	3,130
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(423)	(228)	(207)
Cash Surrender Value of Life Insurance	(101)	(76)	(108)
Stock Compensation Expense	829	633	539
Adoption of Repairs on Tangible Property Regulations Net	—	2,680	—
Changes in Assets and Liabilities:			
Accounts Receivable	(69)	(48)	1,950
Unbilled Revenues	(344)	(309)	(285)
Materials & Supplies	(1,494)	(347)	(269)
Prepayments	11	(46)	(261)
Accounts Payable	5,818	171	26
Accrued Taxes	3,259	178	816
Accrued Interest	(20)	(30)	(17)
Employee Benefit Plans	(1,601)	(129)	(3,243)
Unearned Revenue & Advanced Service Fees	43	41	2
Other Assets and Liabilities	1,336	(146)	(138)
NET CASH PROVIDED BY OPERATING ACTIVITIES	47,071	51,212	32,571
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures, Including AFUDC of \$196 in 2016, \$152 in 2015 and \$110 in 2014	(47,375)	(25,773)	(22,596)
Restricted Cash	—	1,390	(100)
Investment in Joint Venture	—	—	857
NET CASH USED IN INVESTING ACTIVITIES	(47,375)	(24,383)	(21,839)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(5,898)	(6,284)	(5,481)
Proceeds from Issuance of Long-term Debt	8,585	7,000	12,246
Net Short-term Bank Borrowings	9,000	(16,000)	(9,450)
Deferred Debt Issuance Expense	(152)	(65)	(141)
Common Stock Issuance Expense	—	(22)	—
Restricted Cash	—	744	—
Proceeds from Issuance of Common Stock	1,453	1,462	1,493
Payment of Common Dividends	(13,137)	(12,553)	(12,231)
Payment of Preferred Dividends	(144)	(144)	(151)
Construction Advances and Contributions-Net	1,007	(171)	822
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	714	(26,033)	(12,893)
NET CHANGES IN CASH AND CASH EQUIVALENTS	410	796	(2,161)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,469	2,673	4,834
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,879	\$ 3,469	\$ 2,673
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:			
Utility Plant received as Construction Advances and Contributions	\$ 1,439	\$ 2,441	\$ 6,598
Long-term Debt Deobligation	\$ 476	\$ 466	\$ —
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest	\$ 5,430	\$ 5,702	\$ 5,745
Interest Capitalized	\$ 196	\$ 152	\$ 110
Income Taxes	\$ 5,729	\$ 1,391	\$ 5,903

See Notes to Consolidated Financial Statements.

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

	December 31, 2016	December 31, 2015
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2016 - 16,296; 2015 - 16,225	\$ 153,045	\$ 150,763
Retained Earnings	65,392	55,931
TOTAL COMMON EQUITY	\$ 218,437	\$ 206,694
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 126		
Shares Outstanding - 24		
Convertible:		
Shares Outstanding, \$7.00 Series - 10	1,007	1,007
Shares Outstanding, \$8.00 Series - 3	349	349
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	80	80
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 2,436	\$ 2,436
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 1,415	\$ 1,629
6.25%, Amortizing Secured Note, due May 19, 2028	4,795	5,215
6.44%, Amortizing Secured Note, due August 25, 2030	3,827	4,107
6.46%, Amortizing Secured Note, due September 19, 2031	4,107	4,387
4.22%, State Revolving Trust Note, due December 31, 2022	329	376
3.60%, State Revolving Trust Note, due May 1, 2025	2,062	2,267
3.30% State Revolving Trust Note, due March 1, 2026	431	469
3.49%, State Revolving Trust Note, due January 25, 2027	465	501
4.03%, State Revolving Trust Note, due December 1, 2026	603	651
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	213	254
0.00%, State Revolving Fund Bond, due August 1, 2021	166	203
3.64%, State Revolving Trust Note, due July 1, 2028	276	294
3.64%, State Revolving Trust Note, due January 1, 2028	91	97
3.45%, State Revolving Trust Note, due August 1, 2031	1,015	1,066
6.59%, Amortizing Secured Note, due April 20, 2029	4,302	4,651
7.05%, Amortizing Secured Note, due January 20, 2030	3,271	3,521
5.69%, Amortizing Secured Note, due January 20, 2030	6,709	7,222
4.45%/Variable, Amortizing Secured Note, due April 20, 2040	14,076	14,707
3.75%, State Revolving Trust Note, due July 1, 2031	2,191	2,303
2.00%, State Revolving Trust Note, due February 1, 2036	1,115	—
3.75%, State Revolving Trust Note, due November 30, 2030	1,154	1,216
0.00% Construction Loans	7,470	—
First Mortgage Bonds:		
0.00%, Series X, due August 1, 2018	107	162
4.25% to 4.63%, Series Y, due August 1, 2018	122	185
0.00%, Series Z, due August 1, 2019	336	446
5.25% to 5.75%, Series AA, due August 1, 2019	440	565
0.00%, Series BB, due August 1, 2021	603	723
4.00% to 5.00%, Series CC, due August 1, 2021	779	895
0.00%, Series EE, due August 1, 2023	2,713	3,132
3.00% to 5.50%, Series FF, due August 1, 2024	3,690	3,690
0.00%, Series GG, due August 1, 2026	903	993
4.00% to 5.00%, Series HH, due August 1, 2026	960	1,300
0.00%, Series II, due August 1, 2024	700	789
3.40% to 5.00%, Series JJ, due August 1, 2027	824	1,010
0.00%, Series KK, due August 1, 2028	1,078	1,167
5.00% to 5.50%, Series LL, due August 1, 2028	1,175	1,365
0.00%, Series MM, due August 1, 2030	1,337	1,437
3.00% to 4.375%, Series NN, due August 1, 2030	1,590	1,675
0.00%, Series OO, due August 1, 2031	2,258	2,408
2.00% to 5.00%, Series PP, due August 1, 2031	780	815
5.00%, Series QQ, due October 1, 2023	9,915	9,915
3.80%, Series RR, due October 1, 2038	22,500	22,500
4.25%, Series SS, due October 1, 2047	23,000	23,000
0.00%, Series TT, due August 1, 2032	2,408	2,559
3.00% to 3.25%, Series UU, due August 1, 2032	890	935
0.00%, Series VV, due August 1, 2033	2,433	2,577
3.00% to 5.00%, Series WW, due August 1, 2033	865	900
SUBTOTAL LONG-TERM DEBT	142,489	140,279
Add: Premium on Issuance of Long-term Debt	1,495	1,707
Less: Unamortized Debt Expense	(3,287)	(3,339)
Less: Current Portion of Long-term Debt	(6,159)	(5,739)
TOTAL LONG-TERM DEBT	\$ 134,538	\$ 132,908

See Notes to Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Retained Earnings	Total
Balance at January 1, 2014	15,963	\$ 146,185	\$ 42,560	\$ 188,745
Net Income			18,445	18,445
Dividend Reinvestment & Common Stock Purchase Plan	71	1,493		1,493
Restricted Stock Award, Net - Employees	33	434		434
Stock Award - Board Of Directors	5	105		105
Conversion of \$7.00 Convertible Preferred Stock	52	451		451
Cash Dividends on Common Stock			(12,231)	(12,231)
Cash Dividends on Preferred Stock			(151)	(151)
Balance at December 31, 2014	<u>16,124</u>	<u>\$ 148,668</u>	<u>\$ 48,623</u>	<u>\$ 197,291</u>
Net Income			20,028	20,028
Dividend Reinvestment & Common Stock Purchase Plan	63	1,462		1,462
Restricted Stock Award, Net - Employees	33	528		528
Stock Award - Board Of Directors	5	105		105
Cash Dividends on Common Stock			(12,554)	(12,554)
Cash Dividends on Preferred Stock			(144)	(144)
Common Stock Expenses			(22)	(22)
Balance at December 31, 2015	<u>16,225</u>	<u>\$ 150,763</u>	<u>\$ 55,931</u>	<u>\$ 206,694</u>
Net Income			22,742	22,742
Dividend Reinvestment & Common Stock Purchase Plan	43	1,453		1,453
Restricted Stock Award, Net - Employees	24	682		682
Stock Award - Board Of Directors	4	147		147
Cash Dividends on Common Stock			(13,137)	(13,137)
Cash Dividends on Preferred Stock			(144)	(144)
Balance at December 31, 2016	<u>16,296</u>	<u>\$ 153,045</u>	<u>\$ 65,392</u>	<u>\$ 218,437</u>

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 (NJBP), Delaware Public Service Commission (DEPSC) and Pennsylvania Public Utilities Commission (PAPUC), respectively. Our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

(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 NJBP. 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 89% 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. 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, 2016, 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, 2016, 2015 and 2014. 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, 2016, 2015 and 2014 for Middlesex and Tidewater are as follows:

	2016	2015	2014
Middlesex	6.73%	6.72%	7.03%
Tidewater	7.92%	7.92%	7.91%

(k) Accounts Receivable – We record bad debt expense based on historical write-offs combined with an evaluation of current conditions. The allowance for doubtful accounts was \$0.9 million and \$0.8 million as of December 31, 2016 and 2015, respectively. For the years ended December 31, 2016, 2015 and 2014, bad debt expense was \$0.7 million, \$0.8 million and \$0.7, respectively. For each of the years ended December 31, 2016, 2015 and 2014, write-offs were \$0.6 million. Receivables not expected to be received in 2017 are included as non-current assets in Operations Contracts, Developer and Other Receivables, including a loan by Middlesex to Ridgewood Green RME (RGRME).

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

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

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

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

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

Revenues from the City of Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees, which have been set for the life of the contract, are billed monthly and recorded as earned. Variable fees are recorded upon approval of the amount by the City of Perth Amboy.

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

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

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

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

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

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

(r) Recent Accounting Pronouncements

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

Debt Issuance Costs - In April 2015, the FASB issued an update to authoritative guidance related to the presentation of debt issuance costs on the balance sheet, requiring companies to present debt issuance costs as a direct deduction from the carrying value of debt. The guidance was effective January 1, 2016. As a result of adopting this guidance, the December 31, 2015 balance sheet was revised, which resulted in decreases of \$3.3 million to deferred charges and other assets and long-term debt, respectively. The adoption of this guidance had no impact on the Company's statements of income or cash flows.

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

Inventory - In July 2015, the FASB issued guidance on simplifying the measurement of inventory. The new guidance replaces the current lower of cost or market test with a lower of cost or net realizable value test when cost is determined on a first-in, first-out or average cost basis. The guidance is effective January 1, 2017 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

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

Revenue Recognition - In May 2014, the FASB issued an update to authoritative guidance related to revenue from contracts with customers. The update replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. Additionally, the accounting for CIAC may be impacted if these contributions are determined to be revenue from contracts with customers. The FASB has deferred the effective date of these new revenue recognition standards by one year to January 1, 2018. The Company is currently analyzing the impact this standard will have on our financial statements and has begun creating an inventory of its contracts with customers, which consist primarily of regulated municipal water sale contracts and non-regulated operation and maintenance contracts for water and wastewater systems. Based on the Company's initial interpretation of the guidance, this update is not expected to have an impact on the Company's regulated municipal water sale contracts. The impact on the Company's non-regulated operation and maintenance contracts, if any, is not expected to be material. The Company's non-regulated segment contributed approximately 11% and 2% of total revenues and net income, respectively, for the year ended December 31, 2016. These assessments are preliminary and subject to change pending the Company's completion of its review of the guidance and its impact on the Company's contracts with customers, including the determination of whether or not CIAC is considered revenue from contracts with customers.

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

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

Statement of Cash Flows - In August 2016, the FASB issued guidance which amends the previous guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of this guidance is to reduce the diversity in practice that has resulted from the lack of consistent principles on this

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topic. The guidance is effective January 1, 2018 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

Restricted Cash - In November 2016, the FASB issued an update to authoritative guidance related to the classification and presentation of restricted cash in the statement of cash flows, which requires entities to a) include restricted cash balances in its cash and cash-equivalent balances in the statement of cash flows and b) include a reconciliation of cash and cash-equivalents per the statement of financial position as compared to the statement of cash flows. Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents will not be presented as cash flow activities in the statement of cash flows. In addition, an entity with a material balance of amounts described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The guidance is effective January 1, 2018 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

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

Note 2 - Rate and Regulatory Matters

Rate Matters

Middlesex - In August 2015, Middlesex's Petition to the NJBPU seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$5.0 million. The new base water rates were needed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$219.0 million, based on a return on equity of 9.75%. The rate increase became effective on August 29, 2015.

In June 2014, Middlesex's Petition to the NJBPU seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$4.2 million. The new base water rates were designed to recover increased costs and lost customer revenues, as well as a return on invested capital in rate base of \$208.6 million, based on a return on equity of 9.75%. The rate increase became effective on July 20, 2014.

On November 1, 2016, Middlesex implemented an NJBPU-approved purchased water adjustment clause sufficient to recover additional costs of less than \$0.1 million for the purchase of treated water from a non-affiliated regulated water utility.

Tidewater - In August 2014, Tidewater's Application to the DEPSC seeking permission to increase base water rates was concluded, based on a negotiated settlement, resulting in an increase in annual operating revenues of \$0.8 million. The new base water rates were designed to recover increased costs and a return on invested capital in rate base of \$208.6 million, based on a return on equity of 9.75%. The rate increase became effective on August 19, 2014.

Effective January 1, 2017, Tidewater increased its DEPSC-approved Distribution System Improvement Charge (DSIC) rate, which is expected to generate revenues of approximately \$0.3 million annually. A DSIC is a rate-mechanism that allows water utilities to recover investments in, and generate a return on, qualifying capital improvements made between base rate proceedings.

In April 2014, the DEPSC approved Tidewater's 50-year agreement with the United States Department of Defense for the privatization of the water system of Dover Air Force Base (DAFB) in Dover, Delaware. On October 1, 2014, Tidewater assumed ownership of the DAFB water utility assets and began providing regulated water service to DAFB under Tidewater's DEPSC approved tariff rates.

TESI - In October 2014, TESI implemented a DEPSC-approved 33.5% base wastewater rate increase for residential customers in the Plantations development in Delaware (approximately \$0.1 million annually).

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

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

Twin Lakes - In June 2016, the Pennsylvania Public Utilities Commission approved a \$0.1 million increase in Twin Lakes' base water rates, effective June 15, 2016. In November 2015, Twin Lakes had filed a petition seeking permission to increase its base water rates by approximately \$0.2 million per year. This request was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased operations and maintenance costs. The rate increase will be phased in over two years.

Regulatory Matters

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

Regulatory Assets	(Thousands of Dollars)		Remaining Recovery Periods
	December 31,		
	2016	2015	
Retirement Benefits	\$ 40,603	\$ 39,378	Various
Income Taxes	15,899	15,541	Various
Rate Cases, Tank Painting, and Other	4,392	3,633	2-10 years
Total	<u>\$ 60,894</u>	<u>\$ 58,552</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.

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, 2016 and 2015, the Company has approximately \$11.3 million and \$10.9 million, respectively, of expected costs of removal recovered currently in rates in excess of actual costs incurred as regulatory liabilities.

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

Note 3 – Income Taxes

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

	(Thousands of Dollars)		
	Years Ended December 31,		
	2016	2015	2014
Income Tax at Statutory Rate	\$ 12,007	\$ 10,703	\$ 9,786
Tax Effect of:			
Utility Plant Related	(1,059)	(920)	(572)
State Income Taxes – Net	770	745	711
Employee Benefits	(5)	7	(6)
Other	22	16	18
Total Income Tax Expense	\$ 11,735	\$ 10,551	\$ 9,937

Income tax expense is comprised of the following:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2016	2015	2014
Current:			
Federal	\$ 7,305	\$ (15,203)	\$ 5,920
State	877	1,153	887
Deferred:			
Federal	3,325	24,686	3,018
State	307	(6)	191
Investment Tax Credits	(79)	(79)	(79)
Total Income Tax Expense	\$ 11,735	\$ 10,551	\$ 9,937

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

	(Thousands of Dollars)	
	December 31,	
	2016	2015
Utility Plant Related	\$ 69,019	\$ 63,281
Customer Advances	(3,430)	(3,510)
Employee Benefits	6,904	5,796
Investment Tax Credits (ITC)	753	832
Net Operating Loss Carryforwards	—	2,311
Other	(421)	(176)
Total Deferred Tax Liability and ITC	\$ 72,825	\$ 68,534

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

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Company believes that its treatment of qualifying tangible property repair costs is proper, its deductibility could be challenged as part of the current examination by the IRS. Therefore, the Company has recorded a provision against refundable taxes of \$2.3 million.

It is probable that any net tax benefits that resulted from adopting the regulations will be considered in determining the revenue requirement used to set base rates for the Company in a future regulatory proceeding. Consequently, adoption of the new regulations did not and will not have a significant impact on the Company's financial statements or effective tax rate.

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

Note 4 - Commitments and Contingent Liabilities

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

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

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

Purchased water costs are shown below:

Purchased Water	(Millions of Dollars)		
	Years Ended December 31,		
	2016	2015	2014
Untreated	\$ 2.6	\$ 2.5	\$ 2.4
Treated	3.2	3.1	3.1
Total Costs	<u>\$ 5.8</u>	<u>\$ 5.6</u>	<u>\$ 5.5</u>

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

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

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If requested to perform under the guaranty to the County and, if AWM and NSU, as guarantor to Middlesex, do not fulfill their obligations to indemnify Middlesex against any claims that may arise under the Middlesex guaranty to the County, Middlesex would be required to fulfill the remaining operational commitment of AWM. As of December 31, 2016 and December 31, 2015, the liability recognized in Other Non-Current Liabilities on the balance sheet for the guaranty is approximately \$0.1 million and \$0.2 million, respectively.

Construction – The Company has projected to spend up to \$60.2 million in 2017, \$88.9 million in 2018 and \$73.8 million in 2019 on its construction program. The actual amount and timing of capital expenditures is dependent on the need for replacement of existing infrastructure, customer growth, residential new home construction and sales, project scheduling and continued refinement of project scope and costs. There is no assurance that projected customer growth and residential new home construction and sales will occur.

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, 2016 and 2015 is summarized below:

	(Millions of Dollars)	
	2016	2015
Established Lines at Year-End	\$ 60.0	\$ 60.0
Maximum Amount Outstanding	13.1	19.0
Average Outstanding	7.4	15.3
Notes Payable at Year-End	12.0	3.0
Weighted Average Interest Rate	1.54%	1.19%
Weighted Average Interest Rate at Year-End	1.71%	1.41%

The maturity dates for the Notes Payable as of December 31, 2016 are in January 2017 and are extendable at the discretion of the Company.

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

Note 6 - Capitalization

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

Common Stock

The Company periodically issues shares of its common stock in connection with its Middlesex Water Company Investment Plan (the Investment Plan), a direct share purchase and sale and dividend reinvestment plan for Middlesex common stock. In July 2015, the Company registered an additional 700,000 common shares for potential issuance under the Investment Plan with the United States Securities and Exchange Commission,

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increasing the number of NJBPU-authorized shares to 3.0 million. The cumulative number of shares issued under the Investment Plan at December 31, 2016 is 2.3 million. For the years ended December 31, 2016, 2015 and 2014, the Company raised approximately \$1.5 million, respectively, through the issuance of shares under the Investment Plan.

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

The Company maintains a stock plan for its outside directors (the Outside Director Stock Compensation Plan). For the years ended December 31, 2016, 2015 and 2014, 3,976, 4,795 and 5,082 shares, respectively, of Middlesex common stock were granted and issued to the Company's outside directors under the Outside Director Stock Compensation Plan and 68,144 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, 2016 and 2015, 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. In 2014, 4,293 shares (approximately \$0.5 million) of the Company's no par \$7.00 Series Cumulative and Convertible Preferred Stock were converted into 51,516 shares of common stock.

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 with the New Jersey Environmental Infrastructure Trust (NJEIT) at a below market interest rate. The current interest rate on construction loan borrowings is zero percent (0%). When construction on the qualifying project is substantially complete, the NJEIT 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 NJEIT is up to

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thirty years. The current portion of the principal balance having a stated interest rate of zero percent (0%) is 75% with the remaining portion of 25% having a market based interest rate. The NJEIT generally schedules its long-term debt financings in May and November.

In March 2016, the NJBPU approved Middlesex's request to borrow up to \$16.0 million under the New Jersey SRF program to fund the 2016 RENEW Program, which is an ongoing initiative to eliminate all unlined water distribution mains in the Middlesex system. Middlesex closed on an \$11.8 million zero percent (0%) SRF construction loan on June 28, 2016. Through December 31, 2016, Middlesex has drawn down \$7.5 million and expects to draw down the remaining proceeds during the first quarter of 2017. The NJEIT notified the Company that it has scheduled this project to be included in the May 2017 long-term loan financing.

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

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

Bond Series QQ, RR and SS are term bonds with single maturity dates subsequent to 2020. Principal repayments for all series of the Company's long-term debt except for Bond Series X, Y, Z and AA extend beyond 2020. 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>
2017	\$ 6.2
2018	\$ 6.6
2019	\$ 6.6
2020	\$ 6.4
2021	\$ 6.4

The weighted average interest rate on all long-term debt at December 31, 2016 and 2015 was 3.88% and 3.87%, respectively. Except for the Amortizing Secured Notes (\$42.5 million), all of the Company's outstanding long-term debt has been issued through the New Jersey Economic Development Authority (\$55.4 million), the NJEIT program (\$34.8 million) and the Delaware SRF program (\$9.7 million).

In both 2016 and 2015, the NJEIT 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, 2016. Basic EPS is computed on the basis of the weighted average number of shares outstanding. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and \$8.00 Series.

(In Thousands, Except Per Share Amounts)

Basic:	2016		2015		2014	
	Income	Shares	Income	Shares	Income	Shares
Net Income	\$ 22,742	16,270	\$ 20,028	16,175	\$ 18,445	16,052
Preferred Dividend	(144)		(144)		(151)	
Earnings Applicable to Common Stock	\$ 22,598	16,270	\$ 19,884	16,175	\$ 18,294	16,052
Basic EPS	\$ 1.39		\$ 1.23		\$ 1.14	
Diluted:						
Earnings Applicable to Common Stock	\$ 22,598	16,270	\$ 19,884	16,175	\$ 18,294	16,052
\$7.00 Series Dividend	67	115	67	115	74	133
\$8.00 Series Dividend	24	41	24	41	24	41
Adjusted Earnings Applicable to Common Stock	\$ 22,689	16,426	\$ 19,975	16,331	\$ 18,392	16,226
Diluted EPS	\$ 1.38		\$ 1.22		\$ 1.13	

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,

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bonds	\$ 82,786	\$ 84,821	\$ 85,600	\$ 88,431

For other long-term debt issuances for which there is no quoted market price and there is not an active trading market, it was not practicable to estimate their fair value. For details, including carrying value, interest rate and due date on these series of long-term debt, please refer to those series of long-term debt described as "Amortizing Secured Note", "State Revolving Trust Note" and "Construction Loans" on the Condensed Consolidated Statements of Capital Stock and Long-Term Debt). The carrying amount of these instruments was \$59.7 million and \$54.7 million at December 31, 2016 and December 31, 2015, respectively. Customer advances for construction have carrying amounts of \$20.8 million and \$20.5 million at December 31, 2016 and December 31, 2015, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 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

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employed by the Company on December 31st of the year to which the contribution relates. The Company maintains an unfunded supplemental plan for its executive officers. The Accumulated Benefit Obligation for the Company's Pension Plan at December 31, 2016 and 2015 was \$66.8 million and \$62.3 million, respectively.

Other Benefits

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

Regulatory Treatment of Over/Underfunded Retirement Obligations

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

The Company uses a December 31 measurement date for all of its employee benefit plans. The tables below set forth information relating to the Company's Pension Plan and Other Benefits Plan for 2016 and 2015.

	(Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	December 31,			
	2016	2015	2016	2015
Change in Projected Benefit Obligation:				
Beginning Balance	\$ 72,542	\$ 75,043	\$ 46,249	\$ 49,578
Service Cost	2,308	2,558	1,099	1,373
Interest Cost	3,046	2,894	1,952	1,921
Actuarial (Gain) Loss	2,810	(5,915)	141	(6,062)
Benefits Paid	(2,105)	(2,038)	(553)	(561)
Ending Balance	\$ 78,601	\$ 72,542	\$ 48,888	\$ 46,249

	(Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	December 31,			
	2016	2015	2016	2015
Change in Fair Value of Plan Assets:				
Beginning Balance	\$ 52,931	\$ 51,623	\$ 29,018	\$ 27,535
Actual Return on Plan Assets	4,909	11	1,591	350
Employer Contributions	3,635	3,335	1,551	1,694
Benefits Paid	(2,105)	(2,038)	(553)	(561)
Ending Balance	\$ 59,370	\$ 52,931	\$ 31,607	\$ 29,018
Funded Status	\$ (19,231)	\$ (19,611)	\$ (17,281)	\$ (17,231)

	(Thousands of Dollars)			
	Pension Plan		Other Benefits Plan	
	December 31,			
	2016	2015	2016	2015
Amounts Recognized in the Consolidated Balance Sheets consist of:				
Current Liability	373	327	—	—
Noncurrent Liability	18,858	19,284	17,281	17,231
Net Liability Recognized	\$ 19,231	\$ 19,611	\$ 17,281	\$ 17,231

	(Thousands of Dollars)					
	Pension Plan			Other Benefits Plan		
	Years Ended December 31,					
	2016	2015	2014	2016	2015	2014
Components of Net Periodic Benefit Cost						
Service Cost	\$ 2,308	\$ 2,558	\$ 1,894	\$ 1,099	\$ 1,373	\$ 1,032
Interest Cost	3,046	2,894	2,682	1,952	1,921	1,792
Expected Return on Plan Assets	(4,014)	(3,919)	(3,534)	(2,213)	(2,107)	(1,937)
Amortization of Net Actuarial Loss	1,426	1,645	416	1,773	2,261	1,413
Amortization of Prior Service Cost/(Credit)	—	—	2	(1,728)	(1,728)	(1,728)
Net Periodic Benefit Cost	\$ 2,766	\$ 3,178	\$ 1,460	\$ 883	\$ 1,720	\$ 572

Amounts that are expected to be amortized from Regulatory Assets into Net Periodic Benefit Cost in 2017 are as follows:

	(Thousands of Dollars)	
	Pension Plan	Other Benefits Plan
Actuarial Loss	\$ 1,566	\$ 1,781
Prior Service Credit	—	(1,728)

The discount rate and compensation increase rate for determining our postretirement benefit plans' benefit obligations and costs as of December 31, 2016, 2015 and 2014, respectively, are as follows:

	Pension Plan			Other Benefits Plan		
	2016	2015	2014	2016	2015	2014
Weighted Average Assumptions:						
Expected Return on Plan Assets	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	4.06%	4.26%	3.91%	4.06%	4.26%	3.91%
Benefit Cost	4.26%	3.91%	4.87%	4.26%	3.91%	4.87%
Compensation Increase for:						
Benefit Obligation	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Benefit Cost	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

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

The Company utilizes the Society of Actuaries' mortality table (RP 2014) (Mortality Improvement Scale MP2016 for the 2016 valuation).

For the 2016 valuation, costs and obligations for our Other Benefits Plan assumed a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits in 2017 with the annual rate of increase declining 1.0% per year for 2018-2020 and 0.5% per year for 2021-2022, resulting in an annual rate of increase in the per capita cost of covered healthcare benefits of 5% by year 2022.

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's Service and Interest Cost	\$ 673	\$ (514)
Effect on Projected Benefit Obligation	\$ 8,410	\$ (6,633)

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

Year	(Thousands of Dollars)	
	Pension Plan	Other Benefits Plan
2017	\$ 2,391	\$ 1,030
2018	2,440	1,277
2019	2,455	1,497
2020	2,847	1,641
2021	3,046	1,851
2022-2026	22,178	11,278
Totals	<u>\$ 35,357</u>	<u>\$ 18,574</u>

Benefit Plans Assets

The allocation of plan assets at December 31, 2016 and 2015 by asset category is as follows:

Asset Category	Pension Plan			Other Benefits Plan		
	2016	2015	Target	2016	2015	Target
Equity Securities	59.7%	59.1%	55%	54.1%	50.0%	43%
Debt Securities	36.6%	37.8%	38%	43.3%	47.4%	50%
Cash	1.0%	1.3%	2%	2.6%	2.4%	2%
Real Estate/Commodities	2.7%	1.8%	5%	0.0%	0.2%	5%
Total	<u>100.0%</u>	<u>100.0%</u>		<u>100.0%</u>	<u>100.0%</u>	

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

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

Equity securities include Middlesex common stock in the amounts of \$0.8 million (1.4% of total Pension Plan assets) and \$1.0 million (2.0 % of total Pension Plan assets) as of December 31, 2016 and 2015, respectively.

Fair Value Measurements

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

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

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

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

	(Thousands of Dollars)			
	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 49,439	\$ —	\$ —	\$ 49,439
Money Market Funds	648	—	—	648
Common Equity Securities	9,283	—	—	9,283
Total Investments	\$ 59,370	\$ —	\$ —	\$ 59,370

	(Thousands of Dollars)			
	As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 43,623	\$ —	\$ —	\$ 43,623
Money Market Funds	652	—	—	652
Common Equity Securities	8,656	—	—	8,656
Total Investments	\$ 52,931	\$ —	\$ —	\$ 52,931

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, 2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 17,096	\$ —	\$ —	\$ 17,096
Money Market Funds	826	—	—	826
Preferred Equity Securities	108	—	—	108
Agency/US/State/Municipal Debt	—	13,577	—	13,577
Total Investments	\$ 18,030	\$ 13,577	\$ —	\$ 31,607

	(Thousands of Dollars) As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 14,572	\$ —	\$ —	\$ 14,572
Money Market Funds	688	—	—	688
Preferred Equity Securities	224	—	—	224
Agency/US/State/Municipal Debt	—	13,534	—	13,534
Total Investments	\$ 15,484	\$ 13,534	\$ —	\$ 29,018

Benefit Plans Contributions

For the Pension Plan, Middlesex made total cash contributions of \$3.6 million in 2016 and expects to make approximately \$3.3 million of cash contributions in 2017.

For the Other Benefits Plan, Middlesex made total cash contributions of \$1.6 million in 2016 and expects to make approximately \$1.6 million of cash contributions in 2017.

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, 2016, 2015 and 2014.

For those employees hired after March 31, 2007, and still actively employed on December 31, 2016, the Company approved, and will fund, a discretionary contribution of \$0.4 million which was based on 5.0% of eligible 2016 compensation. For the years ended December 31, 2015 and 2014, the Company made discretionary contributions of \$0.4 million and \$0.3 million, respectively, for qualifying employees.

Stock-Based Compensation

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

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

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

	Shares (thousands)	Unearned Compensation (thousands)	Weighted Average Grant Price
Balance, January 1, 2014	117	\$ 1,216	
Granted	33	711	\$ 21.46
Vested	(22)	—	
Forfeited	(1)	(10)	
Amortization of Compensation Expense	—	(434)	
Balance, December 31, 2014	127	\$ 1,483	
Granted	33	741	\$ 22.65
Vested	(12)	—	
Forfeited	—	—	
Amortization of Compensation Expense	—	(528)	
Balance, December 31, 2015	148	\$ 1,696	
Granted	24	750	\$ 30.85
Vested	(25)	—	
Forfeited	—	—	
Amortization of Compensation Expense	—	(682)	
Balance, December 31, 2016	147	\$ 1,764	

The fair value of vested restricted shares was \$0.9 million and \$0.3 million as of December 31, 2016 and 2015, 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,

Operations by Segments:	2016	2015	2014
Revenues:			
Regulated	\$ 118,017	\$ 111,247	\$ 103,556
Non – Regulated	15,388	15,238	14,143
Inter-segment Elimination	(499)	(460)	(560)
Consolidated Revenues	\$ 132,906	\$ 126,025	\$ 117,139
Operating Income:			
Regulated	\$ 38,201	\$ 33,603	\$ 32,000
Non – Regulated	2,431	2,237	2,392
Consolidated Operating Income	\$ 40,632	\$ 35,840	\$ 34,392
Depreciation:			
Regulated	\$ 12,606	\$ 11,874	\$ 11,262
Non – Regulated	190	177	182
Consolidated Depreciation	\$ 12,796	\$ 12,051	\$ 11,444
Other Income (Expense), Net:			
Regulated	\$ 779	\$ 619	\$ 157
Non – Regulated	(1,308)	20	(75)
Inter-segment Elimination	(333)	(346)	(485)
Consolidated Other Income (Expense), Net	\$ (862)	\$ 293	\$ (403)
Interest Expense:			
Regulated	\$ 5,293	\$ 5,554	\$ 5,607
Non – Regulated	89	89	91
Inter-segment Elimination	(89)	(89)	(91)
Consolidated Interest Charges	\$ 5,293	\$ 5,554	\$ 5,607
Income Taxes:			
Regulated	\$ 11,091	\$ 9,522	\$ 8,907
Non – Regulated	644	1,029	1,030
Consolidated Income Taxes	\$ 11,735	\$ 10,551	\$ 9,937
Net Income:			
Regulated	\$ 22,353	\$ 18,889	\$ 17,249
Non – Regulated	389	1,139	1,196
Consolidated Net Income	\$ 22,742	\$ 20,028	\$ 18,445
Capital Expenditures:			
Regulated	\$ 47,189	\$ 25,706	\$ 22,498
Non – Regulated	186	67	98
Total Capital Expenditures	\$ 47,375	\$ 25,773	\$ 22,596

(Thousands of Dollars)

	As of December 31, 2016	As of December 31, 2015
Assets:		
Regulated	\$ 619,915	\$ 581,321
Non – Regulated	6,245	6,436
Inter-segment Elimination	(5,999)	(6,374)
Consolidated Assets	\$ 620,161	\$ 581,383

Note 9 - Quarterly Operating Results - Unaudited

Operating results for each quarter of 2016 and 2015 are as follows:

2016	(Thousands of Dollars, Except per Share Data)					Total
	1 st	2 nd	3 rd	4 th		
Operating Revenues	\$ 30,579	\$ 32,725	\$ 37,754	\$ 31,808	\$	132,906
Operating Income	8,302	10,328	14,156	7,846		40,632
Net Income	4,790	5,919	8,813	3,220		22,742
Basic Earnings per Share	\$ 0.29	\$ 0.36	\$ 0.54	\$ 0.20	\$	1.39
Diluted Earnings per Share	\$ 0.29	\$ 0.36	\$ 0.54	\$ 0.19	\$	1.38
2015	1st	2nd	3rd	4th		Total
Operating Revenues	\$ 28,780	\$ 31,666	\$ 34,654	\$ 30,925	\$	126,025
Operating Income	6,685	9,235	11,460	8,460		35,840
Net Income	3,636	5,089	6,743	4,560		20,028
Basic Earnings per Share	\$ 0.22	\$ 0.31	\$ 0.41	\$ 0.29	\$	1.23
Diluted Earnings per Share	\$ 0.22	\$ 0.31	\$ 0.41	\$ 0.28	\$	1.22

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

As required by Rule 13a-15 under the Exchange Act, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer for the quarter ended December 31, 2016. 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, 2016. 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, 2016, 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, 2016 as stated in their report which is included herein.

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

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

Iselin, New Jersey
March 3, 2017

(3) Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Middlesex Water Company

We have audited Middlesex Water Company's (the "Company") internal control over financial reporting as of December 31, 2016 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Middlesex Water Company's management is responsible 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 internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity'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 accounting principles generally accepted in the United States of America. An entity'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 entity; (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 entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity'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.

In our opinion, Middlesex Water Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and consolidated statements of capital stock and long-term debt and the related consolidated statements of income, common stockholders' equity, and cash flows of Middlesex Water Company and our report dated March 3, 2017 expressed an unqualified opinion.

/s/ Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
March 3, 2017

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 2017 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 2017 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 2017 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 2017 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 2017 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, 2016 and 2015.
Consolidated Statements of Income for each of the three years in the period ended December 31, 2016.
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2016.
Consolidated Statements of Capital Stock and Long-term Debt as of December 31, 2016 and 2015.
Consolidated Statements of Common Stockholders' Equity for each of the three years in the period ended December 31, 2016.
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.

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 3, 2017

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 3, 2017.

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

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

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

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

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

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

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

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

By: /s/ Jeffries Shein
Jeffries Shein
Director

EXHIBIT INDEX

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

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

EXHIBIT INDEX

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

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.13	Copy of Transmission Agreement, dated October 16, 1992, between the Company and the Township of East Brunswick.	33-54922	10.23
*10.13(a)	Copy of Amendment of Transmission Agreement, dated October 1, 2014, between the Company and the Township of East Brunswick.		
10.14	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series X), filed as Exhibit No. 10.22 of the Company's 1998 Third Quarter Form 10-Q.		
10.15	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the State of New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series Y), filed as Exhibit No. 10.23 of the Company's 1998 Third Quarter Form 10-Q.		
10.16	Copy of Operation, Maintenance and Management Services Agreement dated January 1, 1999 between the Company, City of Perth Amboy, Middlesex County Improvement Authority and Utility Service Affiliates, Inc.	333-66727	10.24
10.17	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the State of New Jersey and Middlesex Water Company (Series Z), filed as Exhibit No. 10.25 of the Company's 1999 Form 10-K.		
10.18	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series AA), filed as Exhibit No. 10.26 of the Company's 1999 Form 10-K.		
10.19	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the State of New Jersey and Middlesex Water Company (Series BB). Filed as Exhibit No. 10.22 of the Company's 2001 Form 10-K.		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.20	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.		
10.21	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.		
10.22	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.		
10.23	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.		
10.24	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.		
10.25	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.		
10.26	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.		
10.27	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.		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.28	Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection, and Middlesex Water Company dated as of November 1, 2007 (Series JJ), filed as Exhibit 10.33 of the Company's 2007 Form 10-K.		
10.29	Copy of Loan Agreement By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of November 1, 2008 (Series KK), filed as Exhibit 10.34 of the Company's 2008 Form 10-K.		
10.30	Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection, and Middlesex Water Company dated as of November 1, 2008 (Series LL)), filed as Exhibit 10.35 of the Company's 2008 Form 10-K.		
10.31	Registration Statement, Form S-3, under Securities Act of 1933 filed July 31, 2015, relating to the Middlesex Water Company Investment Plan.	333-205698	
10.32	Amended and Restated Line of Credit Note between registrant, registrant's subsidiaries and PNC Bank, filed as Exhibit 10.32 of the Company's 2015 First Quarter Form 10-Q.		
*10.32(a)	Extension of the Expiration Date of the Line of Credit included in the Amended and Restated Loan Agreement between registrant, registrant's subsidiaries and PNC Bank, N.A.		
10.33	Uncommitted Line of Credit Letter Agreement between registrant, registrant's subsidiaries and Bank of America, N.A, filed as Exhibit 10.33 of the Company's 2015 Third Quarter Form 10-Q.		
10.33(a)	Amendment to Uncommitted Line of Credit Letter Agreement between registrant, registrant's subsidiaries and Bank of America, N.A, filed as Exhibit 10.33(a) of the Company's 2016 Third Quarter Form 10-Q.		
10.34	Amended Promissory Note for a committed line of credit between registrant's wholly-owned subsidiary Tidewater Utilities, Inc. and CoBank, ACB, filed as Exhibit 10.35 of the Company's 2014 Form 10-K.		
10.35	Copy of Loan Agreement By and Between The state of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of December 1, 2010 (Series MM), filed as Exhibit 10.41 of the Company's 2010 Form 10-K.		
10.36	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.		
10.37	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.		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.38	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.		
10.39	Copy of Loan Agreement By and Between the New Jersey Economic Development Authority and Middlesex Water Company dated as of November 1, 2012 (Series QQ, RR & SS), filed as Exhibit 10.41 of the Company's 2012 Form 10-K.		
10.40	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.		
10.41	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.		
10.42	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.		
10.43	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.		
10.44	Copy of Construction Loan Agreement (CFP-16-1) By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company, filed as Exhibit 10.44 of the Company's 2016 Second Quarter Form 10-Q.		
10.45	Copy of Construction Loan Agreement (CFP-16-2) By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company. filed as Exhibit 10.45 of the Company's 2016 Second Quarter Form 10-Q.		
*21	Middlesex Water Company Subsidiaries.		
*23.1	Consent of Independent Registered Public Accounting Firm, Baker Tilly Virchow Krause, LLP.		
*31	Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.		
*31.1	Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.		
*32	Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C.§1350.		
*32.1	Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C.§1350.		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
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		

**TREATMENT AND PUMPING AGREEMENT
BETWEEN
MIDDLESEX WATER COMPANY
AND THE
TOWNSHIP OF EAST BRUNSWICK
DATED OCTOBER 1, 2014**

TREATMENT AND PUMPING AGREEMENT

This Treatment and Pumping Agreement (hereinafter referred to as the "Agreement") made this 1st day of October, 2014 between **MIDDLESEX WATER COMPANY**, a public utility and corporation organized under the laws of the State of New Jersey, with offices located at 1500 Ronson Road, Iselin, New Jersey (hereinafter referred to as "Middlesex"), and the **TOWNSHIP OF EAST BRUNSWICK**, a municipal corporation of the State of New Jersey with offices located at 1 Jean Walling Civic Center, East Brunswick, New Jersey 08816 (hereinafter referred to as "East Brunswick") (hereinafter collectively referred to as "the Parties").

WITNESSETH:

WHEREAS, Middlesex is engaged in the business of collecting, treating and distributing water for domestic, commercial, industrial and municipal uses and owns and operates a public water treatment and supply system for these purposes; and

WHEREAS, East Brunswick is desirous of engaging the services of Middlesex to treat and process water allocated to East Brunswick by the New Jersey Water Supply Authority (NJWSA), a subdivision of the State of New Jersey, and in having Middlesex treat and deliver the water into a water distribution transmission system owned by East Brunswick;

NOW THEREFORE, in consideration of the promises and of the mutual covenants herein contained, the Parties hereto agree as follows:

1. SUPPLY OF WATER

Middlesex agrees that it shall treat and pump such water as is supplied to it by the NJWSA on behalf of East Brunswick, upon the terms and conditions set forth herein.

Middlesex's obligations hereunder to treat and pump the quantities of water contemplated by this Agreement shall at all times be contingent upon, and limited to, such quantities of raw water as are supplied to it by the NJWSA on behalf of East Brunswick.

2. **TERM**

This Agreement shall be effective for a period of 30 years upon its execution by both Middlesex and East Brunswick.

3. **MANAGEMENT AND OPERATION**

Middlesex shall maintain and operate the water in-take transmission system required to treat and pump the required water supply.

4. **QUALITY OF WATER**

Middlesex warrants that it intends to treat and pump all water to East Brunswick in a manner consistent with all applicable federal and state water quality statutes and regulations and Middlesex warrants that it will continue to monitor the raw water supply prior to treatment.

5. **RATE**

East Brunswick shall pay for the treatment of water delivered pursuant to this Agreement at the New Jersey Board of Public Utilities (NJBPUB) approved tariff rate of \$1,511.48 per million gallons or as said rate may be changed from time to time to the extent approved by the NJBPUB, as required by law.

6. **METER STATION**

Water to be supplied by Middlesex hereunder shall be delivered to East Brunswick through an interconnection installed at the Carl J. Olsen Treatment Plant in the Township of Edison, New Jersey.

7. **METER, SERVICES AND OTHER APPURTENANCES**

Middlesex will furnish, install and maintain, at its own cost, a valved connection to East Brunswick's water distribution transmission system and a meter. The meter and connection will remain the property of Middlesex. Middlesex will maintain and verify the accuracy of said meter, and report such to East Brunswick.

8. **MINIMUM PAYMENT OBLIGATION**

East Brunswick shall be obligated to pay for the treatment of at least five (5) million gallons of water daily (regardless of actual demand or consumption) unless a new minimum has been established under Paragraph 8 of this Agreement. In the event the NJWSA diversion privilege for East Brunswick is reduced, the minimum payment obligation is reduced accordingly. Payment for water treated shall be made within thirty days from the rendering to East Brunswick of a bill therefor.

9. **INCREASE IN MINIMUM PAYMENT OBLIGATION**

The total daily quantity of water taken by East Brunswick at the meter station during on-peak periods may exceed five (5) million gallons per day by up to 100% on a 24-hour basis, without affecting the minimum payment obligation. All water treated in any 24-hour period in excess of five (5) million gallons shall be paid for at the Contract rate.

The quantity of water treated in any peak hour during on-peak periods (6:00 A.M. to 10:00 P.M.) multiplied by 24 may exceed the five (5) million gallons by 100% (equivalent to a maximum hourly flow of 10 million gallons per day) without affecting the minimum payment obligation.

The quantity of water treated in any peak hour during off-peak periods (10:00 P.M. to 6:00 A.M.) may exceed five (5) million gallons per day by 150% (equivalent to a maximum hourly flow of 12.5 million gallons per day) without affecting the minimum payment obligation.

In the event that the daily 24-hour quantity of water treated shall exceed ten (10) million gallons or the maximum hourly flow shall exceed the rate of twelve and one-half (12.5) million gallons per day during on-peak periods, or the rate of 16 million gallons per day during off-peak periods during more than four (4) consecutive days or during more than twelve (12) days during the year, the minimum quantity of water which East Brunswick shall be obligated to pay for shall be increased to the greater of either two-thirds of the daily quantity of water supplied or one-half of the quantity supplied in the peak hour multiplied by 24.

Any increased minimum payment obligation shall continue in effect for six (6) months. At the end of any such six (6) month period the subsequent minimum payment obligation shall be determined by the average usage, level maintained during the three (3) months prior to the expiration of the 6-month period.

Nothing herein shall prevent the Parties from mutually agreeing to increase for six (6) months the minimum amount of water treated daily for which East Brunswick is obligated to pay. In the event that agreement among the Parties is so reached, the daily and hourly percentage increase allowances concerning minimum payment obligations set forth in Paragraph 8 shall apply the same manner.

10. COMBINED CHARGE

The minimum payment obligation shall be determined on the basis of the combined total daily quantity of water supplied through all the meter stations if and when additional connections are required.

11. DEFINITIONS

Where the words "daily" or "24-hours" are used in this Agreement, they shall refer to the 24-hour period between the daily meter reading to be taken at 8:00 A.M. The words "on-peak" as used in this Agreement shall refer to the hours of 6:00 A.M. through 10:00 P.M. during any given 24-hour period. The words "off-peak" as used in this Agreement shall refer to hours of 10:00 P.M. through 6:00 A.M. during any given 24-hour period.

12. EXCEPTIONS FOR EMERGENCIES

The minimum payment obligation shall not be affected in the event that the amount of water treated and pumped exceeds the daily or hourly limitations established herein for not more than 24 hours in case of fire or 48 hours in case of main break emergencies and for not more than five (5) days (120 consecutive hours) in the case of other catastrophes requiring an emergency supply of water, provided Middlesex is promptly notified that any such emergency exists. The determination as to whether a fire or main break is considered an exception for emergencies as contemplated under this provision will be made at the sole discretion of Middlesex. Middlesex agrees to act in good faith to apply fair and reasonable judgment with respect to the characterization of such events. If either of the Parties needs to provide emergency service to another utility or if either of the Parties declares an emergency due to some other event than those listed

above in this Paragraph, then the Parties will act in good faith to mutually agree on how such events shall be addressed both operationally and financially.

13. METER READINGS

Middlesex will read the meters daily for all water supplied to East Brunswick at each connection then in operation.

14. EXCUSED PERFORMANCE

Middlesex agrees to provide a continuous, regular and uninterrupted supply of water, subject to the terms of this Agreement and subject further to:

- a) interruption of supply of unprocessed water from the NJWSA to Middlesex for whatever cause
- b) interruption by reasons of acts of God, strike, State or Municipal interference or other causes beyond its control
- c) The supply of any water amounts, over the minimums listed in this document, shall be provided to East Brunswick based on the ability and capability of Middlesex to provide the amounts and are not guaranteed.

In no event, shall Middlesex be liable for damages to East Brunswick by reason of interruptions in supply of water to East Brunswick and its customers for any cause whatsoever. Nor shall the payment provision apply if Middlesex is unable to supply water to East Brunswick; provided, however that East Brunswick shall be responsible for all payment obligations for interruptions which are not caused by Middlesex's inability to supply water to East Brunswick with the exception of interruptions caused by the NJWSA.

15. INDEMNIFICATION

East Brunswick shall completely indemnify, protect and hold harmless Middlesex from any and all costs, expenses, liability, losses, claims, suits and proceedings for any nature whatsoever whether brought against East Brunswick or Middlesex provided that the same arise out of any negligence, breach of warranty or other breach of duty by East Brunswick. Similarly, Middlesex shall completely indemnify, protect and save harmless East Brunswick from any and all costs, expenses, liability, losses claims, suits and proceedings of any nature whatsoever whether brought against East Brunswick or Middlesex provided that the same arise out of any negligence, breach of warranty or other breach of duty by Middlesex. East Brunswick agrees to provide the aforesaid indemnification to Middlesex for any costs or amounts that may be due from or payable by Middlesex as a result of the applicability of the New Jersey Gross Receipts Tax and Franchise tax to the transactions contemplated by this Agreement.

16. FIRM CAPACITY

For the purposes of the calculation of the Firm Capacity allocated by the New Jersey Department of Environmental Protection (NJDEP) to Middlesex, the Daily Minimum or Revised Daily Minimum conveyed to East Brunswick shall represent the amount by which the total Firm Capacity of Middlesex is reduced.

17. REGULATORY APPROVALS

This Agreement shall be filed with and subject to approval by the NJBPU as may be required by law.

18. GOVERNING LAW

This Agreement shall be governed by and interpreted in accordance with the laws of the State of New Jersey.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

ATTEST:

/s/Jay L. Kooper
Jay L. Kooper 12/5/16
Vice President, General Counsel & Secretary

ATTEST:

/s/Nennette Perry
Nennette Perry, Municipal Clerk
10/28/14

MIDDLESEX WATER COMPANY

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

TOWNSHIP OF EAST BRUNSWICK

/s/David Stahl
Mayor David Stahl

**SECOND AMENDMENT TO
TRANSMISSION AGREEMENT
BETWEEN
MIDDLESEX WATER COMPANY
AND THE
TOWNSHIP OF EAST BRUNSWICK
DATED OCTOBER 1, 2014**

SECOND AMENDMENT TO TRANSMISSION AGREEMENT

This Second Amendment to Transmission Agreement (hereinafter referred to as the "Agreement") made this 28th day of November, 2016 between **MIDDLESEX WATER COMPANY**, a public utility and corporation organized under the laws of the State of New Jersey, with offices located at 1500 Ronson Road, Iselin, New Jersey (hereinafter referred to as "Middlesex"), and the **TOWNSHIP OF EAST BRUNSWICK**, a municipal corporation of the State of New Jersey, with offices located at 1 Jean Walling Civic Center, East Brunswick, New Jersey 08816 (hereinafter referred to as "East Brunswick") (hereinafter collectively referred to as "the Parties").

W I T N E S S E T H :

WHEREAS, Middlesex is engaged in the business of collecting, treating and distributing water for domestic, commercial, industrial and municipal uses and owns and operates a public water treatment and supply system for these purposes; and

WHEREAS, East Brunswick owns and operates a public water supply system that is connected to Middlesex's water treatment and supply system through an interconnection located at the Carl J. Olsen Treatment Plant in the Township of Edison, New Jersey (hereinafter "CJO Treatment Plant"); and

WHEREAS, Middlesex owns and operates the South River Basin Transmission Main (hereinafter referred to as "South River Basin Transmission Main" or "SRBTM") for the purpose of supplying water to customers located in the South River Basin; and

WHEREAS, East Brunswick is desirous of utilizing temporary surplus capacity in its system to transport water through its 36-inch and 24-inch transmission mains, that together extend from Middlesex's CJO Treatment Plant through East Brunswick's Tices Lane Pumping

Station and then to Middlesex's South River Basin Transmission Main, for the purpose of supplying water to customers located in the South River Basin;

WHEREAS, the Parties entered into a Transmission Agreement Between Middlesex Water Company and the Township of East Brunswick, dated October, 16, 1992 ("Transmission Agreement"), which was subsequently amended by the Agreement to Modify A Transmission Agreement Dated October 16, 1992 Between Middlesex Water Company and the Township of East Brunswick, dated June 22, 1998 ("First Amendment"); and

WHEREAS, The Parties desire to further amend certain provisions the Transmission Agreement through this Second Amendment To The Transmission Agreement Between Middlesex Water Company and the Township of East Brunswick ("Second Amendment");

NOW THEREFORE, in consideration of the promises and of the mutual covenants herein contained, the Parties hereto agree as follows:

1. **Section 2 entitled "Term"** of the Transmission Agreement is hereby amended to read as follows: "This Agreement as amended by the Second Amendment shall be effective upon execution by the Parties for a period of fifteen (15) years subject to a second term upon approval of both the Township of East Brunswick Governing Body and Middlesex Water Company that shall terminate effective the same date as the termination of the Treatment and Pumping Agreement Between Middlesex Water Company and the Township of East Brunswick, dated October 1, 2014. This Agreement as amended by the Second Amendment shall not terminate unless or until written notice of intention to terminate the Agreement is given by either party at least thirty-six (36) months prior to the effective date of the termination. At the end of each term, this Agreement shall automatically renew for an additional three (3)-year period unless either

party provides at least 36-months advance written notice of its intention to not renew the Agreement.”

2. **Section 7 entitled “Rate”** of the Transmission Agreement is hereby amended to read as follows: “Middlesex shall pay a transmission fee for the quantity of water transported pursuant to this Agreement at a rate of \$100.00 per million gallons plus an amount equal to 0.5 times the sum of annual increases to the United States Department of Labor Bureau of Labor Statistics Consumer Price Index, Urban Earners and Clerical Workers (CPI-W), New York-Northern New Jersey-Long Island, NY-NJ-PA (1982-84 = 100), All Items (“CPI”) for the period between the effective date of Middlesex’s most recent rate increase approved by the New Jersey Board of Public Utilities (“NJBPU”) and the effective date of the next Middlesex rate increase approved by the NJBPU; provided that under no circumstances shall there be an adjustment based on a CPI increase of over 6 percent nor shall there be an adjustment applied should the cumulative change in the CPI result in a decrease. Attached to and incorporated into this Agreement as amended as “Attachment A” is a sample calculation to illustrate the adjustment agreed to by the Parties.”

3. **Section 17 entitled “Regulatory Approvals”** of the Transmission Agreement is hereby amended to read as follows: “This Agreement shall be filed with and subject to approval by the New Jersey Board of Public Utilities as may be required by law.”

4. **Section 18 entitled “Existing Rights and Obligations”** of the Transmission Agreement is hereby amended to read as follows: “Except as provided by this Agreement as amended, the rights and obligations of the Parties under the Treatment and Pumping Agreement shall remain unchanged.”

5. **Section 19 entitled "Governing Law"** of the Transmission Agreement is hereby amended to read as follows: "This Agreement as amended shall be governed by and interpreted in accordance with the laws of the State of New Jersey."

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

ATTEST:

/s/Jay L. Kooper
Jay L. Kooper 12/5/16
Vice President, General Counsel & Secretary

ATTEST:

/s/Nennette Perry
Nennette Perry, Municipal Clerk
11/29/16

MIDDLESEX WATER COMPANY

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

TOWNSHIP OF EAST BRUNSWICK

/s/Kevin T. McEvoy
Mayor Kevin T. McEvoy

Middlesex Water Company
 East Brunswick Transmission Rate
 O&M Cost Inflation - Example

		<u>Rate Increase</u>
January 2018 EB Transmission Rate Increase		
September/16 CPI Index (Actual)	259.059	
September/17 CPI Index (Forecast)	265.000	
Change	5.941	2.293%
		0.50
		1.147%
January 2019 EB Transmission Rate Increase		
September/17 CPI Index (Forecast)	265.000	
September/18 CPI Index (Forecast)	281.000	
Change	16.000	6.038%
		0.50
		3.019%
January 2020 EB Transmission Rate Increase		
September/18 CPI Index (Forecast)	281.000	
September/19 CPI Index (Forecast)	295.000	
Change	14.000	4.982%
		0.50
		2.491%
Cumulative Increase		6.657%

Increase = Lower of 6% or Cumulative Change in CPI
 Under this example, the increase is effective January 2020, the effective date of the NJBPU approved rate increase.

CPI Source:
 U.S. Department of Labor
 Bureau of Labor Statistics
 Consumer Price Index -Urban Wage Earners & Clerical Workers
 New York-Northern New Jersey-Long Island, NY-NJ-CT-PA
<http://www.bls.gov/regions/new-york-new-jersey/data/xg-tables/ro2xgcpiny.htm>



January 19, 2017

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

Re: Extension of Expiration Date for that certain \$20,000,000.00 Commercial Line of Credit ("**Line of Credit**") extended by PNC Bank, National Association (the "**Bank**" to Middlesex Water Company (the "**Borrower**")

Dear Mr. O'Connor:

We are pleased to inform you that the Line of Credit has been renewed. The Expiration Date of the Line of Credit, as set forth in that certain Amended and Restated Committed Line of Credit Note executed and delivered by the Borrower to the Bank dated April 29, 2015 (the "**Note**") and/or that certain Amended and Restated Loan Agreement dated April 29, 2015 governing the Line of Credit (the "**Loan Agreement**"), has been extended from January 31, 2018 to January 31, 2019, or such later date as may, in the Bank's sole discretion, be designated by the Bank by written notice from the Bank to the Borrower. All sums due under the Note, the Loan Agreement or any related documents, instruments and agreements (collectively as amended from time to time, the "**Loan Documents**") shall be due and payable on the Expiration Date, as extended hereby. All other terms and conditions of the Loan Documents governing the Line of Credit remain in full force and effect.

It has been a pleasure working with you and I look forward to a continued successful relationship. Thank you again for your business.

Very truly yours,

PNC BANK, NATIONAL ASSOCIATION

By: /s/Anthony Frasso

Anthony Frasso
Vice President

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

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 No. 333-205698 and Form S-8 No. 333-156269 of Middlesex Water Company of our reports dated March 3, 2017 relating to the consolidated financial statements and the effectiveness of Middlesex Water Company's internal control over financial reporting, which appear in this Form 10-K.

/s/ Baker Tilly Virchow Krause, LLP

Philadelphia, Pennsylvania
March 3, 2017

**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

Date: March 3, 2017

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

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

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

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

Date: March 3, 2017

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 3, 2017

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

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 3, 2017

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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

OR

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

For the transition period from _____ to _____

Commission File Number 0-422

MIDDLESEX WATER COMPANY

(Exact name of registrant as specified in its charter)

New Jersey
(State of incorporation)

22-1114430
(IRS employer identification no.)

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

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

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

Yes No

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

Yes No

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

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

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

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

Yes No

The number of shares outstanding of each of the registrant's classes of common stock, as of October 31, 2017: Common Stock, No Par Value: 16,346,036 shares outstanding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating Revenues	\$ 36,174	\$ 37,794	\$ 99,319	\$ 101,098
Operating Expenses:				
Operations and Maintenance	16,178	16,599	48,563	48,215
Depreciation	3,587	3,243	10,280	9,561
Other Taxes	3,603	3,796	10,327	10,537
Total Operating Expenses	23,368	23,638	69,170	68,313
Operating Income	12,806	14,156	30,149	32,785
Other Income (Expense):				
Allowance for Funds Used During Construction	174	207	473	387
Other Income	43	400	69	449
Total Other Income, net	217	607	542	836
Interest Charges	1,493	1,427	3,965	3,841
Income before Income Taxes	11,530	13,336	26,726	29,780
Income Taxes	3,888	4,523	9,263	10,258
Net Income	7,642	8,813	17,463	19,522
Preferred Stock Dividend Requirements	36	36	108	108
Earnings Applicable to Common Stock	\$ 7,606	\$ 8,777	\$ 17,355	\$ 19,414
Earnings per share of Common Stock:				
Basic	\$ 0.47	\$ 0.54	\$ 1.06	\$ 1.19
Diluted	\$ 0.46	\$ 0.54	\$ 1.06	\$ 1.19
Average Number of Common Shares Outstanding :				
Basic	16,340	16,284	16,324	16,262
Diluted	16,496	16,440	16,480	16,418
Cash Dividends Paid per Common Share	\$ 0.2113	\$ 0.1988	\$ 0.6338	\$ 0.5963

See Notes to Condensed Consolidated Financial Statements.

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

ASSETS		September 30,	December 31,
		2017	2016
UTILITY PLANT:	Water Production	\$ 149,881	\$ 146,914
	Transmission and Distribution	449,323	430,880
	General	67,774	63,514
	Construction Work in Progress	21,752	12,196
	TOTAL	688,730	653,504
	Less Accumulated Depreciation	143,269	135,728
	UTILITY PLANT - NET	545,461	517,776
CURRENT ASSETS:	Cash and Cash Equivalents	2,701	3,879
	Accounts Receivable, net	11,730	10,129
	Unbilled Revenues	8,628	6,590
	Materials and Supplies (at average cost)	4,441	4,094
	Prepayments	2,588	2,024
	TOTAL CURRENT ASSETS	30,088	26,716
AND OTHER ASSETS:	Preliminary Survey and Investigation Charges	3,832	2,365
	Regulatory Assets	60,430	60,894
	Operations Contracts, Developer and Other Receivables	789	1,139
	Restricted Cash	439	439
	Non-utility Assets - Net	9,276	9,131
	Federal Income Tax Receivable	1,408	1,408
	Other	196	293
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	76,370	75,669
	TOTAL ASSETS	\$ 651,919	\$ 620,161
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$ 154,626	\$ 153,045
	Retained Earnings	72,403	65,392
	TOTAL COMMON EQUITY	227,029	218,437
	Preferred Stock	2,433	2,436
	Long-term Debt	135,806	134,538
	TOTAL CAPITALIZATION	365,268	355,411
CURRENT LIABILITIES:	Current Portion of Long-term Debt	6,547	6,159
	Notes Payable	24,500	12,000
	Accounts Payable	12,113	12,343
	Accrued Taxes	11,881	12,385
	Accrued Interest	391	1,084
	Unearned Revenues and Advanced Service Fees	962	923
	Other	2,618	2,162
	TOTAL CURRENT LIABILITIES	59,012	47,056
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
DEFERRED CREDITS	Customer Advances for Construction	21,307	20,846
AND OTHER LIABILITIES:	Accumulated Deferred Investment Tax Credits	694	753
	Accumulated Deferred Income Taxes	80,250	72,072
	Employee Benefit Plans	33,544	36,139
	Regulatory Liability - Cost of Utility Plant Removal	11,889	11,337
	Other	1,348	1,443
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	149,032	142,590
CONTRIBUTIONS IN AID OF CONSTRUCTION		78,607	75,104
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 651,919	\$ 620,161

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 17,463	\$ 19,522
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	10,677	10,052
Provision for Deferred Income Taxes and Investment Tax Credits	8,394	5,382
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(323)	(261)
Cash Surrender Value of Life Insurance	(161)	(89)
Stock Compensation Expense	673	649
Changes in Assets and Liabilities:		
Accounts Receivable	(1,601)	(3,213)
Unbilled Revenues	(2,038)	(2,285)
Materials and Supplies	(347)	(1,799)
Prepayments	(564)	(778)
Accounts Payable	(230)	3,806
Accrued Taxes	(504)	1,506
Accrued Interest	(693)	(703)
Employee Benefit Plans	(1,362)	(1,169)
Unearned Revenue & Advanced Service Fees	39	24
Other Assets and Liabilities	(774)	16
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,649	30,660
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of \$150 in 2017, \$126 in 2016	(35,170)	(34,146)
NET CASH USED IN INVESTING ACTIVITIES	(35,170)	(34,146)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(5,163)	(4,917)
Proceeds from Issuance of Long-term Debt	6,968	3,903
Net Short-term Bank Borrowings	12,500	10,600
Deferred Debt Issuance Expense	(144)	(158)
Proceeds from Issuance of Common Stock	908	1,159
Payment of Common Dividends	(10,344)	(9,695)
Payment of Preferred Dividends	(108)	(108)
Construction Advances and Contributions-Net	726	686
NET CASH PROVIDED BY FINANCING ACTIVITIES	5,343	1,470
NET CHANGES IN CASH AND CASH EQUIVALENTS	(1,178)	(2,016)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,879	3,469
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,701	\$ 1,453
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	\$ 3,238	\$ 1,217
Long-term Debt Deobligation	\$ —	\$ 476
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 4,775	\$ 4,658
Interest Capitalized	\$ 150	\$ 126
Income Taxes	\$ 1,462	\$ 4,011

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2017	December 31, 2016
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2017 - 16,345; 2016 - 16,296	\$ 154,626	\$ 153,045
Retained Earnings	72,403	65,392
TOTAL COMMON EQUITY	\$ 227,029	\$ 218,437
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 126		
Shares Outstanding - 24		
Convertible:		
Shares Outstanding, \$7.00 Series - 10	\$ 1,005	\$ 1,007
Shares Outstanding, \$8.00 Series - 3	349	349
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	79	80
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 2,433	\$ 2,436
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 1,241	\$ 1,415
6.25%, Amortizing Secured Note, due May 19, 2028	4,480	4,795
6.44%, Amortizing Secured Note, due August 25, 2030	3,617	3,827
6.46%, Amortizing Secured Note, due September 19, 2031	3,897	4,107
4.22%, State Revolving Trust Note, due December 31, 2022	304	329
3.60%, State Revolving Trust Note, due May 1, 2025	1,958	2,062
3.30% State Revolving Trust Note, due March 1, 2026	392	431
3.49%, State Revolving Trust Note, due January 25, 2027	427	465
4.03%, State Revolving Trust Note, due December 1, 2026	578	603
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	162	213
0.00%, State Revolving Fund Bond, due August 1, 2021	128	166
3.64%, State Revolving Trust Note, due July 1, 2028	266	276
3.64%, State Revolving Trust Note, due January 1, 2028	87	91
3.45%, State Revolving Trust Note, due August 1, 2031	962	1,015
6.59%, Amortizing Secured Note, due April 20, 2029	4,040	4,302
7.05%, Amortizing Secured Note, due January 20, 2030	3,083	3,271
5.69%, Amortizing Secured Note, due January 20, 2030	6,325	6,709
4.45%, Amortizing Secured Note, due April 20, 2040	9,937	10,267
4.47%, Amortizing Secured Note, due April 20, 2040	3,687	3,809
3.75%, State Revolving Trust Note, due July 1, 2031	2,134	2,191
2.00%, State Revolving Trust Note, due February 1, 2036	1,115	1,115
3.75%, State Revolving Trust Note, due November 30, 2030	1,123	1,154
0.00% Construction Loans	14,439	7,470
First Mortgage Bonds:		
0.00%, Series X, due August 1, 2018	55	107
4.25% to 4.63%, Series Y, due August 1, 2018	61	122
0.00%, Series Z, due August 1, 2019	224	336
5.25% to 5.75%, Series AA, due August 1, 2019	300	440
0.00%, Series BB, due August 1, 2021	482	603
4.00% to 5.00%, Series CC, due August 1, 2021	636	779
0.00%, Series EE, due August 1, 2023	2,296	2,713
3.00% to 5.50%, Series FF, due August 1, 2024	3,495	3,690
0.00%, Series GG, due August 1, 2026	813	903
4.00% to 5.00%, Series HH, due August 1, 2026	880	960
0.00%, Series II, due August 1, 2024	610	700
3.40% to 5.00%, Series JJ, due August 1, 2027	750	824
0.00%, Series KK, due August 1, 2028	988	1,078
5.00% to 5.50%, Series LL, due August 1, 2028	1,095	1,175
0.00%, Series MM, due August 1, 2030	1,237	1,337
3.00% to 4.375%, Series NN, due August 1, 2030	1,505	1,590
0.00%, Series OO, due August 1, 2031	2,107	2,258
2.00% to 5.00%, Series PP, due August 1, 2031	740	780
5.00%, Series QQ, due October 1, 2023	9,915	9,915
3.80%, Series RR, due October 1, 2038	22,500	22,500
4.25%, Series SS, due October 1, 2047	23,000	23,000
0.00%, Series TT, due August 1, 2032	2,258	2,408
3.00% to 3.25%, Series UU, due August 1, 2032	845	890
0.00%, Series VV, due August 1, 2033	2,290	2,433
3.00% to 5.00%, Series WW, due August 1, 2033	830	865
SUBTOTAL LONG-TERM DEBT	144,294	142,489
Add: Premium on Issuance of Long-term Debt	1,335	1,495
Less: Unamortized Debt Expense	(3,276)	(3,287)
Less: Current Portion of Long-term Debt	(6,547)	(6,159)
TOTAL LONG-TERM DEBT	\$ 135,806	\$ 134,538

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Recent Developments

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

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

Recent Accounting Guidance

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

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

Revenue Recognition - In May 2014, the FASB issued guidance related to revenue from contracts with customers. The update replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. The FASB has deferred the effective date of these new revenue recognition standards by one year to January 1, 2018, at which time the Company will adopt this guidance using the modified retrospective method. The Company continues to assess the impact this standard will have on our financial statements by analyzing our inventory of contracts with customers, which consist primarily of regulated tariff-based sales and non-regulated operation and maintenance contracts for water and wastewater systems. Based on the Company's on-going interpretation and analysis of this guidance, this update is not expected to have an impact on the Company's regulated tariff-based sales and the impact on the Company's non-regulated operation and maintenance contracts, if any, is not expected to be material. The Company's non-regulated segment contributed approximately 12% and 6% of total revenues and net income, respectively, for the nine months ended September 30, 2017 and approximately 11% and 2% of total revenues and net income, respectively, for the year ended December 31, 2016. The Company's assessment of this guidance is not final and subject to change pending the Company's completion of its review of the guidance, including any new authoritative and interpretive guidance.

Recognition and Measurement of Financial Assets and Financial Liabilities - In January 2016, the FASB issued guidance which (i) requires all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures and limited liability companies, to be carried at fair value through net income, (ii) requires an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected, (iii) amends several disclosure requirements, including the methods and significant assumptions used to estimate fair value or a description of the changes in the methods and assumptions used to estimate fair value, and (iv) requires disclosure of the fair value of financial assets and liabilities measured at amortized cost at the amount that would be received to sell the asset or paid to transfer the liability. The guidance is effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The guidance is required to be applied retrospectively with a cumulative effect adjustment to retained earnings for initial application of the guidance at the date of adoption (modified retrospective method). The Company is currently assessing the impact of this standard on its consolidated financial statements and footnote disclosures, but does not expect that the adoption of this guidance to have a material impact on the Company's financial statements.

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

Statement of Cash Flows - In August 2016, the FASB issued guidance which amends the previous guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of this guidance is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The guidance is effective January 1, 2018 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

Restricted Cash - In November 2016, the FASB issued guidance related to the classification and presentation of restricted cash in the statement of cash flows, which requires entities to a) include restricted cash balances in its cash and cash-equivalent balances in the statement of cash flows and b) include a reconciliation of cash and cash-equivalents per the statement of financial position as compared to the statement of cash flows. Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents will not be presented as cash flow activities in the statement of cash flows. In addition, an entity with a material balance of amounts described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The guidance is effective January 1, 2018 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

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

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

Note 2 – Rate and Regulatory Matters

Middlesex – On October 10, 2017, Middlesex filed a petition with the New Jersey Board of Public Utilities (NJBPU) seeking permission to increase base water rates by approximately \$15.3 million per year. The request was necessitated by capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the last filing in New Jersey in 2015 as well as increased operations and maintenance costs. We cannot predict when and whether the NJBPU will ultimately approve, deny, or reduce the amount of the request. Under New Jersey statute, the NJBPU must render a decision within nine months of filing a petition.

On October 20, 2017, the NJBPU approved Middlesex's petition to reset its Purchased Water Adjustment Clause (PWAC) tariff rate to recover additional annual costs of \$1.2 million for the purchase of untreated water from the New Jersey Water Supply Authority. A PWAC is a rate mechanism that allows for the recovery of increased purchased water costs between base rate case filings. The PWAC is reset to zero once those increased costs are included in base rates. The reset PWAC tariff rate became effective on November 1, 2017.

Tidewater - Effective July 1, 2017, Tidewater reset its Delaware Public Service Commission-approved Distribution System Improvement Charge (DSIC) rate, which is expected to generate \$0.4 million of annual revenues. A DSIC is a rate-mechanism that allows water utilities to recover investments of, and generate a return on, qualifying capital improvements to their water distribution system made between base rate proceedings.

Note 3 – Capitalization

Common Stock

During the nine months ended September 30, 2017 and 2016, there were 24,154 common shares (approximately \$0.9 million) and 35,350 common shares (approximately \$1.2 million), respectively, issued under the Middlesex Water Company Investment Plan.

Long-term Debt

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

Middlesex closed on a \$9.5 million NJBPU approved SRF construction loan in August 2017. The proceeds will be used to fund the RENEW 2017 project. RENEW is an ongoing program to eliminate all unlined water distribution mains in the Middlesex system. Funding requisitions are expected to occur primarily throughout the remainder of 2017.

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

In November 2017, Middlesex is scheduled to close out three of its active New Jersey SRF construction loans (booster station upgrade, RENEW 2015 and RENEW 2016 projects) by issuing first mortgage bonds designated as Series XX (approximately \$11.1 million) and Series YY (approximately \$3.7 million). The interest rate on the Series XX bond will be zero and the interest rate on the Series YY bond will be determined at the time of closing using the credit rating of the State of New Jersey. The final maturity date for both bonds will be August 1, 2047.

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Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the condensed consolidated balance sheets for cash and cash equivalents, trade receivables, accounts payable and notes payable approximate their respective fair values due to the short-term maturities of these instruments. The fair value of First Mortgage and SRF Bonds (collectively, the Bonds) issued by Middlesex is based on quoted market prices for similar issues. Under the fair value hierarchy, the fair value of cash and cash equivalents is 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:

	(In Thousands)			
	September 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bonds	\$ 80,203	\$ 82,573	\$ 82,786	\$ 84,821

For other long-term debt for which there was no quoted market price and there is not an active trading market, it was not practicable to estimate their fair value (for details, including carrying value, interest rate and due date on these series of long-term debt, please refer to those series noted as "Amortizing Secured Note", "State Revolving Trust Note" and "Construction Loans" on the Condensed Consolidated Statements of Capital Stock and Long-Term Debt). The carrying amount of these instruments was \$64.1 million and \$59.7 million at September 30, 2017 and December 31, 2016, respectively. Customer advances for construction have carrying amounts of \$21.3 million and \$20.8 million at September 30, 2017 and December 31, 2016, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 4 – Earnings Per Share

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

	(In Thousands Except per Share Amounts)			
	2017		2016	
	Income	Shares	Income	Shares
Basic:				
Net Income	\$ 7,642	16,340	\$ 8,813	16,284
Preferred Dividend	(36)		(36)	
Earnings Applicable to Common Stock	\$ 7,606	16,340	\$ 8,777	16,284
Basic EPS	\$ 0.47		\$ 0.54	
Diluted:				
Earnings Applicable to Common Stock	\$ 7,606	16,340	\$ 8,777	16,284
\$7.00 Series Preferred Dividend	17	115	17	115
\$8.00 Series Preferred Dividend	6	41	6	41
Adjusted Earnings Applicable to Common Stock	\$ 7,629	16,496	\$ 8,800	16,440
Diluted EPS	\$ 0.46		\$ 0.54	

	(In Thousands Except per Share Amounts)			
	2017		2016	
	Income	Shares	Income	Shares
Basic:				
Net Income	\$ 17,463	16,324	\$ 19,522	16,262
Preferred Dividend	(108)		(108)	
Earnings Applicable to Common Stock	\$ 17,355	16,324	\$ 19,414	16,262
Basic EPS	\$ 1.06		\$ 1.19	
Diluted:				
Earnings Applicable to Common Stock	\$ 17,355	16,324	\$ 19,414	16,262
\$7.00 Series Preferred Dividend	50	115	50	115
\$8.00 Series Preferred Dividend	18	41	18	41
Adjusted Earnings Applicable to Common Stock	\$ 17,423	16,480	\$ 19,482	16,418
Diluted EPS	\$ 1.06		\$ 1.19	

Note 5 – Business Segment Data

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

	(In Thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
Operations by Segments:	2017	2016	2017	2016
Revenues:				
Regulated	\$ 32,252	\$ 33,989	\$ 88,023	\$ 89,797
Non – Regulated	4,142	3,949	11,755	11,685
Inter-segment Elimination	(220)	(144)	(459)	(384)
Consolidated Revenues	\$ 36,174	\$ 37,794	\$ 99,319	\$ 101,098
Operating Income:				
Regulated	\$ 12,098	\$ 13,516	\$ 28,195	\$ 30,940
Non – Regulated	708	640	1,954	1,845
Consolidated Operating Income	\$ 12,806	\$ 14,156	\$ 30,149	\$ 32,785
Net Income:				
Regulated	\$ 7,232	\$ 8,154	\$ 16,341	\$ 18,226
Non – Regulated	410	659	1,122	1,296
Consolidated Net Income	\$ 7,642	\$ 8,813	\$ 17,463	\$ 19,522
Capital Expenditures:				
Regulated	\$ 13,998	\$ 14,011	\$ 35,157	\$ 33,961
Non – Regulated	7	24	13	185
Total Capital Expenditures	\$ 14,005	\$ 14,035	\$ 35,170	\$ 34,146

	As of September 30, 2017	As of December 31, 2016
Assets:		
Regulated	\$ 654,248	\$ 619,915
Non – Regulated	6,772	6,245
Inter-segment Elimination	(9,101)	(5,999)
Consolidated Assets	\$ 651,919	\$ 620,161

Note 6 – Short-term Borrowings

As of September 30, 2017, the Company has established lines of credit aggregating \$92.0 million, an increase of \$32.0 million since June 30, 2017. At September 30, 2017, the outstanding borrowings under these credit lines were \$24.5 million at a weighted average interest rate of 2.28%.

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

	(In Thousands)			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Average Daily Amounts Outstanding	\$ 21,055	\$ 11,734	\$ 16,447	\$ 6,177
Weighted Average Interest Rates	2.28%	1.54%	2.07%	1.52%

The maturity dates for the \$24.5 million outstanding as of September 30, 2017 are all in October 2017 and November 2017 and are extendable at the discretion of the Company.

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

Note 7 – Commitments and Contingent Liabilities

Water Supply

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

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

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

Purchased water costs are shown below:

	(In Thousands)			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Treated	\$ 791	\$ 804	\$ 2,365	\$ 2,360
Untreated	673	675	1,905	1,911
Total Costs	\$ 1,464	\$ 1,479	\$ 4,270	\$ 4,271

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

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

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If requested to perform under the guaranty to the County and, if AWM and NSU, as guarantor to Middlesex, do not fulfill their obligations to indemnify Middlesex against any claims that may arise under the Middlesex guaranty to the County, Middlesex would be required to fulfill the remaining operational commitment of AWM. As of both September 30, 2017 and December 31, 2016, the liability recognized in Other Non-Current Liabilities on the balance sheet for the guaranty is approximately \$0.1 million.

Construction

The Company expects to spend approximately \$52 million for its construction program in 2017. The actual timing and amount of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain projects.

Litigation

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

Change in Control Agreements

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

Note 8 – Employee Benefit Plans

Pension Benefits

The Company's Pension Plan covers all active employees hired prior to April 1, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution at the discretion of the Company, based upon a percentage of the participants' compensation. In order to be eligible for a contribution, the participant must be employed by the Company on December 31st of the year to which the contribution relates. For each of the three month periods ended September 30, 2017 and 2016, the Company made Pension Plan cash contributions of \$1.0 million. For each of the nine month periods ended September 30, 2017 and 2016, the Company made Pension Plan cash contributions of \$2.5 million. The Company expects to make Pension Plan cash contributions of approximately \$0.8 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company officers and currently pays \$0.3 million in annual benefits to the retired participants.

Other Postretirement Benefits

The Company's retirement plan other than pensions (Other Benefits Plan) covers substantially all of its current retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. For each of the three month periods ended September 30, 2017 and 2016, the Company made Other Benefits Plan cash contributions of \$0.2 million. For each of the nine month periods ended September 30, 2017 and 2016, the Company made Other Benefits Plan cash contributions of \$0.7 million. The Company expects to make Other Benefits Plan cash contributions of approximately \$0.9 million over the remainder of the current year.

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

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

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Nine Months Ended September 30,			
	2017	2016	2017	2016
Service Cost	\$ 1,799	\$ 1,731	\$ 817	\$ 824
Interest Cost	2,357	2,284	1,473	1,464
Expected Return on Assets	(3,367)	(3,011)	(1,804)	(1,674)
Amortization of Unrecognized Losses	1,174	1,070	1,336	1,330
Amortization of Unrecognized Prior Service Cost (Credit)	—	—	(1,296)	(1,296)
Net Periodic Benefit Cost	\$ 1,963	\$ 2,074	\$ 526	\$ 648

Note 9 – Income Taxes

As part of its 2014 Federal income tax return, the Company adopted the final Internal Revenue Service (IRS) regulations pertaining to the tax deductibility of costs that qualify as repairs on tangible property. The adoption resulted in a net reduction of \$17.6 million in taxes previously remitted to the IRS, for which the Company has already sought and received refunds pertaining to tax years 2012 through 2014 in accordance with IRS regulations. Subsequently, the Company's 2014 federal income tax return was selected for examination by the IRS. It is unknown at this time whether the results of this examination will result in any changes to the filed Federal income tax return.

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Middlesex Water Company (Middlesex or the Company) included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Forward-Looking Statements

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

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

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

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

Many of these factors are beyond the Company's ability to control or predict. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements, which only speak to the Company's understanding as of the

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date of this report. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Overview

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

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 61,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 219,000. Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), provide water and wastewater services to approximately 2,500 residents in Southampton Township, New Jersey.

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

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system under a ten-year operations and maintenance contract expiring in 2022. In addition to performing day to day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon. Under a marketing agreement with HomeServe USA (HomeServe), USA offers residential customers in New Jersey and Delaware a menu of water and wastewater related home maintenance programs. HomeServe is a leading national provider of such home maintenance service programs. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts. The agreement expires in 2021. USA also provides unregulated water and wastewater services under contract with several New Jersey municipalities.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC, provide water services to approximately 44,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services approximately 4,000 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. subsidiary provides wastewater services to approximately 3,500 residential retail customers in Sussex County, Delaware.

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

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

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

Recent Developments

Capital Construction Program - The Company's multi-year capital construction program involves numerous projects designed to upgrade and replace infrastructure as well as enhance the integrity of system assets to better serve the current and future generations of water and wastewater customers. The Company plans to invest approximately \$106 million through 2018 in connection with this plan for projects that include, but are not limited to:

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

Middlesex- On October 10, 2017, Middlesex filed a petition with the New Jersey Board of Public Utilities (NJBPU) seeking permission to increase base water rates by approximately \$15.3 million per year. The request was necessitated by capital infrastructure investments Middlesex has made, or has committed to make, to drinking water infrastructure since the last filing in New Jersey in 2015, as well as increased operations and maintenance costs. We cannot predict when and whether the NJBPU will ultimately approve, deny, or reduce the amount of the request. Under New Jersey statute, the NJBPU must render a decision within nine months of filing a petition.

On October 20, 2017, the NJBPU approved Middlesex's petition to reset its Purchased Water Adjustment Clause (PWAC) tariff rate to recover additional annual costs of \$1.2 million for the purchase of untreated water from the New Jersey Water Supply Authority. A PWAC is a rate mechanism that allows for the recovery of increased purchased water costs between base rate case filings. The PWAC is reset to zero once those increased costs are included in base rates. The reset PWAC tariff rate became effective on November 1, 2017.

Tidewater Distribution System Improvement Charge (DSIC) - Effective July 1, 2017, Tidewater reset its Delaware Public Service Commission-approved DSIC rate, which is expected to generate \$0.4 million of annual revenues. A DSIC is a rate-mechanism that allows water utilities to recover investments of, and generate a return on, qualifying capital improvements to the water distribution system made between base rate proceedings.

Outlook

Favorable weather patterns which impact outdoor water use, and additional sales to neighboring municipal water utilities due to emergency conditions experienced by those entities in 2015 and 2016, and which contributed to overall increases in operating revenues during those periods, have not reoccurred to-date in 2017. Changes in customer water usage habits, as well as increases in capital expenditures and operating costs, are significant factors in determining the timing and extent of rate increase requests (see discussion of the Middlesex base water rate increase request above under “Recent Developments”). We continue to execute plans to further streamline operations and further reduce, and mitigate increases in, operating costs.

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

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

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

Operating Results by Segment

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

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

Results of Operations – Three Months Ended September 30, 2017

	(In Thousands)					
	Three Months Ended September 30,					
	2017		2016			
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 32,132	\$ 4,042	\$ 36,174	\$ 33,946	\$ 3,848	\$ 37,794
Operations and maintenance expenses	12,980	3,198	16,178	13,527	3,072	16,599
Depreciation expense	3,540	47	3,587	3,194	49	3,243
Other taxes	3,513	90	3,603	3,709	87	3,796
Operating income	12,099	707	12,806	13,516	640	14,156
Other income, net	197	20	217	82	525	607
Interest expense	1,493	—	1,493	1,427	—	1,427
Income taxes	3,571	317	3,888	4,017	506	4,523
Net income	\$ 7,232	\$ 410	\$ 7,642	\$ 8,154	\$ 659	\$ 8,813

Operating Revenues

Operating revenues for the three months ended September 30, 2017 decreased \$1.6 million from the same period in 2016 due to the following factors:

- Middlesex System revenues decreased \$1.8 million due to lower water consumption across all classes of customers largely as a result of weather patterns in the summer months in 2017 in addition to lower bulk water sales to neighboring municipal systems who experienced emergency conditions in the same period in 2016;
- Tidewater System revenues remained consistent due to additional residential customers, offset by lower water consumption, also largely a result of weather patterns in the summer months in 2017; and
- All other revenue categories increased \$0.2 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended September 30, 2017 decreased \$0.4 million from the same period in 2016, primarily related to the following factors:

- Lower retirement plan expenses of \$0.7 million due mostly to reimbursement of retiree healthcare insurance premiums;
- Lower water production costs of \$0.2 million in our Middlesex System, primarily due to weather-driven decreased water consumption, partially offset by a rate increase by the municipal wastewater utility that receives the water treatment residuals in the Middlesex System;
- Higher main break repair activity in our Middlesex System in 2017 as compared to 2016 resulted in additional costs of \$0.3 million;
- Higher labor costs of \$0.1 million, primarily due to higher average labor rates and additional personnel required to address increased regulatory requirements and other critical needs; and
- All other operation and maintenance expense categories increased \$0.1 million.

Depreciation

Depreciation expense for the three months ended September 30, 2017 increased \$0.3 million from the same period in 2016 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the three months ended September 30, 2017 decreased \$0.2 million from the same period in 2016 due to lower revenue related taxes on decreased revenues in our Middlesex system partially offset by higher payroll taxes.

Other Income, net

Other Income, net for the three months ended September 30, 2017 decreased \$0.4 million from the same period in 2016, due primarily to the 2016 recognition by USA of previously deferred income associated with the 10-year marketing agreement with HomeServe.

Interest Charges

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

Income Taxes

Income taxes for the three months ended September 30, 2017 decreased \$0.6 million from the same period in 2016, due to lower pre-tax income in 2017 as compared to 2016.

Net Income and Earnings Per Share

Net income for the three months ended September 30, 2017 decreased \$1.2 million as compared with the same period in 2016. Basic earnings per share were \$0.47 and \$0.54 for the three months ended September 30, 2017 and 2016, respectively. Diluted earnings per share were \$0.46 and \$0.54 for the three months ended September 30, 2017 and 2016, respectively.

Results of Operations – Nine Months Ended September 30, 2017

	(In Thousands)					
	Nine Months Ended September 30,					
	<u>2017</u>		<u>2016</u>			
	Regulated	Non-Regulated	Regulated	Non-Regulated	Regulated	Total
Revenues	\$ 87,866	\$ 11,453	\$ 99,319	\$ 89,712	\$ 11,386	\$ 101,098
Operations and maintenance expenses	39,476	9,087	48,563	39,075	9,140	48,215
Depreciation expense	10,136	144	10,280	9,420	141	9,561
Other taxes	10,059	268	10,327	10,277	260	10,537
Operating income	28,195	1,954	30,149	30,940	1,845	32,785
Other income, net	492	50	542	317	519	836
Interest expense	3,965	—	3,965	3,841	—	3,841
Income taxes	8,381	882	9,263	9,190	1,068	10,258
Net income	\$ 16,341	\$ 1,122	\$ 17,463	\$ 18,226	\$ 1,296	\$ 19,522

Operating Revenues

Operating revenues for the nine months ended September 30, 2017 decreased \$1.8 million from the same period in 2016.

- Middlesex System revenues decreased \$2.8 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 the same period in 2016;
- Tidewater System revenues increased \$0.9 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; and
- All other operating revenue categories increased \$0.1 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the nine months ended September 30, 2017 increased \$0.3 million from the same period in 2016, primarily related to the following factors:

- Higher labor costs of \$0.6 million, primarily due to higher average labor rates and additional personnel required to address increased regulatory requirements and other critical needs;
- Higher water production costs of \$0.5 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 lower raw water quality;
- Higher main break repair activity in our Middlesex System in 2017 as compared to 2016 resulted in higher costs of \$0.5 million;
- Lower retirement plan expenses of \$0.8 million due mostly to reimbursement of retiree healthcare insurance premiums; and
- Decreased liability insurance costs of \$0.5 million, primarily due to prior policy year refunds; and

Depreciation

Depreciation expense for the nine months ended September 30, 2017 increased \$0.7 million from the same period in 2016 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the nine months ended September 30, 2017 decreased \$0.2 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, net

Other Income, net for the nine months ended September 30, 2017 decreased \$0.3 million from the same period in 2016 due to the 2016 recognition by USA of previously deferred income associated with the 10-year marketing agreement with HomeServe offset by higher AFUDC, resulting from a higher level of capital projects in progress.

Interest Charges

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

Income Taxes

Income taxes for the nine months ended September, 2017 decreased \$1.0 million from the same period in 2016, due to lower pre-tax income in 2017 as compared to 2016.

Net Income and Earnings Per Share

Net income for the nine months ended September 30, 2017 decreased \$2.1 million as compared with the same period in 2016. Basic and diluted earnings per share were \$1.06 and \$1.19 for the nine months ended September 30, 2017 and 2016, respectively.

Liquidity and Capital Resources

Operating Cash Flows

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

For the nine months ended September 30, 2017, cash flows from operating activities decreased \$2.0 million to \$28.6 million. The decrease in cash flows from operating activities primarily resulted from lower water sales and timing of vendor payments, offset by lower income tax payments and a decreased level of inventory purchases as compared to 2016. The \$28.6 million of net cash flow from operations enabled the Company to fund approximately 41% of utility plant expenditures internally for the period.

Investing Cash Flows

For the nine months ended September 30, 2017, cash flows used in investing activities increased \$1.0 million to \$35.2 million. The increase in cash flows used in investing activities resulted from higher utility plant expenditures as compared to 2016.

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

Financing Cash Flows

For the nine months ended September 30, 2017, cash flows from financing activities increased \$3.9 million to \$5.3 million as compared to 2016. The increase in cash flows from financing activities resulted from an increase in short-term and long-term debt funding partially offset by increased common stock dividend payments and lower proceeds from sales of common stock under the Middlesex Water Company Investment Plan (the Dividend Investment Plan).

Capital Expenditures and Commitments

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

The capital investment program for 2017 is currently estimated to be approximately \$52 million. Through September 30, 2017, we have expended \$35.2 million and expect to incur approximately \$17 million for capital projects for the remainder of 2017.

We currently project that we will expend approximately \$163 million for capital projects in 2018 and 2019. The actual amount and timing of capital expenditures is dependent on further refinement of engineering estimates related to the timing and cost of specific capital projects.

To fund our capital program for the remainder of 2017, we intend to utilize:

- Internally generated funds;
- Proceeds from the Dividend Investment Plan;
- Requisitions from active loans under the New Jersey State Revolving Fund (SRF) program (approximately \$6 million depending on actual construction schedule). The SRF program provides low cost financing for projects that meet certain water quality and system improvement benchmarks; and
- Short-term borrowings, as needed, through \$92.0 million of available lines of credit with several financial institutions. As of September 30, 2017, there remains \$67.5 million of available credit under these lines.

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

Item 3. Quantitative and Qualitative Disclosures of Market Risk

We are exposed to market risk associated with changes in interest rates and commodity prices. The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2047. Over the next twelve months, approximately \$6.5 million of the current portion of existing long-term debt instruments will mature. Applying a hypothetical 10% change in the rate of interest charged on those borrowings would not have a material effect on our earnings.

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

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

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The information about risk factors does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- 10.32(a) [Amendment To and Extension of the Expiration Date of the Line of Credit included in the Amended and Restated Loan Agreement between registrant, registrant's subsidiaries and PNC Bank, N.A.](#)
- 10.33(a) [Amendment To and Extension of the Expiration Date of the Line of Credit included in the Amended and Restated Loan Agreement between registrant, registrant's subsidiaries and Bank of America, N.A.](#)
- 10.47 [Copy of Construction Loan Agreement \(CFP 17-2\) By and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company](#)
- 31.1 [Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.](#)
- 31.2 [Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.](#)
- 32.1 [Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.LAB XBRL Labels Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document

SIGNATURES

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

MIDDLESEX WATER COMPANY

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

Date: November 2, 2017



Amendment to Loan Documents

THIS AMENDMENT TO LOAN DOCUMENTS (this "Amendment") is made as of September 26, 2017, by and between 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"), and PNC BANK, NATIONAL ASSOCIATION (the "Bank").

BACKGROUND

A. The Borrower has executed and delivered to the Bank (or a predecessor which is now known by the Bank's name as set forth above), one or more promissory notes, letter agreements, loan agreements, security agreements, mortgages, pledge agreements, collateral assignments, and other agreements, instruments, certificates and documents, some or all of which are more fully described on attached Exhibit A, which is made a part of this Amendment (collectively as amended from time to time, the "Loan Documents") which evidence or secure some or all of the Borrower's obligations to the Bank for one or more loans or other extensions of credit (the "Obligations").

B. The Borrower and the Bank desire to amend the Loan Documents as provided for in this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain of the Loan Documents are amended as set forth in Exhibit A. Any and all references to any Loan Document in any other Loan Document shall be deemed to refer to such Loan Document as amended by this Amendment. This Amendment is deemed incorporated into each of the Loan Documents. Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the Loan Documents. To the extent that any term or provision of this Amendment is or may be inconsistent with any term or provision in any Loan Document, the terms and provisions of this Amendment shall control.

2. The Borrower hereby certifies that: (a) all of its representations and warranties in the Loan Documents, as amended by this Amendment, are, except as may otherwise be stated in this Amendment: (i) true and correct as of the date of this Amendment, (ii) ratified and confirmed without condition as if made anew, and (iii) incorporated into this Amendment by reference, (b) no Event of Default or event which, with the passage of time or the giving of notice or both, would constitute an Event of Default, exists under any Loan Document which will not be cured by the execution and effectiveness of this Amendment, (c) no consent, approval, order or authorization of, or registration or filing with, any third party is required in connection with the execution, delivery and carrying out of this Amendment or, if required, has been obtained, and (d) this Amendment has been duly authorized, executed and delivered so that it constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms. The Borrower confirms that the Obligations remain outstanding without defense, set off, counterclaim, discount or charge of any kind as of the date of this Amendment.

3. The Borrower hereby confirms that any collateral for the Obligations, including liens, security interests, mortgages, and pledges granted by the Borrower or third parties (if applicable), shall continue unimpaired and in full force and effect, and shall cover and secure all of the Borrower's existing and future Obligations to the Bank, as modified by this Amendment.

4. As a condition precedent to the effectiveness of this Amendment, the Borrower shall comply with the terms and conditions (if any) specified in Exhibit A.

5. To induce the Bank to enter into this Amendment, the Borrower waives and releases and forever discharges the Bank and its officers, directors, attorneys, agents, and employees from any liability, damage, claim, loss or expense of any kind that it may have against the Bank or any of them arising out of or relating to the Obligations. The Borrower further agrees to indemnify and hold the Bank and its officers, directors, attorneys, agents and employees harmless from any loss, damage, judgment, liability or expense (including attorneys' fees) suffered by or rendered against the Bank or any of them on account of any claims arising out of or relating to the Obligations. The Borrower further states that it has carefully read the foregoing release and indemnity, knows the contents thereof and grants the same as its own free act and deed.

6. This Amendment may be signed in any number of counterpart copies and by the parties to this Amendment on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart. Upon written request by the other party (which may be made by electronic mail), any party so executing this Amendment by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

7. Notwithstanding any other provision herein or in the other Loan Documents, the Borrower agrees that this Amendment, the Note, the other Loan Documents, any other 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. The Borrower and the Bank acknowledge and agree that the methods for delivering Communications, including notices, under the Loan Documents include electronic transmittal to any electronic address provided by either party to the other party from time to time.

8. The Bank may modify this Amendment 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).

9. This Amendment will be binding upon and inure to the benefit of the Borrower and the Bank and their respective heirs, executors, administrators, successors and assigns.

10. This Amendment 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 in the Loan Documents is located. This Amendment will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State where the Bank's office indicated in the Loan Documents is located, excluding its conflict of laws rules, including without limitation the Electronic Transactions Act (or equivalent) in such State (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).

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11. Except as amended hereby, the terms and provisions of the Loan Documents remain unchanged, are and shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms, and are hereby ratified and confirmed. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Loan Document, a waiver of any default or Event of Default under any Loan Document, or a waiver or release of any of the Bank's rights and remedies (all of which are hereby reserved). **The Borrower expressly ratifies and confirms the confession of judgment (if applicable) and waiver of jury trial or arbitration provisions contained in the Loan Documents, all of which are incorporated herein by reference.**

WITNESS the due execution of this Amendment as a document under seal as of the date first written above.

WITNESS / ATTEST:

/s/Jay Kooper

Print Name: Jay Kooper

Title: VP, General Counsel and Secretary

(Include title only if an officer of entity signing to the right)

WITNESS / ATTEST:

/s/Jay Kooper

Print Name: Jay Kooper

Title: Secretary and General Counsel

(Include title only if an officer of entity signing to the right)

WITNESS / ATTEST:

/s/Jay Kooper

Print Name: Jay Kooper

Title: Secretary and General Counsel

(Include title only if an officer of entity signing to the right)

WITNESS / ATTEST:

/s/Jay Kooper

Print Name: Jay Kooper

Title: Secretary and General Counsel

(Include title only if an officer of entity signing to the right)

MIDDLESEX WATER COMPANY

By: /s/A. Bruce O'Connor

(SEAL)

A. Bruce O'Connor
Vice President & Treasurer

PINELANDS WASTEWATER COMPANY

By: /s/A. Bruce O'Connor

(SEAL)

A. Bruce O'Connor
Vice President & Treasurer

PINELANDS WATER COMPANY

By: /s/A. Bruce O'Connor

(SEAL)

A. Bruce O'Connor
Vice President & Treasurer

TIDEWATER UTILITIES, INC.

By: /s/A. Bruce O'Connor

(SEAL)

A. Bruce O'Connor
Treasurer

[SIGNATURES CONTINUE ON NEXT PAGE]

WITNESS / ATTEST:

/s/Jay Kooper

Print Name: Jay Kooper

Title: Secretary and General Counsel

(Include title only if an officer of entity signing to the right)

WITNESS / ATTEST:

/s/Jay Kooper

Print Name: Jay Kooper

Title: Secretary and General Counsel

(Include title only if an officer of entity signing to the right)

WITNESS / ATTEST:

/s/Jay Kooper

Print Name: Jay Kooper

Title: Secretary and General Counsel

(Include title only if an officer of entity signing to the right)

WITNESS / ATTEST:

/s/Jay Kooper

Print Name: Jay Kooper

Title: Secretary and General Counsel

(Include title only if an officer of entity signing to the right)

UTILITY SERVICE AFFILIATES (PERTH AMBOY) INC.

By: /s/A. Bruce O'Connor (SEAL)

A. Bruce O'Connor
Vice President & Treasurer

UTILITY SERVICE AFFILIATES INC.

By: /s/A. Bruce O'Connor (SEAL)

A. Bruce O'Connor
Treasurer

TIDEWATER ENVIRONMENTAL SERVICES, INC.

By: /s/A. Bruce O'Connor (SEAL)

A. Bruce O'Connor
Treasurer

WHITE MARSH ENVIRONMENTAL SYSTEMS, INC.

By: /s/A. Bruce O'Connor (SEAL)

A. Bruce O'Connor
Treasurer

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Cheryl L. Sekelsky (SEAL)

Print Name: Cheryl L. Sekelsky
Title: Vice President

**EXHIBIT A TO
AMENDMENT TO LOAN DOCUMENTS
DATED AS OF SEPTEMBER 26, 2017**

- A. The "Loan Documents" that are the subject of this Amendment include the following (as any of the foregoing have previously been amended, modified or otherwise supplemented):
1. Amended and Restated Loan Agreement between the Borrower and the Bank dated April 29, 2015 between the Borrower and the Bank (the "**Loan Agreement**")
 2. \$20,000,000.00 Amended and Restated Committed Line of Credit Note dated April 29, 2015 executed and delivered by the Borrower to the Bank (the "**Existing Note**")
 3. Amendment to Loan Documents dated June 30, 2015 between the Borrower and the Bank
 4. All other documents, instruments, agreements, and certificates executed and delivered in connection with the Loan Documents listed in this Section A.
- B. The Loan Documents are amended as follows:
1. **Restated Note.** Concurrently with the execution and delivery of this Amendment, the Borrower shall execute and deliver to the Bank an amended and restated note (the "**Restated Note**") evidencing the Line of Credit in the original principal amount of \$40,000,000.00, in form and substance satisfactory to the Bank. Upon receipt by the Bank of the Restated Note, the Existing Note shall be canceled; the loan evidenced by the Existing Note (the "**Existing Loan**") and all accrued and unpaid interest on the Existing Note shall thereafter be evidenced by the Restated Note; and all references to the promissory note evidencing the Existing Loan in any documents relating thereto, howsoever named, shall thereafter be deemed to refer to the Restated Note. Without duplication, the Restated Note shall not constitute a novation and shall in no way extinguish the Borrower's unconditional obligation to repay all indebtedness, including accrued and unpaid interest, evidenced by the Existing Note.
 2. Section 1.1 of the Loan Agreement is hereby amended and restated to read as follows:

"1.1 Line of Credit. One of the Loans governed by this Agreement is a committed revolving line of credit under which the Borrower may request and the Bank, subject to the terms and conditions of this Agreement, will make advances to the Borrower from time to time until the Expiration Date, in an aggregate amount outstanding at any time not to exceed \$40,000,000.00 (the "**Line of Credit**"). The "**Expiration Date**" shall mean **January 31, 2020**, 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 Line of Credit beyond the Expiration Date. In no event shall the aggregate unpaid principal amount of advances under the Line of Credit exceed the face amount of the Line of Credit. Advances under the Line of Credit will be used for working capital or other general business purposes of the Borrower. Notwithstanding anything to the contrary stated in the note evidencing the Line of Credit, the Borrower shall repay the outstanding principal balance of the Line of Credit, together with all accrued and unpaid interest thereon, in an amount sufficient to reduce the outstanding principal balance thereof to zero, for a period of at least thirty (30) consecutive days prior to the original Expiration Date, and annually thereafter if the Expiration Date is extended, at the Bank's sole discretion."

C. Conditions to Effectiveness of Amendment: The Bank's willingness to agree to the amendments set forth in this Amendment is subject to the prior satisfaction of the following conditions:

Execution by all parties and delivery to the Bank of this Amendment and the Restated Note.



AMENDMENT

This Amendment (the "Amendment"), dated as of September 19, 2017, is between Bank of America, N.A., a national banking association (the "Bank") and Middlesex Water Company, a New Jersey corporation, and its subsidiaries, Tidewater Utilities, Inc., a Delaware corporation, White Marsh Environmental Systems, Inc., a Delaware corporation, Pinelands Water Company, a New Jersey corporation, Pinelands Wastewater Company, a New Jersey corporation, Utility Service Affiliates, Inc., a New Jersey corporation, Utility Service Affiliates (Perth Amboy) Inc., a New Jersey corporation, and Tidewater Environmental Services, Inc., a Delaware corporation, as joint and several co-borrowers (parent and subsidiary corporations individually and collectively referred to herein as "Borrower").

RECITALS

A. The Bank and the Borrower entered into a certain Letter Agreement ("Letter Agreement") and Master Promissory Note ("Note"), each dated September 25, 2015, evidencing an uncommitted line of credit in the maximum amount of Twenty Eight Million Dollars (\$28,000,000) (The Letter Agreement and the Note as amended from time to time are referred to herein as the "Loan Documents").

B. The Bank and the Borrower desire to amend the Loan Documents to increase the maximum principal amount of the Uncommitted Facility and extend the Expiration Date and to address other changes to the Loan Documents.

AGREEMENT

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meaning given to them in the Loan Documents.

2. Amendments.

(a) The Letter Agreement is hereby amended as follows:

(i) The second sentence of the first paragraph is hereby amended and restated in its entirety as follows:

"The aggregate Advances outstanding under the Uncommitted Facility shall not at any time exceed Forty Million Dollars (\$40,000,000) (the "Uncommitted Facility Limit")."

(ii) "September 21, 2018" is hereby substituted for "September 22, 2017" in the section entitled "Expiration Date" on page one of the Letter Agreement.

(b) The Note is hereby amended as follows:

(i) All references in the Note to "Twenty Eight Million Dollars" or "\$28,000,000" are deleted and replaced by "Forty Million Dollars" and "\$40,000,000". Specifically:

- The reference to "\$28,000,000" in the top left corner of the first page of the Note is deleted and "\$40,000,000" is substituted therefor.

- The first paragraph of the Note is amended and restated as follows.

“FOR VALUE RECEIVED, the undersigned, Middlesex Water Company, a New Jersey corporation, and its subsidiaries, Tidewater Utilities, Inc., a Delaware corporation, White Marsh Environmental Systems, Inc., a Delaware corporation, Pinelands Water Company, a New Jersey corporation, Pinelands Wastewater Company, a New Jersey corporation, Utility Service Affiliates, Inc., a New Jersey corporation, Utility Service Affiliates (Perth Amboy) Inc., a New Jersey corporation, and Tidewater Environmental Services, Inc., a Delaware corporation, as joint and several co-borrowers (parent and subsidiary corporations individually and collectively referred to herein as “Borrower”), jointly and severally, hereby promise to pay to BANK OF AMERICA, N.A., a national banking association (the “Bank”) or order, at such place as the Bank may designate from time to time, in lawful money of the United States of America and in immediately available funds, the principal amount of Forty Million Dollars (\$40,000,000) or such lesser amount as shall equal the aggregate unpaid principal amount of the advances (the “Loans”) made by the Bank to the Borrower (the “Uncommitted Facility”) under this Master Promissory Note (this “Note”), and to pay interest on the unpaid principal amount of each such Loan at the rates per annum and on the dates specified below.”

- (ii) “September 22, 2017” in subsection (b) of the second paragraph of the Note is hereby deleted and “September 21, 2018” is substituted in its place.

3. Representations and Warranties. When the Borrower signs this Amendment, the Borrower represents and warrants to the Bank that: (a) there is no event which is, or with notice or lapse of time or both would be, a Notice Event under the Loan Documents, (b) this Amendment does not conflict with any law, agreement, or obligation by which the Borrower is bound, (c) this Amendment is within the Borrower's powers, has been duly authorized, and does not conflict with any of the Borrower's organizational papers, and (d) representations and warranties set forth in the second paragraph on page 3 of the Note are confirmed as of the date hereof.

4. Effect of Amendment. Except as provided in this Amendment, all of the terms and conditions of the Loan Documents shall remain in full force and effect.

5. Counterparts. This Amendment may be executed in counterparts, each of which when so executed shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

5. **FINAL AGREEMENT. BY SIGNING THIS DOCUMENT, EACH PARTY REPRESENTS AND AGREES THAT: (A) THIS DOCUMENT REPRESENTS THE FINAL AGREEMENT BETWEEN PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF, (B) THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES, AND (C) THIS DOCUMENT MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OR UNDERSTANDINGS OF THE PARTIES.**

The parties executed this Amendment as of the date stated at the beginning of this Amendment, intending to create an instrument executed under seal.

BANK OF AMERICA, N.A.

By: /s/Dilcia P. Hill
Name: Dilcia P. Hill
Title: Senior Vice President

Acknowledged and Agreed:

Middlesex Water Company

By: /s/A. Bruce O'Connor
Name/Title: A. Bruce O'Connor, VP, Treasurer and CFO

Tidewater Utilities, Inc.

By: /s/A. Bruce O'Connor
Name/Title: A. Bruce O'Connor, Treasurer

White Marsh Environmental Systems, Inc.

By: /s/A. Bruce O'Connor
Name/Title: A. Bruce O'Connor, Treasurer

Pinelands Water Company

By: /s/A. Bruce O'Connor
Name/Title: A. Bruce O'Connor, VP & Treasurer

Pinelands Wastewater Company

By: /s/A. Bruce O'Connor
Name/Title: A. Bruce O'Connor, VP & Treasurer

Utility Service Affiliates, Inc.

By: /s/A. Bruce O'Connor
Name/Title: A. Bruce O'Connor, Treasurer

Utility Service Affiliates (Perth Amboy) Inc.

By: /s/A. Bruce O'Connor
Name/Title: A. Bruce O'Connor, VP & Treasurer

Tidewater Environmental Services, Inc.

By: /s/A. Bruce O'Connor
Name/Title: A. Bruce O'Connor, Treasurer

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

\$9,528,496

August 16, 2017

CFP-17-2

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

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

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

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

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

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

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

"Borrower Note Resolution" means the resolution of the Borrower's Board of Directors adopted on May 23, 2017, as amended and supplemented from time to time, pursuant to which this Note has been issued, and entitled:

RESOLUTION OF MIDDLESEX WATER COMPANY, DETERMINING THE FORM AND OTHER DETAILS OF ITS “NOTE RELATING TO THE CONSTRUCTION FINANCING PROGRAM OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST”, TO BE ISSUED IN THE PRINCIPAL AMOUNT OF UP TO \$10 MILLION, AND PROVIDING FOR THE ISSUANCE AND SALE OF SUCH NOTE TO THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, AND AUTHORIZING THE EXECUTION AND DELIVERY OF SUCH NOTE BY MIDDLESEX WATER COMPANY IN FAVOR OF THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, ALL PURSUANT TO THE NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST CONSTRUCTION FINANCING PROGRAM.

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

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

“**Cost**” means those costs that are allocable to the Project, as shall be determined on a project-specific basis in accordance with the Regulations, as further set forth in Exhibit B hereto, (i) as such Exhibit B shall be supplemented by an Authorized Officer of the Trust by means of either a substitute Exhibit B or an additional Exhibit B, such supplement to be implemented concurrently with the supplement to Exhibit A-1 hereto (as provided in the definition of “Project” as set forth herein), and (ii) as the then-current Exhibit B may be amended by subsequent changes to eligible costs as evidenced by a certificate of an Authorized Officer of the Trust.

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

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

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

“**Fund Portion**” means, on any date, an amount equal to seventy-five percent (75%) of the Principal of the Loan on such date, exclusive of that portion of the Principal of the Loan that is allocable to the NJDEP Loan Origination Fee, which NJDEP Loan Origination Fee shall be financed exclusively from the Trust Portion.

“Interest” means the interest charged on the outstanding Principal of the Loan at a rate of (a) with respect to the Trust Portion of the Principal, the applicable Trust Portion Interest Rate and (b) with respect to the Fund Portion of the Principal, 0.00%, and payable by the Borrower to the Trust (i) on the Maturity Date or (ii) with respect to any optional prepayment or acceleration of the Loan pursuant to the terms of this Note, on the date of such optional prepayment or acceleration, as the case may be.

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

“Loan Disbursement Requisition” means the requisition, to be executed by an Authorized Officer of the Borrower and approved by the NJDEP, in a form to be determined by the Trust and the NJDEP.

“Maturity Date” means August 15, 2018, or such earlier or later date to be determined by an Authorized Officer of the Trust in his or her sole discretion, which date shall be determined by such Authorized Officer of the Trust to be the date of the closing for the Anticipated Financing Program.

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

“NJDEP Loan Origination Fee” means the “NJDEP Fee” as referenced and defined in Exhibit B hereto, which NJDEP Fee is an administrative fee that is payable by the Borrower to the NJDEP as a portion of the Cost of the Project that has been incurred by the Borrower for engineering and environmental services provided to the Borrower by the NJDEP.

“Principal” means the principal amount of the Loan, at any time being the lesser of (i) Nine Million Five Hundred Twenty Eight Thousand Four Hundred Ninety Six Dollars (\$9,528,496), or (ii) the aggregate outstanding amount as shall actually be disbursed to the Borrower by the Trust pursuant to one or more Loan Disbursement Requisitions, which Principal shall be payable by the Borrower to the Trust (i) on the Maturity Date or (ii) with respect to any optional prepayment or acceleration of the Loan pursuant to the terms of this Note, on the date of such optional prepayment or acceleration, as the case may be.

“Project” means the Environmental Infrastructure Facilities of the Borrower which constitutes a project for which the Trust is making the Loan to the Borrower, as further described in Exhibit A-1 hereto; provided, however, that the description of the Project, as set forth in Exhibit A-1 attached hereto, shall be supplemented by means of either (i) the substitution of a revised and updated Exhibit A-1 for the current Exhibit A-1 or (ii) the inclusion of an additional Exhibit A-1, in either case, promptly following the certification for funding by the NJDEP of the remaining components of the Project, as applicable, such supplement to be undertaken by an Authorized Officer of the Trust.

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

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

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

“**Trust Portion**” means, on any date, an amount equal to the aggregate of (i) twenty-five percent (25%) of the Principal of the Loan on such date, exclusive of that portion of the Principal of the Loan that is allocable to the NJDEP Loan Origination Fee, plus (ii) one hundred percent (100%) of that portion of the Principal of the Loan that is allocable to the NJDEP Loan Origination Fee.

“**Trust Portion Interest Rate**” means, with respect to each disbursement of proceeds of the Trust Portion of the Loan, (a) to the extent that such disbursement is funded from moneys appropriated to the Trust, for the Construction Financing Trust Loan Program of the Trust, pursuant to an appropriations act of the State, the Trust Portion Interest Rate shall equal 0.00%, (b) to the extent that such disbursement is funded from available moneys of the Trust that are neither (i) appropriated to the Trust as provided by the preceding clause (a), nor (ii) borrowed from a financial institution pursuant to a line of credit or other similar financial instrument as provided by the succeeding clause (c), the Trust Portion Interest Rate shall equal the interest rate that is published as either the Thompson Financial TM3 “AAA” Municipal Market Data General Obligation Index (AMT) or the “BVAL” Index (relating to alternative minimum tax credits) of Bloomberg L.P. (or any subsidiary thereof), (with the particular index that is used by the Trust to be selected by an Authorized Officer of the Trust) or, if such indexes are no longer published on such date, such successor index as may be selected by an Authorized Officer of the Trust, in each case for the number of years that corresponds to the length of time from the date such disbursement is made available to the Borrower by the Trust to the Maturity Date, rounding up to the nearest year, or (c) to the extent that such disbursement is funded from available moneys of the Trust borrowed from a financial institution pursuant to a line of credit or other similar financial instrument, the Trust Portion Interest Rate shall equal the actual rate of interest established by the applicable financial institution pursuant to a competitive or negotiated solicitation by the Trust with respect to such line of credit or other financial instrument.

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

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

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

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

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

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

SECTION 3. Covenants of the Borrower.

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

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

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

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

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

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

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

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

SECTION 4. Disbursement of the Loan Proceeds; Amounts Payable; Prepayment; and Late Fee. The Trust shall effectuate the Loan to the Borrower by making one or more disbursements to the Borrower promptly after receipt by the Trust of a Loan Disbursement Requisition and the approval of such Loan Disbursement Requisition by an Authorized Officer of the Trust or designee thereof, each such disbursement and the date thereof to be recorded by an Authorized Officer of the Trust on the table attached as Exhibit A-2 hereto; provided, however, that no Loan Disbursement Requisition shall be approved by the Trust for disbursement unless and until the portion of the Project to which such Loan Disbursement Requisition relates has been certified for funding by the NJDEP. It is expected that the proceeds of the Loan will be disbursed to the Borrower in accordance with Exhibit C hereto, as Exhibit C shall be supplemented by an Authorized Officer of the Trust by means of either a substitute Exhibit C or an additional Exhibit C, such supplement to be implemented concurrently with the supplement to Exhibit A-1 hereto (as provided in the definition of "Project" as set forth herein). The latest date upon which the Borrower may submit to the Trust a Loan Disbursement Requisition is the business day immediately preceding the date fixed by the Trust for the sale of its bonds in connection with the Anticipated Financing Program, or such alternative date as shall be identified by the Trust for the Borrower in writing. On the Maturity Date, the Borrower shall repay the Loan to the Trust in an amount equal to: (i) the Principal; (ii) the Interest; (iii) the Administrative Fee, if any; and (iv) any other amounts due and owing pursuant to the provisions of this Note. The Borrower may prepay the Loan obligations hereunder, in whole or in part, upon receipt of the prior written consent of an Authorized Officer of the Trust. Each payment made to the Trust shall be applied to the payment of, first, the Interest then due and payable, second, the Principal, third, the Administrative Fee, if any, fourth, any late charges, and, finally, any other amount due pursuant to the provisions of this Note. In the event that the repayment obligation set forth in this Note is received by the Trust later than the Maturity Date, a late fee shall be payable to the Trust in an amount equal to the greater of twelve percent (12%) per annum or the prime rate as published in the Wall Street Journal on the Maturity Date plus one half of one percent per annum on such late payment from the Maturity Date to the date it is actually paid; provided, however, that any late payment charges incurred hereunder shall not exceed the maximum interest rate permitted by law. Notwithstanding the provisions of this Section 4 to the contrary, the Borrower hereby acknowledges and agrees that, on the date of issuance of this Note, a disbursement shall be made and shall be recorded by an Authorized Officer of the Trust on the table attached as Exhibit A-2 hereto in the amount recorded thereon. Such disbursement shall be made for the purpose of funding fifty percent (50%) of the NJDEP Origination Fee. Such disbursement shall be paid by the Trust on behalf of the Borrower directly to the NJDEP in satisfaction of the provisions hereof.

Notwithstanding the provisions of this Note to the contrary with respect to the funding, pursuant to this Section 4, of any Loan Disbursement Requisition relating to all or any portion of the Project: (i) the Borrower hereby acknowledges and agrees that the Trust shall not, and shall not be required to, commit funds, pursuant to the Construction Financing Trust Loan Program of the Trust, to any portion of the Project until such time as the particular portion of the Project in question has been certified for funding by the NJDEP; (ii) no Loan Disbursement Requisition shall be approved by the Trust for disbursement pursuant to this Section 4 unless and until the portion of the Project to which such Loan Disbursement Requisition relates has been certified for funding by the NJDEP; and (iii) the Trust has no obligation pursuant to this Note to make all or any portion of any disbursement pursuant to the provisions of this Section 4 if the Borrower lacks the authority to pay interest on this Note in an amount equal to the Trust Portion Interest Rate.

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

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

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

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

and (h) whenever the Borrower is required to obtain the determination, approval or consent of the Trust pursuant to the terms hereof, such determination, approval or consent may be either granted or withheld by the Trust in its sole and absolute discretion.

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

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

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

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

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

EXHIBIT A-1

1) Name and Address of Local Unit:

Middlesex Water Company
500 Ronson Road
Iselin, New Jersey 08830

Attention: Richard M. Risoldi, Vice President Operations

2) Description of the Project:

The project consists of replacing 260 linear feet (LF) of 4-inch, ~27760 LF of 6-inch, and ~1500 LF of 8-inch diameter cast iron mains with ~29,500 LF of 8-inch diameter cement mortar-lined ductile iron pipe, replacement of 552 service lines, installation of 579 meter pits and associated valves and appurtenances. The project area encompasses the vicinities of Madison Drive, Sampton Avenue, Lane Avenue, Hamilton Boulevard, and Maple Avenue within the Borough of South Plainfield. Cement mortar lining of the pipe interior is intended to inhibit the corrosive effects of the conveyed water on the piping systems.

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

3) Description of the Water Distribution System:

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

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

EXHIBIT B

Basis for the Determination of Allowable Costs

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

Cost Classification	Application Amount	Allowable Amount	CLP Allowable Amount
1. Administrative Expenses	\$ 237,000	\$ 221,282	\$ 221,282
2. Other Costs	\$ 0	\$ 0	\$ 0
3. Engineering Fees	\$ 948,000	\$ 948,000	\$ 948,000
4. Building Costs	\$ 7,900,000	\$ 7,376,069	\$ 7,376,069
5. Contingencies	\$ 395,000	\$ 368,803	\$ 368,803
6. Planning and Design	\$ 520,000	\$ 520,000	\$ 520,000
7. Sub-Total	\$ 10,000,000	\$ 9,434,154	\$ 9,434,154
8. DEP Fee (Financed Portion (50%))		\$ 94,342	\$ 94,342
9. Total Project Costs	\$ 10,000,000	\$ 9,528,496	\$ 9,528,496
10. CLP Loan Amount			\$ 9,528,496

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

1. Administrative Expenses:

The total amount requested for this line item on the application was \$237,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is $\$7,376,069 \times 0.03 = \$221,282$.

Allowable Administrative Expenses are \$221,282.

2. Other Costs:

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

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$948,000. Middlesex Water Company will utilize both the services of Gannett Fleming and "in house" engineering and inspection personnel. The scope of work and costs for utilizing these services has been reviewed and approved on September 28, 2016. Therefore,

Allowable Engineering Fees are \$948,000.

4. Building Costs:

The amount requested for this line item on the application was \$7,900,000. The allowable amount based on the low bid received is \$6,626,069 and an additional \$750,000 for materials. Therefore, the total building costs are $\$6,626,069 + \$750,000 = \$7,376,069$

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

Allowable Building Costs are \$7,376,069.

5. Contingencies:

The amount requested for this line item on the application was \$395,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is $\$7,376,069 \times 0.05 = \$368,803$.

Allowable Contingencies are \$368,803.

6. Planning and Design:

The amount requested for this line item on the application was \$520,000. The maximum authorized amount for this line item based on the allowable building costs and N.J.A.C. 7:22-5.12 is as follows:

$\$250,000 + 0.12 \times (\$7,376,069 - \$1,000,000) = \$1,015,128$.

Costs for this line item will be reimbursed based on NJDEP approval of actual project invoices for planning and design services. Therefore,

Allowable Planning and Design is \$520,000.

7. Sub-Total:

The total amount applied for was \$10,000,000. The subtotal line item amount based on the low bid received is \$9,434,154.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the SFY2018 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Construction Loan.

DEP Fee = $\$9,434,154 \times 2\% = \underline{\$188,684}$

\$188,684 x .50 = \$94,342 (financed through the Construction Loan and paid to DEP upon closing of the Construction Loan)

9. Total Project Costs:

The total project costs are (loan amount + Department Fee) \$9,528,496.

10. CLP Loan Amount:

The CLP Loan Amount is \$9,528,496.

EXHIBIT C

1. Disbursement Schedule

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

Year	Month	DEP Fee (Trust to make payment)	Total
2017	August	*\$ 94,342	
	August		\$ 4,000,000
	September		\$ 2,000,000
	October		\$ 2,000,000
	November		\$ 1,434,154
Total		\$ 94,342	\$ 9,434,154

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

2. Project Schedule

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

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u> 1225001-026	February 1, 2017
<u>Bid Receipt:</u> 1225001-026	February 15, 2017
<u>Award:</u> 1225001-026	March 4, 2017
<u>Issuance of Notice to Proceed:</u> 1225001-026	April 3, 2017
<u>Completion of Construction:</u> 1225001-026	October 2, 2017
<u>Initiation of Operation:</u> 1225001-026	November 1, 2017
<u>Project Performance Certification:</u> 1225001-026	November 1, 2018

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

I, Dennis W. Doll, certify that:

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

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

Date: November 2, 2017

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

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

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

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

Date: November 2, 2017

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: November 2, 2017

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

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: November 2, 2017

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

DRAFT

[Letterhead of Richards, Layton & Finger, P.A.]

_____, 2018

Delaware Department of Health & Social Services
Division of Public Health
Office of Drinking Water
Jesse Cooper Building
417 Federal Street - Room 226
Dover, DE 19901
Attn: DWSRF Program Director

Re: Tidewater Utilities, Inc.
\$933,300.00 General Obligation Note - Series 2018-SRF

Ladies and Gentlemen:

We have served as special Delaware counsel to Tidewater Utilities, Inc., a Delaware corporation (the "Company"), in connection with the execution and delivery by the Company of (i) its General Obligation Note - Series 2018-SRF, dated _____, 2018 in the maximum aggregate principal amount of up to \$933,300.00 (the "Note"), in favor of the Delaware Drinking Water State Revolving Fund (acting by and through the Delaware Department of Health and Social Services, Division of Public Health) (the "Fund") and (ii) the Financing Agreement dated as of _____, 2018 (the "Financing Agreement"), between the Company and the Fund.

The Note is being issued in order (i) to finance the installation of a new water system, including fire hydrants, at the Holiday Pines subdivision in Millsboro, Delaware, and the installation of a water transmission main from the Company's Meadow District to the Holiday Pines subdivision (the "Project") and (ii) to pay certain administrative costs and costs of issuing the Note.

For purposes of rendering the opinions set forth herein, we have examined executed originals or copies of each of the following documents:

- (a) the Note;
- (b) the Financing Agreement;

(c) the Organization Documents (as defined below);

(d) Order No. _____ PSC Docket No. __-____ of the Delaware Public Service Commission (the "Commission") dated _____, 2018.

(e) an Officer's Certificate of Jay L. Kooper, the Secretary of the Company, and A. Bruce O'Connor, the Treasurer of the Company, a copy of which is being delivered to you (the "Officer's Certificate"); and

(f) an opinion of Jay L. Kooper, Esquire, counsel to the Company (a copy of which is being delivered to you) on which we have relied as to the matters discussed therein which are covered in paragraphs 1 through 3 below.

Documents listed above as (a) and (b) are referred to herein collectively as the "Loan Documents". Documents listed above as (a) through (f), inclusive, are referred to herein collectively as the "Transaction Documents".

"Organization Documents" mean the Certificate of Incorporation of Tidewater Utilities, Inc. (the "TUI Certificate of Incorporation") filed with the Office of the Secretary of State of the State of Delaware (the "Secretary's Office") on December 20, 1991, the Certificate of Incorporation of Midwater Corp. (the "Midwater Certificate of Incorporation") filed with the Secretary's Office on December 20, 1991, a Certificate of Merger of the Company and Midwater Corp. (the "Certificate of Merger") filed with the Secretary's Office on October 20, 1992, a Certificate of Ownership and Merger of Public Water Supply Company into and with the Company (the "Certificate of Ownership," together with the TUI Certificate of Incorporation, the Midwater Certificate of Incorporation and the Certificate of Merger, collectively the "Certificate") filed with the Secretary's Office on February 1, 2000, the Bylaws of the Company, the Certificate of Good Standing of the Company issued by the Secretary's Office dated _____, 2018 and the Consent of the Board of Directors of the Company, dated as of _____, 2018 relating to the Project.

In our examination of the documents listed above, we have assumed (i) the genuineness of all signatures, the authenticity of all documents submitted to us as original, the conformity of all documents submitted to us as copies to the original of such documents and the legal capacity of those executing the documents; (ii) the due formation or organization, valid existence and good standing of each entity (other than the Company) that is a party to the documents examined by us under the laws of the jurisdiction of its formation or organization; (iii) that each of the documents was duly authorized, executed and delivered by each of the parties thereto (other than the Company); (iv) that each of the documents examined by us constitutes the legal, valid and binding obligation of each of the parties thereto (other than the Company), enforceable against each party in accordance with its terms; (v) that the documents examined by us are in full force and effect and have not been modified, supplemented or otherwise amended; and (vi) that any remedy set forth in the Loan Documents will be availed of in accordance with applicable

procedures of law (including sales procedures) and in a commercially reasonable manner. As to any facts material to our opinions expressed herein, other than those assumed, we have relied upon the Officer's Certificate.

This opinion is limited to the laws of the State of Delaware (excluding the antitrust, "blue sky," trademark, copyright, securities, patent, land use, export, safety, environmental, hazardous materials, insurance company, banking and tax laws of the State of Delaware), in each case that in our experience are normally applicable to unregulated business entities and to transactions of the type contemplated by the Loan Documents, and we have not considered and express no opinion on the laws of any other jurisdiction, including laws of and regulations of any county, municipal or other local jurisdiction in the State of Delaware nor federal laws and rules and regulations relating thereto. Our opinions are rendered only with respect to Delaware laws and rules, regulations and orders thereunder which are currently in effect. We undertake no obligation to advise you of facts or changes in law occurring after the date of this opinion letter that might affect the opinions expressed herein. To the extent the matters covered hereby relate to the laws of any other jurisdiction, we have not consulted with legal counsel who are experts with respect to such laws, and we express no opinion on the laws of such jurisdiction(s) or on the extent to which the application of the laws of such jurisdiction(s) might affect the opinions expressed in this opinion letter. While certain members of this firm are admitted in other jurisdictions, we have not examined the laws of any jurisdictions other than the State of Delaware, or consulted with members of the firm who are admitted in other jurisdictions with respect to the laws of any such jurisdictions.

Based upon the foregoing and subject to the limitations, qualifications and assumptions set forth herein and limited in all respects to matters of Delaware law, it is our opinion that:

1. The Company has been duly incorporated and is validly existing, in good standing as a corporation under the laws of the State of Delaware and the General Corporation Law of the State of Delaware, 8 Del. C. § 101, et seq. ("GCL"), and the Company has all requisite power and authority under the GCL and the Organization Documents to execute and deliver the Loan Documents and to perform its obligations thereunder.

2. Neither the issuance and sale of the Note by the Company nor the execution, delivery and performance of the Company's obligations under the Note and the Financing Agreement violate or constitute a default under any provision of (i) the Organization Documents, (ii) to our knowledge, any statute or any rule, order, regulation, judgment or decree of any court, agency or other governmental or administrative board or body to which the Company is subject, or (iii) to our knowledge, any provision of any indenture, mortgage, deed of trust, agreement or other instrument to which the Company is a party or by which the Company or any of its properties is bound.

3. The Loan Documents have been duly authorized, executed and delivered by the Company and constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as such enforceability would be

limited by (i) bankruptcy, insolvency, reorganization, receivership, fraudulent conveyance, moratorium or other laws of general application relating to or affecting the enforcement of creditors' rights and remedies, as from time to time in effect, (ii) applicable equitable principles whether or not such principles are enforceable in equity or law, and (iii) principles of course of dealing or course of performance and standards of good faith, fair dealing, materiality and reasonableness that may be applied by a court to exercise of rights and remedies.

Based solely on an inquiry on [February __, 2018], limited to, and solely to the extent reflected on the results of computer searches of court dockets in (a) the File & ServeXpress file system for active cases of the Court of Chancery of the State of Delaware and of the Superior Court of the State of Delaware in and for New Castle County, Sussex County and Kent County Delaware, and (b) the Webpacer efile system of the United States District Court for the District of Delaware, and of the United States Bankruptcy Court sitting in the State of Delaware, we are not aware of any legal or governmental proceeding pending in those courts against Borrower.

The opinions set forth herein are subject to the following qualifications:

A. The exercise of certain rights and remedies under the Loan Documents may require the prior approval of the Commission or otherwise may be restricted by Title 26 of the Delaware Code and rules and regulations promulgated thereunder.

B. We express no opinion with respect to any provision of any of the documents examined by us that (i) imposes penalties or forfeitures, (ii) requires the payment of attorneys' fees in excess of the limitation set forth in Section 3912 of Title 10 of the Delaware Code or (iii) purports to require that waivers be in writing, or which purports to provide that the failure to exercise, or a delay in exercising rights or remedies will not operate as a waiver of the right or remedy.

C. We express no opinion with respect to any documents or the provisions of any documents which are incorporated by reference into those documents and for purposes of the opinions rendered above, we have assumed that any such documents or the provisions of any such documents incorporated by reference into the documents constitute the legal, valid and binding obligations of the parties thereto, enforceable against the parties thereto in accordance with their respective terms.

D. The opinion regarding "good standing" contained in paragraph 1 of this opinion letter is based solely upon the Certificate of Good Standing included in the Organization Documents.

In basing the opinions set forth in this opinion on "our knowledge," the words "our knowledge" signify that, in the course of our representation of the Company, no facts have come to our attention that would give us actual knowledge or actual notice that any such opinions or other matters are not accurate. Except as otherwise expressly stated in this opinion to the contrary, we have undertaken no investigation or verification of such matters. Further, the words "our knowledge" as used in this opinion are intended to be limited to the actual knowledge

of the attorneys within our firm who have been directly involved in representing the Company in connection with the Loan Documents.

This opinion is based upon our understandings and assumptions as expressed herein and on our review of the above-referenced documents and applicable Delaware law as the same exist as of the date hereof, and we undertake no obligation to update or otherwise supplement this opinion after the date hereof for the benefit of any person or entity. The opinions as set forth herein are solely for the benefit of the addressee hereof in connection with the transactions contemplated hereby and may not be relied upon by any other person or any other entity or for any other purposes.

Very truly yours,

STT/AR/SWL

**TIDEWATER UTILITIES, INC.
UNANIMOUS CONSENT OF THE DIRECTORS
PURSUANT TO SECTION 141 (F)
OF THE DELAWARE CORPORATION LAW**

The undersigned being all of the directors of Tidewater Utilities, Inc., a Delaware corporation (“TUI”), do hereby consent in writing to the adoption of the following resolutions, which shall have the same force and effect as if duly adopted at a meeting of the Board of Directors of TUI, duly called and held in accordance with law and the Bylaws of TUI on the date set forth below:

WHEREAS, the above named borrower (“Borrower”), under its articles of incorporation, bylaws, or other organizational documents has full power and authority to borrow money and to secure the same with its own property and property delivered to it for marketing or otherwise; and

WHEREAS, all prerequisite acts and proceedings preliminary to the adoption of this Resolution have been taken and done in due and proper form, time and manner;

NOW, THEREFORE, BE IT RESOLVED, that each of the following officers or positions (line out any not to be authorized under this Resolution) President, Vice President, Chairman, Treasurer, and Secretary (“Officers”) of the Borrower are jointly and severally authorized and empowered to obtain for and on behalf of the Borrower from time to time, from the Delaware Drinking Water State Revolving Fund (“Delaware SRF”), a loan or loans or other financial accommodations (including, without limitation, letters of credit, note purchase agreements and bankers acceptances) (collectively, a “Loan”) under this Resolution; and for such purposes: (1) to execute such application or applications (including exhibits, amendments and/or supplements thereto) as may be required for all borrowings; (2) to obligate the Borrower to pay such rate or rates of interest as the Officers so acting shall deem proper in conformance with the requirements of the Delaware SRF; (3) to obligate the Borrower to such other terms and conditions as the Officers so acting shall deem proper to conform to the requirements of the Delaware SRF; (4) to execute and deliver to the Delaware SRF or its nominee all such written loan agreements, documents and instruments as may be required by the Delaware SRF in regard to or as evidence of any Loan made pursuant to the terms of this Resolution; (5) to pledge, grant a security interest or lien in, or assign property of the Borrower or property of others on which it is entitled to borrow, of any kind and in any amount as security for any or all obligations (past, present and/or future) of the Borrower to the Delaware SRF; (6) from time to time extend, amend, renew or refinance any such Loan as may be permitted by the Delaware SRF; and (7) to reborrow from time to time, subject to the provisions of this Resolution, all or any part of the amounts repaid to the Delaware SRF on any Loan made pursuant hereto in conformance with the requirements of the Delaware SRF.

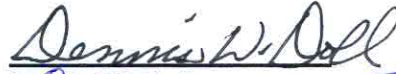
RESOLVED FURTHER, That each of the Officers are hereby jointly and severally authorized and directed to do and/or cause to be done, from time to time, all things which may be necessary and/or proper for the carrying out of the terms of these Resolutions.

RESOLVED FURTHER, That all prior acts by the Officers or other employees or agents of the Borrower to accomplish the purposes of these Resolutions are hereby approved and ratified.

RESOLVED FURTHER, That these Resolutions shall remain in full force and effect until a certified copy of a duly adopted resolution effecting a revocation or amendment, as the case may be, shall have been received by the Delaware SRF. The authority hereby granted shall apply with equal force and effect to the successors in office of the Officers herein named.

RESOLVED FURTHER, That the Secretary or any Assistant Secretary of the Borrower is hereby authorized and directed to certify to the Delaware SRF a copy of these Resolutions, the names and specimen signatures of the present Officers above referred to, and if and when any change is made in the personnel of any said Officers, the fact of such change and the name and specimen signatures of the new Officers. The Delaware SRF shall be entitled to rely on any such certification until a new certification is actually received by the Delaware SRF.

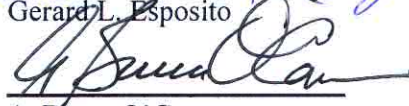
IN WITNESS WHEREOF, the undersigned have executed this Unanimous Consent of Directors as of February 15, 2018.



Dennis W. Doll



Gerard L. Esposito



A. Bruce O'Connor



Richard M. Risoldi

Todd A. Coomes
302-651-7507
Coomes@rlf.com

February 20, 2018

Robert Howatt
Executive Director
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

**Re: In The Matter of the Application of Tidewater Utilities, Inc., for
Approval Pursuant to 26 Del. C. § 215 of the Issuance of a Long-Term
Debt Obligation**

Dear Mr. Howatt:

Richards, Layton & Finger, P.A. is Delaware counsel for Tidewater Utilities, Inc. ("Tidewater") in connection with its Application (the "Application") for approval by the Delaware Public Service Commission (the "Commission") of the issuance of a long-term debt obligation in the principal amount of \$933,300, with a fixed interest rate, from the Delaware Drinking Water State Revolving Fund (the "SRF Loan"). This letter summarizes certain aspects of Delaware law with respect to Tidewater's Application before the Commission. For purposes of this letter, we have reviewed only the Application and have not reviewed any other documents. We have conducted no independent factual investigation of our own but rather have relied solely upon the Application, the statements and information set forth therein and the additional matters recited or assumed herein, all of which we have assumed to be true, complete and accurate in all material respects. Our review of the aforementioned documents has been limited to a review of issues arising under Delaware state law applicable to regulated utilities governed under Title 26 of the Delaware Code. This letter does not constitute the opinion of the undersigned or the firm on any matter discussed or referenced herein or on the legality, validity and enforceability of any documents related to the financing of the SRF Loan. As identified in the Application (Exhibit C contains the proposed Opinion of Counsel), our firm will issue a formal opinion regarding the financing transaction at closing, which will be filed with the Commission.

Tidewater's application is submitted pursuant to 26 *Del. C.* § 215. Section 215(a) of Title 26 establishes, *inter alia*, that "[n]o public utility, without having first obtained the approval of the Commission, shall: (2) Issue any stocks, stock certificates, or notes, bonds or other evidences of indebtedness payable in more than 1 year from the date thereof; or (3) Assume any obligation or liability as guarantor, endorser, surety or otherwise in respect of any security of any other person or corporation, payable or maturing more than 1 year after the date of such issue

■ ■ ■

or assumption of liability.” This section generally states that “[t]he Commission shall approve any such proposed merger, mortgage, transfer, issue, assumption or acquisition when it finds that the same is to be made in accordance with law, for a proper purpose and is consistent with the public interest.” 26 *Del. C.* § 215(d). Section 215(e) further sets forth that a public utility may satisfy the requirements of Section 215(a)(2) and (3) by filing with the Commission a statement of a financing plan, stating in detail: (a) those issuances or assumptions that it intends to make within 3 years following the filing; (b) the anticipated times thereof; (c) the anticipated costs thereof; (d) the anticipated capitalization ratios for the public utility during that period; and (e) such other information as the Commission may require. *Id.* § 215(e)(1). The Commission is to review the plan for consistency with efficient and reasonable financing principles and approve any financing plan when the proposed financings are to be made in accordance with law, for proper purposes and are consistent with the public interest. *Id.* § 215(e)(2).

26 *Del. C.* § 215 sets forth the required, but limited, findings to be made by the Commission in its consideration of Tidewater’s proposed issuance of a long-term obligation. In addition, in *Diamond State Telephone Co. v. Public Service Commission*, 367 A.2d 644 (Del. 1976), the Delaware Supreme Court addressed the scope of review for the Commission in reviewing the business judgment of a utility’s board of directors. The Delaware Supreme Court stated that “the Commission may not do indirectly what it may not do directly, namely, in the absence of a showing of improper consideration, fraud, bad faith or self dealing on the part of the members of [utility’s] board of directors in their decision to issue shares of stock for the ostensible purpose of raising needed moneys to substitute its judgment for that of a board of directors for the avowed purpose of forestalling a future potential threat in a rate case of higher rates being imposed on the public as the result of a possible future restriction in the use of hypothetical capital structures. We say this because it has been decided by this Court that the Commission may not seek to control rates indirectly by seeking to control the fiscal policies of a public utility.”

The Application sets forth a statement of a financing plan, stating in detail: (a) those issuances or assumptions that it intends to make within 3 years following the filing; (b) the anticipated times thereof; (c) the anticipated costs thereof; (d) the anticipated capitalization ratios for the public utility during that period; and (e) such other information as the Commission has or may require under Section 215(a)(2) of Title 26. Specifically the Application provides that: (a) Tidewater will enter into a long-term debt obligation to the Delaware Drinking Water Revolving Fund (by and through the Delaware Department of Health and Social Services) in order to finance capital improvements to the Tidewater’s water system; (b) the SRF Loan will be in the principal amount of up to \$933,300 and will carry a fixed annual interest rate of 2.0%; (c) the SRF Loan will have a maximum term of 20 years with (i) semi-annual interest only payments during project construction and (ii) principal and interest payments sufficient to amortize the loan over 20 years after project completion; and (d) the anticipated capitalization ratios for Tidewater after the issuance of the SRF Loan are set forth on Schedule No. 1 to the Application.

Additionally, the Application indicates that the SRF Loan monies will be used for the public interest by funding the installation of a new water system in the Holiday Pines subdivision, including the installation of a fire hydrant system. Further, Tidewater has indicated in the Application that the SRF Loan satisfies Tidewater's financing goal of long-term maturity and favorable interest rates.

Further, as reflected in the attached Unanimous Consent of the Directors of Tidewater and the signed Commitment Letter, Tidewater's Board of Directors has adopted resolutions reflecting that Tidewater may obtain the SRF Loan and it has done so in the amount of \$933,300.

In light of the foregoing, the Application contains the limited statutory information required by 26 *Del. C.* § 215 and to the standards of Delaware Supreme Court's holding in *Diamond State Telephone Co. v. Public Service Commission*, 367 A.2d 644 (Del. 1976).



Todd A. Coomes
Counsel for Tidewater Utilities, Inc.

Schedule No. 1
Tidewater Utilities, Inc.
Capitalization Ratios Actual
And Pro Forma as of September 30, 2017

<u>Line No.</u>	<u>Type Of Capital</u>	<u>Before Issuance</u>		<u>Pro Forma Adjustment \$</u>	<u>After Issuance</u>	
		<u>Amount Outstanding</u>	<u>% of Total</u>		<u>Amount Outstanding</u>	<u>% of Total</u>
1.	<u>Common Equity</u>					
2.	Common Stock	\$ 66,639		\$ -	\$ 66,639	
3.	Paid In Capital	\$ 28,389,582		\$ -	\$ 28,389,582	
4.	Retained Earnings	\$ 42,364,596		\$ (8,137)	\$ 42,356,459	
5.	Total Common Equity	<u>\$ 70,820,816</u>	57%	<u>\$ (8,137)</u>	<u>\$ 70,812,679</u>	57%
6.	<u>Preferred Stock</u>	<u>\$ -</u>	0%	<u>\$ -</u>	<u>\$ -</u>	0%
7.	<u>Long Term Debt</u>					
8.	First Mortgage Bonds	\$ -		\$ -	\$ -	
9.	Long-Term Notes-CoBank	\$ 40,306,417		\$ -	\$ 40,306,417	
10.	Long Term Notes-SRF	\$ 8,222,834		\$ 933,300	\$ 9,156,134	
11.	Total Long Term Debt	<u>\$ 48,529,252</u>	39%	<u>\$ 933,300</u>	<u>\$ 49,462,552</u>	40%
12.	Total Permanent Capital	\$ 119,350,068	96%	\$ 925,163	\$ 120,275,231	97%
13.	<u>Short-Term Debt</u>	<u>\$ 4,332,768</u>	4%		<u>\$ 4,332,768</u>	3%
14.	Total Capitalization	<u>\$ 123,682,836</u>	<u>100%</u>	<u>\$ 925,163</u>	<u>\$ 124,607,999</u>	<u>100%</u>

Schedule No. 2
Tidewater Utilities, Inc.
Rate of Return, Actual, Pro Forma
and Annualized for the Twelve Months Ended September 30, 2017

Line No.	Statement Of Income	Historical Twelve Months		
		Before Issuance	Pro Forma Adjustment	Pro Forma after Issuance
1.	Operating Revenues	\$ 33,054,897		\$ 33,054,897
2.	Operating expenses before income taxes	\$ 18,727,723		\$ 18,727,723
3.	Income taxes (Including Deferrals)	\$ 4,510,124	\$ (7,418)	\$ 4,502,706
4.	Operating Income (1-(2+3))	\$ 9,817,050	\$ 7,418	\$ 9,824,468
5.	AFUDC (Equity only)	\$ 64,544	\$ 1,768	\$ 66,312
6.	Other Income, Net	\$ 888,305	\$ -	\$ 888,305
7.	Income Before Interest Charges (4+5+6)	\$ 10,769,899	\$ 9,186	\$ 10,779,085
8.	Interest Charges (Including debt portion of AFUDC)	\$ 2,452,004	\$ 17,323	\$ 2,469,327
9.	Net Income (7-8)	\$ 8,317,895	\$ (8,137)	\$ 8,309,758
10.	Preferred Stock Dividends	\$ -	\$ -	\$ -
11.	Earnings available to common equity (9-10)	\$ 8,317,895	\$ (8,137)	\$ 8,309,758
12.	Average Capitalization	\$ 122,056,900	\$ 925,163	\$ 122,982,063
13.	Average Common Equity	\$ 68,161,869	\$ (8,137)	\$ 68,153,732
14.	Return On Average Capitalization (7/12)	8.82%		8.76%
15.	Return on Average Common Equity (11/13)	12.20%		12.19%

Note: Historical twelve months equivalent to annualized twelve months.

Schedule No.3
Tidewater Utilities, Inc.
Fixed Charge Coverage Ratios For The Twelve Months Ended
September 30, 2017

<u>Type of Method</u>	<u>Historical Twelve Months</u>	
	<u>Before</u> <u>Issuance</u>	<u>After</u> <u>Issuance</u>
<u>Per Financial Statements</u>		
Before Income Taxes, all interest	6.232	6.189
Before Income Taxes, all interest before AFUDC(2)	6.205	6.162
After Income Taxes, all interest	4.392	4.365
After Income Taxes, all interest before AFUDC(2)	4.366	4.338
Overall Coverage (3), (after income taxes)	4.392	4.365
Overall Coverage (3), (after income taxes) before AFUDC (2)	4.366	4.338

- (2) Allowance for Funds Used During Construction or Interest Charged Construction.
(3) The sum of all interest charged plus preferred stock dividend requirement.

Note: Historical twelve months equivalent to annualized twelve months.