

MIDDLESEX WATER CO
Form 10-K
March 08, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 0-422

MIDDLESEX WATER COMPANY

(Exact name of registrant as specified in its charter)

New Jersey 22-1114430
(State of Incorporation) (IRS employer identification no.)

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

(Address of principal executive offices, including zip code)

(732) 634-1500

(Registrant's telephone number, including area code)

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

Documents Incorporated by Reference

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

MIDDLESEX WATER COMPANY**FORM 10-K**INDEX

| | <u>PAGE</u> |
|---|-------------|
| <u>Forward-Looking Statements</u> | 1 |
| <u>PART I</u> | 2 |
| Item 1. <u>Business:</u> | 2 |
| <u>Overview</u> | 2 |
| <u>Financial Information</u> | 4 |
| <u>Water Supplies and Contracts</u> | 4 |
| <u>Employees</u> | 5 |
| <u>Competition</u> | 5 |
| <u>Regulation</u> | 6 |
| <u>Seasonality</u> | 8 |
| <u>Management</u> | 8 |
| Item 1A. <u>Risk Factors</u> | 9 |
| Item 1B. <u>Unresolved Staff Comments</u> | 15 |
| Item 2. <u>Properties</u> | 15 |
| Item 3. <u>Legal Proceedings</u> | 16 |
| Item 4. <u>Mine Safety Disclosures</u> | 16 |
| <u>PART II</u> | 17 |
| Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 17 |
| Item 6. <u>Selected Financial Data</u> | 19 |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 19 |
| Item 7A. <u>Qualitative and Quantitative Disclosure About Market Risk</u> | 33 |
| Item 8. <u>Financial Statements and Supplementary Data</u> | 34 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 63 |
| Item 9A. <u>Controls and Procedures</u> | 64 |
| Item 9B. <u>Other Information</u> | 64 |
| <u>PART III</u> | 65 |
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u> | 65 |
| Item 11. <u>Executive Compensation</u> | 65 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 65 |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u> | 65 |
| Item 14. <u>Principal Accountant Fees and Services</u> | 65 |
| <u>PART IV</u> | 66 |
| Item 15. <u>Exhibits and Financial Statement Schedules</u> | 66 |

Item 16. Form 10-K Summary

66

Signatures

Exhibit Index

Index

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.

1

Index

PART I

Item 1.

Business.

Overview

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

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

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

Middlesex System

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

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

facilities. These customers are located in generally well-developed areas of central New Jersey.

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

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

Index

Tidewater System

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

Utility Service Affiliates-Perth Amboy

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

Pinelands System

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

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

Utility Service Affiliates, Inc.

USA operates the Borough of Avalon, New Jersey's (Avalon) water utility, sewer utility and storm water system under a ten-year operations and maintenance contract expiring in 2022. USA serves approximately 6,300 Avalon homes and businesses, most of which are served by both the water system and wastewater collection system. In addition to performing day-to-day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon.

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

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

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

TESI System

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

Index***Twin Lakes System***

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

Financial Information

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

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

Operating revenues were earned from the following sources:

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

Water Supplies and Contracts

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

Middlesex System

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

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

Index

Tidewater System

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

Pinelands Water System

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

Pinelands Wastewater System

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

Bayview System

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

TESI System

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

Twin Lakes System

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

Employees

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

Competition

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

that any future rate increases will be granted or, if granted, that they will be in the amounts requested.

Middlesex Rate Matters

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

Index

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

Tidewater Rate Matters

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

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

Pinelands Rate Matters

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

Southern Shores Rate Matters

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

Twin Lakes Rate Matters

In 2016, the PAPUC approved a \$0.1 million increase in Twin Lakes' base water rates. The rate increase was necessitated by capital infrastructure investments Twin Lakes has made, or committed to make, and increased

operations and maintenance costs. The rate increase is being phased in with the final phases implemented subsequent to completion of specific utility plant projects.

Future Rate Filings

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

Water and Wastewater Quality and Environmental Regulations

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

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

Index

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

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

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

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

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

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

Seasonality

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

Management

This table lists information concerning our executive management team:

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

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

Index

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

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

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

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

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

ITEM 1A.

RISK FACTORS.

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

able to reduce costs.

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

Index

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

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

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

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

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

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

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

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

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

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

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

Index

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

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

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

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

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

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

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

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

Index

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

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

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

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

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

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

contract basis to municipalities, which could adversely affect our financial results.

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

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

Index

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

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

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

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

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

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

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

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

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

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

Index

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

We expect our revenues to increase from customer growth for our regulated water and wastewater operations as a result of anticipated construction and sale of new housing units. If housing