

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 2  
TO  
FORM S-3

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

MIDDLESEX WATER COMPANY

(Exact name of registrant as specified in its charter)

NEW JERSEY

22-1114430

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

1500 RONSON ROAD, ISELIN, NEW JERSEY 08830  
(732) 634-1500

(Address, including zip code, and telephone number, including area code, of  
registrant's principal executive offices)

MARION F. REYNOLDS  
VICE PRESIDENT, SECRETARY AND TREASURER  
MIDDLESEX WATER COMPANY  
1500 RONSON ROAD, ISELIN, NEW JERSEY 08830-3020  
(732) 634-1500

(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

WITH COPIES TO:

PETER D. HUTCHEON, ESQ.

JOHN L. GILLIS, JR., ESQ.

NORRIS, MCLAUGHLIN & MARCUS, P.A.  
721 ROUTE 202-206, P.O. BOX 1018  
SOMERVILLE, NEW JERSEY 08876-1018  
(908) 722-0700

ARMSTRONG, TEASDALE, SCHLAFLY & DAVIS  
ONE METROPOLITAN SQUARE, SUITE 2600  
ST LOUIS, MISSOURI 63102-2740  
(314) 621-5070

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as  
practicable after this Registration Statement becomes effective.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR  
DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL  
FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION  
STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF  
THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT  
SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID  
SECTION 8(A), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. We may  
not sell these securities until the registration statement filed with the  
Securities and Exchange Commission is effective. This prospectus is not an offer  
to sell these securities and it is not soliciting an offer to buy these  
securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 15, 1998



[MAP  
OF  
SERVICE  
AREA]

TABLE OF CONTENTS

	PAGE
PROSPECTUS SUMMARY.....	4
THE OFFERING.....	5
RISK FACTORS.....	7
FORWARD LOOKING STATEMENTS .....	9
USE OF PROCEEDS.....	9
THE PROJECT.....	9
THE COMPANY.....	10
SELECTED CONSOLIDATED FINANCIAL INFORMATION.....	16
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	18
COMMON STOCK PRICE RANGE AND DIVIDENDS.....	22
DESCRIPTION OF COMMON STOCK.....	23
DIVIDEND REINVESTMENT PLAN.....	24
UNDERWRITING.....	25
LEGAL MATTERS.....	26
EXPERTS.....	26
WHERE YOU CAN FIND MORE INFORMATION.....	26
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE.....	26

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING SYNDICATE COVERING TRANSACTIONS AND THE IMPOSITION OF A PENALTY BID. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS AND SELLING GROUP MEMBERS MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMMON STOCK ON NASDAQ IN ACCORDANCE WITH RULE 103 OF REGULATION M. SEE "UNDERWRITING."

-----

## PROSPECTUS SUMMARY

This Prospectus Summary calls your attention to selected information in this document, but may not contain all the information that is important to you. Unless otherwise indicated we have assumed, in presenting information about outstanding shares of common stock, including per share information, that the Underwriters' over-allotment option will not be exercised. To understand the offering fully and for a more complete description of the offering you should read this entire document carefully, including especially the "Risk Factors" section, as well as the documents we have referred you to. See "Incorporation of Certain Documents by Reference."

### OUR COMPANY

Middlesex Water Company ("Middlesex Water") has operated as a regulated water utility in central New Jersey since 1897. Since 1992, Middlesex Water has acquired water systems in other parts of New Jersey and in Delaware, and today has five operating subsidiaries, one of which has two subsidiaries of its own. We will refer to Middlesex Water and its subsidiaries as the "Company" in this Prospectus.

Our primary business is treating, and distributing water on a retail basis to residential, commercial, industrial and fire protection customers in parts of New Jersey and Delaware. We also provide water and treatment services on a wholesale basis under contract to five municipalities and two municipal utilities authorities. Under a contract with the City of South Amboy, New Jersey, we operate and maintain that City's 2,600 customer water system. As of September 30, 1998, we served approximately 67,200 retail customers and seven contract customers. We also operate a wastewater system serving 2,200 retail customers and, under contract, a municipal wastewater system in New Jersey.

We are regulated as to rates charged to customers for water and wastewater services, as to the quality of water we provide and as to certain other matters. Our revenues and income are significantly affected by the timing and amounts of rate increases approved by regulatory authorities. See "RISK FACTORS--Our Business is Subject to Rate Regulation" and "THE COMPANY--Regulation."

### OUR STRATEGY

To support our existing and expanding operations, we strive to maintain and strengthen our position as a reliable supplier of quality water in all of our systems. We will continue to seek new service areas and to consider acquisitions of other water and wastewater systems. In addition, we will try to contract with municipalities to operate and manage their water systems. We also plan to continue to increase our customer base in New Jersey and Delaware. We may also seek to acquire companies in water- and wastewater-related businesses that are not regulated utilities.

**MAINTAIN AND STRENGTHEN OUR POSITION AS A PROVIDER OF QUALITY WATER.** We believe that we meet or exceed all primary regulatory requirements for water quality. We also believe that we have adequate supplies to provide water in sufficient quantities to meet our customers' current requirements in all of our service areas. In order to maintain and improve our ability to provide quality water in sufficient quantities, we regularly upgrade our facilities. We are currently upgrading and expanding our Carl J. Olsen Water Treatment Plant (which we will refer to as the "CJO Plant") in Edison, New Jersey in order to meet more stringent regulatory requirements anticipated for water quality and to increase our capacity to meet peak-day demands for water in the utility system serviced by the CJO Plant. We will refer to the upgrading and expansion of the CJO Plant as the "Project". See "THE PROJECT." We will also continue to improve our central New Jersey distribution system by cleaning and cement lining unlined pipe.

**INCREASE CONTRACT SERVICES.** We operate and maintain the 2,600 customer water system of the City of South Amboy, New Jersey under a 1995 contract with that city which is renewable at five year intervals. On December 1, 1998, we signed a contract to acquire, subject to final ordinance adoption and regulatory approval, a franchise from the City to provide water service and to install water system facilities in South Amboy. On December 8, 1998 we signed a contract with the City of Perth Amboy, New Jersey, to operate and maintain its 8,200 customer water and wastewater systems. We expect to enter into a subcontract with an experienced sewer contractor for the operation and maintenance of the wastewater system once bond financings related to the Perth Amboy contract are completed. We are also currently negotiating with a third New Jersey municipality to enter into a multi-year treating and pumping contract. Because we believe contracts with municipalities provide another way for us to expand our service

territories and increase the number of customers we serve, we continue to seek opportunities to enter into contracts with additional municipalities to operate their water systems.

INCREASE CUSTOMER BASE. Since 1992, we have increased our retail customer base in Delaware from approximately 3,000 to approximately 11,000 today through acquisitions and customer growth. We have also acquired a 2,200 customer water utility and a 2,200 customer wastewater utility in Burlington County, New Jersey. We will continue to seek opportunities to increase our customer base by acquiring additional service areas, water utilities and other water- or wastewater-related companies in New Jersey and Delaware. There is significant economic development and population growth near several of our Delaware service areas.

#### OUR ADDRESS AND TELEPHONE NUMBER

Our executive offices are located at 1500 Ronson Road, Iselin, New Jersey 08830-3020 and our telephone number is (732) 634-1500.

#### THE OFFERING

Common Stock, no par value	450,000 Shares
Common Stock to be outstanding after the offering	4,818,847 Shares
Nasdaq symbol	MSEX
Common Stock 52-week price range (through November 25, 1998)	\$18-\$25
Annualized dividend rate (1)	\$1.18 per Share.

Use of proceeds	We will use most of the net proceeds of this offering to fund part of the cost of the upgrade and expansion of our CJO Plant in Edison, New Jersey. See "THE PROJECT." We will use the remaining net proceeds of this offering for other capital expenditures to upgrade our utility systems.
-----------------	---

-----  
(1) The annualized dividend rate gives effect to the increase announced October 22, 1998, in our quarterly dividend to \$0.295 per share, payable to shareholders of record November 16, 1998. We also have a Dividend Reinvestment and Common Stock Purchase Plan. See "DESCRIPTION OF COMMON STOCK" and "DIVIDEND REINVESTMENT PLAN."

SUMMARY CONSOLIDATED FINANCIAL INFORMATION  
(In thousands, except share and per share data)

This summary of financial information as of, and for the years ended, December 31, 1995, 1996 and 1997 was taken from and should be read along with the additional financial statements contained in our most recent Annual Report on Form 10-K. Information as of, and for the periods ended, September 30, 1997 and 1998 was taken from financial statements that have not been audited but which, we believe, fairly present our financial position and results of operations for those periods and should be read along with our most recently filed Quarterly Reports on Form 10-Q. See "WHERE YOU CAN FIND MORE INFORMATION."

CONSOLIDATED INCOME STATEMENT DATA:

	Nine Months Ended September 30,		Year Ended December 31,		
	1998 ----	1997 ----	1997 ----	1996 ----	1995 ----
Operating Revenues	\$ 32,434	\$ 30,241	\$ 40,294	\$ 38,025	\$ 37,847
Operating Expenses	25,241	23,544	31,526	29,802	29,184
Net Income	5,185	4,487	5,861	5,168	5,704
Earnings Applicable to Common Stock	4,946	4,341	5,635	5,009	5,545
Earnings per Share of Common Stock:					
Basic	\$1.14	\$1.03	\$1.33	\$1.20	\$1.36
Diluted	1.13	1.02	1.33	1.20	1.36
Dividends Paid per Share	\$.855	\$.84	\$1.125	\$1.105	\$1.085
Average Number of Shares Outstanding					
Basic	4,326,337	4,226,241	4,235,082	4,169,334	4,078,890
Diluted	4,552,763	4,346,792	4,382,345	4,258,740	4,168,296

CONSOLIDATED BALANCE SHEET DATA:

	As of September 30,		As of December 31,		
	1998 -----	1997 -----	1997 -----	1996 -----	1995 -----
Total Assets	\$191,415	\$156,706	\$159,761	\$148,660	\$144,822
Utility Plant - Net	152,045	130,853	135,071	121,245	117,933
Common Equity	54,330	50,839	51,226	49,216	47,644
Convertible Preferred Stock	3,894	3,896	3,894	1,565	1,565
Nonredeemable Preferred Stock	1,102	1,102	1,102	1,102	1,102
Long-term Debt (excluding current portion)	75,884	52,929	52,918	52,961	52,960

## RISK FACTORS

We have described for you below some risks involved in investing in the Common Stock offered under this Prospectus. A word of caution: the list is not a complete list of every risk. You should carefully consider each of the following factors and all of the information both in this Prospectus and in the other documents we have filed with the Securities and Exchange Commission which are incorporated in this Prospectus by reference.

**OUR BUSINESS IS SUBJECT TO RATE REGULATION.** The New Jersey Board of Public Utilities, which we call the "BPU" in this Prospectus, regulates all of our public utility companies in New Jersey. The BPU regulates these utilities with respect to rates and charges for service, classification of accounts, awards of new service territory, acquisitions and other matters. That means, for example, that we cannot raise the rates we charge to our customers without first filing a petition with the BPU and going through a lengthy administrative and hearing process. In much the same way, the Delaware Public Service Commission, which we call the "PSC" in this Prospectus, regulates our public utility companies in Delaware. We cannot give assurances of when we or our subsidiaries will request approval for any such matter, nor can we predict whether the BPU or PSC will approve, deny or reduce the amount of any such requests. See "THE COMPANY -- Regulation -- Regulation of Rates and Services."

**WE ARE SUBJECT TO ENVIRONMENTAL AND OTHER GOVERNMENTAL LAWS AND REGULATION.** The U.S. Government, New Jersey, Delaware and local agencies regulate many aspects of our business. Among the most important of these are our water diversion rights, our water quality and other environmental matters. We believe that all of our systems are currently in compliance in all important respects with these regulations. We cannot predict, however, whether we will be able to continue to comply with these laws and regulations as they may change in the future. If we fail to comply with government regulations, it could have a material adverse effect on our financial condition and our ability to earn income, which we refer to in this Prospectus as "results of operations."

Federal, state and local governments also regulate the quality of water we supply to our customers, as well as our water supply, treatment and distribution systems. We believe that all of our systems are currently in compliance in all important respects with the primary water quality regulations. Government agencies continually review these regulations and may propose new, more restrictive requirements in the future. These may include stricter limitations on the permissible levels of certain chemicals and compounds in the water. We do not know what the costs may be to meet stricter limits, if adopted as new laws or regulations. Those costs could be very high and may adversely affect our financial condition and results of operations. See "RISK FACTORS -- Our Business Is Subject To Rate Regulation" and "THE COMPANY -- Regulation -- Water Quality and Environmental Regulations."

The BPU requires that we conduct management audits on a periodic basis. We either have completed or are in the process of completing changes recommended by the BPU in response to our most recent management audit. We do not believe any of the recommended changes will materially or adversely affect us or our operations. There can be no assurance, however, that future audits will not result in changes which materially and adversely affect our financial condition and results of operations.

**WE HAVE LONG-TERM CONTRACTUAL OBLIGATIONS FOR WATER AND WASTEWATER SYSTEM OPERATION AND MAINTENANCE.** We and certain of our subsidiaries have, or are negotiating to enter into, multi-year contracts to operate and maintain water systems and wastewater systems. See "THE COMPANY -- Strategy -- Increase Contract Services." None of these contracts protect us or our subsidiaries against incurring costs in excess of payments we will receive. While we do not currently anticipate any cost overruns, there can be no assurance that we will not experience losses under these contracts. In addition, these contracts may involve leased municipal employees, which unlike our own employees, are members of unions who have collective bargaining agreements with their municipal employers. Any losses or labor difficulties under these contracts may have a material adverse effect on our financial condition and results of operations.

**WE REQUIRE FINANCING FOR EXPANSION AND CONSTRUCTION.** We need money to continue our expansion efforts and to fund our construction program. With the proceeds from this offering and funds already received from bond issuances, as well as existing lines of credit from banks, we believe we have sufficient funds to support planned capital expenditures through 2000. See "MANAGEMENT'S DISCUSSION AND ANALYSIS-- Liquidity and Capital Resources." We may find in the future that sufficient capital is not available, or that the cost of capital is too high for future expansion and construction. Any failure to obtain adequate capital to finance our expansion and construction programs could have a material adverse effect on our financial condition and results of operations.



WE ARE DEPENDENT UPON OUR WATER SUPPLY. Our ability to meet the existing and future water demands of our customers is dependent upon an adequate supply of water. Unexpected conditions may interfere with our sources of water supply. Drought and overuse of underground aquifers may limit the availability of ground water as a source of water supply. These factors might adversely affect our ability to supply water in sufficient quantity to our customers in Burlington County, New Jersey and in Delaware. Any interruption in our water supply could have a material adverse effect on our financial condition and results of operations. See "THE COMPANY -- Water Supplies and Contracts."

WE HAVE COMPETITION FROM OTHER UTILITIES AND PRIVATIZATION. We face the risks of competition from other utilities authorized by federal, state or local agencies. Once a utility regulator grants a service territory to a utility, that utility is usually the only one permitted to service that territory. Although a new territory offers some protection against competitors, the pursuit of additional service territories is competitive, especially in Delaware. Competing utilities may challenge any future application by the Company for new service territories. Third parties may also seek to expand their water service by taking over and/or entering into long-term agreements to operate municipal systems. Those developments, which we call privatization, might adversely affect the Company and its long-term contracts to supply water on a wholesale basis to municipalities. See "THE COMPANY -- Competition" and "--Regulation."

WE ARE SUBJECT TO YEAR 2000 SYSTEM RISK. Software used in many computer systems and computerized control devices was designed to record only the last two digits of each year. This software, some of which we own, may not function properly as of January 1, 2000 because it interprets the new year as 1900. We have evaluated our own computer systems, to make certain that those systems will work properly when 1999 becomes 2000. We have also requested certification of Year 2000 compliance from the vendor of the new Supervisory Control And Data Acquisition system (which we refer to as "SCADA" in this Prospectus), as well as the principal vendors of data processing serving our financial reporting, payroll, billing, customer information and shareholder record systems. The vendors have certified that their systems have been tested and will work properly. We believe we may reasonably rely on those certifications. We also expect to spend up to \$10,000 to bring other operating systems, including our network of desktop personal computers, into Year 2000 compliance. Nonetheless, we may not have identified every computerized control device of ours which may be affected by the Year 2000. Even if identified, we may not be able to reprogram or replace those devices before January 1, 2000. More importantly, we cannot assess the impact on us of failures of computer systems and control devices used by others. We are especially concerned about third parties who provide significant services and materials to process, treat and distribute water and to process, treat and dispose of wastewater, and about the possible failure of electric power and telecommunications or the inability to obtain diesel fuel for the Company's stand-by generators. The occurrence of any such Year 2000-related problem could have a material adverse effect on our financial condition and results of operations.

WE HAVE RESTRICTIONS ON DIVIDENDS. Our Restated Certificate of Incorporation and our Indenture of Mortgage dated as of April 1, 1927, as supplemented since then, which we call the "Mortgage" in this Prospectus, impose conditions on our ability to pay 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 on Common Stock 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. See "DESCRIPTION OF COMMON STOCK" and "PRICE RANGE OF COMMON STOCK AND DIVIDENDS."

WE ARE SUBJECT TO ANTI-TAKEOVER MEASURES. Subsection 10A of the New Jersey Business Corporation Act, known as the Shareholder Protection Act, applies to us. The Shareholder Protection Act deters merger proposals, tender offers or other attempts to effect changes in control of the Company that are not negotiated and approved by our Board of Directors. In addition, we have a Classified Board of Directors, which means only one third of the Directors are elected each year. A classified Board can make it harder for an acquirer to gain control 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 BPU 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 to discourage, delay or prevent an acquisition. See "DESCRIPTION OF COMMON STOCK."

## FORWARD LOOKING STATEMENTS

We discuss certain matters in this document which are not historical facts, but which are "forward looking statements." We intend these "forward looking statements" to qualify for safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These "forward looking statements" include, but are not limited to, future plans, objectives, expectations and events concerning various matters such as capital expenditures, earnings, litigation, growth potential, and rate and other regulatory matters. The "forward looking statements" in this Prospectus reflect what we currently anticipate will happen in each case. What actually happens could differ materially from what we currently anticipate will happen. We are not promising to make any public announcement when we think "forward looking statements" in this document are no longer accurate, whether as a result of new information, what actually happens in the future or for any other reason.

## USE OF PROCEEDS

The net proceeds from the sale of the 450,000 shares of Common Stock offered by this Prospectus, after deducting the Underwriters' discount and estimated offering expenses, are estimated to be \$9,466,987 (\$10,896,616 if the Underwriters' over-allotment option is exercised in full). The Company expects to use approximately \$7,100,000 of the net proceeds to fund a portion of the \$38 million estimated cost of the Project. The balance of the net proceeds, approximately \$2,366,987, will be used for other capital expenditures to upgrade our utility systems. The remaining costs of the Project have been financed by (i) the proceeds of the issuance in March 1998, of the Company's \$23 million, 5.35% Series W Mortgage Bond issued in March, 1998 and (ii) \$7.9 million from operations of the Company.

## THE PROJECT

The Project is a construction project consisting of the upgrade, expansion and addition of facilities at the CJO Plant, the Company's principal water treatment facility, and related water intake station for our utility system in central New Jersey. The Project includes the installation of new flash mixers and new chemical storage and feed facilities. The existing conventional sedimentation basins are being replaced by high rate upflow clarifiers that are intended to remove turbidity more effectively. The chlorine application point is being relocated from preclarification to postclarification. The existing sedimentation basins are to be used as chlorine contact basins. Four additional filters are being added to the CJO Plant, a new laboratory is being constructed, and a computerized SCADA system is being added to monitor and control the CJO Plant and our water supply and distribution system in central New Jersey. Upgrades are also being made to the heating, ventilating, air conditioning and the electrical system at the CJO Plant and to the pumping equipment at our raw water pump station.

The Project will upgrade the CJO Plant to meet the new and anticipated regulatory changes concerning water quality, as well as increase capacity to meet peak day demands. The firm capacity of the CJO Plant is being increased from about 30 million gallons per day, or "mgd" as we call it in this Prospectus, to 45 mgd (we define firm capacity as the capacity when the largest unit is out of service).

The Project also involves changes to the raw water pump station which delivers water from the Delaware & Raritan Canal, which we call the "D&R Canal" in this Prospectus, to the CJO Plant, a distance of about one mile. The station capacity is being increased by replacing one existing pump with a larger pump. The firm capacity of the raw water pump station is being increased from about 35 mgd to 45 mgd. Functional completion of the Project (by which we mean the ability to produce water) is scheduled for June, 1999, with final completion set for October, 1999.

The total cost of the Project, including design, engineering and capitalized interest, will be approximately \$38 million. Of this amount, we have already expended \$7.9 million through March 31, 1998 from operations of our central New Jersey system. In March, 1998, we issued our 5.35% Series W Mortgage Bonds which provided an additional \$23 million. The remainder of the cost of the Project will be funded through the sale of Common Stock offered under this Prospectus.

## THE COMPANY

### OVERVIEW

Middlesex Water Company was incorporated as a water utility company in 1897 and operates water utility systems in central and southern New Jersey and in Delaware as well as a wastewater utility in southern New Jersey. The water utility system in central New Jersey, which we call in this Prospectus the "Middlesex System," produced 90% of the Company's 1997 Revenue. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes.

Our Middlesex System provides water services to approximately 54,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water on a wholesale basis under contract to the Township of Edison, the Boroughs of Highland Park and Sayreville, the City of South Amboy and both the Old Bridge and the Marlboro Township Municipal Utilities Authorities. Under a special contract, the Middlesex System also provides water treatment and pumping services to the Township of East Brunswick.

The Middlesex System's retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield in Middlesex County and a portion of the Township of Clark in Union County. The retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These retail customers are located in generally well developed areas of central New Jersey. The contract customers of the Middlesex System comprise an area of approximately 141 square miles with a population of approximately 267,000. Contract sales to Edison, Sayreville, Old Bridge and Marlboro are supplemental to the existing water systems of these customers. The State of New Jersey in the mid-1980's approved plans to increase available surface water supply to these and other municipalities in the South River Basin area of the State through contracts with water suppliers outside the South River Basin. The State saw this as a way to reduce the use of ground water and depletion of aquifers. Our long-term contracts to pump treated surface water to East Brunswick, Marlboro, Old Bridge, Sayreville and South Amboy are consistent with the State approved plan.

We have five wholly-owned subsidiaries:

- o Tidewater Utilities, Inc. ("Tidewater"), together with Tidewater's wholly-owned subsidiary, Public Water Supply Company, Inc. ("Public"), provide water services to 11,000 retail customers for residential, commercial and fire protection purposes in over 100 separate community water systems in Kent, Sussex and New Castle Counties, Delaware. We refer to our Delaware operations as the "Tidewater Systems" in this Prospectus. The Tidewater Systems produced approximately 7% of our total revenues in 1997. Tidewater has another wholly-owned subsidiary, White Marsh Environmental Systems, Inc., which owns the office building that Tidewater uses as its business office.
- o Pinelands Water Company services 2,200 residential customers in Burlington County, New Jersey. We refer to this water utility as the "Pinelands System" in this Prospectus. The Pinelands System produced approximately 0.6% of our total revenues in 1997.
- o Pinelands Wastewater Company services approximately 2,200 primarily residential retail customers and, under contract, one municipal wastewater system in Burlington County, New Jersey with about 200 residential customers. We refer to this wastewater utility as the "Pinelands Wastewater System" in this Prospectus. The Pinelands Wastewater System produced approximately 1.4% of our total revenues in 1997.
- o Utility Service Affiliates, Inc. along with Middlesex Water Company entered into a five-year contract with the City of South Amboy, New Jersey to operate and maintain the city's 2,600 customer water system in May 1995. The contract is renewable for up to three additional five-year periods. We refer to this subsidiary as "USA" in this Prospectus. USA produced approximately 1% of our total revenues in 1997. Middlesex Water Company has signed a contract for the acquisition, subject to final ordinance adoption and BPU approval, of a franchise to provide water service and to install water system facilities in South Amboy. If the franchise is acquired, after adoption of the final ordinance and obtaining BPU approval, USA and Middlesex Water Company will continue to operate and maintain the facilities owned by the City.

- o Utility Service Affiliates (Perth Amboy) Inc., which we refer to as "USA (PA)" in this Prospectus, along with Middlesex Water Company, signed an agreement on December 8, 1998 with the City of Perth Amboy and the Middlesex County Improvement Authority. Under that agreement, USA (PA) will operate and maintain the city's water system and the wastewater system for 20 years beginning on an interim basis on January 1, 1997 pending completion of certain bond financings. If those bond financings are not completed by March 31, 1999, the agreement with Perth Amboy will be rescinded. USA (PA) will be paid a fixed fee and a variable fee based on increased system billings. Fixed fee payments to USA (PA) in the agreement rise from \$6.4 million in the first year to \$9.7 by year 20. The agreement also will require USA (PA) to lease from the City all of the City's employees who currently work on the City's water system or wastewater system. In connection with the agreement, the Middlesex County Improvement Authority is going to issue up to \$69.5 million in three series of bonds with the completion of those bond financings expected in late January, 1999. One of those series of bonds, in principal amount up to \$27.5 million, is to be guaranteed by the Company. The other series of bonds are to be guaranteed by the City. The Company will also guarantee the performance of our subsidiary, USA (PA). USA (PA) expects to enter into a subcontract with a sewer contracting firm for the operation and maintenance of the City wastewater system once those bond financings are completed. City employees who now work on the City's wastewater system would be subleased by the subcontractor from USA (PA). Of the \$6.4 million fixed fee payable to USA (PA) in the first year of the agreement, \$3 million would be payable to the subcontractor. The variable fee payable by USA (PA) to the subcontractor would be based on a portion of the increased billings attributable to the wastewater system. We hope to conclude all aspects of the transactions by January 1999.

## STRATEGY

To support our existing and expanding operations, we strive to maintain and strengthen our position as a reliable supplier of quality water in all of our systems. We will continue to seek new services and to consider acquisitions of other water and wastewater systems. In addition, we will try to contract with additional municipalities to operate and manage their water systems and, in some cases, their wastewater systems. We also plan to continue to increase our customer base in New Jersey and Delaware. We may also seek to acquire companies in water- and wastewater-related businesses that are not regulated utilities.

**MAINTAIN AND STRENGTHEN OUR POSITION AS A PROVIDER OF QUALITY WATER.** We believe that we meet or exceed all primary regulatory requirements for water quality. We also believe that we have adequate supplies to provide water in sufficient quantities to meet our customers' current requirements in all of our service areas. In order to maintain and improve our ability to provide quality water in sufficient quantities, we regularly upgrade our facilities. We are currently upgrading and expanding our CJO Plant in Edison, New Jersey in order to meet more stringent regulatory requirements anticipated for water quality and to increase our capacity to meet peak-day demands for water in the utility system serviced by the CJO Plant. See "THE PROJECT." We also continue to improve our central New Jersey distribution system by cleaning and cement lining unlined pipe.

**INCREASE CONTRACT SERVICES.** We operate and maintain the 2,600 customer water system of the City of South Amboy, New Jersey under a 1995 contract with that city which is renewable at five year intervals. On December 1, 1998 we signed a contract to acquire, subject to final ordinance adoption and BPU approval, a franchise from the City to provide water service and to install water system facilities in South Amboy. On December 8, 1998, we signed a contract with the City of Perth Amboy, New Jersey, to operate and maintain its 8,200 customers water and wastewater systems. We expect to enter into a subcontract with an experienced sewer contractor for the operation and maintenance of the wastewater system once bond financings related to the Perth Amboy contract are completed. We are also currently negotiating with a third New Jersey municipality to enter into a multi-year treating and pumping contract. Because we believe contracts with municipalities provide another way for us to expand our service territories and increase the number of customers we serve, we continue to seek opportunities to enter into contracts with additional municipalities to operate their water systems.

**INCREASE CUSTOMER BASE.** Since 1992, we have increased our retail customer base in Delaware from approximately 3,000 to approximately 11,000 today through acquisitions and customer growth. We have also acquired 2,200 customer water utility and a 2,200 customer wastewater utility in Burlington, County, New Jersey. We will continue to seek opportunities to increase our customer base by acquiring additional service areas, water utilities and other water- or wastewater-related companies in New Jersey and Delaware. There is significant economic development and population growth near several of our Delaware service areas.

SUMMARY OF STATISTICAL INFORMATION  
(CONSOLIDATED OPERATIONS)

	YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
	----	----	----	----	----
	(In thousands)				
<b>REVENUES</b>					
Residential	\$ 16,291	\$ 15,091	\$ 15,202	\$ 14,306	\$ 14,042
Commercial	4,576	4,347	4,393	4,282	4,170
Industrial	6,631	6,621	6,669	6,598	6,481
Fire Protection	4,662	4,637	4,543	4,352	4,312
Contract Sales	7,380	6,778	6,658	6,322	6,232
Other	754	551	382	262	242
	=====	=====	=====	=====	=====
Total	\$ 40,294	\$ 38,025	\$ 37,847	\$ 36,122	\$ 35,479

	AS OF DECEMBER 31,				
	1997	1996	1995	1994	1993
	----	----	----	----	----
Meters in Service	67,673	63,775	61,332	58,371	57,318
Population Served (Retail)	271,000	255,000	245,000	233,000	229,000
Miles of Main	1,149	1,067	1,035	972	947
Fire Hydrants	4,850	4,750	4,690	4,558	4,503
Pumpage (million gallons)	17,476	16,791	17,380	16,794	16,789

**WATER SUPPLIES AND CONTRACTS**

Our water utility plant consists of sources of supply, pumping, water treatment, transmission, distribution and general facilities located in New Jersey and Delaware. Our New Jersey and Delaware water supply systems are physically separate and are not interconnected. In addition, in New Jersey, the Pinelands System is not interconnected with the Middlesex System. In the opinion of management, we have adequate sources of water supply to meet the current and anticipated future service requirements of our present customers in New Jersey and Delaware.

**MIDDLESEX SYSTEM:**

Our Middlesex System obtains water from both surface sources and from wells which we call groundwater sources. In 1997, surface sources of water provided approximately 64% of the Middlesex System's water supply, groundwater from wells provided approximately 29% and the balance of 7% was purchased from Elizabethtown Water Company ("Elizabethtown"), a nonaffiliated water utility. Middlesex System's distribution storage facilities are used to supply water to its customers at times of peak demand, outages and emergencies.

The principal source of surface supply for the Middlesex System is the D & R Canal, owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority ("NJWSA"). Under a multistate compact, the NJWSA is entitled to divert water from the Delaware River into the D & R Canal. This supply, together with water in the Round Valley and Spruce Run Reservoir System, provide a safe yield of 225 mgd which supplies our Middlesex System and other large water purveyors contractually regulated by the NJWSA. We have contracts with the NJWSA to divert a maximum of 20 mgd of untreated water from the D & R Canal. In addition, we have a one year agreement for an additional 5 mgd, renewed through April 30, 1999. We also have an agreement with Elizabethtown, effective through December 31, 2005, which provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases. We have also purchased additional water from Elizabethtown on an emergent basis when construction activity briefly closed the D & R Canal.

Our Middlesex System also derives water from groundwater sources equipped with electric motor driven deepwell turbine type pumps. The Middlesex System has 32 wells, which provide an aggregate pump capacity of approximately 27 mgd.

**TIDEWATER SYSTEMS:**

Water supply to Delaware customers is derived from the Tidewater Systems' 115 wells which provided overall system delivery of 512 million gallons during 1997. The Tidewater Systems do not have a central treatment facility.

Several of its water systems in Sussex County and New Castle County, Delaware have interconnected transmission systems. Treatment is by chlorination and, in some cases, pH correction and filtration.

#### PINELANDS SYSTEM:

The Pinelands System obtains its water supply from four wells drilled into the Mt. Laurel aquifer. The wells are equipped with three electric motor driven deep well turbine pumps and one is equipped with a electric motor driven submersible pump. Disinfection is done at individual well sites. The wells have an aggregate pump capacity of 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. Current average flow is 0.3 mgd. Pinelands has a current valid discharge permit issued by the New Jersey Department of Environmental Protection ("DEP").

#### PROPERTIES

The water utility properties of our systems consist of source of supply, pumping, water treatment, transmission and distribution and general facilities.

#### MIDDLESEX SYSTEM:

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

Water is withdrawn from the D&R Canal at New Brunswick, New Jersey through our intake and pumping station located on State owned land bordering the Canal. It is transported through our 54 inch supply main for treatment and distribution at the CJO Plant. See "THE PROJECT." Facilities at the CJO Plant consist of source of supply, pumping, water treatment, transmission, storage, laboratory and general facilities. We monitor water quality at the CJO Plant, at each well field and throughout the distribution system to determine that federal and state water quality standards are met. See "THE PROJECT" and "Regulation -Water Quality and Environmental Regulations."

The design capacity of the intake and pumping station in New Brunswick, New Jersey, is 80 mgd. The four electric motor driven vertical turbine pumps presently installed have an aggregate design capacity of 65 mgd. The station is designed to permit its pumping capacity to be increased to 80 mgd by the installation of additional pumping units. The design capacity of our raw water supply main is 55 mgd. We also have a 58,600 foot transmission main, a long term lease agreement with the City of Perth Amboy for the use of a 38,800 foot transmission main, and a long term, nonexclusive "wheeling agreement" with the East Brunswick system, all used to transport water to several of our contract customers.

The CJO Plant includes chemical storage and chemical feed equipment, dual rapid mixing basins, four reinforced concrete mechanical flocculation compartments, four underground reinforced concrete settling basins, eight rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The firm design capacity of the CJO Plant is now 30 mgd (45 mgd maximum capacity). The main pumping station at the CJO Plant has a design capacity of 90 mgd. The four electric motor driven vertical turbine pumps presently installed have an aggregate capacity of 65 mgd.

In addition to the main pumping station at the CJO Plant, there is a 15 mgd auxiliary pumping station located in a separate building. 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. We refer to a million gallons as "mg" in this Prospectus.

We have a RENEW Program in the Middlesex System to clean and line with cement previously unlined mains. There are approximately 170 miles of unlined mains in the 670 mile Middlesex System. In 1999, we will clean and line approximately nine miles of unlined mains.

Middlesex System's storage facilities consist of a 10 mg reservoir at the CJO Plant, 5 mg and 2 mg reservoirs in Edison, a 5 mg reservoir in Carteret and a 2 mg reservoir at the Park Avenue Well Field.

We own the properties in New Jersey on which Middlesex System's 32 wells are located. We also own our headquarters complex at 1500 Ronson Road, Iselin, New Jersey, consisting of a 27,000 square foot, two story office building and an adjacent 16,500 square foot maintenance facility.

#### TIDEWATER SYSTEMS:

The Tidewater Systems' storage facilities include 21 ground level storage tanks with the following capacities: eleven 30,000 gallon tanks, five 25,000 gallon tanks, three 120,000 gallon tanks, one 135,000 gallon tank, one 82,000 gallon tank and one elevated storage tank with a capacity of 250,000 gallons.

Our Delaware operations are managed from Tidewater's leased offices in Odessa, Delaware and from Public's leased offices in Millsboro, Delaware. Tidewater's office property, which is owned by its wholly-owned subsidiary, White Marsh Environmental Systems, Inc., consists of a 2,400 square foot building situated on a one (1) acre lot.

#### PINELANDS SYSTEM:

Pinelands Water Company owns well site properties which are located in Southampton Township, New Jersey. Pinelands Water storage facility is a 1.2 mg standpipe.

#### PINELANDS WASTEWATER SYSTEM

Pinelands Wastewater Company owns a 12 acre site on which its 0.5 mgd capacity tertiary treatment plant is located.

#### LEGAL PROCEEDINGS

A Woodbridge, New Jersey motel in our service area originally filed claims against us in 1990, in the Superior Court, Burlington County, New Jersey alleging financial losses due to improper water pressure and service and also seeking punitive damages. Subsequently in 1994, and again in 1997, the motel suffered outbreaks of legionella, resulting in the 1997, shut-down of the motel by the New Jersey Department of Health. The motel amended its claims to assert that we provided water containing the legionella bacteria. The motel is in bankruptcy. A bank creditor of the motel has joined in the motel's claim against us in an effort to recover some \$3.5 million still owing to the bank. Although we believe that the motel's claims are not supportable and have expert witness testimony to that effect, the motel also has an expert who will testify that we do have responsibility. Claims resulting from the death of a motel guest from legionella in 1997 have been brought against the motel and the motel in turn has claimed against us. We have substantial insurance coverage, which we believe will be sufficient for all claims in this matter other than for punitive damages. We do not believe the motel's claims for punitive damages will prevail. While the outcome of this case remains uncertain, we believe that the final resolution will not have a significant effect on our financial condition or results of operation.

A 1995 fire at a warehouse in our service territory resulted in multiple party claims brought both in the Superior Court for Middlesex County, New Jersey, as well as, with the financial collapse of the principal tenant, in the Federal Bankruptcy Court. The claims in the State court action are for unspecified amounts but include claims against us for insufficient water pressure and supply. The Bankruptcy Court has stayed all claims against the tenant except, to the extent the tenant is insured, claims brought by us arising from claims made against us by other tenants and the landlord. Under New Jersey case law, we will not have financial responsibility to parties to the extent they receive payments under their own insurance policies. We do not know either the total amount of claims against us or how much of that amount will be covered by the parties' own insurance policies. Our counsel in the litigation advises that the case is unlikely to be resolved rapidly. We believe we have substantial defenses to the claims against us, although we do not have insurance coverage for them.

#### EMPLOYEES

As of September 30, 1998, we had a total of 140 employees in New Jersey, and a total of 28 employees in Delaware. No employees are represented by a union. Management considers its relations with its employees to be satisfactory. Wages and benefits are reviewed annually and are considered competitive within the industry.

#### 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 some contract water supply and wastewater

services and operations and maintenance services is subject to competition from other public utilities, municipalities and other entities. Although Tidewater has been granted an exclusive franchise for each of its existing community water systems, its ability to expand service areas has been affected by the Delaware Department of Natural Resources and Environmental Control awarding franchises to other regulated water purveyors, including franchises granted to service community water systems around and in between the Tidewater Systems service areas.

#### REGULATION

We are subject to regulation as to our rates, services and other matters by the states of New Jersey and Delaware with respect to utility service within those states and with respect to environmental and water quality matters. We are also subject to environmental and water quality regulation by the United States Environmental Protection Agency ("EPA"). In addition, our issuances of securities, including the Common Stock offered under this Prospectus, is subject to the prior approval of the BPU.

#### REGULATION OF RATES AND SERVICES

New Jersey operations are subject to regulation by the BPU. Similarly, our Delaware operations are subject to regulation by the PSC. These regulatory authorities have jurisdiction with respect to rates, service, accounting procedures, the issuance of securities and other matters.

In determining our rates, the BPU and the PSC consider the income, expenses, rate base of property used and useful in providing service to the public and a fair rate of return on that property. Rate determinations by the BPU do not guarantee particular rates of return to the Company for our New Jersey operations nor do rate determinations by the PSC guarantee particular rates of return for our Delaware operations. Thus, we may not achieve the rates of return allowed by the BPU or the PSC.

We filed a petition with the BPU on September 17, 1998 for a 21.9% rate increase to include the \$38 million costs of the Project in our rate base and to recover certain other of our costs which have increased. The Company anticipates that a BPU determination with respect to this petition may not be made until the summer of 1999. There can be no assurance that the rate increase will be granted or, if granted, that it will be in the amount we requested.

We anticipate that we may file with the PSC during 1999 for a rate increase for the Tidewater Systems, which may also include a request to combine Tidewater and Public into a single entity.

#### WATER QUALITY AND ENVIRONMENTAL REGULATIONS

Both the EPA and the DEP regulate our operations in New Jersey with respect to water supply, treatment and distribution systems and the quality of the water, as do the EPA, the DNREC, and the Delaware Department of Health with respect to operations in Delaware.

Federal, Delaware and New Jersey regulations adopted over the past five years relating to water quality require expanded types of testing by the Company to insure that its water meets State and Federal water quality requirements. In addition, environmental regulatory agencies are reviewing current regulations governing the limits of certain organic compounds found in the water as byproducts of treatment. The Company believes the CJO Plant upgrade and expansion will allow the Company to be in a stronger position to meet any such future regulations with regard to its Middlesex System. Regular testing of our water demonstrates that we are in compliance with existing Federal, New Jersey and Delaware primary water quality standards.

As more fully discussed in the Company's most recent Annual Report on Form 10-K, the Company is subject to regulations of the EPA as to maximum contaminant levels under the Federal Safe Drinking Water Act. There are also similar state regulations by the DEP in New Jersey.

The DEP and the Delaware Department of Health monitor the activities of the Company and review the results of water quality tests performed by the Company for adherence to applicable regulations. Other regulations applicable to the Company 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. See "INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE" and "WHERE YOU CAN FIND MORE INFORMATION."



SELECTED CONSOLIDATED FINANCIAL INFORMATION  
(In thousands, except share and per share data)

This selected financial information as of, and for the years ended, December 31, 1993, 1994, 1995, 1996 and 1997, was taken from and should be read along with the financial statements contained in our most recent Annual Report on Form 10-K. Information as of, and for the periods ended, September 30 1997 and 1998 is taken from financial statements that have not been audited but which, we believe, fairly present our financial position and results of operations for those periods and should be read along with our most recently filed Quarterly Report on Form 10-Q. See "WHERE YOU CAN FIND MORE INFORMATION."

	Nine Months Ended September 30,		Year Ended December 31,				
	1998	1997	1997	1996	1995	1994	1993
<b>CONSOLIDATED INCOME STATEMENT DATA:</b>							
Operating Revenues	\$32,434	\$30,241	\$40,294	\$38,025	\$37,847	\$36,122	\$35,479
Operating Expenses	25,241	23,544	31,526	29,802	29,184	27,670	27,423
Net Income	5,185	4,487	5,861	5,168	5,704	5,495	5,480
Earnings Applicable to Common Stock	4,946	4,341	5,635	5,009	5,545	5,307	5,224
<b>Earnings per Share of Common Stock :</b>							
Basic	\$1.14	\$1.03	\$1.33	\$1.20	\$1.36	1.33	1.33
Diluted	1.13	1.02	1.33	1.20	1.36	1.33	1.33
<b>Dividends Paid per Share of Common Stock :</b>							
	\$.855	\$.84	\$1.125	\$1.105	\$1.085	\$1.0575	\$1.0125
<b>Average Number of Shares Outstanding</b>							
Basic	4,326,337	4,226,241	4,235,082	4,169,334	4,078,890	4,003,393	3,924,363
Diluted	4,552,763	4,346,792	4,382,345	4,258,740	4,168,296	4,092,799	4,013,769

	As of September 30,		As of December 31,				
	1998	1997	1997	1996	1995	1994	1993
<b>CONSOLIDATED BALANCE SHEET DATA:</b>							
Total Assets	\$191,415	\$156,706	\$159,761	\$148,660	\$144,822	\$132,413	\$125,676
Utility Plant - Net	152,045	130,853	135,071	121,245	117,933	108,743	105,392
Common Equity	54,330	50,839	51,226	49,216	47,644	44,851	42,839
Convertible Preferred Stock	3,894	3,896	3,894	1,565	1,565	1,565	1,544
Nonredeemable Preferred Stock	1,102	1,102	1,102	1,102	1,102	1,226	1,250
Long-term Debt (excluding current portion)	75,884	52,929	52,918	52,961	52,960	49,500	37,000

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the financial statements contained in our most recent Annual Report on Form 10-K and our most recently filed Quarterly Report on Form 10-Q. See "WHERE YOU CAN FIND MORE INFORMATION."

### RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 1998

Operating Revenues for the nine months ended September 30, 1998, were \$2.2 million higher than last year. Rate increases resulted in additional revenues of \$1.2 million. The Middlesex System received regulatory approval from the BPU to implement a 4.4% rate increase in January, 1998. The Pinelands Water and Wastewater Companies also increased their rates in January, 1998. This increase represented the second part of a three part rate increase previously approved by the BPU. The third increase is scheduled for January 1999.

A subsidiary acquisition added \$0.6 million to revenues. The acquisition of Public by our wholly-owned subsidiary, Tidewater was completed on July 31, 1997. As a result, the nine months of consolidated revenue for 1997 only include two months of revenue from Public.

Customer growth contributed \$0.4 million to revenues. The customer base of Tidewater grew by 820 accounts over the twelve month period ended September 30, 1998. This translates to an annual growth rate in customers of 11.6% and is consistent with the increase of 13.0% in amounts billed for water services to the customers of Tidewater.

Operating Expenses rose \$1.7 million or 7.2% for the nine months ended September 30, 1998. Some of the reasons for this increase are briefly discussed here. The Middlesex System changed the composition of the water sources it used to supply its customers. During 1998, less water was withdrawn from its well fields and more was purchased from the NJWSA and Elizabethtown. This resulted in higher purchased water costs and higher chemicals expense of \$0.2 million. Electric power costs for the Middlesex System were higher by about \$0.2 million over last year due primarily to a large credit we received in the 1997 period from our power provider. Costs associated with the recognition of post retirement benefits under mandated accounting standards pushed operating expenses up by \$0.3 million. Public's expenses are now included in our consolidated expenses. Its expenses amounted to \$0.3 million for the nine months ended September 30, 1998.

On a consolidated basis, almost \$9.5 million of newly constructed utility plant or utility plant acquired through acquisition was placed in service since September 30, 1997. This resulted in higher depreciation expense in the first nine months of 1998 of \$0.2 million or 8% over that period last year.

Taxes other than income taxes includes the taxes that the State of New Jersey charges regulated water and wastewater utilities based upon gross receipts from operations in New Jersey. These taxes are called Gross Receipts and Franchise Taxes. In general, for every dollar of revenue collected from our New Jersey customers approximately 13.5% is remitted to the State of New Jersey. As described above, about \$1.2 million of additional revenues were recorded by our New Jersey companies which, in turn, increased the tax expense by just under \$0.2 million.

Other income increased \$0.7 million in the first nine months of 1998 over last year. One of the components of the increase is higher earnings on the unexpended proceeds from the 5.35% Series W Mortgage Bond issued in March, 1998. As of September 30, 1998, \$11.3 million of the \$23.0 million received from the Series W offering remains in a CJO Plant Construction account maintained by a trustee. We submit payment requisitions to the trustee for qualified CJO Plant expenditures. It is our expectation that the balance of the proceeds will be exhausted by February, 1999. Another piece of the increase pertains to interest capitalized on the CJO Plant work in process expenditures. Public utilities refer to this as Allowance for Funds Used During Construction ("AFUDC"). In general, AFUDC is recorded as a cost of the project until the utility plant is ready to provide service to customers. The effect is to reduce expenses currently for the Company and depreciate the capitalized interest along with the rest of the CJO Plant costs over its estimated useful life.

Interest charges rose \$0.5 million which represents our obligation to pay interest on the 5.35% Series W Mortgage Bond issued in March 1998.

Net Income for the nine months ended September 30, 1998 increased \$0.7 million or 15.6% over the comparable 1997 period based upon the discussion above. The increase in the preferred stock dividend requirement is attributable

to the issuance of preferred stock in July, 1997, to complete the acquisition of Public. Through September, 1998, nine months worth of the dividend requirements were recorded while for the same period in 1997 only two months were recorded.

Basic and Diluted Earnings per Share both increased by \$0.11 over last year. There is a \$0.01 per share difference between Basic and Diluted Earnings per Share. This difference is due to the two series of convertible preferred stock that we have issued. See "-- Accounting Standards."

RESULTS OF OPERATIONS  
1997 COMPARED TO 1996

Operating Revenues increased by \$2.3 million to \$40.3 million due to favorable weather conditions in New Jersey and Delaware, continued growth in Tidewater's customer base of 12%, rate increases implemented by the Pinelands Companies, increased contract revenues from USA and the inclusion of Public's operating results since August 1997.

Offsetting effects to net income were higher operations and maintenance expenses of \$0.8 million or 4.1%, which reflected increased purchased water of \$0.3 million transmission and distribution expenses of \$0.3 million; administrative and general expenses of \$0.3 million and the inclusion of operating expenses for Public of \$0.2 million. These increases were offset by reductions in purchased power and water treatment expenses of \$0.3 million.

Depreciation expense increased 4.8% due to a higher level of depreciable plant in service. Taxes, other than income taxes increased \$0.2 million and were related primarily to revenue-related taxes. A higher level of taxable income resulted in a \$0.6 million increase in federal taxes.

As a result, Net Income increased 13.4% to \$5.9 million in 1997 compared with \$5.2 million in the prior year.

RESULTS OF OPERATIONS  
1996 COMPARED TO 1995

Operating Revenues in 1996 were \$0.2 million higher than in 1995. Consumption was lower in all major classes of customers. These decreases were offset by additional fixed service charges as a result of an increased customer base in Delaware of 12.5% and the inclusion of revenues from the Pinelands Companies and USA for a full year in 1996.

Operations and maintenance expenses were \$0.9 million or 4.8% higher in 1996 over 1995 due principally to increases in purchased water of \$0.3 million; water treatment of \$0.3 million; pumping expenses of \$0.2 million; and customer accounts and administrative and general expenses of \$0.3 million; offset by a decrease in transmission and distribution expenses of \$0.2 million.

Depreciation increased \$0.1 million or 4.1% due to a higher depreciation base. Federal income taxes decreased \$0.5 million due to lower taxable income. Interest expenses increased \$0.2 million or 5.3% as a result of the long-term borrowings by Tidewater.

As a result, Net Income decreased \$0.5 million or 9.4%.

LIQUIDITY AND CAPITAL RESOURCES

The table below presents the estimated capital expenditures, in millions for all our companies for 1998, 1999 and 2000:

	1998	1999	2000
	----	----	----
	(in millions)		
CJO Plant	\$16.0	\$17.0	\$ -
Delaware Systems	3.2	2.0	0.7
RENEW Program	2.1	2.2	2.2
Scheduled upgrades to existing systems	3.0	4.7	3.6
	-----	-----	-----
Total	\$24.3	\$25.9	\$6.5
	-----	-----	-----

Our plan to finance these projects is underway. Proceeds from the \$23.0 million Series W First Mortgage Bonds and the anticipated common stock offering will be used to finance the CJO Plant expenditures in 1998 and 1999. Our Middlesex System will receive \$2.2 million from New Jersey Environmental Infrastructure Trust to cover the cost of the 1999 RENEW Program, which is our program to clean and line with cement approximately nine miles of unlined mains in the Middlesex system. There is a total of approximately 170 miles of unlined mains in the 670 mile Middlesex System. We expect to apply for similar funds in 1999 for the year 2000 RENEW Program. The financing of our Delaware subsidiaries, capital program will be a combination of a capital contribution from the Company and long-term debt financing from either a financial institution or the Company. The debt financing decision will be based upon the terms of financing available to our Delaware subsidiaries. We expect to be able to cover the costs of scheduled upgrades to the existing systems with the cash flow generated from our utility operations through the year 2000. For the nine months ended September 30, 1998 our consolidated group has expended \$18.8 million for capital projects, including \$12.2 million for the Project.

The Company currently has six series of First Mortgage Bonds outstanding in the aggregate principal amount of \$72.5 million. In addition, two additional series of First Mortgage Bonds in the principal amount of \$2.2 million have been delivered in escrow with an expected closing of November 5, 1998. The First Mortgage Bonds have been issued under and secured by a First Mortgage Bond Indenture and supplements thereto which constitute a direct first mortgage lien upon substantially all of the property of the Company. Tidewater borrowed funds under a \$3.5 million 8.05% Amortizing Secured Note due December 20, 2021. Approximately \$3.4 million was outstanding under that note as of September 30, 1998.

From time to time it may be necessary to utilize all or part of the \$28.0 million in total lines of credit we have available with three commercial banks for working capital purposes or provide interim funds until long-term financing is arranged. At September 30, 1998, we had \$4.5 million of loans outstanding against those lines of credit.

#### REGULATORY MATTERS

On September 17, 1998, Middlesex filed a petition with the BPU for a base rate increase of \$7.9 million or 21.9%. Approximately 75% of the increase is necessary to recover the investment in the upgrade and expansion of the CJO Plant serving our central New Jersey water system. The purpose of the Project is to meet the new and anticipated regulatory standards concerning water quality, as well as to increase the plant's production capacity. A decision by the BPU is expected in the summer of 1999.

On January 29, 1998, the BPU acted upon our November 1996 petition and approved an increase in our rates for the Middlesex System by 4.4% or \$1.5 million. Under the rate increase, the allowed return on equity is 11.0% with an overall rate of return of 8.56%. The increase included the recovery of postretirement costs other than pension expenses which are mandated by the Company's compliance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The prior increase in base rates granted by the BPU was \$2.8 million, or 9.33%, in April 1993.

In January 1997, the BPU approved a stipulation agreed to by the parties to the Pinelands Water and Wastewater Companies' rate cases which were filed in February 1996. The stipulations allow for a combined rate increase which will result in \$0.4 million additional revenues. The new rates are being phased in over a three-year period to minimize the impact on customers. Phases one and two were implemented in January 1997 and 1998, respectively.

#### ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No.128, "Earnings Per Share." This statement supersedes Accounting Principles Bulletin Opinion No. 15, "Earnings Per Share," and simplifies the reporting and computing of earnings per share ("EPS"). SFAS No. 128 requires dual presentation of basic and diluted earnings per share on the face of the income statement and requires a reconciliation of the basic EPS computation to the diluted EPS computation. At December 31, 1997, the Company adopted SFAS No. 128.

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. At September 30,

1998, the Company did not have any items of comprehensive income that would affect the current reporting of the Company's financial position, results of operations or cash flows.

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that public enterprises report certain information about operating segments in complete sets of financial statements. Disclosure is not required for interim financial statements in the initial year of its application. The Company is evaluating the requirements of SFAS No. 131. Because the statement relates solely to disclosure provisions, it will not have any effect on the Company's financial position, results of operations or cash flows.

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," revises and standardizes disclosure requirements for pension and other postretirement benefit plans but does not change the measurement or recognition of those plans. This statement is required to be adopted for the fiscal year ending December 31, 1998.

#### YEAR 2000

Software used in many computer systems and computerized control devices was designed to record only the last two digits of each year. This software, some of which we own, may not function properly as of January 1, 2000 because it interprets the new year as 1900. We have tested our own computer systems, to make certain that those systems will work properly when 1999 becomes 2000. We have also requested certification of Year 2000 compliance from the vendor of the new SCADA, as well as the principal vendors of data processing serving our financial reporting, payroll, billing, customer information and shareholder record systems. The vendors have certified that their systems have been tested and will work properly. We believe we may reasonably rely on those certifications. We also expect to spend up to \$10,000 to bring certain other operating systems, including our network of desktop personal computers, into Year 2000 compliance. Nonetheless, we may not have identified every computerized control device of ours which may be affected by Year 2000. Even if identified, we may not be able to reprogram or replace those devices before January 1, 2000. More importantly, we cannot assess the impact on us of failures of computer systems and control devices used by others. We are especially concerned about third parties who provide significant services and materials to process, treat and distribute water and to process, treat and dispose of wastewater, and about the possible failure of electric power and telecommunications or the inability to obtain diesel fuel for the Company's stand-by generators. The occurrence of any such Year 2000-related problem could have a material adverse effect on our financial condition and results of operations.

COMMON STOCK PRICE RANGE AND DIVIDENDS

Cash dividends on our Common Stock have been paid each year since 1912, and the annual dividend has increased for 25 consecutive years. On October 22, 1998, the Board of Directors declared a quarterly cash dividend of \$0.295 per share payable on December 1, 1998 to shareholders of record on November 16, 1998.

The Board of Directors' policy has been to pay cash dividends on the Common Stock on a quarterly basis. Future cash dividends will be dependent upon our earnings, financial condition, capital demands and other factors, and will be determined in accordance with policies established by the Board of Directors. See "Description of Common Stock" for certain restrictions upon the payment of cash dividends.

Our Common Stock is listed on the Nasdaq National Market and trades under the symbol "MSEX." On October 22, 1998, we had 2,271 common shareholders of record.

The following table sets forth the range of sales prices of the Common Stock, as reported by the Nasdaq National Market and dividends paid thereon for the periods indicated.

	SALES PRICE		QUARTERLY CASH DIVIDENDS
	HIGH	LOW	
1998:			
Fourth Quarter (through November 25, 1998)	\$25	\$21 1/4	\$0.295
Third Quarter	22	20 1/8	0.285
Second Quarter	21 1/4	19 1/4	0.285
First Quarter	22 1/2	19 7/8	0.285
			-----
			\$1.150
			=====
1997:			
Fourth Quarter	\$22 1/2	\$18	\$0.285
Third Quarter	19 1/4	16 3/8	0.28
Second Quarter	17 7/8	16 3/8	0.28
First Quarter	18	17	0.28
			-----
			\$1.125
			=====
1996:			
Fourth Quarter	\$18 1/4	\$16 3/4	\$0.28
Third Quarter	18	16	0.275
Second Quarter	17 1/2	15 1/2	0.275
First Quarter	19 1/4	17 1/4	0.275
			-----
			\$1.105
			=====

The book value per share of the Common Stock at September 30, 1998 was \$12.20 per share. For a recent closing sale price of the Common Stock, as reported on the Nasdaq National Market, see the cover page of this Prospectus.

## DESCRIPTION OF COMMON STOCK

Our authorized capital stock consists of 10,000,000 shares of Common Stock, without par value, 149,980 shares (as of October 30, 1998) of Cumulative Preferred Stock, without par value, and 100,000 shares of Cumulative Preference Stock, without par value. As of October 30, 1998, there were 4,368,847 shares of Common Stock outstanding, four series of Cumulative Preferred Stock representing a total of 45,898 shares outstanding and no shares of the Cumulative Preference Stock outstanding. The issuance of the Common Stock offered hereby is subject to approval by the BPU. See "THE COMPANY --Regulation."

The transfer agent for the Common Stock is Registrar and Transfer Company. Our outstanding Common Stock is traded on the over-the-counter market on the Nasdaq National Market System.

Certain New Jersey state laws and provisions in our Restated Certificate of Incorporation may deter or prevent a change in control of us and/or a change in management, even if desired by a majority of the shareholders. See "--Voting Rights" and "--Restriction on Acquisitions."

The following is a brief summary of certain information relating to our Common Stock. This summary does not purport to be complete and is intended to outline such information in general terms only.

### DIVIDEND RIGHTS

Our Restated Certificate of Incorporation provides that whenever full dividends have been paid on the Preferred Stock and the Preference Stock outstanding for all past quarterly periods, the Board of Directors may declare and pay dividends on the Common Stock out of legally available funds.

### LIMITATIONS ON PAYMENT OF DIVIDENDS

Under the terms of the Fourth Supplement to the Company's First Mortgage Bond Indenture, unless the holders of not less than 75% in principal amount of all first mortgage bonds consent in writing, the Company may not make a payment as a dividend or other distribution on capital stock issued by the Company or for the redemption or acquisition of capital stock issued by the Company, if the aggregate of all such payments made and to be made by the Company, including the proposed payment, during the period from October 1, 1948 to the date of the proposed payment would exceed the aggregate of (a) the consolidated net earnings of the Company for the period, and (b) the proceeds of the sale received by the Company for all capital stock issued by it subsequent to September 30, 1948; provided, that a dividend paid or to be paid in capital stock shall not be included in the aggregate of such payments.

In addition, under the Thirteenth Supplement to the Company's First Mortgage Bond Indenture, the Company may not declare or pay any dividends on its Common Stock (except dividends in shares of its Common Stock) or make any distribution (except in shares of its Common Stock) or purchase or otherwise acquire any shares of its Common Stock for value if the aggregate amount of such dividends, distributions, purchases and acquisitions paid or made subsequent to December 31, 1972 exceeds the sum of the aggregate of the consolidated net income of the Company (as defined in the Thirteenth Supplemental Indenture) available for dividends on its Common Stock accumulated subsequent to December 31, 1971, plus \$1.0 million.

As of the date of this Prospectus, the payment of dividends by the Company has not been affected by these limitations.

### VOTING RIGHTS

Every holder of the Common Stock is entitled to one vote for each share held of record. The Company's Restated Certificate of Incorporation and By-laws provide for a Board of Directors divided into three classes of directors serving staggered three-year terms. A classified board has the effect of increasing the time required to effect a change in control of the Board of Directors. The Company's By-laws provide that nominations for directors must be (i) made in writing, (ii) received by the Secretary of the Company not less than 21 days prior to the date fixed for the meeting of stockholders and (iii) accompanied by the written consent of the nominee to serve as a director. In addition, the Restated Certificate of Incorporation provides that the By-laws may only be amended by stockholders if the holders of two-thirds or more of the issued and outstanding shares of Common Stock vote for the amendment. The Company's Restated Certificate of Incorporation also provides that stockholders may take action only at an annual or special meeting upon prior notice and pursuant to a vote.

No holder of Preferred Stock or Preference Stock (none of which Preference Stock has been issued) has any right to vote for the election of directors or, except as otherwise required by law, for any other purpose; provided, however, that if and whenever dividends on the outstanding Preferred Stock are in arrears in an amount equal to at least four quarterly dividends, the holders of the outstanding Preferred Stock of all series, voting as a class, are entitled, until all dividends in arrears are paid, to elect two members to the Board of Directors, which two members shall be in addition to the directors elected by the holders of the Common Stock. Whenever dividends on the outstanding Preference Stock are in arrears in an amount equal to at least four quarterly dividends, the holders of the outstanding Preference Stock of all series, voting as a class, are entitled, until all dividends in arrears are paid, to elect two members to the Board of Directors, which two members shall be in addition to the members elected by the holders of the Common Stock and by the holders of the Preferred Stock. In addition, unless certain tests set forth in the Company's charter are met, the consent of the holders of a majority of the outstanding shares of Preferred Stock of all series, voting as a class, is required for issuance or sale of any additional series of Preferred Stock or any class of stock ranking prior to or on a parity with the Preferred Stock as to dividends or distributions. The consent of the holders of two-thirds in interest of the outstanding Preferred Stock of all series, voting as a class, is required to create or authorize any stock ranking prior to the Preference Stock as to dividends or in liquidation, or to create or authorize any obligation or security convertible into shares of any such stock, except that such consent is not required with respect to any increase in the number of shares of Preferred Stock which the Company is authorized to issue or with respect to the creation and establishment of any series of the Company's Preferred Stock.

#### LIQUIDATION RIGHTS

Holders of Common Stock are entitled to share on a pro-rata basis, subject to the rights of holders of the Company's First Mortgage Bonds, Preferred Stock or Preference Stock, in the assets of the Company legally available for distribution to shareholders in the event of the Company's liquidation, dissolution or winding up.

#### RESTRICTION ON ACQUISITIONS

As a New Jersey corporation with its headquarters and principal operations in the state the Company, is a "resident domestic corporation" as defined in New Jersey's Shareholder Protection Act (the "Act"). The Act bars any "business combination" as defined in that Act, (generally, a merger or other acquisition transaction) with any person or affiliate of a person who owns 10% or more of the outstanding voting stock of a resident domestic corporation for a period of five years after such person first owns 10% or more of such stock, unless the "business combination" both is approved by the board of directors of the resident domestic corporation prior to the time that person acquires 10% or more of the resident domestic corporation's voting stock and meets certain other statutory criteria.

#### DIVIDEND REINVESTMENT PLAN

The Company has a Dividend Reinvestment and Common Stock Purchase Plan ("DRIP") under which participating shareholders may have cash dividends on all or a portion of their shares of Common Stock or Cumulative Preferred Stock automatically reinvested in newly issued shares of Common Stock and may invest at the same time up to an additional \$25,000 per quarter in newly issued shares of Common Stock. Under the DRIP, the Company may permit the purchase of shares of Common Stock at 95% of market value for specified periods as announced by the Company from time to time. The Company last authorized the purchase of shares of Common Stock at 95% of market value during the period January 1, to June 1, 1998. As currently in effect, any purchase of shares under the DRIP is at full market value. No commission or service charge is paid by participants in connection with any of their purchases under the DRIP.



UNDERWRITING

Subject to the terms and conditions of an Underwriting Agreement among the Company and Edward D. Jones & Co., L.P. and Janney Montgomery Scott Inc. (the "Underwriters"), the Underwriters have severally agreed to purchase from the Company the aggregate number of shares of the Company's Common Stock set forth opposite their respective names below.

UNDERWRITER	NUMBER OF SHARES
Edward D. Jones & Co., L.P.....	
Janney Montgomery Scott Inc. ....	
Total.....	450,000
	=====

The Underwriting Agreement provides that the obligations of the Underwriters to pay for and accept delivery of the Common Stock are subject to the approval of certain legal matters by counsel and to certain other conditions. The Underwriters are obligated to take and pay for all of the shares of the Common Stock offered hereby if any are taken (other than shares of Common Stock covered by the over-allotment option described below).

The Underwriters have advised the Company that they propose to offer the Common Stock being purchased by them directly to the public at the initial public offering price set forth on the cover page of this Prospectus and in part to certain securities dealers which are members of the National Association of Securities Dealers, at such prices less a concession which shall not exceed \$\_\_\_\_ per share of Common Stock. After the initial public offering, the public offering price and concessions may be changed by the Underwriters.

The offering of the Common Stock is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject any order for the purchase of Common Stock in whole or in part.

The Company has granted to the Underwriters an option for 30 days to purchase (at the Common Stock Public Price less the Underwriting Discounts and Commissions shown on the cover page of this Prospectus) up to 67,000 additional shares of Common Stock. The Underwriter may exercise such option only to cover over-allotments of shares of Common Stock made in connection with the sale of the shares offered hereby.

In connection with this offering and in compliance with applicable law, the Underwriters may over-allot (i.e., sell more Common Stock than is set forth on the cover page of this Prospectus) and may effect transactions which stabilize, maintain or otherwise affect the market price of the Common Stock at levels above those which might otherwise prevail in the open market. Such transactions may include placing bids for the Common Stock or effecting purchases of the Common Stock for the purpose of pegging, fixing or maintaining the price of the Common Stock or for the purpose of reducing a short position created in connection with the Offering. A short position may be covered by exercise of the over-allotment option described above in lieu of or in addition to open market purchases. The Underwriters are not required to engage in any of these activities and any such activities, if commenced, may be discontinued at any time.

Neither the Company nor the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Stock. In addition, neither the Company nor the Underwriters makes any representation that the Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

The Company and its directors and executive officers have agreed to enter into lock-up agreements pursuant to which they will agree that, subject to certain customary exceptions, they will not, without the prior written consent of Edward D. Jones & Co., L.P., for a period of 60 days from and after the date of this Prospectus, sell, offer to sell, contract to sell, or otherwise dispose of, directly or indirectly, any shares of Common Stock of the Company or any securities convertible into, or exercisable or exchangeable for, Common Stock of the Company (other than shares issuable pursuant to a plan for employees in effect on the date of this Prospectus).

The Company has agreed to indemnify the Underwriters and persons who control the Underwriters against certain liabilities that may be incurred in connection with the offering contemplated hereby, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the Underwriters may be required to make in respect thereof.

## LEGAL MATTERS

Certain legal matters in connection with the validity of the Common Stock offered hereby will be passed upon for the Company by Norris, McLaughlin & Marcus, P.A., Somerville, New Jersey. Certain legal matters will be passed upon for the Underwriters by Armstrong, Teasdale, Schlafly & Davis, St. Louis, Missouri.

## EXPERTS

The financial statements incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1997 have been audited by Deloitte & Touche, independent auditors, as stated in their report, which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements, and other information with the Securities and Exchange Commission (the "Commission"). You may read and copy any of the reports and other information we file at the Commission's public reference facilities located in Washington at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, in New York located at 7 World Trade Center, Suite 1300, New York, New York 10048, and in Chicago located at Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may call the SEC at 1-800-SEC-0330 for further information about the public reference rooms. Copies of such material can also be obtained from the Public Reference Section of the commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Our SEC filings are also available to the public over the Internet at the Commission's web site which is located at the following address: <http://www.sec.gov>.

This Prospectus is a part of a registration statement on Form S-3 (which, together with all exhibits filed along with it, will be referred to as the "Registration Statement") which we filed with the Commission to register the securities we are offering. Certain information and details which may be important to specific investment decisions may be found in other parts of the Registration Statement, including its exhibits, but are left out of this Prospectus in accordance with the rules and regulations of the Commission. To see more detail, you may wish to review the Registration Statement and its exhibits. Copies of the Registration Statement and its exhibits are on file at the offices of the Commission and may be obtained upon payment of the prescribed fee or may be examined without charge at the public reference facilities of the Commission described above.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Commission's rules allow us to "incorporate by reference" the information we file with the Commission, which means we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this Prospectus. We incorporate by reference the documents listed below, which already have been filed with the Commission, and certain information we may file in the future will automatically update and take the place of information already filed. The following documents are incorporated by reference as of the date each was filed: (a) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1998, June 30, 1998 and September 30, 1998; (b) the Company's Annual Report on Form 10-K for the year ended December 31, 1997; and (c) the Company's Current Report on Form 8-K filed on September 11, 1998.

In addition to the documents already filed, all reports and other documents which we file in the future with the Commission pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, before this stock offering ends, shall also be incorporated by reference in this Prospectus.

You may request a copy of any of these filings. Such requests should be directed to: Ms. Marion F. Reynolds, Vice President, Secretary and Treasurer, Middlesex Water Company, 1500 Ronson Road, Iselin, New Jersey 08830, phone no. (732) 634-1500. You will not be charged for these copies unless you request exhibits, for which we will charge you a minimal fee. However, you will not be charged for exhibits in any case where the exhibit you request is specifically incorporated by reference into another document which is incorporated by this Prospectus.

-----  
NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS WHICH ARE NOT CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFERING OF SHARES OF COMMON STOCK COVERED IN THIS PROSPECTUS. IF GIVEN OR MADE, SUCH REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY MIDDLESEX WATER COMPANY OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SHARES OF COMMON STOCK OFFERED HEREBY IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

450,000 Shares

MIDDLESEX WATER COMPANY

COMMON STOCK

-----

PROSPECTUS

-----

EDWARD D. JONES & CO., L.P.

JANNEY MONTGOMERY  
SCOTT INC.

\_\_\_\_\_, 1998

-----

## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The costs and expenses, other than underwriting discounts and commissions, payable by the Company in connection with this Offering (all amounts are estimated except the registration fee) are as follows:

ITEM ----	TO BE PAID BY THE COMPANY -----
Securities and Exchange Commission registration fee.....	3,198
National Association of Securities Dealers, Inc. fee.....	1,700
Nasdaq listing fee.....	10,340
Accounting fees and expenses.....	20,000
Legal fees and expenses.....	66,000
Printing.....	25,000
Blue Sky fees and expenses .....	5,000
Transfer agent fees and expenses .....	1,000
Miscellaneous .....	2,762
	-----
Total.....	\$135,000 =====

## ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 14A:3-5 of the New Jersey Business Corporation Act (the "NJBCA") gives the Company power to indemnify each of its directors and officers against expenses and liabilities in connection with any proceeding involving him by reason of his being or having been a director or officer if (a) he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Company, and (b) with respect to any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. However, in a proceeding by or in the right of the Company, there shall be no indemnification in respect of any liabilities or expenses if the officer or director shall have been adjudged liable to the Company unless the Court in such proceeding determines he is entitled to indemnity for such liabilities and/or expenses. No indemnification shall be made to or on behalf of a director or officer if a judgment or other final adjudication adverse to such director or officer establishes that his acts or omissions (a) were in breach of his duty of loyalty to the Company and its shareholders, (b) were not in good faith or involved a knowing violation of law or (c) resulted in receipt by the director or officer of an improper personal benefit. The NJBCA defines an act or omission in breach of a person's duty of loyalty as an act or omission which that person knows or believes to be contrary to the best interests of the Corporation or its shareholders in connection with a matter in which he has a material conflict of interest. If a director or officer is successful in a proceeding, the statute mandates that the Company indemnify him against expenses.

Article V of the Company's By-laws provides:

"Any present or future director or officer of the Company and any present or future director or officer of any other corporation serving as such at the request of the Company because of the Company's interest in such other corporation, or the legal representative of any such director or officer, shall be indemnified by the Company against reasonable costs, expenses (exclusive of any amount paid to the Company in settlement), and counsel fees paid or incurred in connection with any action, suit, or proceeding to which any such director or officer or his legal representative may be made a party by reason of his being or having been such director or officer; provided, ( 1 ) said action, suit, or proceeding shall be prosecuted against such director or officer or against his legal representative to final determination, and it shall not be finally adjudged in said action, suit, or proceeding that he had been derelict in the performance of his duties as such director or officer; or (2) said action, suit or proceeding shall be settled or otherwise terminated as against such director or officer or his legal representative without a final determination on the merits, and it shall be determined by the Board of Directors (or, at the option of the Board of Directors, by a disinterested person or persons selected by the Board of Directors to determine the

matter) that said director or officer had not in any substantial way been derelict in the performance of his duties as charged in such action, suit, or proceeding. The right of indemnification provided by this By-law shall be in addition to and not in restriction or limitation of any other privilege or power which the Company may have with respect to the indemnification or reimbursement of directors, officers, or employees."

The Company has in effect a \$20,000,000.00 policy of insurance indemnifying it against certain liabilities to directors and officers of the Company, and indemnifying directors and officers of the Company against certain of the liabilities which they may incur in acting in their capacities as such, all within specific limits. The insurance was purchased from the Federal Insurance Company, a subsidiary of the Chubb Group of Insurance Companies, for a term expiring May 31, 2001.

Pursuant to Section 14A:2-7 of the NJBCA, the Company's shareholders adopted an amendment to the Company's Certificate of Incorporation which provides that a director or officer shall not be personally liable to the Company or its shareholders for damages for breach of any duty owed to the Company or its shareholders, except that such provision shall not relieve a director or officer from liability for any breach of duty based upon an act or omission (a) in breach of such person's duty of loyalty to the Company or its shareholders, (b) not in good faith or involving a knowing violation of law or (c) resulting in receipt by such person of an improper personal benefit.

ITEM 16. EXHIBITS

Exhibit No.	Document Description
1.1*	Form of Underwriting Agreement
3.1	Restated Certificate of Incorporation of the Company, as amended, is incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
3.2	Bylaws of the Company, as amended, is incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
4.1	Form of Common Stock Certificate, is incorporated by reference to Exhibit 2(a) filed with the Company's Registration Statement No. 2-55058
4.2	Articles 7A through 7F, 8, 9 and 10 of the Restated Certificate of Incorporation as amended are incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the Year ended December 31, 1997.
5*	Opinion of Counsel Re: Legality of Securities Registered
10.24	Operating Agreement between the City of Perth Amboy, the Middlesex County Improvement Authority and Utility Service Affiliates, Inc.
10.25	Assignment and Acceptance Agreement between Utility Service Affiliates, Inc. and Utility Service Affiliates (Perth Amboy), Inc.
23.1*	Independent Auditors' Consent
23.2*	Consent of Counsel is included in its legal opinion as Exhibit 5
24*	Power of Attorney (is included as a part of the signature page of this registration statement)

\* Previously filed.

ITEM 17. UNDERTAKINGS

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "1933 Act"), may be available to directors, officers and controlling persons of the Company pursuant to the New Jersey Business Corporation Act, the By-laws of the Company, the Underwriting Agreement, or otherwise, the Company has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer, or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.



The undersigned Company hereby undertakes that:

(1) For purposes of determining any liability under the 1933 Act, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the 1933 Act shall be deemed to be part of the registration statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the Registration Statement shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) For the purposes of determining any liability under the 1933 Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Woodbridge, State of New Jersey on the 15th day of December, 1998.

MIDDLESEX WATER COMPANY

By: /s/ J. RICHARD TOMPKINS

-----  
 J. Richard Tompkins  
 President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated below.

Person -----	Capacity -----	Date -----
/s/ J. RICHARD TOMPKINS ----- J. Richard Tompkins	Chairman of the Board, President, Chief Executive Officer and Director	December 15, 1998
* ----- John C. Cutting	Director	December 15, 1998
* ----- Ernest C. Gere	Director	December 15, 1998
* ----- John P. Mulkerin	Director	December 15, 1998
* ----- Stephen H. Mundy	Director	December 15, 1998
* ----- Philip H. Reardon	Director	December 15, 1998
* ----- Richard A. Russo	Director	December 15, 1998
* ----- William E. Scott	Director	December 15, 1998
* ----- Jeffries Shein	Director	December 15, 1998
/s/ A. BRUCE O'CONNOR ----- A. Bruce O'Connor	Vice President and Controller (Chief Financial Officer)	December 15, 1998

\*By: /s/ J. RICHARD TOMPKINS  
 -----  
 J. Richard Tompkins  
 Attorney-in-Fact



EXHIBIT INDEX

Exhibit No.	Document Description
1.1*	Form of Underwriting Agreement
3.1	Restated Certificate of Incorporation of the Company, as amended, is incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
3.2	Bylaws of the Company, as amended, is incorporated herein by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
4.1	Form of Common Stock Certificate, is incorporated by reference to Exhibit 2(a) filed with the Company's Registration Statement No. 2-55058
4.2	Articles 7A through 7F, 8, 9 and 10 of the Restated Certificate of Incorporation as amended are incorporated herein by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the Year ended December 31, 1997.
5*	Opinion of Counsel Re: Legality of Securities Registered
10.24	Operating Agreement between the City of Perth Amboy, the Middlesex County Improvement Authority and Utility Service Affiliates, Inc.
10.25	Assignment and Acceptance Agreement between Utility Service Affiliates, Inc. and Utility Service Affiliates (Perth Amboy), Inc.
23.1*	Independent Auditors' Consent
23.2*	Consent of Counsel is included in its legal opinion as Exhibit 5
24*	Power of Attorney (is included as a part of the signature page of this registration statement)

-----  
\*Previously filed.

AGREEMENT BETWEEN THE CITY OF PERTH AMBOY,  
 IN THE COUNTY OF MIDDLESEX, NEW JERSEY,  
 THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY  
 AND UTILITY SERVICE AFFILIATES, INC.,  
 A SUBSIDIARY OF  
 MIDDLESEX WATER COMPANY,  
 FOR OPERATION, MAINTENANCE AND MANAGEMENT SERVICES  
 FOR THE CITY'S WATER SYSTEM AND WASTEWATER SYSTEM

TABLE OF CONTENTS

ARTICLE I. DEFINITIONS.....	3
SECTION 1.1. DEFINITIONS.....	3
SECTION 1.2. RULES OF INTERPRETATION.....	18
ARTICLE II. GENERAL PROVISIONS.....	19
SECTION 2.1. OPERATION, MAINTENANCE AND MANAGEMENT OF SYSTEM .....	19
SECTION 2.2. TERM .....	19
SECTION 2.3. AUTHORITY FINANCING .....	19
ARTICLE III. CONDITIONS PRECEDENT.....	22
SECTION 3.1. GENERAL .....	22
SECTION 3.2. CONDITIONS TO CITY'S OBLIGATIONS .....	22
SECTION 3.3. CONDITIONS TO AUTHORITY OBLIGATIONS .....	23
SECTION 3.4. CONDITIONS TO COMPANY OBLIGATIONS .....	24
SECTION 3.5. SATISFACTION OF CONDITIONS PRECEDENT .....	25
SECTION 3.6. TIMING OF CERTAIN OBLIGATIONS .....	27
ARTICLE IV.	
REPRESENTATIONS, WARRANTIES AND COVENANTS.....	29
SECTION 4.1. CITY REPRESENTATIONS, WARRANTIES AND COVENANTS .....	29
SECTION 4.2. COMPANY AND/OR GUARANTOR REPRESENTATIONS, WARRANTIES AND COVENANTS.....	30
SECTION 4.3. TAX COVENANTS OF THE CITY AND THE COMPANY .....	33
SECTION 4.4. AUTHORITY REPRESENTATIONS, WARRANTIES AND COVENANTS .....	34
ARTICLE V.	
CITY RESPONSIBILITIES.....	35
SECTION 5.1. GENERAL RESPONSIBILITIES .....	35
SECTION 5.2. ESTABLISHMENT AND COLLECTION OF RENTS, RATES, FEES AND CHARGES.....	35
SECTION 5.3. ACCESS AND EASEMENTS .....	36
ARTICLE VI.	
OPERATION, MAINTENANCE AND MANAGEMENT OF THE SYSTEM.....	37
SECTION 6.1. GENERAL .....	37
SECTION 6.2. MATERIALS, LABOR, VEHICLES, ETC. ....	37
SECTION 6.3. HAZARDOUS SUBSTANCES .....	38
SECTION 6.4. RESPONSE REQUIREMENTS FOR PROBLEMS, COMPLAINTS AND INQUIRIES .....	39
SECTION 6.5. INVENTORY/EQUIPMENT/VEHICLES .....	39
SECTION 6.6. MAINTENANCE MANAGEMENT PROGRAM .....	41
SECTION 6.7. SOFTWARE PROGRAM .....	42
SECTION 6.8. TESTING AND LABORATORY ANALYSIS .....	42
SECTION 6.9. REPORTING REQUIREMENTS .....	43

SECTION 6.10.	STAFFING .....	45
SECTION 6.11.	LICENSES .....	48
SECTION 6.12.	COMPLIANCE WITH LAWS, REGULATIONS AND PERMITS .....	48
SECTION 6.13.	SAFETY AND SECURITY .....	50
SECTION 6.14.	CONTINUITY OF SERVICE .....	50
SECTION 6.15.	EMERGENCY SITUATIONS .....	51
SECTION 6.16.	PROVISIONS SPECIFIC TO WATER SYSTEM .....	53
SECTION 6.17.	PROVISIONS SPECIFIC TO WASTEWATER SYSTEM .....	55
SECTION 6.18.	OPERATIONS COMMITTEE .....	57
SECTION 6.19.	UNBILLED SERVICES .....	58
SECTION 6.20.	BILLING AND COLLECTIONS .....	59
ARTICLE VII.		
CAPITAL IMPROVEMENTS TO THE SYSTEM.....		61
SECTION 7.1.	ONGOING CAPITAL IMPROVEMENTS .....	61
SECTION 7.2.	ADDITIONAL CAPITAL IMPROVEMENTS TO THE SYSTEM.....	62
SECTION 7.3.	DESIGN AND PERFORMANCE STANDARDS .....	64
SECTION 7.4.	TERMINATION OF ADDITIONAL CAPITAL IMPROVEMENTS .....	64
SECTION 7.5.	CAPITAL IMPROVEMENT FUND .....	65
ARTICLE VIII.		
RATES, REVENUES, SERVICE FEE AND ADJUSTMENTS.....		67
SECTION 8.1.	RATES, FEES AND OTHER CHARGES .....	67
SECTION 8.2.	REVENUES .....	67
SECTION 8.3.	SERVICE FEE .....	67
SECTION 8.4.	ADJUSTMENTS TO THE SERVICE FEE .....	67
SECTION 8.5.	ADJUSTMENTS TO THE RATES .....	70
ARTICLE IX.		
DEFAULT AND TERMINATION .....		72
SECTION 9.1.	GENERAL PROVISIONS .....	72
SECTION 9.2.	TERMINATION BY THE CITY .....	72
SECTION 9.3.	TERMINATION BY THE COMPANY .....	75
SECTION 9.4.	NO CONSEQUENTIAL DAMAGES .....	78
SECTION 9.5.	CONTINUITY OF SERVICE UPON TERMINATION .....	78
SECTION 9.6.	ENFORCEMENT RIGHTS OF THE AUTHORITY .....	78
SECTION 9.7.	EFFECT OF TERMINATION .....	79
ARTICLE X.		
MISCELLANEOUS.....		80
SECTION 10.1.	INSURANCE .....	80
SECTION 10.2.	PERFORMANCE BONDS .....	86
SECTION 10.3.	INDEMNIFICATION .....	87
SECTION 10.4.	ACCESS TO SYSTEM AND RECORDS .....	93
SECTION 10.5.	AUTHORITY TO CONTEST .....	95
SECTION 10.6.	ENFORCEMENT .....	95
SECTION 10.7.	ASSIGNMENT .....	95
SECTION 10.8.	AFFIRMATIVE ACTION .....	96
SECTION 10.9.	ENTIRE AGREEMENT .....	98

SECTION 10.10. NOTICES .....	99
SECTION 10.11. APPLICATION OF LAW .....	99
SECTION 10.12. RELATIONSHIP .....	99
SECTION 10.13. PUBLIC RELATIONS .....	100
SECTION 10.14. NOTICE OF LITIGATION .....	100
SECTION 10.15. UNCONTROLLABLE CIRCUMSTANCES .....	101
SECTION 10.16. DISPUTE RESOLUTION .....	101
SECTION 10.17. NO THIRD PARTY RIGHTS .....	102
SECTION 10.18. NO SET-OFF .....	102
SECTION 10.19. PAYMENTS AND INTEREST .....	102
SECTION 10.20. COST SUBSTANTIATION .....	102
SECTION 10.21. PUBLIC NOTICES .....	103
SECTION 10.22. SURVIVAL .....	103
SECTION 10.23. AMENDMENT .....	103
SECTION 10.24. HEADINGS .....	103
SECTION 10.25. PIPELINE LEASE AMENDMENT .....	104
SECTION 10.26. COMBINED SEWER OVERFLOW .....	104
SECTION 10.27. SETTLEMENT OF LITIGATION .....	104
SECTION 10.28. NON-WAIVER .....	104
SECTION 10.29. SEVERABILITY .....	104
SECTION 10.30. COUNTERPARTS .....	104
SCHEDULE A	
FORM OF CITY BOND GUARANTY AGREEMENT.....	A-1
SCHEDULE B	
FORM OF CITY CONTINUING DISCLOSURE AGREEMENT.....	B-1
SCHEDULE C	
CITY CONTRACTS.....	C-1
SCHEDULE D	
CITY FACILITIES.....	D-1
SCHEDULE E	
CITY FEES.....	E-1
SCHEDULE F	
EMPLOYEE LEASE PAYMENT.....	F-1
SCHEDULE G	
FIXED FRANCHISE FEE.....	G-1
SCHEDULE H	
FIXED SERVICE FEE.....	H-1
SCHEDULE I	
FORM OF GUARANTOR BOND GUARANTY AGREEMENT.....	I-1
SCHEDULE J	
FORM OF GUARANTOR CONTINUING DISCLOSURE AGREEMENT.....	J-1

SCHEDULE K  
FORM OF GUARANTOR PERFORMANCE GUARANTY AGREEMENT.....K-1

SCHEDULE L  
INITIAL FACILITIES.....L-1

SCHEDULE M  
LEASED EMPLOYEES.....M-1

SCHEDULE N  
MCUA FEES.....N-1

SCHEDULE O  
NON-PROFIT FACILITIES.....O-1

SCHEDULE P  
ONGOING CAPITAL IMPROVEMENTS.....P-1

SCHEDULE Q  
OUTSTANDING CITY INDEBTEDNESS.....Q-1

SCHEDULE R  
PERMITS.....R-1

SCHEDULE S  
REQUISITION PAPERS.....S-1

SCHEDULE T  
RATES.....T-1

SCHEDULE U  
DESCRIPTION OF WASTEWATER SYSTEM.....U-1

SCHEDULE V  
DESCRIPTION OF WATER SYSTEM.....V-1

SCHEDULE W  
CERTIFICATE OF COMPLETION AND ACCEPTANCE.....W-1

SCHEDULE X  
MINIMUM VARIABLE FRANCHISE FEE.....X-1

SCHEDULE Y  
AMENDMENT TO PIPELINE LEASE AGREEMENT.....Z-1

SCHEDULE AA  
ASSIGNMENT AND ACKNOWLEDGMENT.....AA-1

SCHEDULE BB  
SETTLEMENT AGREEMENT.....BB-1

AGREEMENT BETWEEN THE CITY OF PERTH AMBOY,  
IN THE COUNTY OF MIDDLESEX, NEW JERSEY,  
THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY  
AND UTILITY SERVICE AFFILIATES, INC.,  
A SUBSIDIARY OF MIDDLESEX WATER COMPANY FOR  
OPERATION, MAINTENANCE AND MANAGEMENT SERVICES  
FOR THE CITY'S WATER SYSTEM AND WASTEWATER SYSTEM

THIS AGREEMENT, made this 1st Day of January, 1999, by and among the CITY OF PERTH AMBOY, a municipal corporation of the State of New Jersey (the "City"), the MIDDLESEX COUNTY IMPROVEMENT AUTHORITY (the "Authority"), a public body corporate and politic of the State of New Jersey, and UTILITY SERVICE AFFILIATES, INC., a subsidiary of Middlesex Water Company, a corporation duly organized and existing under the laws of the State of New Jersey (the "Company").

W I T N E S S E T H:

WHEREAS, the City currently operates the water production, transmission and distribution system (the "Water System") as well as a wastewater collection system (the "Wastewater System" and together with the Water System, the "System") as more specifically described herein, in the City; and

WHEREAS, the City determined that the most efficient means to provide water and wastewater services to the residents and property owners within the City and to otherwise protect the health, safety and welfare was to lease the System, together with a franchise to operate the System, to the Authority as well as to secure a long-term agreement with a private utility experienced in providing services of the type provided in the City; and

WHEREAS, the City prepared and distributed a Request for Proposals on August 2, 1997 (the "RFP") pursuant to the Water Act

and the Sewer Act (each as defined herein) for the long-term operation, maintenance and management of the System; and

WHEREAS, on October 15, 1997, the City received proposals from the Middlesex Water Company, on behalf of the Company, as well as from U.S. Water L.L.C., United Water Resources, E'Town Corporation, and Utili Serv (the "Respondents") in response to such RFP; and

WHEREAS, the City determined based on an evaluation of those proposals and the negotiations that followed with certain of the Respondents that this Agreement with the Company would provide the most complete, dependable, environmentally sound and cost effective agreement for the benefit of the residents, employees, taxpayers and ratepayers within the City; and

WHEREAS, the City, Authority and the Company have agreed to the terms and conditions under which the Company shall provide certain services in exchange for certain fees, all as described herein;

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

ARTICLE I. DEFINITIONS

SECTION 1.1. DEFINITIONS. The following definitions shall apply to and are used in this Agreement:

"Acts" means the Wastewater Act and the Water Act.

"Additional Capital Improvements" means any Capital Improvements to the System other than the Ongoing Capital Improvements.

"Additional Indebtedness" shall have the meaning set forth in Section 7.2.

"Additional Revenues" means, in any Contract Year, the aggregate amount of Revenues received during each Contract Year less the Base Revenue Amount for such Contract Year.

"Agreement" means this "Agreement Between the City of Perth Amboy, in the County of Middlesex, New Jersey, the Middlesex County Improvement Authority and Utility Services Affiliates, Inc., a subsidiary of Middlesex Water Company for Operation, Maintenance and Management Services for the City's Water System and Wastewater System" executed by and among the City, the Authority and the Company.

"Authority" means the Middlesex County Improvement Authority.

"Authority Act" means the county improvement authorities law at N.J.S.A. 40:37A-44 et seq, as amended and supplemented from time to time.

"Authority Administrative Expenses" means the fees and expenses of the Authority payable by the City pursuant to the Authority Bond Resolutions.



"Authority Bond Resolutions" means collectively, the Authority Series A Bond Resolution, the Authority Series B Bond Resolution and the Authority Series C Bond Resolution.

"Authority Indebtedness" means the Series A Authority Indebtedness, the Series B Authority Indebtedness and the Series C Authority Indebtedness.

"Authority Series A Bond Resolution" means the general bond resolution of the Authority authorizing the Authority Series A Indebtedness entitled "Resolution Authorizing the Issuance of Utility System Revenue Bonds (Perth Amboy Franchise Acquisition Project) Series A of the Middlesex County Improvement Authority".

"Authority Series A Indebtedness" means not to exceed \$17,500,000 aggregate principal amount of Utility System Revenue Bonds (Perth Amboy Franchise Acquisition Project) Series 1998A and any other bonds or notes issued pursuant to the Authority Series A Bond Resolution.

"Authority Series B Bond Resolution" means the general bond resolution of the Authority authorizing the Authority Series B Indebtedness entitled "Resolution Authorizing the Issuance of Utility System Revenue Bonds (Perth Amboy Franchise Acquisition Project) Series B of the Middlesex County Improvement Authority".

"Authority Series B Indebtedness" means not to exceed \$24,500,000 aggregate principal amount of Utility System Revenue Bonds (Perth Amboy Franchise Acquisition Project) Series 1998B and any other bonds or notes issued pursuant to the Authority Series B Bond Resolution.

"Authority Series C Bond Resolution" means the general bond resolution of the Authority authorizing the Authority Series C

Indebtedness entitled "Resolution Authorizing the Issuance of Taxable Utility System Revenue Bonds (Perth Amboy Franchise Acquisition Project) Series C of the Middlesex County Improvement Authority".

"Authority Series C Indebtedness" means not to exceed \$27,500,000 aggregate principal amount of Taxable Utility System Revenue Bonds (Perth Amboy Franchise Acquisition Project) Series 1998C and any other bonds or notes issued pursuant to the Authority Series C Bond Resolution.

"Authorized Representative" means (i) with respect to the Authority: the Chairperson, the Vice Chairperson, the Treasurer, the Secretary or the Assistant Secretary of the Authority, or the Executive Director and, when used with reference to an act or document, also means any other person who shall be authorized by resolution or the by-laws of the Authority to perform such act or to execute such document or any other person or persons who shall be authorized by resolution of the Authority to act on behalf of the Authority or by a written certificate duly executed and delivered on behalf of the Authority by the Chairperson or the Executive Director of the Authority, which certificate shall set forth such authorization and shall contain the specimen signature of each such person, (ii) with respect to the City: the Mayor or the Business Administrator or any other person or person who shall be authorized to act on behalf of the City by virtue of a written certificate duly executed and delivered on behalf of the City by the Mayor, which certificate shall set forth such authorization and shall contain the specimen signature of each such person, (iii) with respect to the Company: the President of the Company or any

other person or persons who shall be authorized to act on behalf of the Company by virtue of a written certificate duly executed and delivered on behalf of the Company by the Company's President, which certificate shall set forth such authorization and shall contain the specimen signature of each such person, and (iv) with respect to the System Trustee, Trustee or the Paying Agent: any officer of the System Trustee, Trustee or the Paying Agent respectively authorized by the System Trustee, Trustee or the Paying Agent to act or execute documents on behalf of the System Trustee, Trustee or the Paying Agent, as the case may be.

"Bankruptcy Code" means the Bankruptcy Code, 11 U.S.C. 101, et seq., as amended from time to time and any successor statute thereto.

"Base Revenue Amount" means \$9,466,000 for each of the first two Contract Years (prorated for the first Contract Year) and, in each Contract Year thereafter, an amount equal to the previous Contract Year's Base Revenue Amount plus an amount equal to such previous Contract Years' Base Revenue Amount multiplied by the Rate Increase for such Contract Year.

"Board" means the New Jersey Board of Public Utilities.

"Business Day" means any Day other than (a) a Saturday or Sunday, (b) a Day which banking institutions in any of the cities in which the corporate trust offices of the Trustee and the System Trustee are located are not required or authorized to remain closed or (c) a day on which the New York Stock Exchange is closed.

"Capital Improvements" means improvements to the System that do not constitute a Repair or Replacement Item. Title to all

Capital Improvements shall be made in the name of the City and shall vest in the City.

"Capital Improvement Allocation" means six hundred fifty thousand dollars (\$650,000) per Year.

"Capital Improvement Fund" means the fund established by the Company in the Revenue Agreement with the System Trustee pursuant to Section 7.5 which shall be initially funded for the first five (5) Contract Years with the proceeds from the Authority Series B Indebtedness by a deposit of an amount (net funded) that will be sufficient to fund the Capital Improvement Allocation for each of the first five (5) Years of the Contract and for each Year thereafter by deposit by the Company of a portion of its Fixed Service Fee, in monthly installments, in an amount equal to the one-twelfth of the Capital Improvement Allocation.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act, as amended.

"City" means the City of Perth Amboy, a public body corporate and politic of the State of New Jersey.

"City Bond Guaranty" means a guaranty by the City of the principal of and interest on the Authority Series A Indebtedness and the Authority Series B Indebtedness as evidenced by an ordinance of the City finally adopted on September 9, 1998 entitled "An Ordinance of the City of Perth Amboy, in the County of Middlesex, New Jersey, Guarantying Certain Bonds and/or Notes of the Middlesex County Improvement Authority, Authorizing a Guaranty Agreement, a Lease and Franchise Acquisition Agreement, a Continuing Disclosure Agreement, a Revenue Collection and Disbursement Agreement and an Operating Agreement in Connection

with the Improvement and Enhancement of the City's Water and Wastewater Systems, Amending the City Code in Order to Change the Rates and Fees to be Charged for the Provision of Water and Sewer Services and Combining the City's Water and Sewer Utilities Into One Utility For All Purposes Including the Local Budget Law".

"City Bond Guaranty Agreement" means the bond guaranty agreement among the City, the Trustee and the Authority in the form included in Schedule A and dated as of the date of the first day of the month in which the Authority Indebtedness is issued with such changes as may be agreed to by the City and the Authority.

"City Continuing Disclosure Agreement" means the continuing disclosure agreement among the City, the Authority and the Trustee in the form included in Schedule B and dated as of the first day of the month in which the Authority Indebtedness is issued with such changes as may be agreed to by the City and the Authority.

"City Contracts" means those contracts listed in Schedule C.

"City Facilities" means the facilities listed in Schedule D.

"City Fees" means the fees to be charged by the City as set forth in Schedule E.

"Commencement Date" means the date when the Company shall begin rendering the Services specified in the Notice to Proceed.

"Company" means Utility Service Affiliates, Inc., a subsidiary of Middlesex Water Company.

"Contract Date" means the date of execution of this Agreement.

"Contract Year" means a one Year period commencing on July 1 and ending on June 30 in each Year during the Term of this Agreement which, in the case of the first Contract Year, shall be

the period beginning on the Commencement Date and ending on June 30, 1999.

"Cost Substantiation" means the process by which certain costs to be incurred by the parties hereto in the performance of their obligations hereunder shall be substantiated. In accordance with such process, all such costs shall be reasonably documented and accompanied by a certificate, signed by an Authorized Representative of the City or the Company, as the case may be, stating the reason for incurring the cost, the amount of the cost, including labor, materials and a fixed overhead component (which may be a percentage of labor and materials), the event or Section of this Agreement giving rise to the requesting party's right to incur such cost, and that such cost represents a competitive price for the service or materials supplied and any other information that is reasonably requested by the other party in order to assist in the evaluation, approval and payment of the certificate.

"County" shall have the meaning set forth in Section 10.8(e).

"Day" means a calendar day of twenty-four (24) hours measured from midnight to the next midnight.

"DEP" means the State of New Jersey Department of Environmental Protection or any successor agency.

"Draw Date" means the Business Day when the Company and/or the City requires that funds be withdrawn from the Project Fund and disbursed to the Company and/or the City pursuant to the Authority Series B Bond Resolution.

"Draw Papers" shall have the meaning assigned to such term in Section 7.6 and as set forth in Schedule S.

"Employee Lease Payment" means the amount due to the City from the Company for the leasing of the employees pursuant to Section 6.10(a) as set forth in Schedule F and includes the amounts equal to the amount of wages, benefits, health insurance, workers compensation insurance, standby payments, uniforms, overtime and other similar expenses.

"EPA" means the United States Environmental Protection Agency or any successor agency.

"Fixed Franchise Fee" means the payment due to the City from the Authority in accordance herewith and in accordance with the Revenue Agreement in the amounts set forth in Schedule G.

"Fixed Service Fee" means the annual amount as set forth in Schedule H to be paid by the City to the Company pursuant to the Revenue Agreement in monthly installments.

"Franchise Fee" means the Fixed Franchise Fee and the Variable Franchise Fee.

"General Fund" shall have the meaning given to such term in the Revenue Agreement but shall not refer to the General Fund established under Article IV of each of the Authority Bond Resolutions.

"Growth Revenues" means all amounts billed to the customers of the System during the applicable Contract Year (prorated for the first Contract Year) less the Base Revenue Amount (prorated for the first Contract Year) provided that in no event shall such Growth Revenues be less than zero (0) dollars.

"Guarantor" means Middlesex Water Company, a New Jersey corporation doing business at 1500 Ronson Road, Iselin, New Jersey.

"Guarantor Bond Guaranty" means a guaranty by the Guarantor of the principal of and interest on the Authority Series C Indebtedness.

"Guarantor Bond Guaranty Agreement" means the bond guaranty agreement among the Guarantor, the Trustee and the Authority in the form included in Schedule I and dated as of the first day of the month in which the Authority Indebtedness is issued with such changes as may be agreed to by the Guarantor, the City and the Authority.

"Guarantor Continuing Disclosure Agreement" means the continuing disclosure agreement among the Guarantor, the Authority and the Trustee in the form included in Schedule J and dated as of the first day of the month in which the Authority Indebtedness is issued with such changes as may be agreed to by the Guarantor, the City and the Authority.

"Guarantor Performance Guaranty Agreement" means the performance guaranty agreement among the Guarantor, the City and the Authority in the form included in Schedule K and dated as of the first day of the month in which the Authority Indebtedness is issued with such changes as may be agreed to by the Guarantor, the City and the Authority.

"Health, Safety and Welfare" means, as of the relevant date, that the System is in compliance with all applicable laws and regulations.

"Initial Facilities" means the description of the System as set forth in Schedule L as supplemented by a video of the System to be completed by the Company within the first two (2) years after the Commencement Date.



"Lease Agreement" means the Lease Agreement between the Authority and the City dated as of the first day of the month in which the Authority Indebtedness is issued.

"Leased Employees" means those persons listed in Schedule M, as may be revised from time to time.

"Local Finance Board" means the Local Finance Board of the Division of Local Government Services of the State of New Jersey, Department of Community Affairs.

"MCUA" means the Middlesex County Utilities Authority, a political subdivision of the State.

"MCUA Fees" means the amounts set forth in Schedule N.

"Minimum Variable Franchise Fee" means the amounts set forth in Schedule X.

"Non-Profit Facilities" means the facilities listed in Schedule O.

"Notice to Proceed" means a notice issued by the City after satisfaction or waiver of all of the conditions precedent set forth in Article III that establishes the Commencement Date.

"Ongoing Capital Improvements" means the Capital Improvements to the System, including all work and materials necessary therefor or incidental thereto, as set forth in Schedule P.

"Operations Committee" means the committee established pursuant to Section 6.18.

"OSHA" means the Occupational Safety and Health Act.

"Outstanding" shall have the meaning assigned to such term in the Authority Bond Resolutions and, for purposes of any bonds or notes of the City issued with respect to the System, Outstanding shall mean that such City bonds or notes have not been paid.

"Outstanding City Indebtedness" means the City bonds and notes as described in Schedule Q.

"Permitted Encumbrances" shall have the meaning assigned to such term in the Lease Agreement.

"Permits" or "Permit" means easements, permits, approvals, certifications, authorizations or consents and/or licenses issued by the EPA, the DEP, or any other Federal, State or local regulatory agency or private party that are necessary for the proper operation and expansion or improvement of the System, including the current permits held by the City as listed in Schedule R.

"OSHA" means the Public Occupational Safety and Health Act.

"Primary Financing Documents" means this Agreement, the City Bond Guaranty, the City Bond Guaranty Agreement, the City Continuing Disclosure Agreement, the Guarantor Bond Guaranty Agreement, the Guarantor Continuing Disclosure Agreement, the Guarantor Performance Guaranty Agreement, the Lease Agreement, the Revenue Agreement and any other documents, certificates or other instruments necessary or required in connection with such issuance of the Authority Indebtedness and the execution of this Agreement.

"Project Fund" shall have the meaning assigned to such term in the Authority Series B Bond Resolution.

"Rate Increase" means the blended annual percentage increase in the Rates as described in Schedule T and as may be revised from time to time pursuant to Section 8.5.

"Rates" means the Rates to be charged to the customers of the System as set forth in Schedule T and as may be revised from time to time pursuant to Section 8.5.

"RCRA" means the Resource Conservation Recovery Act, as amended.

"Rebatable Arbitrage" shall have the meaning assigned to such term in the Authority Bond Resolutions.

"Repair and Replacement Item" means any work on the System costing less than \$500 per incident or occurrence which is generally the result of actual or imminent failure of a portion of the existing utility plant in service or the replacement of a facility or items in operation necessary for the System. For purposes of computing such \$500 the Company shall not include labor costs, but shall include the cost of materials and outside contractor's charges.

"Revenues" means any and all rents, Rates, fees or other charges or amounts for direct or indirect use of the System received by the System Trustee during the Term of the Agreement, including, but not limited to, City Fees, Growth Revenues and Revenues from the sale of excess water pursuant to Section 6.16(c), penalties, miscellaneous income and investment income but excluding fees or expenses charged to users of the System to reimburse the City or the Company for any direct expenses incurred by such parties as identified in Schedule E.

"Revenue Agreement" means the revenue collection and disbursement agreement between the City, the Company, the Authority and the System Trustee dated as of the first day of the month in which the Authority Indebtedness is issued.

"Revenue Fund" shall have the meaning assigned to such term in the Revenue Agreement, but shall not refer to the Revenue Fund

established under Article V under each of the Authority Bond Resolutions.

"SDWA" means the Safe Drinking Water Act.

"Service Fee" means the Fixed Service Fee and the Variable Service Fee.

"Services" means all of the duties, obligations, and services to be provided by the Company that are related to the operation, maintenance, management and improvement of the System as described herein.

"State" means the State of New Jersey.

"System" means the Water System and the Wastewater System.

"System Trustee" shall have the meaning assigned to such term in the Revenue Agreement.

"Term" means the term of this Agreement as determined in accordance with Section 2.2.

"Trustee" shall have the meaning assigned to such term in the applicable Authority Bond Resolutions.

"Uncontrollable Circumstances" means circumstances beyond the control of the parties hereto consisting of: any of the following acts, events or conditions or any combination thereof that are outside of the control of the party relying thereon for justification for not performing an obligation or complying with any condition required of such party under the Agreement, and has had or may be reasonably expected to have a direct, material adverse effect on the System or the operation thereof:

- (a) Force Majeure events, such as acts of God, acts of terrorism, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms,

floods, washouts, droughts and explosions, civil disturbances, work actions (other than a labor strike by the Company, its employees, affiliates or subcontractors), acts of the public enemy, and war;

- (b) Change in Law, defined as (1) the enactment of any law or regulations after the Contract Date (excluding (x) laws or regulations adopted at the time of execution of this Agreement but which have provisions that take effect after the first Contract Year and (y) pending changes in law reasonably anticipated to be enacted as of the Contract Date and (z) changes in Federal or State income tax law); or (2) a material modification of or imposition of any material condition on the issuance, modification or renewal of any Permit, which, in the case of either (1) or (2) above, establishes requirements affecting the financing of, improvements to or operation of the Water System that are materially more burdensome than the most stringent requirements in effect as of the Contract Date;
- (c) Judicial/Administrative Determinations, defined as the final order, judgment, action and/or determination of any Federal, State or local court of competent jurisdiction, administrative agency or governmental body (other than the City);
- (d) Permit/License Termination, defined as the suspension, termination, interruption, denial or failure of renewal or issuance of any Permit (not caused by the action or inaction of either party hereto) that is necessary to improve, repair or operate the Water System;

- (e) Regulatory Changes, resulting in a material increase in the cost to test the water in the System and/or treat the water in the System; and
- (f) Cost Overruns, with respect to the Ongoing Capital Improvements not otherwise payable from the Project Fund or the Capital Improvement Fund.

"Variable Franchise Fee" means the amount remaining at the end of each Contract Year in the General Fund after the payment of the Variable Service Fee from the General Fund.

"Variable Service Fee" means the amount due to the Company in accordance with the Revenue Agreement equal to (a) one half (1/2) of the Growth Revenues plus, (b), if earned, one hundred ten thousand dollars (\$110,000) per Contract Year (prorated for the first and the last Contract Years) provided that such amount does not violate the provisions of Section 4.3(b).

"Wastewater Act" means the New Jersey Wastewater Treatment Public-Private Contracting Act, supplementing Title 58 of the Revised Statutes and amending P.L. 1971, c. 198 enacted August 14, 1995 as Chapter 216 of the Laws of 1995.

"Wastewater System" means all of the individual components and elements that comprise the wastewater system of the City as more specifically set forth in Schedule U, together with any and all Capital Improvements to the Wastewater System as same shall be acquired, constructed and/or reconstructed from time to time and as may be expanded pursuant to Section 10.23.

"Water Act" means the New Jersey Water Supply Public-Private Contracting Act, supplementing Title 58 of the Revised Statutes and amending P.L. 1971, c. 198 enacted May 11, 1995 as Chapter 101 of the Laws of 1995 (N.J.S.A. 58:26-19 et seq.).

"Water System" means the potable water production, transmission and distribution system as set forth in Schedule V, together with any and all Capital Improvements to the Water System as same shall be acquired, constructed and/or reconstructed from time to time and as may be expanded pursuant to Section 10.23.

"Withdrawal Date" means the first Business Day of each month commencing on the first Business Day of the first full month following the Commencement Date.

"Year" means a period of time consisting of three hundred sixty-five (365) Days.

SECTION 1.2. Rules of Interpretation. Whenever the context may require, any pronoun that is used in this Agreement shall include the corresponding masculine, feminine and neuter forms, and the singular shall include the plural and vice versa. Unless otherwise noted, the words "include," "includes" and "including" when used in this Agreement shall be deemed to be followed by the phrase "without limitation". The words "agree," "agreements," "approval" and "consent" when used in this Agreement shall be deemed to be followed by the phrase "which shall not be unreasonably withheld or unduly delayed," except or unless the context may otherwise specify. All references to Schedules, Sections or Articles shall refer to Schedules, Sections or Articles in this Agreement.

ARTICLE II. GENERAL PROVISIONS

SECTION 2.1. Operation, Maintenance and Management of System. On and after the Commencement Date, the City, the Authority and the Company, in combination with each other in the manner herein described, shall operate, maintain and manage the System on the terms and conditions set forth in this Agreement. In connection therewith, the Company shall provide all of the Services described herein.

SECTION 2.2. Term. (a) The Term of this Agreement shall commence on the Commencement Date and unless earlier terminated in accordance with the terms hereof, shall expire on the twentieth (20th) anniversary date of the Commencement Date.

(b) The execution or termination of this Agreement shall in no way relieve the City and/or the Guarantor of its obligations and responsibilities under the remaining Primary Financing Documents.

SECTION 2.3. Authority Financing. (a) On or before the March 31, 1999, the Authority shall lease the System from the City pursuant to the Lease Agreement and issue the Authority Indebtedness. Simultaneously, the Authority shall acquire a franchise to operate the System for the Franchise Fee and issue the Authority Indebtedness.

(b) The Authority shall use the proceeds from the Authority Indebtedness to provide (i) all costs of issuance associated with the issuance of the Authority Indebtedness, (ii) deposits to the bond reserve funds for the applicable series of Authority Indebtedness equal to maximum annual debt service or such other amount permitted by the Internal Revenue Code of 1986, as amended and determined by the City and the Authority, (iii) a deposit to



the Operating Fund (defined in the Revenue Agreement) equal to approximately nine hundred thousand dollars (\$900,000), (iv) the Fixed Franchise Fee (net funded) for the first six (6) Contract Years, (v) a deposit to the Project Fund for the cost (net funded) of the Ongoing Capital Improvements and the refunding of all outstanding debt of the City issued for the Ongoing Capital Improvements (net of any unspent bond or note proceeds on deposit with the City), (vi) a deposit to an escrow fund for the refunding of all of the Outstanding City Indebtedness, (vii) a deposit to the Capital Improvement Fund for the first five (5) Years of the Capital Improvement Allocation (net funded), and (viii) a payment to the City of two million one hundred and thirty thousand dollars (\$2,130,000) for all outstanding but unpaid System billings.

(c) The parties have directed the System Trustee to provide from the Revenues for the payment of the principal of and interest on the Authority Indebtedness together with all Authority Administrative Expenses, when due. Notwithstanding anything herein to the contrary, (i) upon the expiration and/or termination of this Agreement, the City shall continue to provide for the collection of all Revenues and the payment of all amounts, if any, due to the Authority for the Authority Indebtedness and the Authority Administrative Expenses from such Revenues and (ii) the City's obligations under the City Bond Guaranty shall remain unaffected by any City obligations hereunder or under any other financing document, including without limitation the Revenue Agreement and the Lease Agreement.

(d) Subsequent to the Commencement Date and prior to the issuance of the Authority Indebtedness, all Revenues shall be held

in trust by the City to be turned over to the System Trustee upon the issuance of the Authority Indebtedness.

(e) In connection with the issuance of the Authority Indebtedness, the City, the Company and the Authority shall execute, as applicable, all of the other Primary Financing Documents.

(f) Following the Commencement Date, and until the Authority Indebtedness is issued, the Company shall provide for all of the costs of the Services and shall be immediately reimbursed for such costs, with interest, from the Revenues or directly from the City upon the issuance of the Authority Indebtedness. If the Authority Indebtedness is not issued by March 31, 1999, the City shall directly reimburse the Company for such costs.

ARTICLE III. CONDITIONS PRECEDENT

SECTION 3.1. General. The issuance of a Notice to Proceed and the establishment of the Commencement Date shall be subject to the satisfaction or waiver of the conditions precedent set forth in this Article III.

SECTION 3.2. Conditions to City's Obligations. The City shall be under no obligation to issue a Notice to Proceed or to perform any of its other obligations under this Agreement (other than those obligations arising or relating to actions required to be taken by or on behalf of the City prior to the issuance of the Notice to Proceed) unless the following conditions have been satisfied by the Company or waived by the City (in writing):

(a) The Board and the Local Finance Board shall have finally approved this Agreement and the time for appeal of such decisions shall have expired.

(b) The Company and the Guarantor shall each have delivered to the City its certificate of incorporation and certificate of good standing.

(c) The Company and the Guarantor shall each have delivered an opinion of counsel to the effect that the Company and the Guarantor, as applicable, have been validly organized and created and shall be validly existing under the laws of the jurisdiction in which it was incorporated.

(d) The Guarantor shall have delivered the Guaranty Agreement to the City and an opinion of counsel to the Guarantor stating that the Guarantor is authorized to enter into, execute, deliver and perform its obligations under the Guaranty Agreement, the Guaranty Agreement is valid and binding upon the Guarantor and no litigation

is pending or threatened against the Guarantor which would impair its ability to perform its duties under the Guaranty Agreement.

(e) The Company shall have delivered to the City (1) a certificate of an Authorized Representative of the Company, to the effect that each of the representations, warranties and covenants set forth in Section 4.2 are true and correct and (2) an opinion of counsel to the effect set forth in Sections 4.2(a), (b), (c), (f), (g), (h) and (i).

(f) The Company, its employees and/or its subcontractors, if applicable, shall have obtained all applicable Permits, if any, that are necessary for the operation, maintenance and management of the System, and that are not expressly required to be obtained by the City hereunder.

(g) The Company shall have submitted to the City, the Trustee and the Authority all appropriate certificates of insurance and all applicable endorsements to such insurance policies, as are required by this Agreement.

SECTION 3.3. Conditions to Authority Obligations. The Authority shall be under no obligation to perform any obligations under the terms of the Agreement (other than obligations arising or relating to actions required to be taken by or on behalf of the Authority) unless the following conditions have been satisfied or waived by the Authority (in writing):

(a) The Company and the City shall have delivered to the Authority (1) a certificate of an Authorized Representative of the Company and the City Representatives to the effect that each of the representations, warranties and covenants of the Company and the City that are set forth in Section 4.1, 4.2 and 4.3 are true and

correct and (2) an opinion of counsel to the effect set forth in Section 4.1(a),(b),(c),(d),(f) and (g) and 4.2(a),(b),(c),(f),(g) and (i).

(b) There is no Federal, State or local law or regulation thereunder or written interpretation thereof by any applicable regulatory authority, that would make the execution or delivery by the Company and the City of this Agreement, the compliance by the Company or the City with the terms and conditions hereof and thereof, or the consummation by the Company and the City of the transactions contemplated hereby or thereby, a violation of such law or regulation.

(c) The Board and the Local Finance Board shall have finally approved this Agreement and the time for appeal of such decisions shall have expired.

SECTION 3.4. Conditions to Company Obligations. The Company shall be under no obligation to perform any obligations under the terms of the Agreement (other than obligations arising or relating to actions required to be taken by or on behalf of the Company prior to the issuance of the Notice to Proceed) unless the following conditions have been satisfied or waived by the Company (in writing):

(a) The Board and the Local Finance Board shall have finally approved this Agreement and the time for appeal of such decisions shall have expired.

(b) As promptly as possible after the satisfaction of the conditions contained in Sections 3.2(a) and 3.3(a), the City shall have delivered to the Company (1) a certificate of an Authorized Representative of the City to the effect that each of

the representations, warranties and covenants of the City that are set forth in Section 4.1 are true and correct and (2) an opinion of counsel to the effect set forth in Sections 4.1(a), (b), (c), (d), (f) and (g).

(c) There is no Federal, State or local law or regulation thereunder or written interpretation thereof by any applicable regulatory authority, that would make the execution or delivery by the Company of this Agreement or the Guarantor of the Guarantor Performance Guaranty Agreement and the Guarantor Bond Guaranty Agreement, the compliance by the Company or Guarantor, as applicable, with the terms and conditions hereof and thereof, or the consummation by the Company or Guarantor, as applicable, of the transactions contemplated hereby or thereby, a violation of such law or regulation.

SECTION 3.5. Satisfaction of Conditions Precedent. (a) The parties hereto shall exercise good faith and due diligence in seeking to satisfy the conditions precedent required by this Article III and shall promptly proceed to perform or cause to be performed those conditions precedent, or portions thereof, that are within each party's control.

(b) If the Commencement Date has not occurred on or prior to two hundred seventy (270) Days after the Contract Date, the period in which the conditions precedent can be satisfied or waived may be extended by joint agreement of the City and Company, for a period of time to be agreed upon by the City and Company, on the same terms and conditions set forth in this Agreement, except to the extent expressly provided below.

(c) In the event that the Commencement Date shall not have occurred on or prior to two hundred seventy (270) Days after the Contract Date or prior to the last Day of any extension period elected pursuant to Section 3.5(b), then either party, by notice in writing to the other party, may terminate this Agreement. If the reason for such termination is the fault of neither party to the Agreement, then all amounts paid by the Company to the City prior to such termination shall be returned to such Company and each party shall bear its respective expenses attributable to the Agreement. In the event that such termination is the fault of one of the parties for failure to meet conditions precedent within its control, then that party shall be responsible for all reasonable fees and expenses of the other party attributable to the Agreement, provided that in no event shall such sum exceed one hundred thousand dollars (\$100,000).

(d) The Company and the City shall each provide an executed acknowledgment to the other of the date that each of the respective conditions precedent to its obligations under this Agreement have been met or waived and such acknowledgment shall be given within thirty (30) Days of the date on which such conditions are met or waived. The City shall furnish the Notice to Proceed to the Company within thirty (30) Days after the execution of such acknowledgments, and such Notice to Proceed shall set forth the Commencement Date, which shall be not later than fifteen (15) Days after the issuance of such Notice to Proceed. Neither party shall be permitted to terminate this Agreement for failure to satisfy any condition precedent that is entirely and reasonably within such

party's control or is such party's fault, as set forth in Section 3.5(c).

SECTION 3.6. Timing of Certain Obligations. Pursuant to the Acts, this Agreement must be submitted to the DEP for its review and to the Board and the Local Finance Board for review and approval. The City shall be responsible for obtaining such review and approval, as applicable, and the Company shall cooperate with the City in providing any assistance and information that is required in order to obtain such review and approval. In the event that the Board and/or the Local Finance Board conditionally approve this Agreement or any portion thereof and premise future approval on the acceptance of certain proposed terms and conditions by the parties, to the extent that such terms and conditions are immaterial terms and conditions in that such terms and conditions do not increase the cost to operate, maintain, manage or improve the System (or any portion thereof), or materially and adversely affect the obligations, rights and remedies of the parties, as provided herein, the parties shall accept such terms and conditions and shall modify this Agreement to include such terms and conditions. If the proposed terms and conditions imposed by the Board and/or the Local Finance Board are material terms and conditions in that such terms and conditions increase the cost to operate, maintain, manage or improve the System (or any portion thereof) or materially and adversely affect the obligations, rights and remedies of the parties as provided herein, the parties shall attempt to renegotiate the terms and conditions to this Agreement in order to satisfy the concerns of the Board and/or the Local Finance Board. If the parties are unable to renegotiate the terms



and conditions of this Agreement within ninety (90) days of the later of the Board's or the Local Finance Board's determination as described above, any party may terminate this Agreement without prejudice upon written notice to the other parties hereto.

ARTICLE IV.

REPRESENTATIONS, WARRANTIES AND COVENANTS

SECTION 4.1. City Representations, Warranties and Covenants. The City hereby represents, warrants and covenants to the Company and the Authority as follows:

(a) The City is a municipal corporation duly created and existing pursuant to the laws of the State of New Jersey. The City has the full legal right, power and authority to enter into this Agreement and to perform its duties and obligations hereunder. This Agreement has been duly authorized, executed and delivered by the City and constitutes a legal valid and binding obligation of the City, enforceable against it in accordance with its terms, and the authorization, execution, delivery and performance of this Agreement by the City shall not violate any law, judgment, order, ruling or regulation applicable to the City and does not constitute a breach of or default under any agreement or instrument by which the City is bound.

(b) The City has the legal capacity and authority to assess the Rates and collect the Revenues for the Services to customers of the System.

(c) The City has enacted all municipal laws, ordinances or regulations necessary for the performance of this Agreement.

(d) The City has or holds all Permits necessary to effectuate its responsibilities under this Agreement.

(e) The City shall continue to have or hold throughout the Term of this Agreement all Permits necessary to effectuate its responsibilities under this Agreement.

(f) No material action, suit, proceeding or official investigation shall have been threatened, publicly announced or commenced by any Federal, State or local governmental authority or agency, or in any Federal, State or local court, that seeks to enjoin, assess civil or criminal penalties against, assess civil damage against or obtain any judgment, order or consent decree with respect to the City or to the Agreement or any actions contemplated in the Agreement, as a result of the City's negotiation, execution, delivery or performance of such Agreement or its participation or intended participation in any transaction contemplated thereby.

(g) No Federal, State or local law or regulation or written interpretation thereof by any applicable regulatory authority, that would make the execution or delivery by the City of this Agreement, the compliance by the City with the terms and conditions hereof or the consummation by the City of the transactions contemplated hereby, a violation of such law or regulation.

(h) The City is in compliance with all applicable laws, regulations and administrative consent orders governing the System and there are no known environmental conditions and/or problems that the City has failed to bring to the attention of the Company.

SECTION 4.2. Company and/or Guarantor Representations, Warranties and Covenants. The Company represents, warrants and covenants to the City and the Authority as follows:

(a) The Company is a corporation duly organized and validly existing in good standing in the State of New Jersey and is qualified and authorized to do business in the State of New Jersey.

(b) The Company has full power and authority to enter into this Agreement and to perform its duties and obligations hereunder.

This Agreement has been duly authorized, executed and delivered by the Company, and the authorization, execution, delivery and performance of this Agreement by the Company shall not violate any law, judgment, order, ruling or regulation applicable to the Company. This Agreement constitutes a legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms and does not constitute a breach of or default under any agreement or instrument by which the Company is bound.

(c) The Company (or the Company's personnel, where appropriate) has or holds all Permits necessary to operate, maintain and/or manage the System.

(d) The Company (or the Company's personnel, where appropriate) shall continue to have or hold throughout the Term of this Agreement, all Permits necessary to operate, maintain and/or manage the System.

(e) At all times during the Term of this Agreement, the Company shall keep the System free from any and all liens and encumbrances (except for Permitted Encumbrances) arising out of or in connection with (i) its operation, maintenance and/or management of the System or (ii) any acts, omissions or debts of the Company, any of its subsidiaries or any of its subcontractors.

(f) No material action, suit, proceeding or official investigation shall have been threatened, publicly announced or commenced by any Federal, State or local governmental authority or agency, or any other person or in any Federal, State or local court, that seeks to enjoin, assess civil or criminal penalties against, assess civil damage against or obtain any judgment, order

or consent decree with respect to the Company, the Guarantor or the Agreement or any actions contemplated in the Agreement;

(g) No receiver, liquidator, custodian or trustee of the Company or the Guarantor or of a major part of its or the Guarantor's property shall have been appointed; no petition to reorganize the Company or the Guarantor pursuant to the Bankruptcy Code or any similar statute that is applicable to the Company or the Guarantor shall have been filed, and no adjudication of bankruptcy or a filing for voluntary bankruptcy under the provisions of the Bankruptcy Code or any other similar statute which is applicable to the Company or the Guarantor shall have been filed.

(h) Except as otherwise disclosed to the City or the Guarantor, no indictment or conviction has been returned against any official of the Company or the Guarantor with respect to any business transaction, whether or not related to the transactions contemplated by the terms of this Agreement.

(i) Except as otherwise disclosed to the City, there is no Federal, State or local law or regulation thereunder or written interpretation thereof by any applicable regulatory authority, that would make the execution or delivery by the Company of this Agreement or by the Guarantor of the Guarantor Performance Guaranty Agreement and the Guarantor Bond Guaranty, the compliance by the Company or Guarantor, as applicable, with the terms and conditions hereof and thereof, or the consummation by the Company or Guarantor, as applicable, of the transactions contemplated hereby or thereby, a violation of such law or regulation.

SECTION 4.3. Tax Covenants of the City and the Company. (a) The City and the Company acknowledge and agree that this Agreement is intended to conform to the requirements of the Internal Revenue Code of 1986, as amended, all regulations promulgated thereunder and Revenue Procedure 97-13, 1997-5 I.R.B. 18 (the "IRS Rules"), and is to be interpreted consistently therewith.

(b) Notwithstanding any provisions herein to the contrary, the City and Company agree that the City and the Authority shall be under no obligation to, and shall not, pay compensation for Services to the Company for any annual period, if such payment, or any portion thereof, would result in less than eighty percent (80%) of Company's compensation for Services for such Contract Year being based on a periodic fixed fee, as such term is defined in Rev. Proc. 97-13 or such greater amount which is permitted to be paid to the Company under the then applicable law. The foregoing eighty percent (80%) limitation only applies to the Contract Year in which the Variable Service Fee accrues and not when such Variable Service Fee is paid. For all purposes of this Agreement, all payments to the Company shall be subject to the requirements of the IRS Rules.

(c) The City, the Company and the Authority agree that, for so long as tax-exempt obligations are Outstanding with respect to the System, this Agreement shall not be amended or revised except with an opinion of a nationally recognized bond counsel firm that such amendments or revisions shall not affect the tax-exempt status of any obligations issued as tax-exempt obligations which are Outstanding with respect to the System.

(d) The City shall be obligated to pay Rebatable Arbitrage as well as any fines or penalties that may be imposed by the Federal

government or the State in accordance with the Authority Bond Resolutions.

SECTION 4.4. Authority Representations, Warranties and Covenants. The Authority represents, warrants and covenants to the City and the Company as follows:

(a) The Authority is a public body corporate and politic of the State.

(b) The Authority has full power and authority to enter into the applicable Primary Financing Documents and to perform its duties and obligations hereunder. The applicable Primary Financing Documents have been duly authorized, executed and delivered by the Authority, are enforceable in accordance with their terms and the authorization, execution, delivery and performance of the applicable Primary Financing Documents by the Authority shall not violate any law, judgment, order, ruling or regulation applicable to the Authority and does not constitute a breach of or default under any agreement or instrument by which the Authority is bound.

(c) No litigation is pending against the Authority which would impair materially its ability to perform its duties and obligations under the applicable Primary Financing Documents.

ARTICLE V.

CITY RESPONSIBILITIES

SECTION 5.1. General Responsibilities. The City shall do the following:

(a) Promptly procure and continually maintain in full force and effect and in accordance with their respective terms those Permits that it is responsible for under the terms of this Agreement;

(b) Adopt all resolutions and enact all ordinances necessary to carry out the provisions of this Agreement and enforce all such resolutions and/or ordinances;

(c) At all times, provide access to the System for the Company, its agents, and employees; and

(d) Designate an Authorized Representative to act as liaison with the Company in connection with the performance of Services by the Company.

(e) Refrain from enacting any ordinance and/or adopting any resolution that would impair the ability of the City or the Company to comply with this Agreement.

(f) Promptly pay all debt service when due on any bonds or notes of the City issued with respect to the System.

SECTION 5.2. Establishment and Collection of Rents, Rates, Fees and Charges. The City shall establish all rents, Rates, City Fees and other charges to be collected from the customers of the System by the Company, which rents, Rates, City Fees and charges shall be at least sufficient to pay all amounts due to the Company hereunder as well as all amounts due under the Authority Bond Resolutions at the times required herein and therein except as may



be permitted hereunder and thereunder. The Rates may be increased from time to time in accordance with Article VIII.

SECTION 5.3. Access and Easements. The City shall acquire and maintain all access, rights-of-way and easements necessary for the Company to operate, maintain and manage the System.

ARTICLE VI.

OPERATION, MAINTENANCE AND  
MANAGEMENT OF THE SYSTEM

SECTION 6.1. General. The Company shall manage, operate, maintain and repair the System at all times on behalf of the City and the Authority in compliance with all Federal, State and local laws, regulations and Permits and in accordance with this Agreement. The Company, at all times, shall keep the System in good repair and working order and shall manage, operate, maintain and repair the System in an efficient and economical manner, all in accordance with this Agreement.

Notwithstanding anything to the contrary, the City shall retain the right to develop any of the lands upon which any portion of the System is located for commercial or recreational purposes; provided however, that an exercise of any such development rights of the City shall in no respect interfere with the operation, maintenance or management of the System.

SECTION 6.2. Materials, Labor, Vehicles, etc. The Company shall provide, at its cost and expense, all labor (including all Leased Employees and others), materials, machinery, vehicles, equipment, office equipment (copiers, typewriters, computers, etc.), fuel, power, chemicals, supplies, materials, spare parts, expendables, consumables, testing and laboratory analysis and all else necessary therefor or incidental thereto necessary for the management, operation, maintenance or repair of the System in accordance with this Agreement and in accordance with applicable laws, ordinances and regulations. Notwithstanding the above, the City shall provide the Company with space at the main pump station

located at Second Street and Sadowski Parkway in the City. The Company shall, however, be responsible for the costs of all utilities associated with its use of such facilities and indemnify the City for any liability the City may incur as a result of the use of such facilities by the Company.

SECTION 6.3. Hazardous Substances. If, while providing the Services and/or during the course of excavation work necessary to make repairs and/or improvements to the System, hazardous or toxic waste or materials (as defined in applicable Federal and/or State laws and regulations) are discovered by the Company, it shall not be the obligation of the Company to remove and dispose of such hazardous substance. The Company shall, however, immediately notify the City upon becoming aware of the presence of such hazardous or toxic waste or materials, and shall immediately notify such other governmental agencies as may be required by law and shall take such further actions to assist the City in protecting the Health, Safety and Welfare of the public. The City shall indemnify the Company for any and all costs or expenses it may incur in connection with this Section. If a hazardous substance impairs the operation of the System, the City shall remediate the hazardous substance so as to permit the Company to operate the System pursuant to this Agreement. The City shall pay for all costs for the removal of the hazardous substance and any clean-up activities associated with such disposal, discharge, spill or leak. The City shall have the right to pursue the parties legally responsible for the disposal, discharge, spill or leak for the costs of the removal of the offending materials and any clean-up activities. Water treatment plant residuals (e.g. iron and heavy

metals) are to be removed and disposed of at the Company's sole expense.

SECTION 6.4. Response Requirements for Problems, Complaints and Inquiries. The Company's response time for various customer inquiries and System problems under normal conditions shall be as follows:

CONDITION	INITIATE CONTACT WITH COMPLAINANTS	INITIATE INVESTIGATION AND/OR WORK
billing inquiry	same Day when possible or within 1 Business Day	2 Business Days
water or sewer main break or blockage	not applicable	as soon as possible but not later than 1 hour
water service complaint	2 business hours	1 Business Day
utility mark out of sewer mains and the Water System	not applicable	3 Business Days (completion); less for emergencies

SECTION 6.5. Inventory/Equipment/Vehicles. The City shall provide the Company with a complete inventory (subject to the applicable threshold set by the Department of Community Affairs of the State) listing the quantity and condition of all spare parts, equipment, tools, supplies, materials and chemicals within two (2) weeks of the Commencement Date, Company assuming responsibility for operation and maintenance of the System, which inventory shall be subject to verification by the Company and the Company shall determine which items it shall take and shall provide the City with similar items upon the termination or expiration of this Agreement. The City shall sell all or a portion the equipment and vehicles

listed in Schedule Y (as well as any other vehicles or equipment that the City and the Company agree to transfer) upon the terms and conditions agreed to by and between the City and the Company prior to the Commencement Date or authorize the use of such vehicles and equipment for the Term of this Agreement provided similar vehicles are provided to the City upon the termination or expiration of this Agreement.

The City shall sell to the Company (i) all vehicles listed on subsection A of Schedule Y and (ii) all furniture, equipment, tools, radios and other personalty listed on subsection E of Schedule Y, for the total amount of \$140,875, which will be payable by the Company to the City upon the issuance of the Authority Indebtedness. The vehicles listed in subsection B of Schedule Y will be leased to the Company by the City, for a term that ends upon the termination of the City's lease of these vehicles with the Authority, for an amount equal to the City's payments due under the Authority lease. Upon the end of the lease, the Company shall have the option to purchase these vehicles from the City for the fair market value of the vehicles at that time, less any lease payments made. The vehicles listed in subsection C of Schedule Y have been sold by the City to the Company for \$57,500, which amount will be due in five equal annual payments beginning on July 1, 1999. The vehicles listed in subsection D of Schedule Y will be made available to the Company for no charge. In consideration for the use of these vehicles, the Company agrees to provide vehicles to the City of the same or similar make and age to the vehicles listed in subsection D of Schedule Y at the conclusion of the Term of the Agreement.

SECTION 6.6. Maintenance Management Program. The Company shall maintain a comprehensive maintenance program for all functions of the System.

The maintenance management program shall:

Seek to ensure efficiency, long-term reliability and conservation of capital investment in accordance with industry standards, if any;

Be otherwise in accordance with industry standards; local, State and Federal codes; manufacturer's equipment recommendations;

Be documented; and

With the cooperation of the City, as applicable, provide enforcement of existing equipment warranties or guarantees and maintain all warranties on new equipment purchased after the Commencement Date of the Agreement.

Any modifications or major maintenance affecting the appearance of the facilities in the System which are visible to the public shall be performed only after receipt of the prior written approval of the City.

The obligations of the Company to maintain the System and to have a comprehensive maintenance program with respect to the System shall not obligate the Company to improve the System beyond the Initial Facilities. The Initial Facilities will be improved by the Ongoing Capital Improvements and the Additional Capital Improvements (if any). By way of example, the obligations under 6.16(a)(iii) and 6.17(d) with respect to the disposal of sludges shall not impose an obligation to remedy conditions in existence as of the Commencement Date except to the extent included as Ongoing Capital Improvements. Similarly, the Company obligations with respect to having a comprehensive maintenance program for storm drain pipes and other pipes and mains will depend upon the ability

of the Company to locate said pipes and mains by above-surface means. The responsibility for the cost to maintain and/or repair pipes from the manhole to the residence shall be as is required by the current City ordinance as in effect on the Commencement Date.

SECTION 6.7. Software Program. The Company, in consultation with the City, shall develop a computerized program to satisfy its billing obligations hereunder. Upon the termination or expiration of this Agreement, the Company shall provide all data with respect to the System to the City and shall identify to the City all software programs and licenses utilized by the Company.

SECTION 6.8. Testing and Laboratory Analysis. The Company, at its sole cost and expense, shall perform, or cause to be performed, all laboratory sampling and analysis and reporting, as necessary for compliance with all Federal, State, local or other water distribution regulations and requirements having the force of law, as well as that which is customary for process (i.e. corrosion control) monitoring and control.

Sampling and testing procedures shall conform to the current edition of Standard Methods for the Examination of Water and Wastewater or be in accordance with the testing requirements of the applicable regulations or Permits. All testing, with the exception of process control testing, shall be performed by a State certified laboratory and the Company shall prepare from the data received from the testing laboratory for all applicable regulations or Permits monitoring and operating reports and shall deliver such results to the appropriate State and regulatory agencies.

Testing for the Water System (but not individual customers) shall include, but not be limited to, coliform determinations, pH,

color, sodium, hardness, iron, manganese, lead, copper, heavy metals, THMs, VOCs, corrosiveness, alkalinity, magnesium, calcium, turbidity, fluoride, cryptosporidium, and giardia lamblia cysts and all other tests required or to be required by the DEP or the EPA. The number, frequency and location of tests shall be in accordance with the applicable provisions of the regulations, including the Lead and Copper Rule, 40 CFR 141, et seq, as the same may be amended or supplemented from time to time.

SECTION 6.9. Reporting Requirements. (a) The Company shall comply with all reporting requirements related to its operations and the operation, maintenance and management of the System, as mandated by Federal, State and local laws, regulations, and Permits.

(b) The Company shall provide comprehensive monthly, year-to-date and annual reports in a format reasonably satisfactory to the City and regulatory agencies for each function or activity of the System, including, but not limited to:

Operating parameters laboratory analysis, maintenance plans and activities including conditions of the System, water quality results, water produced or purchased vs. water sold, manpower utilization, repairs, service calls and responses and other relevant information; and

Safety reports regarding accidents, injuries, and damages to City property and other relevant information.

(c) The Company shall maintain up-to-date financial records as they apply to the Services rendered under the terms of this Agreement. All records shall be kept in a manner that will enable the City to comply with State municipal accounting procedures.

(d) The Company shall provide the City with its periodic financial reports as they apply to the Services rendered under the



terms of this Agreement. At a minimum, such reports shall include the following:

(i) Monthly reports on or before the twenty-fifth (25th) Day of each month with respect to the prior month and on or before twenty-fifth (25th) Day after the end of each Contract Year a cumulative report as of the end of each prior Contract Year as follows: a summary account activity report showing the aggregate balance of accounts receivable from customers at the end of the preceding month, billings to customers for the preceding month, collections from customers during the preceding month, adjustments to customers' accounts and separate aggregate balances of accounts receivable of the City and accounts receivable of the Company as of the preceding month. The report shall provide a breakdown of classes of users and components of billings, collections and adjustments.

(ii) On or before each April 25, July 25, October 25 and January 25, a quarterly detailed accounts receivable trial balance showing the individual customers and their respective account balances as of the preceding March 31, June 30, September 30 and December 31, respectively, as reconciled with the ending balance of accounts receivables in the summary account activity report submitted pursuant to Section 6.9(d)(i).

(iii) The Company shall deliver a year-end report to the City consisting of a compilation of the monthly and quarterly reports set forth above and an analysis of all Revenues received and disbursed pursuant hereto and pursuant to the Revenue Agreement as well as analysis of any adjustments to the Service Fee or Rates as described herein certified by an officer of the Company and

delivered to the City within thirty (30) Days of the end of each Contract Year.

(iv) The Company shall provide such other reports as may be reasonably requested from time to time by the City.

SECTION 6.10. Staffing. (a) The Company shall provide a staff of qualified and experienced employees who have direct experience in operating, maintaining and managing water and wastewater systems similar in nature and character to the System and shall provide such additional third party support as may be needed to perform its duties and obligations hereunder. Said third parties shall be equally qualified for the particular services to be performed and shall not have any direct claim against the City whatsoever. The Company shall at all times maintain the necessary number of employees, staff and third-party contractors to operate, maintain and manage the System in accordance with this Agreement and to adequately maintain and operate the System in good repair and working order. In order to supply the appropriate staff for the provision of the Services, the Company shall lease Leased Employees from the City for the Employee Lease Payments. Any such persons who are so employed, although remaining as employees of the City shall nevertheless work under the direct management and supervision of the Company either on the operation of the System or otherwise within a fifteen (15) mile radius of the City. The City, shall be obligated to pay the Leased Employees including all overtime and also pay all benefits, insurance, dues, uniform costs, taxes and other related expenses with respect thereto in a timely manner. The Company shall wire the amount needed by the City (which has not otherwise been paid directly by the Company) to make such payments

within twenty four (24) hours of its receipt of notice of the amount due from the City. The use of such employees by the Company in the performance of the Services shall in no way relieve or excuse the Company from performing the Services in accordance with the terms of this Agreement or from any liability resulting from its failure to so perform as provided hereunder.

(b) The City shall be responsible for the discipline of the Leased Employees pursuant to law and the existing collective bargaining agreements (if any). The City shall identify on Schedule M each Leased Employee by date of hire, position, bargaining unit and other information deemed reasonably necessary by the Company. The City shall also set forth on Schedule M the discipline protocol applicable to the Leased Employees or to each group of Leased Employees (grouped by bargaining unit or otherwise as identified by the City). The City shall be responsible for notifying the Company promptly of any changes in the applicable collective bargaining agreements and/or discipline protocols.

(c) In meeting the Company's obligations under Section 6.10(a), the Company shall be entitled to hire persons it deems appropriate to replace any Leased Employee whose employment by the City terminates. The Company shall also be entitled to hire such other personnel as the Company believes reasonably necessary in order to meet its obligations under this Agreement; provided however that the Company shall submit Cost Substantiation to the City with respect to such hires.

(d) The Company shall provide: (i) qualified management, supervisory, technical, laboratory, operating personnel and personnel with licenses as required by the State for the operation

of the System; (ii) a resident manager for Day-to-Day supervision; (iii) specialists, as may be necessary, in water quality control, instrumentation, troubleshooting, emergency management and similar circumstances; and (iv) office and clerical support staff as necessary.

(e) The Company shall provide, or arrange for the Guarantor to provide, technical support consisting of on-call backup advice and water quality expertise, control, management, maintenance and plant repair to assist the operational staff and ensure performance of the obligations hereunder.

(f) The Company shall provide and maintain an organizational chart that lists job classification, the number of staff proposed for the transition phase and for the full time operation. The organization chart, which may be revised at the discretion of the Company consistent with the operation, maintenance and management of the System in accordance with this Agreement, shall indicate the staffing for the System, including laboratory/testing personnel and the licensed individuals/positions necessary to satisfy regulatory requirements and to provide operations and maintenance Services in a responsible professional manner. The Company shall notify the City of any proposed material revisions to staffing and/or personnel for the System and the City shall have the right to review and comment upon any such proposed revisions. The Company shall in good faith consider any comments provided by the City, and shall respond to the City in writing regarding any such comments.

The City shall forward all complaints about the Company's and/or the City's employees or staff in writing to the Company, who shall address such complaints with the offending employee or staff

in an appropriate and timely manner. If the basis for any such complaint is not corrected to the reasonable satisfaction of the City, the City shall have the right to request the Company to replace any such personnel interacting with City and/or City officials and/or the public.

(g) The Company shall provide ongoing training programs for all personnel in operations and maintenance procedures, management, laboratory and process control, QA/QC, right-to-know, safety, etc. as required for proper performance of their duties and for professional development.

(h) The Company's technical support group shall also provide assistance in the investigation, development and implementation of modifications in the water treatment processes as may be appropriate or necessary for regulatory compliance, worker safety or process improvement (i.e. corrosion control technologies, disinfections, substitutions for certain chemicals, etc.).

SECTION 6.11. Licenses. The Company shall acquire and hold, or cause its personnel to acquire and hold, all required Federal, State and local approvals, licenses and certifications necessary to operate, maintain and manage the System required to be obtained by the Company in accordance with this Agreement. In accordance with N.J.S.A. 58:11-64 et seq. and N.J.A.C. 7:10A-1.14, the minimum class of license required is a C-2 license for the Wastewater System and a T-4 and W-4 licenses for the Water System.

SECTION 6.12. Compliance with Laws, Regulations and Permits. (a) After the Commencement Date, the Company shall comply with SDWA, RCRA, CERCLA (as operator), OSHA, POSHA and any and all other applicable local, State and Federal laws, codes, ordinances and

regulations as they pertain to the System. The Company shall pay all regulatory fines and penalties, without limitations, assessed against the City, the Authority and/or the Company for the Company's non-compliance therewith.

(b) The Company shall, where applicable, comply with, satisfy, and pay all costs or fees (but not remediation) associated with, all regulatory requirements pertaining to the above, including, but not limited to, public notification in the event of non-compliance with drinking water standards, including those associated with the Lead and Copper Rule.

(c) All repairs and/or improvements to the System shall be made by the Company in accordance with existing City ordinances for work in the City and other municipalities' ordinances as may be required for work outside the City.

(d) The Company shall comply with the provisions of all City Contracts, including the payment of all fees and charges associated therewith.

(e) The City is the named permittee for various Permits. The Company shall be responsible for obtaining, including filling out required application forms, supplying required data and payment of required fees, and maintaining all necessary existing and/or additionally required Federal, State and local Permits, licenses and other governmental or private party approvals for the operation of the System and the equipment owned by the City and used in connection with the System. All additional Permits and approvals shall be in the name of the City as the permittee; however, the Company shall comply with all requirements pertaining thereto in accordance with this Agreement.

(f) The City shall comply with SDWA, RCRA, CERCLA (as operator), OSHA, POSHA and any and all other applicable local, State and Federal laws, codes, ordinances and regulations as they pertain to the System. The City shall pay all regulatory fines and penalties, without limitations, assessed against the Company and/or the City for the City's non-compliance therewith.

SECTION 6.13. Safety and Security. The Company shall provide for and maintain security and safety for the System as it deems appropriate. Fences, when reasonably required, shall be maintained in neat order and structural integrity. Gates, access points and doors, when reasonably required, shall be kept locked, structures shall be protected from unauthorized entry and security alarms, when reasonably required, shall be maintained.

The Company shall conduct all operations, maintenance and management of any facilities in compliance with applicable health and safety regulations, including, but not limited to: OSHA, general industry regulations, including requirements for confined space entry, respiratory protection and hazard communication; EPA regulations (applicable to water and wastewater systems) on emergency planning and notification under CERCLA, 40 CFR 355; and EPA regulations on hazardous chemical reporting and community right-to-know, 40 CFR 370, and any other applicable regulations as may be enacted during the Term of this Agreement.

SECTION 6.14. Continuity of Service. The Company shall cooperate in good faith with the City's agents, contractors and subcontractors and shall provide for the orderly transition of Services from the City and/or its contractors to the Company

without interruption or disruption of Services and without adverse impacts to the users of the System or to the City.

The Company and the City shall make such provisions as are necessary to ensure that no portion of the System shall be shut down for any period of time due to strikes, lock-outs or labor problems.

In the event of a labor action, stoppage or dispute that disrupts or prevents the Company's employees or its subcontractors' employees from entering upon and working on any part of the System, the Company shall (subject to the following paragraph) at its sole cost, seek appropriate legal injunctions, remedies, or court orders. In any event, the Company shall continue to operate the System through the use of office personnel, management or other resources at its disposal. The Company shall always maintain operation of the System to protect the Health, Safety and Welfare of the users of the System and the residents of the City.

In the event of a labor action, stoppage or dispute that disrupts or prevents the City's employees or its subcontractors' employees from entering upon and working on any part of the System, the City shall, at its sole cost, seek appropriate legal injunctions, remedies, or court orders.

SECTION 6.15. Emergency Situations. The Company shall promptly respond to all customer problems and (within two (2) hours to) all emergencies relating to the System and shall maintain at all times during the Term of this Agreement a toll-free twenty-four (24) hour telephone number where users of the System can report any emergencies from anywhere within the City.



The Company shall immediately notify the City of any activity, problem or circumstance that it becomes aware of that threatens the Health, Safety and Welfare of the users of the System or the residents of the City. In an emergency affecting the safety of persons or property, the Company shall act, at its discretion, to prevent or contain threatened damage, injury or loss and the Company shall be reimbursed for any costs incurred in connection therewith by an adjustment to the Service Fee and the execution of an amendment to this Agreement.

In the event of damage or destruction of the potable water facilities or any emergency which, in the reasonable judgment of the Company, is likely to result in material loss or damage to the System or constitute a material threat to human health or safety, the Company may suspend operation of the System. Emergency repairs as are necessary to mitigate, contain or reduce such loss, damage or threat to human health or safety shall be done in consultation with the City. Notification of emergency/non-compliance events within the System shall be in accordance with Permit requirements and an emergency plan to be developed by the Company and submitted to and approved by the City and the DEP and any subsequent amendments or modifications thereto.

The Company shall respond to emergencies and unusual circumstances in accordance with applicable regulations and requirements and with such personnel and equipment as necessary to maintain or restore the operations of the System in a timely manner with the least possible disruption or inconvenience to the users of the System.

SECTION 6.16. Provisions Specific to Water System. (a) General. (i) The Company shall furnish complete and accurate records and regulatory reports in a format acceptable to the City and to the DEP.

(ii) The Company shall perform periodic testing of the Water System, including, without limitation, testing of the meters and AMR equipment installed in the Water System in accordance with prudent industry and utility practice. Process meters shall be calibrated in accordance with manufacturer requirements. All generators shall be exercised at least on a weekly basis provided that the Company shall use its best efforts to schedule such exercising at times to minimize inconvenience to residents of the City resulting from noise.

(iii) All sludges, scum, grit, screenings, trash and refuse generated by or resulting from the operations or maintenance of the Water System shall be disposed of in accordance with applicable regulations pertaining thereto.

(iv) The levels of the storage reservoirs and storage tanks, if any, shall be monitored and controlled to ensure proper pressures for satisfactory service and fire fighting capabilities within the Water System.

(v) All hydrants shall be flushed at least once a year and the condition of, and maintenance performed on, the hydrants shall be recorded. All hydrants found to be broken or inoperable shall be bagged and shall promptly be replaced or repaired.

(vi) All water mains that become frozen or break shall be repaired or replaced so as to minimize disruption of customer service.

(vii) All inoperable, inaccurate or broken water meters shall be promptly replaced upon discovery.

(viii) Routine maintenance of the Water System shall include: routine painting and repairs of structures, both interior and exterior; upon discovery, removal and replacement of broken or inoperable valves critical to the safe operation of the Water System and/or hydrants; repair of main and service breaks; calibration of instrumentation on a twice a year basis; hydrant flushing (once a year) and maintenance; removal and replacement of broken, inaccurate or inoperable customer meters; reading of meters as required for billing purposes; disposal of all sludges, scums, screenings, grit, debris, trash, etc. from the Water System; sampling, testing analysis, reporting, billing and collections; and all else necessary therefor or incidental thereto to protect the Health, Safety and Welfare of the users of the Water System and as required by industry standards and utility practices.

(b) Water Quality Standards. The Company shall comply with the SDWA and all other Federal, State and local regulations concerning safe drinking water standards during the Term of this Agreement. The Company agrees to indemnify and hold the City and the Authority harmless from any fines or penalties assessed by the applicable regulatory agencies during the Term of the Agreement for any and all violations committed by the Company, its agents, servants or employees and from any fees or costs incurred as a result of failure to comply with regulations concerning safe drinking water standards.

(c) Bulk Water Sales. The Company shall seek to sell excess water from the Water System to the extent same is available on such

terms and conditions as it deems appropriate with the consent of the City as permitted by the Water Act.

SECTION 6.17. Provisions Specific to Wastewater System. (a) All wastewater generated within the City is conveyed via interceptor sewer facilities to the wastewater treatment plant of MCUA where same is treated in accordance with an existing contract.

The Company shall comply with all provisions of said contract, including the payment of all fees and charges associated therewith. The Company shall also operate the Wastewater System in conformance with all requirements of said contract, including prohibited discharges and sampling and laboratory analysis associated with industrial pretreatment compliance and monitoring programs as required.

The MCUA contract contains provisions for surcharges and penalties against industry for industrial pretreatment non-compliance. Existing municipal ordinances allow for the initiation of enforcement action against violations of said ordinances, which are tied to the MCUA regulations. The City shall assist the Company in enforcement actions against such violators.

In addition to the base rates, the contract with the MCUA contains a provision for a surcharge for increased loadings. The MCUA periodically increases its rates in order to meet its budgetary requirements. Such increases are considered Uncontrollable Circumstances for purposes of this Agreement.

(b) All pumping stations shall be inspected and maintained on a basis predicated on the manufacturer's recommendations and field conditions unique to the individual facility. A log shall be maintained of all inspections, services performed, problems

encountered and other data as appropriate to the industry standards and regulations. The standby power for those stations so equipped shall be exercised at least weekly.

(c) The Company shall develop and implement a program to be performed throughout the Term of this Agreement for the identification, isolation and, where cost-effective or required to protect the structural integrity of system components, correction of infiltration/inflow into the Wastewater System. Where said correction would constitute a Capital Improvement that would impact the projected rate structure (e.g. replacement of an entire line as opposed to grouting isolated leaks or elimination of a cross connection), same shall be charged, designed and performed as an Additional Capital Improvement in accordance with this Agreement.

(d) All sludges, scum, grit, screenings, trash and refuse generated by or resulting from the operations of the Wastewater System shall be disposed of in accordance with applicable regulations pertaining thereto for a total annual cost per Contract Year of thirty thousand dollars (\$30,000) provided that no additional amount may be expended without the written consent of an Authorized Representative of the City, which additional amount shall be paid by the City as an increase to the Fixed Service Fee, from the Project Fund or from the City directly.

(e) All sewer mains shall be inspected every three (3) years and jetted and/or otherwise cleaned as needed such that same are maintained free of blockages.

(f) All future pumping stations shall be inspected and maintained on a daily basis predicated on the manufacturer's recommendations and field conditions unique to the individual

facility. A log shall be maintained of all inspections, services performed, problems encountered and other data as appropriate to the industry standards and regulations. The standby power for those stations so equipped shall be exercised at least weekly.

(g) Maintenance, repair and replacement of facilities shall also include, but not be limited to, the following: disposal of all sludges, sand, grit, screenings, grease, debris, trash, etc. resulting from maintenance and operation of facilities; periodic inspection of manholes and mains (once every three (3) years) and cleaning, as needed and catch basins (once every year) except in problem areas which shall be on as-needed basis; identification, isolation and, where economic, correction of infiltration and inflow; routine painting and repairs of structures; repairs of main breaks, including bypass pumping as required; removal of system blockages; calibration of instrumentation and meters on a twice yearly basis; and sampling, testing, analysis, reporting, billing and collections; and all else necessary therefore or incidental thereto to protect the Health, Safety and Welfare of the customers and as required by industry standards and utility practices.

(h) All improvement, repair or maintenance items required for the Wastewater System shall be charged, designed and performed as Capital Improvements if they conform to the definition of same set forth herein.

SECTION 6.18. Operations Committee. The City and the Company shall establish an Operations Committee, consisting of the Business Administrator of the City, the Public Works/Municipal Utilities Director of the City and two (2) employees of the Company or its affiliated companies (at least one of whom must be an officer of

the Company), which shall meet, with a frequency to be determined by the parties, to discuss issues related to the operation, maintenance and management of the System; to receive and review reports; and to confer generally as a means of enhancing communication between the City and the Company. In addition to such meetings, representatives of the Company shall be available to meet with the Mayor, City Business Administrator and members of the governing body of the City or their authorized representatives, as reasonably requested by the City.

SECTION 6.19. Unbilled Services. The Company shall provide, during the Term of this Agreement, unbilled Services to the City Facilities and Non-Profit Facilities so long as the use of such City Facilities and/or Non-profit Facilities does not materially change. The Company shall install meters for the measurement of such unbilled water and wastewater Services. The City shall not be required to pay any hydrant fee or any other water service related fees, or any wastewater related fees, during the Term of this Agreement, except as otherwise provided herein. The City shall not commit to provide any unbilled Services to any users after the Commencement Date without the prior written consent of the Company, provided, however, that such consent shall not be unreasonably withheld for any public use similar in kind and scope to municipal public users that receive unbilled water and wastewater Services as of the Commencement Date. For purposes of this Section, except for the City Facilities, unbilled Services do not include costs associated with any repairs required to be made to the System which would, but for this Section, otherwise be the responsibility of such Users of the System. City Facilities shall not be billed for

labor costs for any System employees, including Leased Employees, in connection with any repairs or improvements. Costs to be billed to the City are subject to Cost Substantiation and the prior approval of the Authorized Representative of the City

SECTION 6.20. Billing and Collections. (a) On and after the Commencement Date, the Company, as agent for the City, shall be responsible for the preparation, delivery, maintenance and collection of all bills and invoices to the customers of the System and all costs and expenses associated therewith. All bills shall comply with the provisions of this Agreement. The Company shall design the format and content (which shall be reasonably acceptable to the City) of the bills for the Services. All payments shall be applied to the wastewater bill first (oldest to most recent) and the water bill second (oldest to most recent). In all cases, interest shall be credited first.

(b) The City shall cooperate with the Company in all collection matters and shall use its statutory powers pertaining to any and all remedies granted to municipalities for purposes of collection, including the imposition of interest and penalties on unpaid fees and charges, the imposition of liens for such unpaid fees, charges, penalties and interest and the termination of services. The Company, in addition to other monies paid to the City pursuant to the terms hereof, shall reimburse the City for any and all reasonable costs and expenses incurred by the City in connection with the use of its statutory powers and remedies to enforce such collections. The Company may terminate services to any customer of the System not in compliance with their obligation to pay the established Rates in accordance with their terms.



(c) The Company shall promptly (on the same day when possible or within one (1) Business Day) respond to all customer billing and collection questions, problems and inquiries and shall maintain a toll free telephone number for customers of the Water System to handle such questions, problems and inquires, as well as any emergencies, as may arise. The Company shall provide the City, upon request, with a copy of the Company's written policy in dealing with customer service and complaints relating to billing and collection matters.

(d) The City shall provide space for a collection office in a City municipal building where customers of the System may pay their bills during normal business hours Monday through Friday. The Company shall provide a person to handle collections at such time in such office.

(e) The Company shall conduct at least quarterly readings to the extent possible of all customers' usages and shall bill such customers accordingly.

ARTICLE VII.

CAPITAL IMPROVEMENTS TO THE SYSTEM

SECTION 7.1. Ongoing Capital Improvements. The Company shall design and obtain Permits for the Ongoing Capital Improvements to the extent that they have not already been designed or permitted. The cost of the Ongoing Capital Improvements (including design, permitting, construction and financing) shall be the responsibility of the City to be paid for with the proceeds of the Authority Series B Indebtedness and the investment income thereon. The Ongoing Capital Improvements shall be completed and placed in service within three (3) Years from the Commencement Date pursuant to the existing contracts the City has for such projects. For any Ongoing Capital Improvements not currently under contract, the Company shall provide the City with (a) a statement of work with sufficient detail to enable a third party to evaluate the cost thereof, (b) a firm price quotation for permit, design and construction (which firm price quotation shall be in the case of contracts) determined, unless the Authorized Representative of the City specifies otherwise, by soliciting bids from qualified bidders and multiplying those bids by a factor of one and one-tenth (1.10) plus the Company's documented direct labor costs times a factor of two (2)), (c) an estimated completion schedule, and (d) a drawdown schedule. The Authority shall disburse, or cause to be disbursed, the funds for the Ongoing Capital Improvements upon the approval of the City pursuant to the terms of the Authority Series B Bond Resolution and provide for the cost therefor from the proceeds of the Authority Series B Indebtedness. The City shall have the right

to review and approve the design and specifications and construction performed for the Ongoing Capital Improvements. The Company shall be paid a fee to serve as general contractor for the Ongoing Capital Improvements equal to one-tenth (.1) times the cost of construction thereof plus the Company's direct labor costs (not otherwise paid by the Employee Lease Payment) times a factor of two (2). Such fee shall be paid in the same manner as the Ongoing Capital Improvements.

SECTION 7.2. Additional Capital Improvements to the System. Additional Capital Improvements, in addition to the Ongoing Capital Improvements, may be necessary as a result of (a) Uncontrollable Circumstances, (b) a request by the City or (c) a proposal by the Company.

For any Additional Capital Improvements described in Section 7.2(a) or (c), the Company shall present to the City, in writing, a request for such Additional Capital Improvements consisting of (a) a statement of work with sufficient detail to enable a third party to evaluate the cost thereof, (b) a firm price quotation for permit, design and construction (which firm price quotation shall be (in the case of contracts) determined, unless the Authorized Representative of the City specifies otherwise, by soliciting bids from qualified bidders and multiplying those bids by a factor of one and one-tenth (1.10) plus the Company's documented direct labor costs times a factor of two (2)), (c) an estimated completion schedule, (d) a drawdown schedule, (e) interim financing terms, if necessary, and (f) an estimate of the effect, if any, of the Additional Capital Improvements on the Fixed Service Fee and the Rates.

For any Additional Capital Improvements described in Section 7.2(b), the City shall present to the Company, in writing, a request for such Additional Capital Improvements and the Company shall provide the City with (a) a statement of work with sufficient detail to enable a third party to evaluate the cost thereof, (b) a firm price quotation for permit, design and construction (which firm price quotation shall be (in the case of contracts) determined by soliciting bids from qualified bidders and multiplying those bids by a factor of one and one-tenth (1.10) plus the Company's documented direct labor costs times a factor of two (2)), (c) an estimated completion schedule, (d) a drawdown schedule, (e) interim financing terms, if necessary, and (f) an estimate of the effect, if any, of the Additional Capital Improvements on the Fixed Service Fee and the Rates provided, however, that in the event of any emergency Capital Improvements required to protect the Health, Safety or Welfare of the users of the System or the residents of the City, the Company may contact the Authorized Representative of the City who may authorize such Capital Improvements without satisfying the requirements of this Section 7.2.

The City shall finance such Additional Capital Improvements to the extent not otherwise payable from the Capital Improvement Fund by issuing its bonds or notes or through the issuance of certain bonds or notes through the Authority (THE "ADDITIONAL INDEBTEDNESS") or through the issuance of Authority Series B Indebtedness which shall not constitute Additional Indebtedness provided that in no event shall the Authority be obligated to issue any such bonds or notes or Authority Series B Indebtedness for this purpose. The Company shall assist the City in making necessary

applications, meeting with appropriate agencies or other parties and otherwise assisting the City as is necessary to secure said financing.

The City shall have the right to review and approve the design, bid plans and specifications, bids received, construction performed and payments made for the Additional Capital Improvements. The City may engage a qualified engineer for purposes of fulfilling this need at the City's cost. In all cases, the City reserves the right to design and institute any and all Capital Improvements and not utilize the services of the Company for such purposes.

SECTION 7.3. Design and Performance Standards. All Capital Improvements to the System shall adhere to the standards of the Guarantor, generally accepted water and sewer industry standards and practices, and the following design and performance standards:

(a) A minimum design life of twenty (20) Years for above-ground Capital Improvements and fifty (50) Years for underground System components.

(b) Reliability criteria as defined in EPA document "Design Criteria for Mechanical, Electrical and Fluid System and Component Reliability" published in 1974, and as updated, for the appropriate reliability class of treatment works.

SECTION 7.4. Termination of Additional Capital Improvements. With respect to Additional Capital Improvements to the System agreed to by the City, should the City later decide not to proceed with such Additional Capital Improvements, the Company shall be entitled to recover reasonable design and estimating costs incurred as a result of any such Additional Capital Improvements; provided

any claim by the Company for such costs is made within ninety (90) Days after notification by the City of the decision not to proceed. The Company shall provide Cost Substantiation of all expenses related to Capital Improvements constructed or acquired by the Company pursuant to this Agreement.

SECTION 7.5. Capital Improvement Fund. All funds, and investment income thereon, held in the Capital Improvement Fund shall be utilized by the Company to pay for Capital Improvements to the System in order to maintain the integrity of the System and, to the extent available, to provide for all or a portion of the cost of any Additional Capital Improvements or, to the extent necessary, any Ongoing Capital Improvements.

SECTION 7.6. Submission of Draws; Procedures. (a) As payments are required for Capital Improvements under this Agreement, the Company shall prepare and assemble the following Draw Papers and submit them to the Trustee for the Authority Series B Indebtedness or System Trustee, as applicable.

(b) On or before 10:00 a.m. on each Draw Date, the Company shall advise the Trustee for the Authority Series B Indebtedness or System Trustee, as applicable (with a copy to the City), in writing of the aggregate amount of funds needed for disbursement to pay the Capital Improvements costs. An amount equal to the lesser of (x) such aggregate amount of funds needed, OR (y) the amount of funds available in the Capital Improvement Fund or Project Fund in the Project Fund or Capital Improvement Fund, as applicable, and applied to the payment of the Capital Improvements costs or a portion thereof.

(c) The Company shall cause the Trustee for the Authority Series B Indebtedness or System Trustee, as applicable to make payments to the contractors or other third parties for the Capital Improvements or a portion thereof in the amount of the appropriate advance therefor from the Project Fund or Capital Improvement Fund, as applicable, upon acceptance of the Capital Improvements or a portion thereof, as the case may be, but only after the Trustee or System Trustee has received the Draw Papers.

(d) For any final payment of the costs relating to the Ongoing Capital Improvements, the Company shall submit a certificate of completion and acceptance in substantially the form attached hereto as Schedule W signed by the Company with the Draw Papers. Notwithstanding the foregoing, any such certificate of completion and acceptance shall state that it is given without prejudice to any rights against third parties that exist at the date of any such certificate of completion and acceptance or that may subsequently come into being. If, upon the completion or abandonment of the acquisition, construction, renovation and installation of the Ongoing Capital Improvements, any surplus funds shall remain on deposit with the Trustee for the Authority Series B Indebtedness that are not required to provide for the payment of the costs relating to the Ongoing Capital Improvements, such funds shall be deposited and applied as provided in the Authority Series B Bond Resolution.

ARTICLE VIII.

RATES, REVENUES, SERVICE FEE AND ADJUSTMENTS

SECTION 8.1. Rates, Fees and Other Charges. The City has established the Rates and City Fees for the use of the System. Such Rates and City Fees shall be subject to change only as permitted by Section 8.5.

SECTION 8.2. Revenues. The Company shall collect all of the Revenues beginning on the Commencement Date and ending on the termination or expiration of the Agreement. All such Revenues shall be immediately deposited in the Revenue Fund.

SECTION 8.3. Service Fee. The Company shall receive (a) the Fixed Service Fee in monthly installments on the first business Day of each month commencing on the Commencement Date and (b) the Variable Service Fee annually on first business Day of the second month following the end of each Contract Year and following the completion of the annual reports required by Sections 6.9(d)(iii) of this Agreement provided that the portion of the Variable Service Fee described in paragraph (b) of such definition shall not be paid to the Company unless the City first receives a Variable Franchise Fee in an amount at least equal to the Minimum Variable Franchise Fee provided such Service Fees do not violate the provisions of Section 4.3.

SECTION 8.4. Adjustments to the Service Fee. (a) Notwithstanding anything herein to the contrary, during the first five (5) Contract Years, the Company shall only be entitled to receive payment of the Service Fee to the extent that funds are available therefor under the Revenue Agreement. Upon the fifth anniversary of the Agreement, the Company shall permanently finance



all unpaid Fixed Service Fees and all unpaid Variable Service Fees as described in paragraph (a) of such definition (including interest thereon) from the first five (5) Contract Years over the remaining Term of the Agreement. The resulting debt service shall be added to the Fixed Service Fee to create a new Fixed Service Fee for Contract Years six (6) through twenty (20).

(b) If, in any of the Contract Years six (6) through twenty (20) the Company does not receive its Fixed Service Fee or the Variable Service Fee as described in paragraph (a) of such definition, the unpaid amount shall be added to the Fixed Service Fee for the subsequent Contract Year to create a new Fixed Service Fee. Any amounts due at the end of the term of this Agreement shall be paid to the Company within ninety (90) Days of the end of such Term.

(c) If the Company incurs increased operating, maintenance or management costs or expenses or other costs (that would not otherwise be the responsibility of the Company hereunder) resulting from Uncontrollable Circumstances or a request by the City to do something that is not otherwise the responsibility of the Company hereunder, there shall be an adjustment to the Fixed Service Fee to provide for such increased costs.

(d) If the total annual cost for salaries and benefits for any Contract Year for those persons providing the Services (including Leased Employees and employees of the Company or its subcontractors) is greater than the Employee Lease Payment for the applicable Contract Year, the Fixed Service Fee for the subsequent Contract Year shall be increased to reimburse the Company for the increased costs associated with such salaries and benefits. If the

total annual cost for salaries and benefits for any Contract Year for those persons providing the Services (including Leased Employees and employees of the Company or its subcontractors) is less than the Employee Lease Payment for the applicable Contract Year, the excess Employee Lease Payment shall be reimbursed to the City.

(e) If the actual fee charged by MCUA for any Contract Year is greater than the MCUA Fee for the applicable Contract Year, the Fixed Service Fee for the subsequent Contract Year shall be increased to reimburse the Company for the increased costs associated with the increase in the MCUA Fee. If the actual fee charged by MCUA for any Contract Year is less than the MCUA Fee for the applicable Contract Year, the excess MCUA Fee shall be reimbursed to the City.

(f) If, on the first business Day of the second month of each Contract Year the Company does not receive the amount due to it under paragraph (b) of the definition of Variable Service Fee, such amount shall remain outstanding (without interest) until the subsequent first business Day of the second month of the subsequent Contract Year, when such amount shall be paid if funds are available as described herein. This amount shall continue to be due and payable until funds are available on the first business Day of the second month of any Contract Year. Any amount not paid for the Variable Service Fee described in paragraph (b) of the definition to Variable Service Fee as of the end of the Term of the Agreement shall no longer be due to the Company.

(g) For any adjustment to the Fixed Service Fee, the Company shall present to the City the Cost Substantiation for such

adjustment in the Fixed Service Fee and, in the case of the seventh (7th) Contract Year, the Company shall utilize the first eleven (11) months of such adjustments for the prior Contract Year and for each Contract Year thereafter shall use a twelve (12) month period beginning one (1) month prior to the applicable Contract Year.

(h) In connection with all adjustments to the Fixed Service Fee, the Company shall circulate a revised Schedule H to the parties hereto.

SECTION 8.5. Adjustments to the Rates. (a) During the first five (5) Contract Years, there shall be no increases in the Rates except as described in the Rate schedule attached as Schedule T, or as otherwise determined by the City. Upon the fifth (5th) anniversary of the Agreement, the Rates shall automatically increase or decrease each year to provide additional Revenues or less Revenues to pay for the increases or decreases in the Fixed Service Fee, the debt service on Additional Capital Improvements, and/or as otherwise required to ensure sufficient funds to meet the City's obligations hereunder and the requirements of the Revenue Agreement. Nothing herein, shall however, limit the City's ability to unilaterally increase (but not decrease) the Rates from time to time as it deems appropriate. Any adjustment to the Rates shall require a corresponding adjustment to the blended annual percentage increase in the Rates as described in Schedule T. In connection with all Rate changes other than as set forth in Schedule T, the Company shall circulate a new Schedule T to the parties hereto

(b) For any adjustment to the Rates (other than as set forth in the rate schedule attached hereto or as unilaterally imposed by

the City), the Company shall present to the City the Cost Substantiation for such adjustment in the Rates.

(c) Notwithstanding anything herein to the contrary, the City shall increase the Rates, as necessary, to meet all of the requirements of the Authority Bond Resolutions and the requirements of Section 5.2.

ARTICLE IX.

DEFAULT AND TERMINATION

SECTION 9.1. General Provisions. In the event of breach of this Agreement, the right to recover damages shall ordinarily constitute an adequate remedy. During the Term of this Agreement, this Agreement may be terminated prior to its stated expiration date by the City or the Company on the terms and conditions set forth in this Article IX and as otherwise specified in this Agreement. The rights of the City and the Company to terminate this Agreement shall be strictly construed in accordance with the provisions of this Article IX.

SECTION 9.2. Termination by the City. (a) The following events shall give the City the right to terminate this Agreement:

(i) the failure of the Company to perform or observe any of its material covenants, agreements, obligations and/or duties created by this Agreement;

(ii) a determination that any representation, warranty or covenant made by the Company shall prove to be false and/or misleading in any material respect;

(iii) the commencement of any bankruptcy, insolvency, liquidation and/or similar proceeding against the Company and/or any of its subsidiaries and/or related companies which materially and adversely affects the Company's ability to perform its duties or obligations under this Agreement; the consent by the Company and/or any of its subsidiaries and/or related companies or the Guarantor, to the appointment of and/or taking possession by a receiver, liquidator, assignee, trustee and/or custodian of the Company and/or any of its subsidiaries and/or related companies or the Guarantor, and/or any substantial part of their respective assets which materially and adversely affects the Company's or the Guarantor's ability to perform its duties or obligations under this Agreement, the Guarantor Performance Guaranty Agreement and/or the Guarantor Bond Guaranty Agreement, as applicable; the making by the Company and/or any of its subsidiaries and/or related companies or

the Guarantor, of any assignment for the benefit of creditors that would materially and adversely affect the Company's or Guarantor's ability to perform its duties or obligations under this Agreement, the Guarantor Performance Guaranty Agreement and the Bond Guaranty; and/or the failure by the Company and/or any of its subsidiaries and/or related companies or the Guarantor, to generally pay its debts as they come due; or

(iv) the failure of the Company to make any payment due and payable under this Agreement, unless payment is made within thirty (30) Days after demand thereof is received by the Company that any such payment is overdue.

(v) a determination by any court, agency and/or other entity with competent jurisdiction that any of the Primary Financing Documents is unenforceable and/or prohibited by law, or a determination that the governing body of the City is legally prohibited from enacting any resolution or ordinance establishing the Rates for the supply of Services to the customers of the System that are required to be established by the City in accordance with the provisions hereof.

(b) Upon the happening of any event described in Section 9.2(a)(i), the City shall provide written notice to the Company setting forth in detail the alleged failure and/or deficiency of

the Company. The Company shall have thirty (30) Days after receipt of such written notice from the City to cure and/or correct such failure and/or deficiency or to deliver to the City a written notice alleging that no such event described in Section 9.2(a)(i) has occurred and setting forth in detail its reasoning as to why no such event has occurred. In the event that the Company does not cure and/or correct such failure and/or deficiency within said thirty (30) Day period or deliver to the City the written notice described in the preceding sentence within said thirty (30) Day period, the City shall provide the Company with a second written notice affording the Company an additional fifteen (15) Days to cure and/or correct such failure and/or deficiency. If the Company fails to cure and/or correct the failure and/or deficiency within such fifteen (15) Day period, the City may terminate the Agreement by providing written notice thereof to the Authorized Representative of the Company.

(c) Upon the happening of any event described in Section 9.2(a)(ii), (iii), (iv) or (v), the City shall have the right to immediately terminate this Agreement upon thirty (30) Days prior written notice to the Company. The City and the Company specifically agree that this Agreement shall terminate immediately after the thirty (30) Days from the receipt of such written notice to the Company.

(d) If the City terminates this Agreement in accordance with the provisions of this Section 9.2(b) or (c), the City shall owe the Company the cost and/or debt service on any indebtedness incurred by the Company for any Capital Improvements. If the City terminates this Agreement due to the occurrence of an event as

described in Section 9.2(a)(v), the City shall also owe the Company any Service Fees that have been earned but not paid to the Company, the unamortized amount of the debt service on the deferred Service Fee as described in Section 8.4(a) and any expenses or other amounts owed to the Company that were to be added to the subsequent Year's Service Fee. In the event that the Company has failed to maintain the System in good working order, subject to normal wear and tear, consistent with industry practice, then the Company shall pay for the cost of repairs by the City and in all events, except for those described in Section 9.2(a)(v), the Company shall pay the reasonable costs of procuring the services of a new company.

(e) If the City terminates this Agreement for any reason, it shall defease the Authority Series C Indebtedness and provide for the release of the Guarantor Bond Guaranty and the Company shall, if the termination occurs pursuant to Section 9.2(a)(i), (ii), (iii) or (iv), reimburse the City for the costs associated with such defeasance including the incremental increase in debt service resulting from the issuance of new bonds or notes to effectuate such defeasance.

(f) In addition to any other monetary remedies provided herein, the City shall be entitled to pursue a cause of action against the Company for any and all actual damages suffered by the City as a result of any default by the Company, plus reasonable attorneys' fees.

SECTION 9.3. Termination by the Company. (a) The following events shall give the Company the right to terminate this Agreement:



(i) the failure of the City to perform or observe any of its material covenants, agreements, obligations and/or duties created by this Agreement;

(ii) a determination that any representation, warranty and/or covenant made by the City shall prove to be false and/or misleading in any material respect;

(iii) the failure by the City to make any payment required to be made by the City pursuant to the terms of this Agreement within thirty (30) Days of its receipt of notice from the Company that any such payment was not paid when due; and

(iv) a determination by any court, agency and/or other entity with competent jurisdiction that this Agreement is unenforceable and/or prohibited by law, or a determination that the governing body of the City is legally prohibited from enacting any resolution or ordinance establishing the Rates for the supply of Services to the customers of the System that are required to be established by the City in accordance with the provisions hereof.

(b) Upon the happening of any event described in Section 9.3(a)(i) above, the Company shall provide written notice to the City setting forth in detail the alleged failure and/or deficiency of the City. The City shall have thirty (30) Days after receipt of such written notice from the Company to cure and/or correct such failure and/or deficiency or to deliver to the Company a written notice alleging that no such event described in Section 9.3(a)(i) has occurred and setting forth in detail its reasoning as to why no such event has occurred. In the event that the City does not cure and/or correct such failure and/or deficiency within said thirty (30) Day period or deliver to the Company the written notice

described in the preceding sentence within said thirty (30) Day period, the Company shall provide the City with a second written notice affording the City an additional fifteen (15) Days to cure and/or correct such failure and/or deficiency. If the City fails to cure and/or correct the failure and/or deficiency within such fifteen (15) Day period, the Company may terminate the Agreement by providing written notice thereof to the Authorized Representative of the City.

(c) Upon the happening of any event described in Section 9.3(a)(ii), (iii) or (iv), the Company shall have the right to terminate this Agreement upon thirty (30) Days prior written notice to the City. The Company and City specifically agree that this Agreement shall terminate immediately after thirty (30) Days from the receipt of such written notice by the City.

(d) If the Company terminates this Agreement in accordance with the provisions of this Section 9.3(b) or (c), the City shall owe the Company any Service Fees that have been earned but not paid to the Company, the unamortized amount of the debt service on deferred Service Fee as described in Section 8.4(a), any expenses or other amounts owed to the Company that were to be added to the subsequent Year's Service Fee and the cost and/or debt service on and indebtedness incurred by the Company on the Guaranty or any Capital Improvements. In the event that the Company has failed to maintain the System in good working order, subject to normal wear and tear, consistent with industry practice, then the Company shall pay for the cost of repairs by the City.

(e) If the Company terminates this Agreement in accordance with the provisions of this Section 9.3, the City shall defease the

Authority Series C Indebtedness and provide for the release of the Guarantor Bond Guaranty.

(f) In addition to any other monetary remedies provided herein, the Company shall be entitled to pursue a cause of action against the City for any and all actual damages suffered by the Company as a result of any default by the City, plus reasonable attorneys' fees.

SECTION 9.4. No Consequential Damages. Neither party shall be liable for any special, consequential, indirect, punitive, incidental or similar damages relating in any way to this Agreement.

SECTION 9.5. Continuity of Service upon Termination. In the event of termination of this Agreement, the Company shall provide for continuity of the Services over a six (6) month period of transition of operations back to the City or hire another company designated by the City as of the earlier to occur of the expiration or termination of the Agreement. Upon expiration or termination of this Agreement, the Company shall restore the System to equal or better condition than described in the Initial Facilities' inventory subject to ordinary wear and tear consistent with industry standards. The City shall pay the Company a fee for the provisions of the Services during this transition period equal to a pro rata share of the Service Fee for the immediately preceding one Year period.

SECTION 9.6. Enforcement Rights of the Authority. Notwithstanding anything herein or in the Primary Financing Documents to the contrary, the Authority shall have the right to seek the enforcement in a court of competent jurisdiction or

otherwise of any and all rights it has under the Primary Financing Documents including, but not limited to, the right to receive amounts necessary to provide for the payment of the Authority Indebtedness and the Authority Administrative Expenses.

SECTION 9.7. Effect of Termination. Upon any termination of this Agreement, (i) the City shall assume all obligations of the Company hereunder to operate, manage, maintain and improve the System itself for the remaining Term of this Agreement, (ii) the Revenues shall remain subject to the pledge of the applicable Authority Bond Resolutions, and (iii) the City Bond Guaranty shall remain in full force and effect. For purposes hereof, notwithstanding any termination of this Agreement, the City shall continue to establish and collect the Rates, City Fees and charges for each Contract Year, as required under Article VIII and shall provide for the debt service on all Outstanding Authority Indebtedness.

ARTICLE X.

MISCELLANEOUS

SECTION 10.1. Insurance. The Company shall not commence the performance of the Services under this Agreement until it has provided insurance of the types and in such amounts as set forth herein and such other insurance as shall be reasonably requested by the Authority prior to the issuance of the Authority Indebtedness provided such insurance is commercially reasonable and such insurance has been approved by the City nor shall the Company allow any subcontractor to work on its subcontract until all similar insurance required of the subcontractor has been so obtained and approved or the Company has determined that the Company's insurance is sufficient to cover the actions of the subcontractor. The Company shall maintain such insurance in full force and effect for the Term of this Agreement.

The insurance policies provided by the Company at its expense and more particularly described hereafter shall prior to the issuance of the Authority Indebtedness provided such issuance is irrevocably available and specifically designate the City, the Authority, the Trustee and the System Trustee as additional insureds to the extent of the negligent acts, errors or omissions of the Company and shall further contain such provisions as shall indemnify and hold harmless the City, the Authority, the Trustee and the System Trustee and their respective officials, officers, members, employees, consultants and agents, pursuant to the terms and requirements set forth herein.

The Company shall be solely responsible (subject to Section 10.3(f)) for all injuries to persons or property (other than to the

extent such costs are paid by worker's compensation insurance) occurring on account of the performance of Services hereunder, regardless who is performing the Services.

Certificates, in triplicate, from the insurance carrier, stating the limits of liability and the expiration date for each policy and type of coverage shall be filed with the City before the Contract Date and the Authority and Trustee before the Authority Indebtedness is issued. The certificates shall contain the following express obligation:

"This is to certify that the policies of insurance described herein have been issued to the insured for whom this certificate is executed and are in force at this time. In the event of cancellation or material change in a policy affecting the certificate holder, thirty (30) Days prior written notice shall be given the certificate holder except in the event of a cancellation for failure to pay the insurance premium wherein ten (10) days prior written notice shall be given to the certificate holder"

Such certificates shall specifically refer to this Agreement and article, and the following paragraphs in accordance with which the insurance is being furnished, and state that such insurance is as required by such paragraphs of this Agreement.

All insurance coverage shall be with acceptable insurance companies only which possess an A.M. Best Company rating of at least A+. All insurance policies herein required of the Company shall be written by a company duly authorized and licensed to do business in the State and be executed by some agent therein duly licensed as an agent in said State.

Insurance shall include the type of insurance specified below in not less than the amounts stated. Neither approval by the City, the Authority, the System Trustee nor the Trustee nor a failure to disapprove insurance furnished by the Company, shall release the

Company from full responsibility for liability, damages and accidents as set forth herein.

The Company shall take out and maintain during the Term of this Agreement the following types of insurance in an amount, for each policy, not less than the amounts stated:

(a) Commercial General Liability Insurance

(i) The Company shall maintain during the Term of this Agreement such commercial general liability insurance as shall protect it against claims for damages resulting from bodily injury, including wrongful death and property damages, which may arise from the performance of Services hereunder regardless of by whom performed. The minimum acceptable limits of liability to be provided by such insurance shall be as follows:

Bodily Injury Limits and Property Damage - \$1,000,000 each occurrence/\$2,000,000 aggregate.

Products liability and completed operations - \$2,000,000 aggregate.

Personal injury liability - \$2,000,000 aggregate.

(ii) The commercial general liability insurance required by the preceding subparagraph shall include the following extensions of coverage:

(A) The coverage shall be provided under a commercial general liability form of policy or similar thereto.

(B) XCU Coverage - If the Agreement requires any work procedures involving blasting, excavating, tunneling or other underground work, the liability coverage shall include standard blasting or explosion coverage, standard collapse coverage and standard underground coverage, commonly referred to as XCU property damage liability coverage with limits of \$1,000,000 CSL.

(C) Contractual liability coverage shall be included.

(D) Protective liability coverage shall be included to protect the Company against claims arising out of operations performed by its subcontractors.

(b) Worker's Compensation and Employer's Liability Insurance in accordance with the requirements of the laws of the State and all other applicable laws and regulations. If any class of employees engaged in hazardous work cannot be protected by workmen's compensation and liability insurance, the Company shall provide adequate insurance for each class of employees.

The Company shall take out and maintain during the Term of this Agreement the applicable statutory Worker's Compensation Insurance with an insurance company authorized to write such insurance covering all of its employees, and in the case of any work sublet, the Company shall require the subcontractor similarly to provide statutory Worker's Compensation Insurance for the latter's employees. The Company shall take out and maintain during the Term of this Agreement, Employer's Liability Insurance with a minimum limit of \$1,000,000 with an insurance company authorized to write such insurance and the Company shall require each of its subcontracts similarly to maintain Employer's Liability Insurance on its employees.

(c) Automobile Liability and Property Damage Insurance

The Company shall take out and maintain during the Term of the Agreement such Automobile Liability Insurance as shall protect it against claims for damages resulting from bodily injury, including wrongful death and property damage, which may arise from the operations of any owned, hired or non-owned automobiles used by or



for it in any capacity in connection with the performance of Services hereunder. The minimum acceptable limits of liability to be provided by such Automobile Liability Insurance shall be as follows:

Bodily Injury Limits and Property Damage - \$5,000,000 each occurrence/annual aggregate by the Company (or \$1,000,000 each occurrence/annual aggregate by each subcontractor).

(d) Excess Liability Insurance - \$10,000,000.

(e) Professional Liability Insurance in the case of any consulting engineering firm hired by the Company, in an amount not less than \$2,000,000.

The Company shall require each of its subcontractors to take out and maintain during the life of its subcontracts the same insurance coverage required of the Company under Section 10.1(a), (b) and (c), including the extensions of coverage required under Section 10.1(a)(ii) naming the City, the Authority, the Trustee and the System Trustee as additional insureds thereon unless the Company has determined that its insurance coverage is sufficient to cover the actions of the subcontractor. Each subcontractor shall furnish to the Company (2) copies of a certificate of insurance and such certificate shall contain the same information required hereinabove. The Company shall furnish one (1) copy of the certificate to each of the City, the Authority, the Trustee and the System Trustee.

All insurance policies shall have a minimum deductible of \$10,000 unless otherwise approved by the City.

If the Company derives insurance proceeds to cover any liabilities under this Agreement, the Company shall have no claim

against the City for such amounts provided that the City did not cause the events that result in the claim against the applicable insurance company.

If at any time the Company fails to maintain any of the foregoing policies, or if a company issuing any such policy shall become unsatisfactory to any of the City, the Authority, the Trustee or the System Trustee, the Company shall, upon notice to that effect from such party, promptly obtain a new policy, submit the same to the City, the Authority, the Trustee and the System Trustee for their approval and submit a certificate of insurance as described above. Failure of the Company to take out and/or maintain or the taking out and/or maintenance of any required insurance, shall not relieve the Company of any liability under the Agreement.

The City shall maintain insurance on the System during the Term of this Agreement substantially similar in kind, scope and amount as that maintained by the Company as of the Commencement Date. If any damage occurs to the System during the Term of this Agreement that is an insured risk under the policies described in this Section 10.1, the Company agrees that its policies provide the primary coverage and should be used as the first basis of recovery. The Company, however, may request the City to file a claim under its insurance policy or policies for any amounts not covered under the policies maintained by the Company, and if insurance proceeds are paid to the City for such amounts, the City shall reimburse the Company but solely from such proceeds for the actual, documented cost it incurs, subject to Cost Substantiation, to repair the damage to the System in an amount not to exceed such insurance

proceeds. Each of the Authority, the Trustee and the System Trustee shall be included as an additional insured under all of the policies of the City and the Company described in this Section 10.1.

SECTION 10.2. Performance Bonds.

(a) The Company shall provide, or cause the subcontractor to provide, to the City a performance bond for construction of Capital Improvements equal to 100% of the proposed construction cost. The construction performance bond shall be provided by an insurance company that (i) has a minimum rating of "A" in the latest revision of the A.M. Best Company's Insurance Report; (ii) is in the United States Treasury Department's annual listing of surety companies in the Federal Register and (iii) is properly registered and licensed to conduct business in the State.

(b) The Company shall be responsible throughout the Term of this Agreement for monitoring the financial condition of any surety company issuing bonds and for making inquiries no less often than semiannually to confirm that such surety company maintains at least the minimum rating level specified in Section 10.2(a). In the event the rating of any surety company falls below such minimum level, the Company shall promptly notify the City of such event and shall promptly furnish a substitute or an additional bond of a surety company whose rating and other qualifications satisfy all of the above requirements, unless the City agrees to accept an alternative method of assurance. Upon timely notice by the Company of such an event, the City shall not unreasonably withhold its approval of such assurance.

(c) So long as the Guarantor has a credit rating of at least "A" from Standard & Poor's Corporation or Moody's Investors Service, it will not be necessary to obtain a performance bond pursuant to Section 10.2(a).

SECTION 10.3. Indemnification.

Notwithstanding anything to the contrary in this Agreement:

(a) To the extent permitted by law, the Company shall indemnify, defend and hold harmless the City, the Authority, their elective and/or appointed officers and their duly authorized agents, members, professionals, servants and employees, including without limitation, the Trustee and the System Trustee, from any costs, expenses or liabilities (including costs and expenses or liabilities to third parties) which are caused by or arise from the Company's breach of the Primary Financing Documents or the negligent or willful acts or omissions of the Company or its agents, servants, employees or subcontractors in connection with the operation, maintenance or management and improvement of the System during the Term of this Agreement provided such cost, expense or liabilities do not arise as a result of negligent or willful acts or omissions of the City or in the case of the Authority are not caused by the negligence or willful acts or omissions of the City.

(b) To the extent permitted by law, the City shall indemnify, defend and hold harmless the Company, and the Authority, their elective and/or appointed officers and their duly authorized agents, members, professionals, servants and employees, including without limitation the Trustee and the System Trustee, for any costs, expenses or

liabilities (including costs and expenses or liabilities to third parties or amounts owed to the Federal Government or the State pursuant to Section 4.3(d)) which are caused by or arise from the City's breach of the Primary Financing Documents or the negligent or willful acts or omissions of the City or its agents, servants, employees in connection with the ownership of the System during the Term of this Agreement provided such cost, expense or liabilities do not arise as a result of negligent or willful acts or omissions of the Company.

(c) To the extent permitted by law, the Company shall indemnify, defend and hold harmless the City, the Authority their elective and/or appointed officers, members and its duly authorized agents, members, professionals, servants and employees, including without limitation the Trustee and the System Trustee, from any fines or penalties assessed by the regulatory agencies during the Term of this Agreement as a result of any and all violations of applicable laws or Permits committed by the Company, its agents, servants or employees. The Company shall have no obligation to indemnify the City for any fines or penalties assessed for conditions that pre-exist the Commencement Date and that constitute, lead to, or result in violations of any current Federal, State or local water quality laws or regulations. The City shall disclose to the Company and the Authority any and all such conditions known to the City as soon as practicable.

(d) To the extent permitted by law, the City shall indemnify, defend and hold harmless the Company and the Authority, and their elective and/or appointed officers and their duly authorized agents, members, professionals, servants and employees, including without limitation, the Trustee and the System Trustee, from any

and all fines or penalties assessed by the appropriate regulatory agencies or other losses or damages suffered during the Term of this Agreement or with respect to the Authority, during the term of the Primary Financing Documents as a result of any and all violations of applicable laws and Permits committed by the City, its agents, servants or employees and for all conditions which existed prior to the Commencement Date and which constitute, lead to, or result in violations of any Federal, State or local laws or regulations in effect on the Commencement Date.

(e) The Company expressly assumes and covenants to perform all of the Authority's covenants and obligations regarding operation, maintenance, management and improvement of the System, but not including any of the Authority's payment obligations under the Authority Bond Resolutions, it being the intention of the parties hereto that the parties shall look solely to the Company or the City for the performance of any obligations of the Authority related to the System, this Agreement and Revenue Agreement. The Company and the City shall conform to, use, improve and operate the System in accordance with all the terms, covenants and conditions of this Agreement and will do no act which will result in a violation of any terms, covenants and conditions of this Agreement, any Financing Document or any other document to which the Authority is a party in connection with the System.

The Authority shall have no liability to the Company or the Guarantor, or any party claiming by or through the Company or the Guarantor, by reason of any act, omission or default of the City under the Lease Agreement, this Agreement, any Primary Financing Document, or any other document to which the Authority is a party

in connection with the System, it being understood that if the Authority shall fail to fulfill any of its obligations hereunder or under any other Financing Document and if such failure is caused by the failure of the City to comply with its obligations, then the Authority shall have no obligation or liability by reason of such failure by the City.

The Authority shall have no liability to the City, or any party claiming by or through the City, by reason of any act, omission or default of the Company or the Guarantor under this Agreement, any Primary Financing Document or any other document to which the Authority, the Company or the Guarantor is a party in connection with the System, it being understood that if the Authority shall fail to fulfill any of its obligations hereunder, or under any other document, and if such failure is caused by the failure of the Company or the Guarantor to comply with its obligations under this Agreement, any Financing Document or any other document to which the Authority is a party in connection with the System, then the Authority shall have no obligation or liability by reason of such failure by the Company or the Guarantor.

No property or assets of the Authority or the Authority's commissioners, agents, professionals, members, directors or employees shall be subject to levy, execution or other enforcement procedure for the satisfaction of the Company's and/or the City's remedies under or with respect to this Agreement or any other document. The Company and the City agree that no deficiency judgment or other judgment for money damages shall in any event be entered by either the City or the Company, or any person or entity

claiming by or through the City or the Company, against the Authority or the Authority's commissioners, professionals, agents, members, directors or employees personally in any action.

To the extent permitted by law, the Company and the City shall indemnify and save harmless the Authority, its principals, members, officers, employees, agents, professionals, contractors, invitees, licensees, successors and assigns against and from all liabilities, claims and demands, including, without limitation, death or property loss or damage of any kind, together with reasonable attorneys' fees, which may be imposed upon or incurred by or asserted against the Authority whether by reason of any of the following occurrences during the Term of this Agreement or otherwise:

(i) any work or thing done in, on or about the System or any part thereof by the City, the Company, or their respective agents, employees, contractors, subtenants, licensees or invitees;

(ii) any use, non-use, possession, occupation, ownership, condition, operation, maintenance, management or improvement of the System or any part thereof by the City, the Company, or their respective agents, employees, contractors, subtenants, licensees or invitees;

(iii) any negligence on the part of the City, the Company, or their respective agents, employees, contractors, subtenants, licensees or invitees;

(iv) any accident, injury or damage to any person or property occurring in or on the System or any part thereof;

(v) any failure on the part of the Company or the Guarantor to perform or comply with any of the covenants, agreements, terms,



provisions, conditions, or limitations contained in this Agreement or any other Financing Document on its part to be performed or complied with; or

(vi) any failure on the part of the City to perform or comply with any of the covenants, agreements, terms, provisions, conditions or limitations contained in this Agreement or any other document on its part to be performed or complied with.

The aforesaid indemnification shall survive any termination or expiration of this Agreement and any other document between or among any of these parties.

In case any action or proceeding is brought against the Authority by reason of any such claim(s), the Company, the Guarantor and the City upon written notice from the Authority shall at the Company's, the Guarantor's and the City's expense (expenses to be allocated pro rata based upon the ultimate outcome of a determination as to liability) resist or defend such action or proceeding by counsel approved by the Authority in writing.

The Authority and the members, agents, contractors and employees of the Authority shall not be liable for any claims for injury or damage to persons or loss of or damage to property (including any disappearance or theft of property and any loss or interruption of business) sustained by the Company and/or the City, any person claiming through the Company and or the City, or sustained by any other person, resulting from any fire, accident, occurrence or condition in or upon the System.

It is expressly understood and agreed by and between the parties to this Agreement that the Company and the City, as their interests appear herein, shall assume all risk of damage to its

property, equipment and fixtures occurring in or about the System, whatever the cause of such damage or casualty.

(f) The City shall indemnify and hold harmless the Authority, the Company, its subcontractor and sub-subcontractors for costs, expenses or liabilities (including costs and expenses or liabilities to third parties but excluding legal expenses) which are caused by or arise from acts or omissions by City employees (including Leased Employees) performing work under this Agreement. As part of fulfilling its obligations hereunder, the City agrees that its obligation to indemnify the Authority, the Company, its subcontractor and sub-subcontractors shall apply to, but not be limited to, actions or other claims brought by the City's own employees, agents, contractors or subcontractors. The City's duty to indemnify and hold harmless the Company, its subcontractor and sub-subcontractors shall exclude only those instances where the liability, loss, injury, death, damage or harm is due to the sole negligence of any of the Company, its subcontractor or sub-subcontractors.

(g) Each party's indemnification shall include the reimbursement to the other of all legal fees and expenses reasonably incurred, unless it is determined that such other party bears responsibility for the claims asserted.

SECTION 10.4. Access to System and Records. The City shall have the right from time to time or at any time, upon reasonable notice, to inspect the System and/or the operation thereof by the Company.

The Company shall permit twenty-four (24) hour per Day access to the System by City personnel. Visits may be made at any time by

an Authorized Representative of the City. Keys for the facilities or structures in the System shall be provided to the City by the Company in accordance with the Company's existing physical security plan and key control program. It is understood that all visitors shall comply with the Company's operating and safety procedures.

The City shall have the right to continuously monitor and review the performance of the System, including any facilities therein, and the operation, maintenance and management thereof by the Company and, if the City so chooses, the City shall be entitled to hire a consulting engineer and/or other consultant at the sole cost and expense of the City for purposes of conducting such monitoring and review activities.

The Company shall keep such records of all billing and collection data and information relating to the System, as prudent industry practice shall require and as otherwise required by the provisions of this Agreement. The City shall have continuous access (on a read only basis) to all billing and collection data required to be kept by the Company in accordance with this Agreement. The Company shall be obligated to provide the City, upon reasonable request, with copies of all operating data, accounting, financial and other information kept by the Company in its performance of its obligations hereunder. In addition, the Company shall provide a computer to the City, whereby the City can obtain access to all billing and collection data (on a read only basis) of the Company's electronic data via modem.

The City, through its consulting engineer, and at the sole cost and expense of the City may perform an annual inspection in

the System, which shall be scheduled with the Company at least one (1) week in advance of such inspection.

The City shall permit the Company reasonable access to all City records concerning historical and/or other data related to the System.

SECTION 10.5. Authority to Contest. In the event of the imposition of fines or penalties against any party for violation of permits, applicable laws or regulations, the party on which such fines or penalties are imposed shall be given full authority to contest such violations and the other party shall assist such party in all such proceedings.

SECTION 10.6. Enforcement. The failure on the part of any party to enforce any provision of this Agreement shall not be construed as a waiver of its right to enforce such provision in the future.

SECTION 10.7. Assignment. The Services to be rendered hereunder by the Company are personal and shall not be assigned by any act of the Company or by operation of law, except to other affiliates of the Guarantor and Utility Service Affiliates, Inc. It is contemplated by the parties that immediately subsequent to the execution of this Agreement by the parties hereto, the Company will assign this Agreement and the Revenue Agreement to Utility Service Affiliates (Perth Amboy), Inc. pursuant to the assign and acceptance agreement attached as Schedule AA.

SECTION 10.8. Affirmative Action. During the performance of this Agreement, the Company and the City shall conform with the following requirements:

(a) The City, the Company, its subcontractor, or the sub-subcontractor where applicable, shall not discriminate against any employee or applicant for employment because of age, race, creed, color, national origin, ancestry, marital status, sex, affectional or sexual orientation. The Company shall take affirmative action to ensure that such applicants are recruited and employed, and that employees are treated during employment, without regard to their age, race, creed, color, national origin, ancestry, marital status, sex, affectional or sexual orientation. Such action shall include, but not be limited to the following: employment, upgrading, demotion, or transfer; recruitment or recruitment advertising; layoff or termination, rates of pay or other forms of compensation; and selection for training, including apprenticeship. The City and/or the Company, where applicable agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by the public agency compliance officer setting forth provisions of this nondiscrimination clause.

(b) The City, the Company, its subcontractor or the sub-subcontractor, where applicable, shall, in all solicitations or advertisements for employees placed by or on behalf of the City or the Company, state that all qualified applicants shall receive consideration for employment with respect to the System without regard to age, race, creed, color, national origin, ancestry, marital status, sex, affectional or sexual orientation.

(c) The City, the Company, the subcontractor or the sub-subcontractor, where applicable, shall send to each labor union or representative or worker with which it has a collective bargaining agreement or other contract or understanding, a notice, to be provided by the agency contracting officer advising the labor union or representative or worker of the City's and/or the Company's, as applicable, commitment under the affirmative action laws and shall post copies of such notice in conspicuous places available to employees and applicants for employment.

(d) The City, the Company, the subcontractor or the sub-subcontractor, where applicable, agrees to comply with the regulations promulgated by the State treasurer pursuant to P.L. 1975, c.127, as amended and supplemented from time to time, and with the Americans with Disabilities Act.

(e) The City, the Company, the subcontractor or the sub-subcontractor, where applicable, agrees to attempt in good faith to employ minority and female workers consistent with the applicable County of Middlesex (THE "COUNTY") employment goals prescribed by N.J.A.C. 17:27-5.2 promulgated by the State treasurer pursuant to P.L. 1975, c.127, as amended and supplemented from time to time, or in accordance with a binding determination of the applicable County employment goals determined by the affirmative action office pursuant to N.J.A.C. 17:27-5.2 promulgated by the State treasurer pursuant to P.L. 1975, c.127, as amended and supplemented from time to time.

(f) The City, the Company, the subcontractor or the sub-subcontractor, where applicable, agrees to inform in writing appropriate recruitment agencies in the area, including employment

agencies, placement bureaus, colleges, universities and labor unions, that it does not discriminate on the basis of age, creed, color, national origin, ancestry, marital status, sex, affectional or sexual orientation, and that it shall discontinue the use of any recruitment agency which engages in direct or indirect discriminatory practices.

(g) The City, the Company, any subcontractor or sub-subcontractor, where applicable, agrees to revise any of its testing procedures, if necessary, to assure that all personnel testing conforms with the principles of job-related testing, as established by the statutes and court decisions of the State, and applicable Federal court decisions.

(h) The City, the Company, any subcontractors, or sub-subcontractor where applicable, shall furnish such reports or other documents to the affirmative action office as may be requested by the office from time to time in order to carry out the purposes of the regulations, and public agencies shall furnish such information as may be requested by the affirmative action office for conducting a compliance investigation pursuant to subchapter 10 of the State administrative code (N.J.A.C. 17:27).

SECTION 10.9. Entire Agreement. This Agreement contains the entire agreement between the parties hereto relating to the operation, maintenance and management of and improvement to the System and supersedes all previous or contemporaneous communications, representations or agreements. This Agreement may be modified only by written amendment signed by the parties hereto.

SECTION 10.10. Notices. All notices given pursuant to the terms of this Agreement shall be in writing and delivered in person or transmitted by certified mail, return receipt requested, postage prepaid.

Notices required to be given to the Company shall be addressed as follows:

Utility Service Affiliates (Perth Amboy), Inc. c/o  
Utility Service Affiliates, Inc.  
1500 Ronson Road  
Iselin, New Jersey  
Attn: President

Phone: (732) 634-1500  
Facsimile: (732) 750-5981

Notices required to be given to the City shall be addressed as follows:

City of Perth Amboy  
260 High Street  
Perth Amboy, NJ 08861-4491  
Attn: Business Administrator  
Phone: (732) 826-0290  
Facsimile: (732) 826-1160

Notices required to be given to the Authority shall be addressed as follows:

Middlesex County Improvement Authority  
101 Interchange Plaza  
Cranbury, NJ 08512  
Attn: Chairperson  
Phone: (609) 655-5141  
Facsimile: (609) 655-4748

SECTION 10.11. Application of Law. This Agreement shall be governed in accordance with the laws of the State.

SECTION 10.12. Relationship. The relationship of the Company to the City and the Authority is that of independent contractor and not one of employment. None of the employees or agents of the Company shall be considered employees of the City or the Authority. For the purposes of all Federal, State and local laws and



regulations, the Company shall exercise primary management and operational decision-making on behalf of the City or the Authority. Nothing contained herein shall be construed to place the parties in the relationship of partners or joint venturers and neither party shall have the power to obligate or bind the other party in any manner whatsoever.

SECTION 10.13. Public Relations. The Company shall develop, with the advice and consent of the City, a communications, publicity and community relations program in order to keep the City and the customers of the System informed about the operation, maintenance, improvement and management of the System. The Company shall deal in a professional manner with community groups concerned with any aspect of the operation of the System. The Company shall prepare written summaries of all formal meetings with the City and/or community groups and provide the City with a copy. In connection with the initial public relations efforts, the Company shall employ an outside consultant, subject to the approval of the Mayor of the City for a cost of up to one hundred thousand dollars (\$100,000). The Company shall be entitled to be reimbursed from the Revenues for one half (1/2) of the cost of such consultant as an additional Fixed Service Fee in the first Contract Year.

SECTION 10.14. Notice of Litigation. In the event the Company, the City or the Authority receives notice of or undertakes the defense or the prosecution of any actions, claims, suits, administrative or arbitration proceedings or investigations in connection with the System, the party receiving such notice or undertaking such defense or prosecution shall give the other parties timely notice of such proceedings and shall inform the

other parties in advance of all hearings regarding such proceedings.

SECTION 10.15. Uncontrollable Circumstances. If an Uncontrollable Circumstance occurs causing change in the operations of the System or the operational costs, the Company shall prepare a report to be submitted to the City and the City's consulting engineer that describes the cause of the changes, the extent of the changes, the anticipated duration of the changes, the cost impact (increase or decrease) of the changes, and the duration of time that such anticipated cost increases or decreases shall be in effect.

SECTION 10.16. Dispute Resolution. Any disputes arising under this Agreement that cannot be resolved to the mutual satisfaction of the City and the Company shall be referred to the Operations Committee. If a dispute cannot be resolved by the Operations Committee either party to this Agreement may file with the State Superior Court, which has appropriate jurisdiction, a request for an order for appropriate relief to the dispute. The court may take such action as it may deem necessary to facilitate the expeditious resolution of the dispute and an expeditious response to the request, including ordering the parties to undertake a dispute resolution or mediation process. The court shall use, as it deems necessary, the services of a financial expert in the area of the water and wastewater service contracts in its analysis of this Agreement and the issues before it. Within ninety (90) days after the filing of a request, the court shall either grant the request or deny the request. If the request is granted, the court shall

order such relief measures or remedies as it deems appropriate and necessary.

SECTION 10.17. No Third Party Rights. This Agreement shall not provide any third parties with any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement. The parties acknowledge and agree that the Company is desirous of entering into a subcontract for the operation, maintenance and management of the Wastewater System. In the event the Company enters into a subcontract for the operation, maintenance and management of the Wastewater System, this paragraph shall not apply to the subcontractor, which shall not be treated as a "third party."

SECTION 10.18. No Set-Off. The obligation of the City or the Company to make payments hereunder shall not be subject to diminution by reason of any set-off, abatement, counterclaim or any other reason.

SECTION 10.19. Payments and Interest. All payments due under this Agreement shall be due and payable when indicated or, if not otherwise stated, within thirty (30) Days of invoice or statement. The City and the Company shall be entitled to interest on all amounts not paid within fifteen (15) Days of the due date, at a rate equal to eight per centum (8%) per annum calculated based on the number of Days such amounts remain unpaid after fifteen (15) Days after the due date thereof. This includes interest due on Service Fees that are not paid (but have accrued) during any Contract Year and after the end of the fifth (5th) Contract Year.

SECTION 10.20. Cost Substantiation. Except as specifically set forth herein or in any Financing Document by reference to a

schedule, all amounts to be paid to the City and/or the Authority shall be subject to Cost Substantiation.

SECTION 10.21. Public Notices. The City shall issue all public notices associated with non-compliance with regulatory requirements for drinking water standards, if and as required, and the Company shall prepare such notice(s) in compliance with the applicable regulations, submit such to the City and pay all costs incurred by the City associated therewith and shall provide all necessary support that the City may reasonably require.

SECTION 10.22. Survival Notwithstanding anything herein to the contrary, the provisions of Sections 2.2(b), 5.2, 6.16(b), 9.6, 9.7, 10.3, 10.16, 10.17, 10.18 and 10.19 shall survive the expiration and/or termination of this Agreement.

SECTION 10.23. Amendment. This Agreement may be amended upon the mutual written consent of the parties hereto. The Company and/or any affiliate, including the Guarantor, agrees to cooperate with the City in connection with any interlocal services agreement that the City may enter into with any other party for the provision of services for the operation, maintenance and management of a water or wastewater system pursuant to the New Jersey Interlocal Services Act, N.J.S.A. 40:8A-1 et. seq. subject to the negotiation of appropriate amendments to this Agreement to reflect any increased Services and/or any expansion of the System and any approvals required by the Acts.

SECTION 10.24. Headings. The Article and Section headings in this Agreement are inserted for convenience of reference only and are not intended to define or limit the scope of any provision of this Agreement.

SECTION 10.25. Pipeline Lease Amendment. The City and the Company shall execute the amendment to the pipeline lease agreement in substantially the form attached hereto as Schedule Z prior to the issuance of the Authority Indebtedness.

SECTION 10.26. Combined Sewer Overflow. The City reserves the right to direct the Company to take proposals or otherwise negotiate with a subcontractor for the construction, operation and maintenance of netting chambers to address the City's combined Sewer Overflow problem. Such costs shall be treated as an additional expense to the City to be added to the Company's Fixed Service Fee.

SECTION 10.27. Settlement of Litigation. The parties shall execute the settlement agreement in substantially the form attached hereto as Schedule B prior to the issuance of the Authority Indebtedness.

SECTION 10.28. Non-Waiver. It is understood and agreed that nothing contained in this Agreement shall be construed as a waiver on the part of the parties hereto of any right not explicitly waived in this Agreement.

SECTION 10.29. Severability. Except as set forth herein, in the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision.

SECTION 10.30. Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have hereunto set their hands and fixed their seals as of the date first above written.

ATTEST: CITY OF PERTH AMBOY

/s/ ELAINE M. KICZULA  
-----  
ELAINE M. KICZULA, Clerk

By: /s/ JOSEPH VAS  
-----  
JOSEPH VAS, Mayor

ATTEST: UTILITY SERVICE AFFILIATES, INC.

/s/ DENNIS G. SULLIVAN  
-----  
DENNIS G. SULLIVAN,  
Secretary

By: /s/ J. RICHARD TOMPKINS  
-----  
J. RICHARD TOMPKINS, President

ATTEST: MIDDLESEX COUNTY IMPROVEMENT  
AUTHORITY

/s/ RALPH MOCCI  
-----  
RALPH MOCCI, Secretary

By: /s/ LEONARD J. ROSEMAN  
-----  
LEONARD J. ROSEMAN, Chairperson

CONSENTED TO BY: MIDDLESEX WATER COMPANY,  
ATTEST: AS GUARANTOR

/s/ MARION F. REYNOLDS  
-----  
MARION F. REYNOLDS, Vice  
President, Treasurer and  
Secretary

By: /s/ J. RICHARD TOMPKINS  
-----  
J. RICHARD TOMPKINS, President and  
Chairman of the Board

SCHEDULE A

FORM OF CITY BOND GUARANTY AGREEMENT

DRAFT IV  
11/17/98

CITY BOND GUARANTY AGREEMENT

DATED AS OF \_\_\_\_\_, 1998



THIS CITY BOND GUARANTY AGREEMENT (hereinafter the "City Bond City Bond Guaranty Agreement") among THE CITY OF PERTH AMBOY (the "City"), a municipal corporation of the State of New Jersey, the MIDDLESEX COUNTY IMPROVEMENT AUTHORITY (the "Authority"), a public body corporate and politic of the State of New Jersey and AMBOY NATIONAL BANK a stat banking corporation as trustee (the "Trustee").

W I T N E S S E T H

WHEREAS, The Authority has been duly created by resolution of the Board of Chosen Freeholders of the County of Middlesex, New Jersey (the "County"), as a public body corporate and politic of the State of New Jersey pursuant to the provisions of the County Improvement Authorities Law, constituting Chapter 183 of the Pamphlet Laws of 1960, of the State of New Jersey (the "Improvement Authorities Law"); and

WHEREAS, the Authority is authorized pursuant to the terms of the Improvement Authorities Law to provide within the County for public facilities, as that term is defined in the Improvement Authorities Law; and

WHEREAS, the City currently owns and operates a water supply, transmission and distribution system (the "Water System") and a wastewater collection system (the "Wastewater System" and together with the Water System, the "System"), all for the residents of and other System users in the City (the "Users"); and

WHEREAS, the City has determined that the System needs substantial upgrading and improving in order to continue to supply water and provide wastewater collection services to the Users; and

WHEREAS, pursuant to the Improvement Authorities Law, specifically Section 34 thereof (N.J.S.A. 40:37A-77), the City may, by ordinance, without any referendum or public or competitive bidding, sell, lease, lend, grant or convey to the Authority or permit the Authority to use, maintain or operate as part of any public facility any real or personal property which may be necessary or useful and convenient for the purpose of the Authority; and

WHEREAS, the City has determined that the improvement and expansion of its System can best be accomplished to serve the interests of its residents and customers by leasing the System and selling a franchise to operate the System to the Authority pursuant to that certain "Lease and Franchise Acquisition Agreement" to be dated as of the first day of the month of the issuance of the hereinafter defined Authority Indebtedness (together with any amendments thereof or supplements thereto in accordance with the terms thereof, the "Lease Agreement") and by jointly entering into an operating agreement to be dated as of the first day of the month of the issuance of the hereinafter defined Authority Indebtedness

(the "Agreement") among the City, the Authority and the Utility Services Affiliates, Inc., (the "Company") a subsidiary of Middlesex Water Company; and

WHEREAS, the City and the Authority have determined to proceed with the leasing of the System, the selling of the franchise to operate the System and the financing of, among other things, improvements to the System; and

WHEREAS, the City, pursuant to the Improvement Authorities Law specifically Section 12 and 35 thereof (N.J.S.A. 40:37A-55(i) and 78) as well as the New Jersey Wastewater Treatment Public-Private Contracting Act (the "Wastewater Act"), specifically Section 22 thereof (N.J.S.A. 58:27-22), the New Jersey Water Supply Public-Private Contracting Act (the "Water Act"), specifically Section 22 thereof (N.J.S.A. 58:26-22), constituting Chapter 208 of the Pamphlet Laws of 1973 of the State of New Jersey, has previously authorized the execution of the Agreement; and

WHEREAS, the Authority intends to provide for the refinancing of certain debt of the City attributable to and for certain capital improvements to the System all as described in the Agreement (the "Project") and provide the financing for the Project through the issuance of the Guaranteed Authority Indebtedness (as defined in the Guaranty Ordinance defined below); and

WHEREAS, the Guaranteed Authority Indebtedness will be issued pursuant to the terms of the Improvement Authorities Law, other applicable law and the Authority Series A Bond Resolution and Authority Series B Bond Resolution, as applicable; and

WHEREAS, in order to provide inducement to the prospective purchasers of such Guaranteed Authority Indebtedness to purchase the same and to provide additional security to the holders thereof in addition to the revenues generated by the System and payable pursuant to the Agreement, in accordance with the terms of Section 37 of the Improvement Authorities Law, and in addition to a bond insurance policy issued by \_\_\_\_\_ (the "Bond Insurer") the City desires to provide a guaranty of the timely payment of the principal of and interest on such Guaranteed Authority Indebtedness to be issued by the Authority for or with respect to the Project; and

WHEREAS, the City adopted an ordinance on September 9, 1998 entitled, "An Ordinance of the City of Perth Amboy, in the County of Middlesex, New Jersey, Guarantying Certain Bonds and/or Notes of the Middlesex County Improvement Authority, Authorizing a Guaranty Agreement, a Lease and Franchise Acquisition Agreement, a Continuing Disclosure Agreement, a Revenue Collection and Disbursement Agreement and an Operating Agreement in Connection with the Improvement and Enhancement of the City's Water and Wastewater Systems, Amending the City Code in Order to Change the Rates and Fees to be Charged for the Provision of Water and Sewer Services and Combining the City's Water and Sewer Utilities Into

One Utility for all Purposes Including the Local Budget Law," (the "Guaranty Ordinance") pursuant to which the City agreed to guaranty the Guaranteed Authority Indebtedness and authorize, execute and deliver this Agreement;

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements set forth herein, the Authority, the City and the Trustee and its successors and assigns, do mutually covenant, promise and agree as follows (Capitalized terms shall, unless stated otherwise, have the meaning assigned to such terms in the preambles hereof and the Guaranty Ordinance):

Section 1. Pursuant to the provisions of the Improvement Authorities Law and the Guaranty Ordinance, the City hereby agrees to fully, unconditionally and irrevocably guaranty the punctual payment of the principal of (including sinking fund installments, if any) and the interest on the Guaranteed Authority Indebtedness. For purposes of this City Bond Guaranty Agreement, the aggregate principal amount of Guaranteed Authority Indebtedness Outstanding (as defined in the Bond Resolution) may not exceed \$42,000,000. The full faith and credit of the City are hereby pledged for the full and punctual performance of this guaranty, and if necessary the City shall levy ad valorem taxes upon all of the taxable property within the jurisdiction of the City without limitation as to rate or amount in order to make any such payments (the "City Guaranty"). The Bond Insurer is hereby designated as a third-party beneficiary of the City Guaranty.

Section 2. The Authority agrees to apply or cause the Trustee to apply the proceeds derived from the sale of the Bonds for Costs (as defined in the Improvement Authorities Law), including the payment by the Authority for the refunding of the Outstanding City Indebtedness, the financing of the Ongoing Capital Improvements, all costs of issuance and required reserves, all in accordance with the terms of and as defined in the Agreement, the Authority Series A Bond Resolution and Authority Series B Bond Resolution.

Section 3. It is hereby found, determined and declared by the City that:

(a) This City Bond Guaranty Agreement may be entered into notwithstanding any statutory or other debt limitation, including particularly any limitation or requirement under or pursuant to the Local Bond Law, as amended, N.J.S.A. 40A:2-1 et seq., however, the aggregate principal amount of the Guaranteed Authority Indebtedness which shall be entitled to the benefits of the City Guaranty pursuant to the terms hereof, being an amount not in excess of \$42,000,000, shall be reflected in the debt statements of the City in the manner provided in the Improvement Authorities Law, particularly N.J.S.A. 40:37A-80.

(b) The principal amount of the Guaranteed Authority Indebtedness which shall be entitled to the benefits of the City Guaranty pursuant to the terms hereof and which shall be included in the gross debt of the City shall be deducted from, and shall constitute a deduction from, such gross debt under and for all

purposes of the Local Bond Law (i) from and after the time of issuance of the Guaranteed Authority Indebtedness until the end of the fiscal year beginning next after the completion of the acquisition or construction of the project being financed from the proceeds of the Guaranteed Authority Indebtedness, and (ii) in any annual debt statement which is required to be filed pursuant to the Local Bond Law, as of the end of such fiscal year or any subsequent fiscal year if the revenues or other receipts or moneys of the Authority relative to the System in such year are sufficient to pay its expenses of operation and maintenance, including the expenses of administration of the System, in such year and all amounts which are payable in such year on account of the principal of, interest, and redemption premium, if any, on the Guaranteed Authority Indebtedness, all bonds of the City or any county or other municipality issued as provided in N.J.S.A. 40:37A-79, and all bonds of the Authority issued under the Improvement Authorities Law, or shall be deducted as otherwise permitted by law.

(c) In order to allow the City to determine its ability to deduct the Guaranteed Authority Indebtedness from the City's gross debt, the Authority shall provide the City with advance notice of the sale and issuance of all bonds by the Authority pursuant to the Improvement Authorities Law, and of any other circumstances which would cause the Guaranteed Authority Indebtedness or the City Guaranty or the City Bond Guaranty Agreement to be included in the gross debt of the City or which would prevent the deduction of the Guaranteed Authority Indebtedness or the City Guaranty or City Bond Guaranty Agreement from the gross debt of the City, as described above. Said advance notice shall be directed to the Business Administrator of the City and received not less than ten (10) days prior to the sale of such obligations or the occurrence of such circumstance described herein.

(d) A supplemental debt statement of the City was duly made by the Chief Financial Officer of the City and filed in the office of the Clerk of the City, and a complete executed duplicate thereof was filed in the office of the Director of the Division of Local Government Services of the State of New Jersey, and such debt statement shows that while the gross debt of the City, as defined in the Local Bond Law, has been increased by the amount of Guaranteed Authority Indebtedness issued by the Authority, upon satisfaction of the conditions set forth in N.J.S.A. 40:37A-80, in accordance with the provisions of the Improvement Authorities Law, the net debt of the City shall not be increased, and the obligation of the City which is authorized by or incurred pursuant to the City Guaranty and the terms hereof is permitted notwithstanding any statutory debt or other limitations, including particularly any limitation of the Local Bond Law, which exception to statutory limitations is contained in the Improvement Authorities Law.

Section 4. The obligations of the City hereunder are unconditional. Failure on the part of the Authority or the Trustee in any instance or under any circumstances to observe or fully perform any obligation assumed by or imposed upon either the Authority or the Trustee by this City Bond Guaranty Agreement or by law, as applicable, shall not relieve the City from making any payment or fully performing any other obligations imposed by this City Bond Guaranty Agreement.

Section 5. The Authority will keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to the Project and which, together with all other books and papers of the Authority, shall at all reasonable times and upon reasonable advance notice be subject to inspection.

Section 6. The Authority Series A Bond Resolution and Authority Series B Bond Resolution shall further provide that if, on a date fifty-five (55) days prior to any Interest Payment Date or Principal Payment Date (hereinafter "Debt Service Payment Date"), the available funds on deposit in the Interest Account or the Principal Account of the Debt Service Fund (after taking into account any moneys earmarked for transfer therein from the Revenue Fund) are insufficient to provide for the payment of the principal of (including sinking fund installments, if any) and interest on the applicable Guaranteed Authority Indebtedness on such Debt Service Payment Date, the Trustee shall notify the City and the Authority in writing no later than 3:00 p.m. on the date which is two (2) business days after such fifty-five (55) days prior to such Debt Service Payment Date of the amount which is necessary to provide for the full payment of the principal of (including sinking fund installments, if any) and interest on the applicable Guaranteed Authority Indebtedness on such Debt Service Payment Date. The City shall acknowledge receipt of such notice in writing within two (2) Business days, which notice shall also reference the amount to be raised by the City from any source to satisfy such deficiency prior to any such Debt Service Payment Date. If the deficiency is not cured thirty (30) days prior to the next ensuing Debt Service Payment Date, the Trustee shall so notify the City within two (2) business days thereafter and the City shall acknowledge receipt thereof within two (2) business days, and, no later than two (2) business days prior to such Debt Service Payment Date, the City shall make payment in immediately available funds to the Trustee of the amount of such deficiency in the Debt Service Fund (as defined in the Authority Series A Bond Resolution and/or Authority Series B Bond Resolution, as applicable). Such City payment shall be deposited by the Trustee into the applicable Debt Service Fund, as and to the extent provided in the Authority Series A Bond Resolution and/or Authority Series B Bond Resolution, as applicable. Notwithstanding any other provisions of this City Bond Guaranty Agreement to the contrary, failure of the Trustee to give

the City notice as provided herein shall not relieve the City of its obligation to make payment to the Trustee under the terms of the City Guaranty, provided, however, that nothing herein shall be construed as a waiver of the City's right to proceed against the Trustee for the City's damages, if any, arising from the failure to give timely notice to the City. The Authority by execution hereof covenants and agrees to provide to the City the notices set forth herein.

Section 7. When notice has been provided, as described above, the City shall take all necessary actions to make payment of an amount which, when added to the amounts which are on deposit in the funds and accounts established and created under the Authority Series A Bond Resolution and/or Authority Series B Bond Resolution, as applicable, and available to pay the principal of and interest on the applicable Guaranteed Authority Indebtedness, is sufficient to pay the principal of (including sinking fund installments, if any) and/or interest on any Guaranteed Authority Indebtedness. Such actions shall include the adoption of an emergency appropriation or an emergency temporary appropriation and the funding of such appropriation in accordance with the requirements of the Local Budget Law, N.J.S.A. 40A:4-1 et seq. the levy of unlimited ad valorem taxes or any other actions that are legally permitted to be taken to meet the requirements of such City Guaranty (including the adoption of a bond ordinance pursuant to the provisions of the Local Bond Law, N.J.S.A. 40A:2-1 et seq.).

Section 8. The obligations of the City under this City Bond Guaranty Agreement shall be absolute and unconditional and shall remain in full force and effect until the entire principal of (including sinking fund installments, if any) and interest on the Guaranteed Authority Indebtedness shall have been paid or duly provided for in accordance with the provisions of the Authority Series A Bond Resolution and/or Authority Series B Bond Resolutions, as applicable. The obligations of the City hereunder shall not be affected, modified or impaired upon the occurrence from time to time of any event, including without limitation any of the following, whether or not with notice to, or the consent of, the City:

(a) The waiver, compromise, settlement, release or termination of any or all of the obligations, covenants or agreements of the Authority which are contained in the Authority Series A Bond Resolution, the Authority Series B Bond Resolution, the Lease Agreement, the Agreement, this City Bond Guaranty Agreement or any other agreement which is executed and delivered for or with respect to the Guaranteed Authority Indebtedness (collectively, the "Primary Financing Documents"), or of the payment, performance or observance thereof;

(b) The failure to give notice to the City of the occurrence of an event of default under the provisions of the Primary Financing Documents;

(c) The transfer, assignment or mortgaging or the purported transfer, assignment or mortgaging of all or any part of the interest of the Authority in the System;

(d) The extension of the time for payment of the principal of (including sinking fund installments, if any) or interest on the Guaranteed Authority Indebtedness or of the time for performance of any obligations, covenants or agreements under or arising out of the Primary Financing Documents;

(e) The modification or amendment (whether material or otherwise) of any obligation, covenant or agreement set forth in the Primary Financing Documents;

(f) The taking, suffering or the omission of any of the actions referred to in the Primary Financing Documents;

(g) Any failure, omission, delay or lack on the part of the Authority to enforce, assert or exercise any right, power or remedy conferred on the Authority in the Primary Financing Documents or any other act or acts on the part of the Authority or any of the holders from time to time of the Guaranteed Authority Indebtedness;

(h) The voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment or other similar proceedings affecting the Authority or any party to the Primary Financing Documents or any of the assets of any of them, or any allegation or contest of the validity of the Primary Financing Documents;

(i) To the extent permitted by law, any event or action that would, in the absence of this clause, result in the release or discharge by operation of law of the City from the performance or observance of any obligation, covenant or agreement contained in the Primary Financing Documents;

(j) The default or failure of the City fully to perform any of its obligations set forth in the Primary Financing Documents; or

(k) The destruction, non-use or non-availability of the System.

Section 9. No set-off, counterclaim, reduction, or diminution of any obligation, or any defense of any kind or nature (other than performance by the City of its obligations hereunder) which the City has or may have against the Authority, or against any holder of the Guaranteed Authority Indebtedness, shall be available to the City hereunder against the Authority or anyone succeeding to the Authority's interest.

Section 10. The City further guarantees that all payments made with respect to the Guaranteed Authority Indebtedness will, when made, be final and agrees that if such payment is recovered from or repaid by or on behalf of the Authority or the holders of the Guaranteed Authority Indebtedness, in whole or in part in any bankruptcy, insolvency or similar proceeding instituted by or against the Authority, the City Guaranty shall continue to be fully applicable to such liabilities to the same extent as though the payment so recovered or repaid had never been originally made on such liabilities.

Section 11. In the event of a default in payment of the principal of (including sinking fund installments, if any) or interest on the Guaranteed Authority Indebtedness, when and as the same shall become due, whether at the stated maturity thereof or otherwise, the Authority or any party to whom the Authority's rights have been assigned may proceed to enforce its rights hereunder and may proceed first and directly against the City under the terms of this City Bond Guaranty Agreement without proceeding against or exhausting any other remedies which it may have and without resorting to any other security held by the Authority. All moneys recovered pursuant to this City Bond Guaranty Agreement shall be applied in accordance with the provisions of the Primary Financing Documents.

Section 12. This City Bond Guaranty Agreement shall terminate after payment in full of the principal of (including sinking fund installments, if any) and interest on the Guaranteed Authority Indebtedness has been made or provision for the payment of same has been made in accordance with the terms of the Authority Series A Bond Resolution and/or Authority Series B Bond Resolution, as applicable.

Section 13. This agreement may be executed in any number of counterparts, each of which shall be executed by the Authority and by the City and all of which shall be regarded for all purposes as one original and shall constitute and be but one and the same.

Section 14. This City Bond Guaranty Agreement may not be assigned by the City or the Authority without the prior written



consent of the parties hereto; provided, however, that the City hereby acknowledges and consents to the irrevocable assignment of the City Guaranty by the Authority to the Trustee for the benefit of the holders of the Guaranteed Authority Indebtedness as and to the extent provided in the Authority Series A Bond Resolution and/or Authority Series B Bond Resolution, as applicable.

Section 15. The Authority may at any time, with the prior written consent of the City, issue additional bonds or project notes for purposes of refunding all or any part of the Guaranteed Authority Indebtedness, which additional bonds or project notes shall be guaranteed by the City, in accordance with the provisions of the Authority Series A Bond Resolution and/or Authority Series B Bond Resolution, as applicable.

Whenever the consent of the City is required pursuant to the provisions of the Primary Financing Documents, such consent of the City may be given by written instrument executed by an authorized City representative unless such consent is otherwise required by law to be evidenced by an ordinance or resolution duly adopted by the City.

Section 16. All notices and submissions required hereunder shall be given to the following, or their successors, by facsimile transmission (with written confirmation of receipt), followed by hard copy sent by certified or registered mail, personal delivery or recognized overnight delivery:

- (a) To the City: City of Perth Amboy  
260 High Street  
Perth Amboy, NJ 08861-4491  
Attn: Business Administrator
- (b) To the Authority: Middlesex County Improvement Auth.  
101 Interchange Plaza  
Cranbury, NJ 08512  
Attn: Executive Director
- (c) To the Trustee: Amboy National Bank  
3590 Route 9 South  
Old Bridge, NJ 08857  
Attn: Peggy Anne Dembowski

With a copy to the  
System Trustee: First Union National Bank  
21 South Street  
Morristown, NJ 07960

and with a copy to the  
Bond Insurer:

Each party shall give notice from time to time to the other parties, in the manner specified herein, of any change of the identity or address of anyone listed herein.

Section 17. As used herein, "resolution" shall mean an act or regulation of a governing body which is reduced to writing and which may be finally passed at the meeting at which it was introduced.

Section 18. If any one or more of the covenants or agreements in this City Bond Guaranty Agreement to be performed on the part of the Authority and the City should be contrary to law, then such covenant or covenants, agreement or agreements, shall be deemed severable from the remaining covenants and agreements and shall in no way affect the validity of the other provisions of this City Bond Guaranty Agreement.

Section 19. Any repayment to the City of amounts paid hereunder shall be subordinate to the payment of all amounts due under the Authority Series A Bond Resolution and/or Authority Series B Bond Resolution to the holders of the Guaranteed Authority Indebtedness and/or the Authority and shall not be subject to acceleration.

Section 20. This City Bond Guaranty Agreement shall not be modified or amended without the express, written consent of all parties hereto and the Bond Insurer.

IN WITNESS WHEREOF, the parties have executed this agreement as of the date first written above.

CITY OF PERTH AMBOY

BY: \_\_\_\_\_  
JOSEPH VAS, MAYOR

MIDDLESEX COUNTY IMPROVEMENT AUTHORITY

BY: \_\_\_\_\_  
LEONARD J. ROSEMAN, CHAIRMAN

AMBOY NATIONAL BANK, AS TRUSTEE

BY: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

SCHEDULE B

FORM OF CITY CONTINUING DISCLOSURE AGREEMENT

-----  
CITY CONTINUING DISCLOSURE AGREEMENT

AMONG

THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY,

CITY OF PERTH AMBOY

AND

AMBOY NATIONAL BANK, AS TRUSTEE

DATED AS OF \_\_\_\_\_, 1998

-----

CITY CONTINUING DISCLOSURE AGREEMENT

THIS CITY CONTINUING DISCLOSURE AGREEMENT (the "City Continuing Disclosure Agreement"), made and entered into as of \_\_\_\_\_, 1998 by and among THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY (the "Authority"), a public body corporate and politic of the State of New Jersey, the CITY OF PERTH AMBOY (the "City"), a public body corporate and politic of the State of New Jersey and AMBOY NATIONAL BANK, a state banking corporation organized under the laws of the State of New Jersey (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Authority is issuing its Utility System Revenue Bonds (Perth Amboy Franchise Acquisition Project), Series 1998A and Series 1998B) in the aggregate principal amount of \$\_\_\_\_\_ and \$\_\_\_\_\_, respectively (together, the Bonds") on the date hereof; and

WHEREAS, the Bonds are being issued pursuant to two general bond resolutions of the Authority each adopted on \_\_\_\_\_, \_\_\_\_\_, as amended and supplemented (the "Authority Bond Resolutions"); and

WHEREAS, the Trustee has duly accepted the trusts imposed upon it by the Authority Bond Resolutions as Trustee for the Holders from time to time of the Bonds; and

WHEREAS, the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended and supplemented (codified as of the date hereof at 15 U.S.C. 77 et seq.) (the "Securities Exchange Act") has adopted amendments to Rule 15c2-12 (codified at 17 C.F.R. ss.240.15c2-12) ("Rule 15c2-12") effective July 3, 1995 which generally prohibit a broker, dealer, or municipal securities dealer from purchasing or selling municipal securities, such as the Bonds, unless such broker, dealer or municipal securities dealer has reasonably determined that an issuer of municipal securities or an "Obligated Person" (as defined in Rule 15c2-12) has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and operating data and notices of the occurrence of certain material events to various information repositories; and

WHEREAS, the Authority and the City have determined and have so represented in the Preliminary Official Statement dated \_\_\_\_\_, \_\_\_\_\_ (the "Preliminary Official Statement") that each is an "Obligated Person" with respect to the Bonds within the meaning of Rule 15c2-12 and, in order to enable the "participating underwriters" within the meaning of Rule 15c2-12 to purchase the

Bonds, is therefore required to cause the delivery of the respective information described in this City Continuing Disclosure Agreement to the municipal securities marketplace for the period of time specified in this City Continuing Disclosure Agreement; and

WHEREAS, on \_\_\_\_\_, \_\_\_\_\_ the Authority entered into a contract of purchase with A.G. Edwards & Sons, Inc., on behalf of itself and certain other investment banking firms (the "Underwriter"), for the purchase of the Bonds; and

WHEREAS, the execution and delivery of this City Continuing Disclosure Agreement have been duly authorized by the Authority, the City and the Trustee, respectively, and all conditions, acts and things necessary to have happened, or to have been performed or required to exist precedent to the execution and delivery of this City Continuing Disclosure Agreement, do exist, have happened and have been performed in regular form, time and manner; and

WHEREAS, the Authority, the City and the Trustee are entering into this City Continuing Disclosure Agreement for the benefit of the Holders of the Bonds.

NOW, THEREFORE, for and in consideration of the promises and of the mutual representations, covenants and agreements herein set forth, the Authority, the City and the Trustee, each binding itself, its successors and assigns, do mutually promise, covenant and agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.1. Terms Defined in Recitals. The following terms shall have the meaning set forth in the recitals hereto:

Authority  
Authority Bond Resolutions  
Bonds  
City Continuing Disclosure Agreement  
Preliminary Official Statement  
Rule 15c2-12  
SEC  
Securities Exchange Act  
City  
Trustee  
Underwriter

Section 1.2. Additional Definitions. The following additional terms shall have the meanings specified below:

"Bondholder" or "Holder" or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond, including Holders of beneficial interests in the Bonds.

"Business Day" means any day other than (a) a Saturday or Sunday, (b) a day on which commercial banks in New York, New York or the city or cities in which are located the principal corporate trust offices of the Trustee are authorized or required by law to close or (c) a day on which the New York Stock Exchange is closed.

"City Data" means the financial and operating information on the City of Perth Amboy of the type included in the Final Official Statement in Exhibit \_\_\_ entitled "\_\_\_\_\_".

"City Financial Statements" means the audited financial statements of the City for each Fiscal Year and includes balance sheets, statements of changes in fund balances and statements of current funds, revenues, expenditures and other charges or statements which convey similar information.

"Disclosure Event" means any event described in subsection 2.2 of this City Continuing Disclosure Agreement.

"Disclosure Event Notice" means the notice to the Repositories and the MSRB as provided in subsection 2.5.

"Disclosure Representative" means the authorized officer of the Authority or his or her designee, or such other officer or employee as the Authority shall designate in writing to the



Dissemination Agent, if the Authority has appointed or engaged a Dissemination Agent, from time to time.

"Dissemination Agent" means the Trustee acting in its capacity as Dissemination Agent under this City Continuing Disclosure Agreement, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"Final Official Statement" means the final Official Statement of the Authority dated \_\_\_\_\_, \_\_\_\_\_ pertaining to the Bonds.

"Fiscal Year" means the fiscal year of the City, as applicable. As of the date of this City Continuing Disclosure Agreement, the Fiscal Year of the City begins on July 1 of each calendar year and closes on June 30 of such calendar year.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America, consistently applied.

"GAAS" means generally accepted auditing standards as in effect from time to time in the United States of America, consistently applied.

"MSRB" means the Municipal Securities Rulemaking Board. The address of the MSRB as of the date of this City Continuing Disclosure Agreement is:

1818 N Street, NW, Suite 800  
Washington, DC 20036-2491

"National Repository" means a "nationally recognized municipal securities information repository" within the meaning of Rule 15c2-12. As of the date of this City Continuing Disclosure Agreement, the National Repositories designated by the SEC in accordance with Rule 15c2-12 are:

- (a) Bloomberg Municipal Repositories  
P.O. Box 840  
Princeton, New Jersey 08542-0840  
Telecopies: (609) 279-5962  
Telephone: (609) 279-3200  
Internet: MUNIS@bloomberg.com
- (b) Kenny Information Services, Inc.  
ATTN: Kenny Repository Services  
65 Broadway, 16th Floor  
New York, New York 10006  
Telephone: (212) 770-4595

- (c) Thomas Municipal Library  
395 Hudson Street; 3rd Floor  
New York, New York 10014  
Telecopier: (212) 989-2078  
Telephone: (212) 807-3814
  
- (d) DPC Data Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
Telephone: (201) 346-0701  
Telecopier: (201) 947-0107

"Repository" means each National Repository and each State

Repository.

"State" means the State of New Jersey.

"State Repository" means any public or private repository or entity designated by the State as a state information depository for purposes of Rule 15c2-12. As of the date of this City Continuing Disclosure Agreement, there is no State Repository.

Section 1.3. Capitalized Terms Not Defined Herein. Capitalized terms not defined herein shall have the meanings assigned to them in Section 101 of the respective Authority Bond Resolutions.

Section 1.4. Interpretation. Words of masculine gender include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular include the plural and vice versa, and words importing persons include corporations, associations, partnerships (including limited partnerships), trusts, firms and other legal entities, including public bodies, as well as natural persons. Articles and Sections referred to by number mean the corresponding Articles and Sections of this City Continuing Disclosure Agreement. The terms "hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms as used in this City Continuing Disclosure Agreement, refer to this City Continuing Disclosure Agreement as a whole unless otherwise expressly stated.

As the context shall require, all words importing the singular number shall include the plural number; the disjunctive term "or" shall be interpreted conjunctively as required to insure that the Authority perform any obligations mentioned in the passage in which such term appears.

The headings of this City Continuing Disclosure Agreement are for convenience only and shall not define or limit the provisions hereof.

ARTICLE 2

CONTINUING DISCLOSURE COVENANTS AND REPRESENTATIONS

Section 2.1. Continuing Disclosure Covenants and Representations of the City. The City agrees that it will provide, or shall cause the Dissemination Agent to provide:

(a) Not later than one-hundred eighty (180) days after the end of each Fiscal Year of the City, commencing with the Fiscal Year of the City ending on June 30, 1999 the City Financial Statements and the City Data to each Repository;

(b) Not later than fifteen (15) days prior to the date specified in subsection 2.1(a), a copy of the City's Financial Statements and the City Data to the Dissemination Agent;

(c) If audited City Financial Statements are not submitted as part of the filing set forth in subsection 2.1(a), the City will submit unaudited financial statements with such filing, and will subsequently submit audited City Financial Statements when and if available, to each Repository.

(d) In a timely manner, to each National Repository or to the MSRB and to the appropriate State Repository, if any, notice of a failure by the City to provide the City Financial Statements and the City Data within the period described in subsection 2.1(a).

Section 2.2. Continuing Disclosure Covenants and Representations of the Authority. The Dissemination Agent will provide in a timely manner, to each National Repository or to the MSRB, and to the appropriate State Repository, if any, notice of any of the following events with respect to the Bonds, if material (each, a "Disclosure Event"):

- (a) Principal and interest payment delinquencies on the Bonds;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions or events affecting the tax-exempt status of the security;

- (g) Modifications to rights of security holders;
- (h) Bond calls;
- (i) Defeasances;
- (j) Release, substitution, or sale of property securing repayment of the securities; and
- (k) Rating changes;

Section 2.3. Continuing Disclosure Representations. The City represents and warrants that:

(a) the City Financial Statements shall be prepared according to GAAP, and

(b) the City Financial Statements which are audited shall be audited by an independent certified public accountant in accordance with GAAS.

Section 2.4. Form of Filings. (a) The City Financial Statements and the City Data may be submitted as a single document

or as separate documents comprising a package.

(b) Any or all of the items which must be included in the City Financial Statements and the City Data may be incorporated by reference from other documents, including official statements delivered in connection with other financings issued on behalf of the City which have been submitted to each of the Repositories or filed with the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so incorporated by reference.

(c) The City Financial Statements and the City Data for any Fiscal Year containing any modified operating data or financial information (as contemplated by Section 4.9 and 4.10) for such Fiscal Year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the City Financial Statements or City Data being provided for such Fiscal Year.

Section 2.5. Responsibilities, Duties, Immunities and Liabilities of the Dissemination Agent.

(a) It shall be the responsibility of the Dissemination Agent to determine the occurrence of a Disclosure Event. If the Dissemination Agent has determined it necessary to report the occurrence of a Disclosure Event, the Dissemination Agent shall file promptly a notice of such occurrence with each National

Repository or with the MSRB and the State Repository (the "Disclosure Event Notice") in the form provided by the Authority; provided, that the Disclosure Event Notice pertaining to the occurrence of a Disclosure Event described in clauses 2.2(h) (optional or special redemptions of the Bonds) or 2.2(i) (defeasances) need not be given under this subsection any earlier than the time when the notice (if any) of such Disclosure Event shall be given to Holders of affected Bonds as provided in the Authority Bond Resolutions. The obligation of the Dissemination Agent to provide the notices to the Repositories or the MSRB, as the case may be, under this City Continuing Disclosure Agreement are in addition to, and not in substitution of, any of the obligations of the Trustee to provide notices of Events of Default to Holders under the Authority Bond Resolutions. The Dissemination Agent shall file a copy of each Disclosure Event Notice with the Trustee, (if the Trustee is not the Dissemination Agent) for informational purposes only.

(b) The Dissemination Agent shall determine each year prior to the date for providing the City Financial Statements and the City Data the name and address of each National Repository and each State Repository, if any.

(c) The Dissemination Agent shall:

(i) Upon receiving the applicable City Financial Statements and the City Data, file the same with each Repository as soon as practicable and thereafter file a written report with the Authority certifying that the applicable City Financial Statements and the City Data which have been provided to it have been filed with each Repository pursuant to this City Continuing Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided; and

(ii) if the Dissemination Agent has not received the City Financial Statements or City Data from the City by the date set forth in subsections 2.1(b) immediately send written notice of such failure to the Authority, the City and the Trustee.

Section 2.6. Appointment, Removal, and Resignation of the Dissemination Agent, Indemnification.

(a) The Authority hereby appoints the Trustee to act as Dissemination Agent under this City Continuing Disclosure Agreement to assist it in carrying out its obligations under this City Continuing Disclosure Agreement. The Authority may, from time to time, discharge any such Dissemination Agent, and appoint a successor Dissemination Agent, such discharge to be effective on

the date of the appointment of a successor Dissemination Agent following notice of same to the City.

(b) The Dissemination Agent shall have only such duties as are specifically set forth in this City Continuing Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Authority, its officers, directors, employees and agents harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Authority's negligence or wilful misconduct. The obligations of the City under this subsection shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(c) The Dissemination Agent, or any successor thereto, may at any time resign and be discharged of its duties and obligations hereunder by giving not less than thirty (30) days written notice to the Authority. Such resignation shall take effect on the date specified in such notice.

Section 2.7. Responsibilities, Duties, Immunities and Liabilities of the Trustee.

(a) Article X of the Authority Bond Resolutions is hereby made applicable to this City Continuing Disclosure Agreement as if the duties of the Trustee under this City Continuing Disclosure Agreement were (solely for this purpose) set forth in the Authority Bond Resolutions.

Section 2.8. Additional Persons Obligated under Rule 15c2-12. The Authority agrees that it will cause any other person who becomes an "Obligated Person" as such term is defined in Rule 15c2-12 to perform all of the duties of the Authority herein.

ARTICLE 3

DEFAULTS AND REMEDIES

Section 3.1. Disclosure Default. The occurrence and continuation of a failure by the Authority or the City to observe, perform or comply with any covenant, condition or agreement on its part to be observed or performed in this City Continuing Disclosure Agreement and such failure shall remain uncured for a period of thirty (30) days after written notice thereof has been given to the Authority and the City by the Trustee or any Bondholder shall constitute a default hereunder.

Section 3.2. Remedies on Default.

(a) The Trustee may, at the request of the Underwriter or the Holders of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and after the Trustee has been indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all loss, liability and expenses, or any Bondholder, for the equal benefit and protection of all Bondholders similarly situated, may take whatever action at law or in equity against the Authority or the City and any of the officers, agents and employees of the Authority or the City which is necessary or desirable to enforce the specific performance and observance of any obligation, agreement or covenant of the Authority or the City under this City Continuing Disclosure Agreement and may compel the Authority or the City or any such officers, agents or employees, except for the Dissemination Agent, to perform and carry out their duties under this City Continuing Disclosure Agreement; provided, that no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

(b) In case the Trustee or any Bondholder shall have proceeded to enforce its rights under this City Continuing Disclosure Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or any Bondholder, as the case may be, then and in every such case the Authority, the City or the Trustee and any Bondholder, as the case may be, shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Authority, the City or the Trustee and any Bondholder shall continue as though not such proceeding had been taken.

(c) A default under this City Continuing Disclosure Agreement shall not be deemed an Event of Default under the Authority Bond Resolutions, and the sole remedy under this City Continuing Disclosure Agreement in the event of any failure by the Authority to comply with this City Continuing Disclosure Agreement shall be as set forth in subsection 3.2(a) of this City Continuing Disclosure Agreement.

ARTICLE 4

MISCELLANEOUS

Section 4.1. Purposes of the City Continuing Disclosure Agreement. This City Continuing Disclosure Agreement is being executed and delivered by the Authority, the City and the Trustee for the benefit of the Bondholders and in order to assist the Underwriter in complying with clause (b)(5) of Rule 15c2-12.

Section 4.2. Third-Party Beneficiaries: The Bondholders. Each Bondholder is hereby recognized as being a third-party beneficiary hereunder and each may enforce, for the equal benefit and protection of all Bondholders similarly situated, any such right, remedy or claim conferred, given or granted hereunder in favor of the Trustee.

Section 4.3. Indemnified Parties. To the extent permitted by Law, the City agrees to indemnify and hold harmless the Trustee, the Dissemination Agent, the Authority and the Underwriter, and each person, if any, who has the power, directly or indirectly, to direct or cause the direction of the management and policies of each and any purchase of the Bonds through the ownership of voting securities, by contract or otherwise (collectively called the "Indemnified Parties"), against any and all losses, claims, damages, liabilities or expenses whatsoever caused by such entity's failure to perform or observe any of its obligations, agreements or covenants under the terms of this City Continuing Disclosure Agreement, but only if and insofar as such losses, claims, damages, liabilities or expenses are caused by any such failure of the City to perform. In case any action shall be brought against the Indemnified Parties based upon this City Continuing Disclosure Agreement and in respect of which indemnity may be sought against the City, the Indemnified Parties shall promptly notify the City in writing. Upon receipt of such notification, the City shall promptly assume the defense of such action, including the retention of counsel, the payment of all expenses in connection with such action and the right to negotiate and settle any such action on behalf of such party. Any Indemnified Party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless the employment of such counsel has been specifically authorized by the City or unless by reason of conflict of interest determined by the written opinion of counsel to any such party, it is advisable for such party to be represented by separate counsel, to be retained by the City in which case the fees and expenses of such separate counsel shall be borne by the City. The City shall not be liable for any settlement of any such action effected without its written consent, but if settled with the written consent of the City or if there be a final judgment of the plaintiff in any such action with or without written consent,



the City agree to indemnify and hold harmless the Indemnified Parties from and against any loss or liability by reason of such settlement or judgment. Nothing in this paragraph shall require or obligate the City to indemnify or hold harmless the Indemnified Parties from or against any loss, claim, damage, liability or expense caused by any negligence, recklessness or intentional misconduct of the Indemnified Parties in connection with such entity's performance of its obligations, agreements and covenants under this City Continuing Disclosure Agreement.

Section 4.4. Additional Information. Nothing in this City Continuing Disclosure Agreement shall be deemed to prevent the Authority or the City from (a) disseminating any other information, using the means of dissemination set forth in this City Continuing Disclosure Agreement or any other means of communication, or (b) including any other information in any City Financial Statements or City Data or any Disclosure Event Notice, in addition to that which is required by this City Continuing Disclosure Agreement. If the Authority and the City choose to include any information in any City Financial Statements or City Data or any Disclosure Event Notice in addition to that which is specifically required by this City Continuing Disclosure Agreement, the Authority and the City shall have no obligation under this City Continuing Disclosure Agreement to update such information or include it in any future City Financial Statements or City Data or any future Disclosure Event Notice.

Section 4.5. Notices. All notices required to be given or authorized to be given by any party pursuant to this City Continuing Disclosure Agreement shall be in writing and shall be sent by registered or certified mail (as well as by facsimile, in the case of the Trustee) to, in the case of the Authority, 101 Interchange Plaza, Cranbury, NJ 08512, Att: Chairman; in the case of the City, 318 Perth Amboy Avenue, Perth Amboy, New Jersey 07029 Att: Chief Financial Officer; and in the case of the Trustee, its principal corporate trust office at Amboy National Bank, 3590 Route 9 South, Old Bridge, New Jersey 08857, Att: Corporate Trust Department.

Section 4.6 Assignments. This City Continuing Disclosure Agreement may not be assigned by any party without the consent of the others and, as a condition to any such assignment, only upon the assumption in writing of all of the obligations imposed upon such party by this City Continuing Disclosure Agreement.

Section 4.7. Severability. If any provision of this City Continuing Disclosure Agreement shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein

contained or render the same invalid, inoperative or unenforceable to any extent whatever.

Section 4.8. Execution of Counterparts. This City Continuing Disclosure Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. The parties hereto may sign the same counterpart or each party hereto may sign a separate counterpart.

Section 4.9. Amendments, Changes and Modifications.

(a) Except as otherwise provided in this City Continuing Disclosure Agreement, subsequent to the initial issuance of the Bonds and prior to their payment in full (or provision for payment thereof having been made in accordance with the provisions of the applicable Authority Bond Resolutions), this City Continuing Disclosure Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee.

(b) Without the consent of any Bondholders, the Authority, the City and the Trustee at any time and from time to time may enter into any amendments or modifications to this City Continuing Disclosure Agreement for any of the following purposes:

(i) to add to covenants and agreements of the Authority and the City hereunder for the benefit of the Bondholders, or to surrender any right or power conferred upon the Authority or the City by this City Continuing Disclosure Agreement;

(ii) to modify the contents, presentation and format of the City Financial Statements and City Data from time to time to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Authority and the City, or to reflect changes in the identity, nature or status of the Authority or the City or in the business, structure or operations of the Authority or the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the Authority or the City; provided that any such modification shall comply with the requirements of Rule 15c2-12 as then in effect at the time of such modification;

(iii) to cure any ambiguity, to correct or supplement any provision hereof which may be inconsistent with any other provision hereof, or to include any other provisions with respect to matters or questions arising under this City Continuing Disclosure Agreement which, in each case,

comply with Rule 15c2-12 as then in effect at the time of such modification; or

(iv) to assure continued compliance with Rule 15c2-12 pursuant to the provisions of subsection 4.10 hereof,

provided, that prior to approving any such amendment or modification, the Trustee and the Authority determine that such amendment or modification does not adversely affect the interests of the Holders of the Bonds in any material respect.

(c) Upon entering into any amendment or modification required or permitted by this City Continuing Disclosure Agreement, the Dissemination Agent shall deliver, to each of the Repositories written notice of any such amendment or modification.

(d) The Authority and the Trustee shall be entitled to rely exclusively upon an opinion of counsel nationally recognized as expert in Federal securities law acceptable to the Authority to the effect that such amendments or modifications comply with the conditions and provisions of this Section 4.9.

Section 4.10. Amendments Required by Rule 15c2-12. The Authority, the City and the Trustee each recognize that the provisions of this City Continuing Disclosure Agreement are intended to enable the Underwriter to comply with Rule 15c2-12. If, as a result of a change in Rule 15c2-12 or in the interpretation thereof, a change in this City Continuing Disclosure Agreement shall be permitted or necessary to assure continued compliance with Rule 15c2-12 and upon delivery by the Underwriter of an opinion of counsel nationally recognized as expert in Federal securities law acceptable to the Authority to the effect that such amendments shall be permitted or necessary to assure continued compliance by the Underwriter with Rule 15c2-12 as so amended or interpreted, then the Authority, the City and the Trustee shall, amend this City Continuing Disclosure Agreement to comply with and be bound by any such amendment to this City Continuing Disclosure Agreement to the extent necessary or desirable to assure compliance with the provisions of Rule 15c2-12 and provide the written notice of such amendment as required by subsection 4.9(c) hereof.

Section 4.11. Miscellaneous. The Authority and the Underwriter may rely upon the representation of the City hereunder in connection with the issuance of the Bonds. The City covenants that it has never failed to comply with any continuing disclosure obligation.

Section 4.12. Governing law. This City Continuing Disclosure Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the United States of America and the State of New Jersey.

Section 4.13. Termination of Continuing Disclosure Obligations.

The continuing obligation of the Authority and the City under Section 2.1 and 2.2, respectively, hereof to provide the City Financial Statements and the City Data and any Disclosure Event Notice, as applicable, and to comply with the other requirements of said Section shall terminate if and when either (a) the Bonds are no longer Outstanding in accordance with the terms of the Authority Bond Resolutions or (b) the Authority and the City no longer remain an "Obligated Person" (as defined in Rule 15c2- 12(f)(10)) with respect to the Bonds and in either event, only after the Authority delivers, or causes the Dissemination Agent to deliver, to each of the Repositories written notice to such effect.

Section 4.13. Binding Effect. This City Continuing Disclosure Agreement shall inure to the benefit of and shall be binding upon the Authority, the City and the Trustee and their respective successor and assigns.

IN WITNESS WHEREOF, THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY,  
THE CITY OF PERTH AMBOY AND AMBOY NATIONAL BANK, have caused this City  
Continuing Disclosure Agreement to be executed in their respective names as of  
the date first above written.

THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY

BY: \_\_\_\_\_  
LEONARD J. ROSEMAN, CHAIRMAN

CITY OF PERTH AMBOY

BY: \_\_\_\_\_  
JOSEPH VAS, MAYOR

AMBOY NATIONAL BANK, AS TRUSTEE

BY: \_\_\_\_\_

SCHEDULE C  
CITY CONTRACTS

1. Collective Bargaining Units:
  - a. Collective Bargaining Agreement with Blue Collar Union
  - b. Collective Bargaining Agreement with White Collar Union
  - c. Collective Bargaining Agreement with Blue Collar Superintendents Union
  - d. Collective Bargaining Agreement with Blue Collar Supervisors Union
  - e. Collective Bargaining Agreement with White Collar Supervisors Union
  
2. SFY 1999 Annual Contracts for various commodities particular to the water and sewer utilities:
  - a. Hydrated Lime - Bellefonte Lime Co.
  - b. Plumbing Supplies specific to Water Utility - Water Supply Company
  - c. Sodium Hypochlorite - The Chloramone Co.
  - d. General Plumbing Supplies - Central Jersey Supply Co.
  
3. SFY 1999 Annual Contracts for various services particular to the water and sewer utilities:
  - a. Catch Basin Grit Removal - AWT Environmental Services, Inc.
  - b. Wet Well Grit Removal - AWT Environmental Services, Inc.
  - c. Sanitary & Storm Sewer Repair and Rehabilitation - B & W Construction Co.
  - d. Well to Well Pump Service Contract - A.C. Schultes, Inc.
  - e. Industries Testing & Sampling - Garden State Labs, Inc.
  - f. Volatile Organic Compounds Testing - Garden State Labs, Inc.

- g. Security Guard Services for Runyon Watershed and Florida Grove Reservoir - CFS Services, Inc.

4. Professional Service Contracts:

- a. Engineering services in connection with Runyon Watershed groundwater contamination, water supply management, South Amboy - Killam Associates
- b. Auditing and preparation of financial statements - O'Neill & Lang

5. Capital Improvement Projects:

- a. Sheridan Street Outfall wetlands mitigation - Jacobs Environmental, Inc. for engineering services
- b. Rudyk Park and Sheridan Street Outfall Rehabilitation Project - Jacobs Environmental, Inc. for engineering services
- c. Runyon Water Treatment Plant Improvement Project - Killam Associates for engineering and contract management services, and Scafar Contracting, Inc. for construction.
- d. Amboy Avenue Pump Station Replacement Project - Post Buckley for engineering construction management, and Scafar Contracting, Inc. for construction
- e. State Street Pump Station Replacement Project - Post Buckley for engineering construction management, and Scafar Contracting, Inc. for construction
- f. Front Street Pump Station Replacement Project - Carr Engineering Associates for engineering design services, Post Buckley for engineering construction management services, and Spectraserv, Inc. for construction
- g. Stage II/III Treatment Works Application for Combined Sewer Outfall Netting Chambers design and bid specifications - Camp Dresser & McKee for engineering design services
- h. WRLA Water Distribution Improvements - Carr Engineering Associates for engineering and construction management services

SCHEDULE D  
CITY FACILITIES

1.	City Hall	260 High Street
2.	Police Headquarters	High & Fayette Streets
3.	Municipal Court	High & Fayette Streets
4.	Municipal Garage Complex	599 Fayette Street
5.	Fire Department Headquarters	376 High Street
6.	Sewage Disposal Plant	Sadowski Parkway
7.	Front Street Pump Station	Front Street
8.	State Street Pump Station	State Street
9.	Amboy Avenue Wet Wall	Amboy Avenue
10.	Memorial Fire House	934 Convery Boulevard
11.	Garfield Hose and Humane Fire Company	615 Amboy Avenue
12.	Reservoir	676 Florida Grove Road
13.	Water Works Building	590 Smith Street
14.	Runyon Watershed	Old Water Works Road, Old Bridge
15.	Recreation Department Building	56 Brighton Avenue
16.	Public Library	196 Jefferson Street
17.	Edward J. Patten Public Welfare Center	Fayette & Read Streets
18.	code Enforcement Building	436 Market Street
19.	Olive Street Community Center	1 Olive Street
20.	Harold D. Runyon Pistol Range	Smith Street
21.	Animal Shelter	Clement & Fayette Streets
22.	Electrical Bureau Building	592/598 Smith Street



23.	State and James Fire Building	626 State Street
24.	Fire Department First Aid Squad	366 High Street
25.	Surveyor Governor's Office	High Street
26.	Kearny Cottage	Kearny Avenue
27.	Little League Complex (Veterans Memorial Park)	Convery Boulevard
28.	Marina Facilities Building	Front Street
29.	Armesen Square	New Brunswick Avenue
30.	Five Corners Fountain	Smith & State Streets
31.	Train Station Parking Lot	Smith Street
32.	Washington Park	New Brunswick Avenue
33.	Lucey Center Park	Williams Street
34.	Hall Avenue & State Street Park	Hall Avenue & State
35.	Dalton Park	Chamberlain Avenue
36.	Francis Street Park	Francis Street

SCHEDULE E  
CITY FEES

1. Sewer Connection Fees as Outlined in Section 365-27 of the City of Perth Amboy Administrative Code.
2. Sewer Treatment Charges as Outlined in Section 365-29 of the City of Perth Amboy Administrative Code.
3. Private Fire Services as Outlined in Section 418-5 of the City of Perth Amboy Administrative Code.
4. Service and Replacement Fees as Outlined in Section 418-6 of the City of Perth Amboy Administrative Code.\*
5. Water Connection Fees as Outlined in Section 418-7 of the City of Perth Amboy Administrative Code.

\* Fees Not Included in Revenues; to be Used to Directly Reimburse Company and/or City for Services Described Therein.

SCHEDULE F  
EMPLOYEE LEASE PAYMENT

CONTRACT YEAR ----	AMOUNT -----
1	\$2,532,000*
2	2,279,000
3	2,152,000
4	2,026,000
5	1,899,000
6	1,646,000
7	1,393,000
8	1,434,000
9	1,477,000
10	1,522,000
11	1,567,000
12	1,614,000
13	1,662,000
14	1,713,000
15	1,764,000
16	1,817,000
17	1,871,000
18	1,928,000
19	1,985,000
20	2,045,000
21	2,106,350*

\* To be prorated during a short first and last Contract Year.

SCHEDULE G  
FIXED FRANCHISE FEE

CONTRACT YEAR ----	FEE ---
1	\$4,500,000
2	4,500,000
3	4,500,000
4	4,500,000
5	4,500,000
6	1,100,000
7	1,100,000
8	1,100,000
9	1,100,000
10	1,100,000
11	1,100,000
12	1,100,000
13	1,100,000
14	1,100,000
15	1,100,000
16	1,100,000
17	1,100,000
18	1,100,000
19	1,100,000
20	1,100,000
21	1,100,000*

\* To be prorated during a short last Contract Year.

SCHEDULE H  
FIXED SERVICE FEE

YEAR	AMOUNT
1	\$6,473,000*
2	6,446,000
3	6,467,000
4	6,531,000
5	6,597,000
6	7,091,000
7	6,970,000
8	7,148,000
9	7,331,000
10	7,519,000
11	7,712,000
12	7,910,000
13	8,116,000
14	8,326,000
15	8,543,000
16	8,765,000
17	8,995,000
18	9,231,000
19	9,473,000
20	9,724,000
21	\$9,981,000*

\* To be prorated during short first and last years.

SCHEDULE I  
FORM OF GUARANTOR BOND GUARANTY AGREEMENT

GUARANTOR BOND GUARANTY AGREEMENT

DATED AS OF \_\_\_\_\_, 1998

THIS GUARANTOR BOND GUARANTY AGREEMENT (hereinafter the "Guarantor Bond Guaranty Agreement") among MIDDLESEX WATER COMPANY (the "Guarantor"), a corporation, the MIDDLESEX COUNTY IMPROVEMENT AUTHORITY (the "Authority"), a public body corporate and politic of the State of New Jersey and AMBOY NATIONAL BANK a state banking corporation as trustee (the "Trustee").

W I T N E S S E T H

WHEREAS, The Authority has been duly created by resolution of the Board of Chosen Freeholders of the County of Middlesex (the "County"), New Jersey (the "Authority"), as a public body corporate and politic of the State of New Jersey pursuant to the provisions of the County Improvement Authorities Law, constituting Chapter 183 of the Pamphlet Laws of 1960, of the State of New Jersey (the "Improvement Authorities Law"); and

WHEREAS, the Authority is authorized pursuant to the terms of the Improvement Authorities Law to provide within the County for public facilities, as that term is defined in the Improvement Authorities Law; and

WHEREAS, the City of Perth Amboy (the "City") currently owns and operates a water supply, transmission and distribution system (the "Water System") and a wastewater collection system (the "Wastewater System" and together with the Water System, the "System"), all for the residents of and other System users in the Guarantor (the "Users"); and

WHEREAS, the City has determined that the System needs substantial upgrading and improving in order to continue to supply water and provide wastewater collection services to the Users; and

WHEREAS, pursuant to the Improvement Authorities Law, specifically Section 34 thereof (N.J.S.A. 40:37A-77), the City may, by ordinance, without any referendum or public or competitive bidding, sell, lease, lend, grant or convey to the Authority or permit the Authority to use, maintain or operate as part of any public facility any real or personal property which may be necessary or useful and convenient for the purpose of the Authority; and

WHEREAS, the City has determined that the improvement and expansion of its System can best be accomplished to serve the interests of its residents and customers by leasing the System and selling a franchise to operate the System to the Authority pursuant to that certain "Lease and Franchise Acquisition Agreement" to be dated as of the first day of the month of the issuance of the hereinafter defined Authority Indebtedness (together with any amendments thereof or supplements thereto in accordance with the terms thereof, the "Lease Agreement") and by jointly entering into an operating agreement to be dated as of the first day of the month of the issuance of the hereinafter defined Authority



Indebtedness (the "Agreement") among the Guarantor, the Authority and Utility Services Affiliates, Inc., (the "Company") a subsidiary of Middlesex Water Company; and

WHEREAS, the City and the Authority have determined to proceed with the leasing of the System, the selling of the franchise to operate the System and the financing of, among other things, improvements to the System; and

WHEREAS, the City, pursuant to the Improvement Authorities Law specifically Section 12 and 35 thereof (N.J.S.A. 40:37A-55(i) and 78), as well as the New Jersey Wastewater Treatment Public-Private Contracting Act (the "Wastewater Act"), specifically, Section 22 thereof (N.J.S.A. 58:27-22), the New Jersey Water Supply Public-Private Contracting Act (the "Water Act"), specifically Section 22 thereof (N.J.S.A. 58:26-22), constituting Chapter 208 of the Pamphlet Laws of 1973 of the State of New Jersey, has previously authorized the execution of the Agreement; and

WHEREAS, the Authority intends to finance the first six years of the Fixed Franchise Fee, an operating reserve fund [, a bond reserve fund] and the costs of issuing the hereinafter defined Authority Series C Indebtedness (the "Project") through the issuance of a series of bonds of the Authority in an aggregate principal amount not to exceed \$27,500,000, "Utility System Revenue Bond (Perth Amboy Franchise Acquisition Project), Series 1998C" (the "Authority Series C Indebtedness"); and

WHEREAS, the Authority Series C Indebtedness will be issued pursuant to the terms of the Improvement Authorities Law, other applicable law and the Authority's "Resolution Authorizing the Issuance of Utility System Revenue Bonds and/or Notes (Perth Amboy Franchise Acquisition Project), Series 1998C of The Middlesex County Improvement Authority" adopted on \_\_\_\_\_, 1998 (together with any amendments thereof or supplements thereto in accordance with the terms thereof, the "Authority Series C Bond Resolution"); and

WHEREAS, in order to provide inducement to the prospective purchasers of such Authority Series C Indebtedness to purchase the same and to provide additional security to the holders thereof in addition to the revenues generated by the System and payable pursuant to the Agreement, in accordance with the terms of Section 37 of the Improvement Authorities Law, and in addition to a bond insurance policy issued by \_\_\_\_\_. (the "Bond Insurer") the Guarantor desires to provide a guaranty of the timely payment of the principal of and interest on such Authority Series C Indebtedness to be issued by the Authority for or with respect to the Project; and

NOW, THEREFORE, in consideration of the promises and the mutual covenants and agreements set forth herein, the Authority, the Guarantor and the Trustee and its successors and assigns, do mutually covenant,

promise and agree as follows (Capitalized terms shall, unless stated otherwise, have the meaning assigned to such terms in the preambles hereof, the Agreement and the Authority Series C Bond Resolution (as defined in the Agreement)):

Section 1. The Guarantor hereby agrees to fully, unconditionally and irrevocably guaranty the punctual payment of the principal of (including sinking fund installments, if any) and the interest on the Authority Series C Indebtedness and any other bonds issued pursuant to the Authority Series C Bond Resolution (the "Bonds"). For purposes of this Guarantor Bond Guaranty Agreement, the aggregate principal amount of Bonds Outstanding (as defined in the Authority Series C Bond Resolution) may not exceed \$27,500,000. The full faith and credit of the Guarantor are hereby pledged for the full and punctual performance of this guaranty (the "Guarantor Bond Guaranty"). The Bond Insurer is hereby designated as a third-party beneficiary of the Guarantor Bond Guaranty.

Section 2. The Authority agrees to apply or cause the Trustee for the Authority Series C Indebtedness to apply the proceeds derived from the sale of the Bonds for Costs (as defined in the Improvement Authorities Law), including the payment by the Authority for the Costs of the Project, all in accordance with the terms of and as defined in the Agreement and the Authority Series C Bond Resolution.

Section 3. The obligations of the Guarantor hereunder are unconditional. Failure on the part of the Authority or the Trustee in any instance or under any circumstances to observe or fully perform any obligation assumed by or imposed upon either the Authority or the Trustee by this Guarantor Bond Guaranty Agreement or by law, as applicable, shall not relieve the Guarantor from making any payment or fully performing any other obligations imposed by the Guarantor Bond Guaranty Agreement.

Section 4. The Authority will keep, or cause to be kept, proper books of record and account in which complete and correct entries shall be made of its transactions relating to the Project and which, together with all other books and papers of the Authority, shall at all reasonable times and upon reasonable advance notice be subject to inspection.

Section 5. The Authority Series C Bond Resolution shall further provide that if, on a date fifty-five (55) days prior to any Interest Payment Date or Principal Payment Date (hereinafter "Debt Service Payment Date"), the available funds on deposit in the Interest Account or the Principal Account of the Debt Service Fund (after taking into account any moneys earmarked for transfer therein from the Revenue Fund) are insufficient to provide for the payment of the principal of (including sinking fund installments, if any) and interest on the Bonds on such Debt Service Payment Date, the Trustee shall notify the Guarantor and the Authority in writing no later than 3:00 p.m. on the date which is two (2) business days after such fifty-five (55) days prior to such Debt Service Payment Date of the amount which is necessary to provide for the full payment of the principal of (including sinking fund installments, if any) and interest on the Bonds on such Debt Service Payment Date. The Guarantor shall acknowledge receipt of such

notice in writing within two (2) business days, which notice shall also reference the amount to be raised by the Guarantor from any source to satisfy such deficiency prior to any such Debt Service Payment Date. If the deficiency is not cured thirty (30) days prior to the next ensuing Debt Service Payment Date, the Trustee shall so notify the Guarantor within two (2) business days thereafter and the Guarantor shall acknowledge receipt thereof within two (2) business days, and, no later than two (2) business days prior to such Debt Service Payment Date, the Guarantor shall make payment in immediately available funds to the Trustee of the amount of such deficiency in the Debt Service Fund (as defined in the Authority Series C Bond Resolution). Such Guarantor payment shall be deposited by the Trustee into the Debt Service Fund, as and to the extent provided in the Authority Series C Bond Resolution. Notwithstanding any other provisions of this Guarantor Bond Guaranty Agreement to the contrary, failure of the Trustee to give the Guarantor notice as provided herein shall not relieve the Guarantor of its obligation to make payment to the Trustee under the terms of the Guarantor Bond Guaranty, provided, however, that nothing herein shall be construed as a waiver of the Guarantor's right to proceed against the Trustee for the Guarantor's damages, if any, arising from the failure to give timely notice to the Guarantor. The Authority by execution hereof covenants and agrees to provide to the Guarantor the notices set forth herein.

Section 6. The obligations of the Guarantor under this Guarantor Bond Guaranty Agreement shall be absolute and unconditional and shall remain in full force and effect until the entire principal of (including sinking fund installments, if any) and interest on the Bonds shall have been paid or duly provided for in accordance with the provisions of the Authority Series C Bond Resolution. The obligations of the Guarantor hereunder shall not be affected, modified or impaired upon the occurrence from time to time of any event, including without limitation any of the following, whether or not with notice to, or the consent of, the Guarantor:

(a) The waiver, compromise, settlement, release or termination of any or all of the obligations, covenants or agreements of the Authority which are contained in the Authority Series C Bond Resolution, the Lease Agreement, the Agreement, this Guarantor Bond Guaranty Agreement or any other agreement which is executed and delivered for or with respect to the Bonds (collectively, the "Primary Financing Documents"), or of the payment, performance or observance thereof;

(b) The failure to give notice to the Guarantor of the occurrence of an event of default under the provisions of the Primary Financing Documents;

(c) The transfer, assignment or mortgaging or the purported transfer, assignment or mortgaging of all or any part of the interest of the Authority in the System;

(d) The extension of the time for payment of the principal of (including sinking fund installments, if any) or interest on the Bonds or of the time for performance of any obligations, covenants or agreements under or arising out of the Primary Financing Documents;

(e) The modification or amendment (whether material or otherwise) of any obligation, covenant or agreement set forth in the Primary Financing Documents;

(f) The taking, suffering or the omission of any of the actions referred to in the Primary Financing Documents;

(g) Any failure, omission, delay or lack on the part of the Authority to enforce, assert or exercise any right, power or remedy conferred on the Authority in the Primary Financing Documents or any other act or acts on the part of the Authority or any of the holders from time to time of the Bonds;

(h) The voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors or readjustment or other similar proceedings affecting the Authority or any party to the Primary Financing Documents or any of the assets of any of them, or any allegation or contest of the validity of the Primary Financing Documents;

(i) To the extent permitted by law, any event or action that would, in the absence of this clause, result in the release or discharge by operation of law of the Guarantor from the performance or observance of any obligation, covenant or agreement contained in the Primary Financing Documents;

(j) The default or failure of the Guarantor fully to perform any of its obligations set forth in the Primary Financing Documents; or

(k) The destruction, non-use or non-availability of the System.

Section 7. No set-off, counterclaim, reduction, or diminution of any obligation, or any defense of any kind or nature (other than performance by the Guarantor of its obligations hereunder) which the Guarantor has or may have against the Authority, or against any holder of the Bonds, shall be available to the Guarantor hereunder against the Authority or anyone succeeding to the Authority's interest.

Section 8. The Guarantor further guarantees that all payments made with respect to the Bonds will, when made, be final and agrees that if

such payment is recovered from or repaid by or on behalf of the Authority or the holders of the Bonds, in whole or in part in any bankruptcy, insolvency or similar proceeding instituted by or against the Authority, the Guarantor Bond Guaranty shall continue to be fully applicable to such liabilities to the same extent as though the payment so recovered or repaid had never been originally made on such liabilities.

Section 9. In the event of a default in payment of the principal of (including sinking fund installments, if any) or interest on the Bonds, when and as the same shall become due, whether at the stated maturity thereof or otherwise, the Authority or any party to whom the Authority's rights have been assigned may proceed to enforce its rights hereunder and may proceed first and directly against the Guarantor under the terms of this Guarantor Bond Guaranty Agreement without proceeding against or exhausting any other remedies which it may have and without resorting to any other security held by the Authority. All moneys recovered pursuant to this Guarantor Bond Guaranty Agreement shall be applied in accordance with the provisions of the Primary Financing Documents.

Section 10. This Guarantor Bond Guaranty Agreement shall terminate after payment in full of the principal of (including sinking fund installments, if any) and interest on the Bonds has been made or provision for the payment of same has been made in accordance with the terms of the Authority Series C Bond Resolution.

Section 11. This agreement may be executed in any number of counterparts, each of which shall be executed by the Authority and by the Guarantor and all of which shall be regarded for all purposes as one original and shall constitute and be but one and the same.

Section 12. This Guarantor Bond Guaranty Agreement may not be assigned by the Guarantor (except to a related entity rated at least "A" by Moody's Investors Service and/or Standard and Poor's Corporation) or the Authority without the prior written consent of the parties hereto; provided, however, that the Guarantor hereby acknowledges and consents to the irrevocable assignment of the Guarantor Bond Guaranty by the Authority to the Trustee for the benefit of the holders of the Bonds as and to the extent provided in the Authority Series C Bond Resolution.

Section 13. The Authority may at any time, with the prior written consent of the Guarantor, issue additional bonds or project notes for purposes of refunding all or any part of the Bonds, which additional bonds or project notes shall be guaranteed by the Guarantor, in accordance with the provisions of the Authority Series C Bond Resolution.

Whenever the consent of the Guarantor is required pursuant to the provisions of the Primary Financing Documents, such consent of the Guarantor may be given by written instrument executed by an authorized

Guarantor representative unless such consent is otherwise required by law to be evidenced by an ordinance or resolution duly adopted by the Guarantor.

Section 14. All notices and submissions required hereunder shall be given to the following, or their successors, by facsimile transmission (with written confirmation of receipt), followed by hard copy sent by certified or registered mail, personal delivery or recognized overnight delivery:

- (a) To the Guarantor: City of Perth Amboy  
260 High Street  
Perth Amboy, NJ 08861-4491  
Attn: Business Administrator
- (b) To the Authority: Middlesex County Improvement Auth.  
101 Interchange Plaza  
Cranbury, NJ 08512  
Attn: Executive Director
- (c) To the Trustee: Amboy National Bank  
3590 Route 9 South  
Old Bridge, NJ 08857  
Attn: Corporate Trust Department

With a copy to the  
System Trustee: First Union National Bank  
21 South Street  
Morristown, NJ 07960  
Attn: Corporate Trust Department

With a copy to the  
Bond Insurer:

Each party shall give notice from time to time to the other parties, in the manner specified herein, of any change of the identity or address of anyone listed herein.

Section 15. If any one or more of the covenants or agreements in this Guarantor Bond Guaranty Agreement to be performed on the part of the Authority and the Guarantor should be contrary to law, then such covenant or covenants, agreement or agreements, shall be deemed severable from the remaining covenants and agreements and shall in no way affect the validity of the other provisions of this Guarantor Bond Guaranty Agreement.

Section 16. Any repayment to the Guarantor of amounts paid hereunder shall be subordinate to the payment of all amounts due under the Authority Series C Bond Resolution to the Bondholders and/or the Authority and shall not be subject to acceleration.

Section 17. This Guarantor Bond Guaranty Agreement shall not be modified or amended without the express, written consent of all parties hereto and the Bond Insurer.

IN WITNESS WHEREOF, the parties have executed this agreement as of the date first written above.

MIDDLESEX WATER COMPANY

BY: \_\_\_\_\_  
J. RICHARD TOMPKINS, PRESIDENT AND  
CHAIRMAN OF THE BOARD

MIDDLESEX COUNTY IMPROVEMENT AUTHORITY

BY: \_\_\_\_\_  
LEONARD J. ROSEMAN, CHAIRMAN

AMBOY NATIONAL BANK, AS TRUSTEE

BY: \_\_\_\_\_  
NAME: \_\_\_\_\_  
TITLE: \_\_\_\_\_



SCHEDULE J  
FORM OF GUARANTOR CONTINUING DISCLOSURE AGREEMENT

GUARANTOR CONTINUING DISCLOSURE AGREEMENT

THIS GUARANTOR CONTINUING DISCLOSURE AGREEMENT (the "Guarantor Continuing Disclosure Agreement"), made and entered into as of \_\_\_\_\_, 1998 by and among THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY (the "Authority"), a public body corporate and politic of the State of New Jersey, the MIDDLESEX WATER COMPANY a \_\_\_\_\_ corporation (the "Guarantor") and AMBOY NATIONAL BANK, a state banking corporation organized under the laws of the State of New Jersey (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Authority is issuing its Utility System Revenue Bonds (Perth Amboy Franchise Acquisition Project), Series 1998C) in the aggregate principal amount of \$\_\_\_\_\_ (the "Series 1998C Bonds") on the date hereof; and

WHEREAS, the Bonds are being issued pursuant to a general bond resolutions of the Authority adopted on \_\_\_\_\_, \_\_\_\_\_, as amended and supplemented (the "Authority Series C Bond Resolution"); and

WHEREAS, the Trustee has duly accepted the trusts imposed upon it by the Authority Series C Bond Resolution as Trustee for the Holders from time to time of the Bonds; and

WHEREAS, the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended and supplemented (codified as of the date hereof at 15 U.S.C. 77 et seq.) (the "Securities Exchange Act") has adopted amendments to Rule 15c2-12 (codified at 17 C.F.R. ss.240.15c2-12) ("Rule 15c2-12") effective July 3, 1995 which generally prohibit a broker, dealer, or municipal securities dealer from purchasing or selling municipal securities, such as the Bonds, unless such broker, dealer or municipal securities dealer has reasonably determined that an issuer of municipal securities or an "Obligated Person" (as defined in Rule 15c2-12) has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and operating data and notices of the occurrence of certain material events to various information repositories; and

WHEREAS, the Authority and the Guarantor have determined and have so represented in the Preliminary Official Statement dated \_\_\_\_\_, \_\_\_\_\_ (the "Preliminary Official Statement") that each is an "Obligated Person" with respect to the Bonds within the meaning of Rule 15c2-12 and, in order to enable the "participating underwriters" within the meaning of Rule 15c2-12 to purchase the Bonds, is therefore required to cause the delivery of the respective information described in this Guarantor Continuing Disclosure Agreement to the municipal securities marketplace for the period of time specified in this Guarantor Continuing Disclosure Agreement; and

WHEREAS, on \_\_\_\_\_, \_\_\_\_\_ the Authority entered into a contract of purchase with \_\_\_\_\_ (the "Underwriter"), for the purchase of the Bonds; and

WHEREAS, the execution and delivery of this Guarantor Continuing Disclosure Agreement have been duly authorized by the Authority, the Guarantor and the Trustee, respectively, and all conditions, acts and things necessary to have happened, or to have been performed or required to exist precedent to the execution and delivery of this Guarantor Continuing Disclosure Agreement, do exist, have happened and have been performed in regular form, time and manner; and

WHEREAS, the Guarantor is a publicly owned and regulated utility; and

WHEREAS, the Authority, the Guarantor and the Trustee are entering into this Guarantor Continuing Disclosure Agreement for the benefit of the Holders of the Bonds.

NOW, THEREFORE, for and in consideration of the promises and of the mutual representations, covenants and Guarantor Continuing Disclosure Agreements herein set forth, the Authority, the Guarantor and the Trustee, each binding itself, its successors and assigns, do mutually promise, covenant and agree as follows:

ARTICLE 1  
DEFINITIONS

Section 1.1. Terms Defined in Recitals. The following terms shall have the meaning set forth in the recitals hereto:

Authority  
Authority Series C Bond Resolution  
Bonds  
Guarantor  
Guarantor Continuing Disclosure Agreement  
Preliminary Official Statement  
Rule 15c2-12  
SEC  
Securities Exchange Act  
Trustee  
Underwriter

Section 1.2. Additional Definitions. The following additional terms shall have the meanings specified below:

"Bondholder" or "Holder" or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond, including Holders of beneficial interests in the Bonds.

"Business Day" means any day other than (a) a Saturday or Sunday, (b) a day on which commercial banks in New York, New York or the city or cities in which are located the principal corporate trust offices of the Trustee are authorized or required by law to close or (c) a day on which the New York Stock Exchange is closed.

"Disclosure Event" means any event described in subsection 2.2 of this Guarantor Continuing Disclosure Agreement.

"Disclosure Event Notice" means the notice to the Repositories and the MSRB as provided in subsection 2.5.

"Disclosure Representative" means the authorized officer of the Authority or his or her designee, or such other officer or employee as the Authority shall designate in writing to the Dissemination Agent, if the Authority has appointed or engaged a Dissemination Agent, from time to time.

"Dissemination Agent" means the Trustee acting in its capacity as Dissemination Agent under this Guarantor Continuing Disclosure Agreement, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

"Final Official Statement" means the final Official Statement of the Authority dated \_\_\_\_\_, \_\_\_\_\_ pertaining to the Bonds.

"Fiscal Year" means the fiscal year of the Guarantor, as applicable. As of the date of this Guarantor Continuing Disclosure Agreement, the Fiscal Year of the Guarantor begins on \_\_\_\_\_ of each calendar year and closes on \_\_\_\_\_ of such calendar year.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America, consistently applied.

"GAAS" means generally accepted auditing standards as in effect from time to time in the United States of America, consistently applied.

"Guarantor Financial Statements" means the audited financial statements of the Guarantor for each Fiscal Year on file with \_\_\_\_\_.

"MSRB" means the Municipal Securities Rulemaking Board. The address of the MSRB as of the date of this Guarantor Continuing

Disclosure Agreement is:

1818 N Street, NW, Suite 800  
Washington, DC 20036-2491

"National Repository" means a "nationally recognized municipal securities information repository" within the meaning of Rule 15c2-12. As of the date of this Guarantor Continuing Disclosure Agreement, the National Repositories designated by the SEC in accordance with Rule 15c2-12 are:

- (a) Bloomberg Municipal Repositories  
P.O. Box 840  
Princeton, New Jersey 08542-0840  
Telecopies: (609) 279-5962  
Telephone: (609) 279-3200  
Internet: MUNIS@bloomberg.com
- (b) Kenny Information Services, Inc.  
ATTN: Kenny Repository Services  
65 Broadway, 16th Floor  
New York, New York 10006  
Telephone: (212) 770-4595
- (c) Thomas Municipal Library  
395 Hudson Street; 3rd Floor  
New York, New York 10014  
Telecopier: (212) 989-2078  
Telephone: (212) 807-3814

(d) DPC Data Inc.  
One Executive Drive  
Fort Lee, New Jersey 07024  
Telephone: (201) 346-0701  
Telecopier: (201) 947-0107

"Repository" means each National Repository and each State

Repository.

"State" means the State of New Jersey.

"State Repository" means any public or private repository or entity designated by the State as a state information depository for purposes of Rule 15c2-12. As of the date of this Guarantor Continuing Disclosure Agreement, there is no State Repository.

Section 1.3. Capitalized Terms Not Defined Herein. Capitalized terms not defined herein shall have the meanings assigned to them in Section 101 of the Authority Series C Bond Resolution.

Section 1.4. Interpretation. Words of masculine gender include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular include the plural and vice versa, and words importing persons include corporations, associations, partnerships (including limited partnerships), trusts, firms and other legal entities, including public bodies, as well as natural persons. Articles and Sections referred to by number mean the corresponding Articles and Sections of this Guarantor Continuing Disclosure Agreement. The terms "hereby", "hereof", "hereto", "herein", "hereunder" and any similar terms as used in this Guarantor Continuing Disclosure Agreement, refer to this Guarantor Continuing Disclosure Agreement as a whole unless otherwise expressly stated.

As the context shall require, all words importing the singular number shall include the plural number; the disjunctive term "or" shall be interpreted conjunctively as required to insure that the Authority perform any obligations mentioned in the passage in which such term appears.

The headings of this Guarantor Continuing Disclosure Agreement are for convenience only and shall not define or limit the provisions hereof.

ARTICLE 2

CONTINUING DISCLOSURE COVENANTS AND REPRESENTATIONS

Section 2.1. Continuing Disclosure Covenants and Representations of the Guarantor. The Guarantor agrees that it will provide, or shall cause the Dissemination Agent to provide:

(a) Not later than one-hundred eighty (180) days after the end of each Fiscal Year of the Guarantor, commencing with the Fiscal Year of the Guarantor ending on \_\_\_\_\_, \_\_\_\_\_ the Guarantor Financial Statements to each Repository;

(b) Not later than fifteen (15) days prior to the date specified in subsection 2.1(a), a copy of the Guarantor's Financial Statements to the Dissemination Agent;

(c) If audited Guarantor Financial Statements are not submitted as part of the filing set forth in subsection 2.1(a), the Guarantor will submit unaudited financial statements with such filing, and will subsequently submit audited Guarantor Financial Statements when and if available, to each Repository.

(d) In a timely manner, to each National Repository or to the MSRB and to the appropriate State Repository, if any, notice of a failure by the Guarantor to provide the Guarantor Financial Statements within the period described in subsection 2.1(a).

Section 2.2. Continuing Disclosure Covenants and Representations of the Authority. The Authority agrees that it will provide, or shall cause the Dissemination Agent to provide in a timely manner, to each National Repository or to the MSRB, and to the appropriate State Repository, if any, notice of any of the following events with respect to the Bonds, if material (each, a "Disclosure Event"):

- (a) Principal and interest payment delinquencies on the Bonds;
- (b) Non-payment related defaults;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Modifications to rights of security holders;

- (g) Bond calls;
- (h) Defeasances;
- (i) Release, substitution, or sale of property securing repayment of the securities; and
- (j) Rating changes;

Section 2.3. Form of Filings. (a) The Guarantor Financial Statements may be submitted as a single document or as separate documents comprising a package.

(b) Any or all of the items which must be included in the Guarantor Financial Statements may be incorporated by reference from other documents, including official statements delivered in connection with other financings issued on behalf of the Guarantor which have been submitted to each of the Repositories or filed with the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Guarantor shall clearly identify each such other document so incorporated by reference.

(c) The Guarantor Financial Statements for any Fiscal Year containing any modified operating data or financial information (as contemplated by Section 4.9 and 4.10) for such Fiscal Year shall explain, in narrative form, the reasons for such modification and the effect of such modification on the Guarantor Financial Statements being provided for such Fiscal Year.

Section 2.4. Responsibilities, Duties, Immunities and Liabilities of the Dissemination Agent.

(a) It shall be the responsibility of the Dissemination Agent to determine the occurrence of a Disclosure Event. If the Dissemination Agent has determined it necessary to report the occurrence of a Disclosure Event, the Dissemination Agent shall file promptly a notice of such occurrence with each National Repository or with the MSRB and the State Repository (the "Disclosure Event Notice") in the form provided by the Authority; provided, that the Disclosure Event Notice pertaining to the occurrence of a Disclosure Event described in clauses 2.2(h) (optional or special redemptions of the Bonds) or 2.2(i) (defeasances) need not be given under this subsection any earlier than the time when the notice (if any) of such Disclosure Event shall be given to Holders of affected Bonds as provided in the Authority Series C Bond Resolution. The obligation of the Dissemination Agent to provide the notices to the Repositories or the MSRB, as the case may be, under this Guarantor Continuing Disclosure Agreement are in addition to, and not in substitution of, any of the obligations of the Trustee to provide notices of Events of Default to Holders under the Authority Series C Bond Resolution. The Dissemination Agent shall file a copy of each Disclosure Event Notice with the Trustee (if the Trustee is not the Dissemination Agent) for informational purposes only.



(b) The Dissemination Agent shall determine each year prior to the date for providing the Guarantor Financial Statements the name and address of each National Repository and each State Repository, if any.

(c) The Dissemination Agent shall:

(i) Upon receiving the applicable Guarantor Financial Statements, file the same with each Repository as soon as practicable and thereafter file a written report with the Authority certifying that the applicable Guarantor Financial Statements which have been provided to it have been filed with each Repository pursuant to this Guarantor Continuing Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided; and

(ii) if the Dissemination Agent has not received the Guarantor Financial Statements from the City by the date set forth in subsections 2.1(b) immediately send written notice of such failure to the Authority, the Guarantor and the Trustee.

Section 2.5. Appointment, Removal, and Resignation of the Dissemination Agent, Indemnification.

(a) The Authority hereby appoints the Trustee to act as Dissemination Agent under this Guarantor Continuing Disclosure Agreement to assist it in carrying out its obligations under this Guarantor Continuing Disclosure Agreement. The Authority may, from time to time, discharge any such Dissemination Agent, and appoint a successor Dissemination Agent, such discharge to be effective on the date of the appointment of a successor Dissemination Agent following notice of same to the Guarantor.

(b) The Dissemination Agent shall have only such duties as are specifically set forth in this Guarantor Continuing Disclosure Agreement, and the Guarantor agrees to indemnify and save the Dissemination Agent and the Authority, its officers, directors, employees and agents harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Authority's negligence or wilful misconduct. The obligations of the Guarantor under this subsection shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(c) The Dissemination Agent, or any successor thereto, may at any time resign and be discharged of its duties and obligations hereunder by giving not less than thirty (30) days written notice to the Authority. Such resignation shall take effect on the date specified in such notice.

Section 2.6. Responsibilities, Duties, Immunities and Liabilities of the Trustee.

(a) Article X of the Authority Series C Bond Resolution is hereby made applicable to this Guarantor Continuing Disclosure Agreement as if the duties of the Trustee under this Guarantor Continuing Disclosure Agreement were (solely for this purpose) set forth in the Authority Series C Bond Resolution.

Section 2.7. Additional Persons Obligated under Rule 15c2-12. The Authority agrees that it will cause any other person who becomes an "Obligated Person" as such term is defined in Rule 15c2-12 to perform all of the duties of the Authority herein.

ARTICLE 3

DEFAULTS AND REMEDIES

Section 3.1. Disclosure Default. The occurrence and continuation of a failure by the Authority or the Guarantor to observe, perform or comply with any covenant, condition or agreement on its part to be observed or performed in this Guarantor Continuing Disclosure Agreement and such failure shall remain uncured for a period of thirty (30) days after written notice thereof has been given to the Authority and the Guarantor by the Trustee or any Bondholder shall constitute a default hereunder.

Section 3.2. Remedies on Default.

(a) The Trustee may, at the request of the Underwriter or the Holders of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and after the Trustee has been indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all loss, liability and expenses, or any Bondholder, for the equal benefit and protection of all Bondholders similarly situated, may take whatever action at law or in equity against the Authority or the Guarantor and any of the officers, agents and employees of the Authority or the Guarantor which is necessary or desirable to enforce the specific performance and observance of any obligation, agreement or covenant of the Authority or the Guarantor under this Guarantor Continuing Disclosure Agreement and may compel the Authority or the Guarantor or any such officers, agents or employees, except for the Dissemination Agent, to perform and carry out their duties under this Guarantor Continuing Disclosure Agreement; provided, that no person or entity shall be entitled to recover monetary damages hereunder under any circumstances.

(b) In case the Trustee or any Bondholder shall have proceeded to enforce its rights under this Guarantor Continuing Disclosure Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or any Bondholder, as the case may be, then and in every such case the Authority, the Guarantor or the Trustee and any Bondholder, as the case may be, shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Authority, the Guarantor or the Trustee and any Bondholder shall continue as though not such proceeding had been taken.

(c) A default under this Guarantor Continuing Disclosure Agreement shall not be deemed an Event of Default under the Authority Series C Bond Resolution, and the sole remedy under this Guarantor Continuing Disclosure Agreement in the event of any failure by the Authority to comply with this Guarantor Continuing Disclosure Agreement shall be as set forth in subsection 3.2(a) of this Guarantor Continuing Disclosure Agreement.

ARTICLE 4

MISCELLANEOUS

Section 4.1. Purposes of the Guarantor Continuing Disclosure Agreement. This Guarantor Continuing Disclosure Agreement is being executed and delivered by the Authority, the Guarantor and the Trustee for the benefit of the Bondholders and in order to assist the Underwriter in complying with clause (b)(5) of Rule 15c2-12.

Section 4.2. Third-Party Beneficiaries: The Bondholders. Each Bondholder is hereby recognized as being a third-party beneficiary hereunder and each may enforce, for the equal benefit and protection of all Bondholders similarly situated, any such right, remedy or claim conferred, given or granted hereunder in favor of the Trustee.

Section 4.3. Indemnified Parties. To the extent permitted by Law, the Guarantor agrees to indemnify and hold harmless the Trustee, the Dissemination Agent, the Authority and the Underwriter, and each person, if any, who has the power, directly or indirectly, to direct or cause the direction of the management and policies of each and any purchase of the Bonds through the ownership of voting securities, by contract or otherwise (collectively called the "Indemnified Parties"), against any and all losses, claims, damages, liabilities or expenses whatsoever caused by such entity's failure to perform or observe any of its obligations, agreements or covenants under the terms of this Guarantor Continuing Disclosure Agreement, but only if and insofar as such losses, claims, damages, liabilities or expenses are caused by any such failure of the Guarantor to perform. In case any action shall be brought against the Indemnified Parties based upon this Guarantor Continuing Disclosure Agreement and in respect of which indemnity may be sought against the Guarantor, the Indemnified Parties shall promptly notify the Guarantor in writing. Upon receipt of such notification, the Guarantor shall promptly assume the defense of such action, including the retention of counsel, the payment of all expenses in connection with such action and the right to negotiate and settle any such action on behalf of such party. Any Indemnified Party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless the employment of such counsel has been specifically authorized by the Guarantor or unless by reason of conflict of interest determined by the written opinion of counsel to any such party, it is advisable for such party to be represented by separate counsel, to be retained by the Guarantor in which case the fees and expenses of such separate counsel shall be borne by the Guarantor. The Authority shall not be liable for any settlement of any such action effected without its written consent, but if settled with the written consent of the Guarantor or if there be a final judgment of the plaintiff in any such action with or without written consent, the Guarantor agrees to indemnify and hold harmless the Indemnified Parties from and against any loss or liability by reason of such settlement or judgment. Nothing in this paragraph shall require or obligate the Guarantor to indemnify or hold harmless the Indemnified

Parties from or against any loss, claim, damage, liability or expense caused by any negligence, recklessness or intentional misconduct of the Indemnified Parties in connection with such entity's performance of its obligations, agreements and covenants under this Guarantor Continuing Disclosure Agreement.

Section 4.4. Additional Information. Nothing in this Guarantor Continuing Disclosure Agreement shall be deemed to prevent the Authority or the Guarantor from (a) disseminating any other information, using the means of dissemination set forth in this Guarantor Continuing Disclosure Agreement or any other means of communication, or (b) including any other information in any Guarantor Financial Statements or any Disclosure Event Notice, in addition to that which is required by this Guarantor Continuing Disclosure Agreement. If the Authority and the Guarantor choose to include any information in any Guarantor Financial Statements or any Disclosure Event Notice in addition to that which is specifically required by this Guarantor Continuing Disclosure Agreement, the Authority and the Guarantor shall have no obligation under this Guarantor Continuing Disclosure Agreement to update such information or include it in any future Guarantor Financial Statements or any future Disclosure Event Notice.

Section 4.5. Notices. All notices required to be given or authorized to be given by any party pursuant to this Guarantor Continuing Disclosure Agreement shall be in writing and shall be sent by registered or certified mail (as well as by facsimile, in the case of the Trustee) to, in the case of the Authority, 101 Interchange Plaza, Cranbury, NJ 08512, Att: Chairman; in the case of the Guarantor, 1500 Ronson Road, Iselin, New Jersey 08830 Att: Chief Financial Officer; and in the case of the Trustee, its principal corporate trust office at Amboy National Bank, 3590 Route 9 South, Old Bridge, New Jersey 08857, Att: Corporate Trust Department.

Section 4.6 Assignments. This Guarantor Continuing Disclosure Agreement may not be assigned by any party without the consent of the others and, as a condition to any such assignment, only upon the assumption in writing of all of the obligations imposed upon such party by this Guarantor Continuing Disclosure Agreement.

Section 4.7. Severability. If any provision of this Guarantor Continuing Disclosure Agreement shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative or unenforceable to any extent whatever.

Section 4.8. Execution of Counterparts. This Guarantor Continuing Disclosure Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. The parties hereto may sign the same counterpart or each party hereto may sign a separate counterpart.

Section 4.9. Amendments, Changes and Modifications.

(a) Except as otherwise provided in this Guarantor Continuing Disclosure Agreement, subsequent to the initial issuance of the Bonds and prior to their payment in full (or provision for payment thereof having been made in accordance with the provisions of the Authority Series C Bond Resolution), this Guarantor Continuing Disclosure Agreement may not be effectively amended, changed, modified, altered or terminated without the written consent of the Trustee.

(b) Without the consent of any Bondholders, the Authority, the Guarantor and the Trustee at any time and from time to time may enter into any amendments or modifications to this Guarantor Continuing Disclosure Agreement for any of the following purposes:

(i) to add to covenants and agreements of the Authority and the Guarantor hereunder for the benefit of the Bondholders, or to surrender any right or power conferred upon the Authority or the Guarantor by this Guarantor Continuing Disclosure Agreement;

(ii) to modify the contents, presentation and format of the Guarantor Financial Statements and Guarantor Data from time to time to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Authority and the Guarantor, or to reflect changes in the identity, nature or status of the Authority or the Guarantor or in the business, structure or operations of the Authority or the Guarantor or any mergers, consolidations, acquisitions or dispositions made by or affecting the Authority or the Guarantor; provided that any such modification shall comply with the requirements of Rule 15c2-12 as then in effect at the time of such modification;

(iii) to cure any ambiguity, to correct or supplement any provision hereof which may be inconsistent with any other provision hereof, or to include any other provisions with respect to matters or questions arising under this Guarantor Continuing Disclosure Agreement which, in each case, comply with Rule 15c2-12 as then in effect at the time of such modification; or

(iv) to assure continued compliance with Rule 15c2-12 pursuant to the provisions of subsection 4.10 hereof,

provided, that prior to approving any such amendment or modification, the Trustee and the Authority determine that such amendment or modification does not adversely affect the interests of the Holders of the Bonds in any material respect.

(c) Upon entering into any amendment or modification required or permitted by this Guarantor Continuing Disclosure Agreement, the

Dissemination Agent shall deliver to each of the Repositories written notice of any such amendment or modification.

(d) The Authority and the Trustee shall be entitled to rely exclusively upon an opinion of counsel nationally recognized as expert in Federal securities law acceptable to the Authority to the effect that such amendments or modifications comply with the conditions and provisions of this Section 4.9.

Section 4.10. Amendments Required by Rule 15c2-12. The Authority, the Guarantor and the Trustee each recognize that the provisions of this Guarantor Continuing Disclosure Agreement are intended to enable the Underwriter to comply with Rule 15c2-12. If, as a result of a change in Rule 15c2-12 or in the interpretation thereof, a change in this Guarantor Continuing Disclosure Agreement shall be permitted or necessary to assure continued compliance with Rule 15c2-12 and upon delivery by the Underwriter of an opinion of counsel nationally recognized as expert in Federal securities law acceptable to the Authority to the effect that such amendments shall be permitted or necessary to assure continued compliance by the Underwriter with Rule 15c2-12 as so amended or interpreted, then the Authority, the Guarantor and the Trustee shall, amend this Guarantor Continuing Disclosure Agreement to comply with and be bound by any such amendment to this Guarantor Continuing Disclosure Agreement to the extent necessary or desirable to assure compliance with the provisions of Rule 15c2-12 and provide the written notice of such amendment as required by subsection 4.9(c) hereof.

Section 4.11. Miscellaneous. The Authority and the Underwriter may rely upon the representation of the Guarantor hereunder in connection with the issuance of the Bonds. The Guarantor covenants that it has never failed to comply with any continuing disclosure obligation.

Section 4.12. Governing law. This Guarantor Continuing Disclosure Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the United States of America and the State of New Jersey.

Section 4.13. Termination of Continuing Disclosure Obligations. The continuing obligation of the Authority and the Guarantor under Section 2.1 and 2.2, respectively, hereof to provide the Guarantor Financial Statements and any Disclosure Event Notice, as applicable, and to comply with the other requirements of said Section shall terminate if and when either (a) the Bonds are no longer Outstanding in accordance with the terms of the Authority Series C Bond Resolution or (b) the Authority and the Guarantor no longer remain an "Obligated Person" (as defined in Rule 15c2-12(f)(10)) with respect to the Bonds and in either event, only after the Authority delivers, or causes the Dissemination Agent to deliver, to each of the Repositories written notice to such effect.

Section 4.13. Binding Effect. This Guarantor Continuing Disclosure Agreement shall inure to the benefit of and shall be binding upon the Authority, the Guarantor and the Trustee and their respective successor and assigns.



IN WITNESS WHEREOF, THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY,  
THE MIDDLESEX WATER COMPANY AND \_\_\_\_\_, have caused this  
Guarantor Continuing Disclosure Agreement to be executed in their respective  
names as of the date first above written.

THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY

BY: \_\_\_\_\_  
LEONARD J. ROSEMAN, CHAIRMAN

MIDDLESEX WATER COMPANY

BY: \_\_\_\_\_  
J. RICHARD TOMPKINS, PRESIDENT AND  
CHAIRMAN OF THE BOARD

AMBOY NATIONAL BANK, AS TRUSTEE

BY: \_\_\_\_\_

SCHEDULE K

FORM OF GUARANTOR PERFORMANCE GUARANTY AGREEMENT

GUARANTOR PERFORMANCE GUARANTY AGREEMENT

DATED AS OF \_\_\_\_\_, 1998

K-1

GUARANTOR PERFORMANCE GUARANTY AGREEMENT

THIS GUARANTOR PERFORMANCE GUARANTY AGREEMENT (the "Guarantor Performance Guaranty Agreement") among MIDDLESEX WATER COMPANY (the "Guarantor"), a \_\_\_\_\_ corporation, the CITY OF PERTH AMBOY, a public body corporate and politic of the State of New Jersey (the "State"), the MIDDLESEX COUNTY IMPROVEMENT AUTHORITY (the "Authority"), a public body corporate and politic of the State and AMBOY NATIONAL BANK a state banking corporation, as trustee (the "Trustee");

WITNESSETH

WHEREAS, the City and the Authority have entered into an Agreement dated as of \_\_\_\_\_, 1998 entitled "Agreement Between the City of Perth Amboy, in the County of Middlesex, New Jersey, The Middlesex County Improvement Authority and Utility Service Affiliates, Inc., a Subsidiary of Middlesex Water Company for Operation, Maintenance and Management Services for the City's Water System and Wastewater System" (the "Agreement") with Utility Service Affiliates, Inc. (the "Company"), a subsidiary of the Guarantor for the operation, maintenance and management and, in certain instances, improvement of the City's wastewater and water system (the "System"); and

WHEREAS, the City and the Authority have required the Company under the Agreement to provide this guaranty (the "Performance Guaranty") from the Guarantor pursuant the Agreement; and

WHEREAS, the Guarantor acknowledges that the City and the Authority would not enter into the Agreement unless the Guarantor provided this Performance Guaranty and the Guarantor shall receive benefit because of the Agreement; and

WHEREAS, the Guarantor is willing to provide such Performance Guaranty;

NOW THEREFORE, as an inducement to the City and the Authority to enter into the Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor agrees as follows:

(1) The Guarantor hereby guarantees the full and prompt performance by the Company of all the Company's obligations under the Agreement when due (the "Obligations") in accordance with the terms and conditions contained herein.

(2) The Guarantor further guarantees that in the event the Company fails to duly and properly perform and satisfy when due any and all of its Obligations under the Agreement, Guarantor shall, upon written demand of the City, with notice to the Authority, setting forth the specific failure of the Company, promptly perform and satisfy those Obligations set forth in such demand.

(3) The obligations of the Guarantor under this Performance Guaranty (i) shall be absolute, irrevocable and unconditional under any and all circumstances without regard to the genuineness, validity, legality or enforceability of the Agreement (unless the City or the Authority, their successors or assigns, assert any claim or defense based on any alleged invalidity, illegality or unenforceability of the Agreement or any term thereof) or of any term thereof, or lack of power or authority of any party (other than the City or the Authority) to enter into the Agreement, or any substitution, release or exchange of any other guaranty of or any security for the Obligations, and irrespective of any other circumstances which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, (ii) are in no way conditional upon any attempt to enforce performance or compliance by the Company and (iii) shall remain in full force and effect until the performance by the Company of all of its performance and payment Obligations under the Agreement. This Performance Guaranty shall continue to be effective or be automatically reinstated, as the case may be, if at any time any payment by or on behalf of the Company or the Guarantor in respect of the Obligations is rescinded or must otherwise be restored by the City or the Authority to the Company or such Guarantor, as the case may be, or any assignee of the City or the Authority for any reason whatsoever, including, but not limited to, any proceedings in bankruptcy or reorganization, as though such payment had not been made and the Guarantor agrees that it shall indemnify the City and the Authority on demand for all costs and expenses (including, without limitation, fees and expenses of counsel) incurred by the City and the Authority in connection with any such rescission or restoration. Without limiting the generality of the foregoing, the obligations of the Guarantor shall not be affected, reduced, modified or impaired upon the happening from time to time of any of the following events, whether or not with notice to or the consent of Guarantor:

(a) the failure to give notice to Guarantor of the occurrence of a default by the Company under the terms and provisions of the Agreement;

(b) the modification or amendment (in accordance with the terms of the Agreement) (whether material or otherwise) of any obligation, covenant or agreement set forth in the Agreement;

(c) any failure, omission, delay by or lack on the part of the City and the Authority to assert or exercise any right, power or remedy conferred on the City or the Authority in the Agreement or this Performance Guaranty;

(d) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the City's, the Authority's and/or the Company's assets, the marshaling of the City's, the Authority's and/or the Company's assets and liabilities, the receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition with creditors, or

readjustments of, or other similar proceedings affecting the City, the Authority and/or the Company or the Guarantor or any of the assets of any of them;

(e) the assignment (in accordance with the terms of the Agreement) of any right, title or interest of the City or the Authority in the System or the Agreement to any other person, including, without limitation, any person providing financing to the City or the Authority and any entity purchasing an interest in the System pursuant to a leverage lease or similar arrangement; or

(f) any other cause or circumstance, foreseen or unforeseen, whether similar or dissimilar to any of the foregoing;

it being the intent of Guarantor that its obligations hereunder shall not be discharged except by payment for and/or performance of the Company's Obligations, and then only to the extent of such payment or performance.

(4) Guarantor hereby waives diligence, presentment, demand of payment, protest and all notices whatsoever, including, without limitation, notice of (1) any alteration or modification of the Agreement, provided such alteration or modification has been duly executed by the Company, (2) the City's or the Authority's acceptance and reliance on this Performance Guaranty and (3) notice of default or demand in the case of default, provided such notice or demand has been given to or made upon the Company, and any requirement that the City exhaust any right, power or remedy or proceed against the Company under the Agreement or any other agreement or instrument referred to herein or therein or against any other person under any other guarantee of, or security for, any of the Obligations.

(5) If a demand, in accordance with Section 2 of this Performance Guaranty, is made upon the Guarantor and the Guarantor duly and properly performs the obligations of the Company set forth in the demand, then (a) after satisfaction in full of all of the Obligations, the Guarantor shall be subrogated to the rights of the Company against the City and the Authority, and (b) the City and the Authority shall suspend the pursuit of any remedy against the Company in respect of any such Obligations which have been fully satisfied by Guarantor hereunder;

(6) The Guarantor hereby represents and warrants that:

(a) it is a corporation duly organized and existing under the laws of the State of New Jersey and qualified to do business therein; it is not in default under any provisions of the laws of said state or under its certificate of incorporation; it has corporate power under said laws and under its certificate of incorporation to enter into and perform all agreements on its part herein contained; it has, by proper

corporate action, duly authorized the entering into and the execution and delivery of this Performance Guaranty; and entering into this Performance Guaranty and performance hereunder is not an event of default or otherwise contrary to any obligation by which it is bound; and this Performance Guaranty has been duly and validly executed and delivered by the Guarantor and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting rights of creditors of Guarantor generally); and

(b) there is no action or proceeding pending or threatened against it before any court or administrative agency that could reasonably adversely affect its ability to perform its Obligations under this Performance Guaranty and all authorizations, consents and approvals of governmental bodies or agencies required in connection with the execution and delivery of this Performance Guaranty or in connection with the performance of its obligations hereunder have been obtained as required hereunder or by law.

(7) This Performance Guaranty shall be governed by the laws of the State of New Jersey, and the Guarantor hereby agrees to service of process in the State of New Jersey for any claim or controversy arising out of this Performance Guaranty or relating to any breach and to submit to the exclusive jurisdiction of any court of competent jurisdiction in the State.

(8) This Performance Guaranty shall be binding upon and enforceable against the Guarantor, its successors and assigns, and is for the benefit of the City and the Authority, their successors, agents and assigns.

IN WITNESS WHEREOF, the Guarantor, the City, the Authority and the Trustee has executed this instrument the day and year first above written.

ATTEST: MIDDLESEX WATER COMPANY,  
AS GUARANTOR

-----  
MARION REYNOLDS, VICE PRESIDENT, TREASURER AND SECRETARY  
-----  
J. RICHARD TOMPKINS, PRESIDENT AND CHAIRMAN OF THE BOARD

ATTEST: CITY OF PERTH AMBOY

-----  
ELAINE M. KICZULA, CLERK  
-----  
JOSEPH VAS, MAYOR

ATTEST: MIDDLESEX COUNTY IMPROVEMENT AUTHORITY

-----  
RALPH MOCCI, SECRETARY  
-----  
LEONARD J. ROSEMAN, CHAIRMAN

ATTEST: AMBOY NATIONAL BANK,  
AS TRUSTEE

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



## INITIAL FACILITIES

The facilities currently comprising the water and wastewater Systems of the City of Perth Amboy consist of the following:

5. Runyon Watershed, consisting of approximately 1,250 acres, 8 million gallons of water per day, treatment plant, two dams, a recharge reservoir of 75 acres, production wells and piping;
6. A 40 million gallon covered roof reservoir on Florida Grove Road in the City;
7. The Albert Street standpipe, the storage capacity of 1 million gallons;
8. The Water Utility Distribution Maintenance Shop and Garage, located on Smith Street in the City;
9. Two functioning Raritan River crossings, one currently in use by the City, and one leased to the Middlesex Water Company;
10. Transmission pipelines, consisting of:
  - (a) A 16" main, approximately 12.5 miles long, serving customers in the Township of Old Bridge and the Borough of Sayreville;
  - (b) A 24" and a 30" transmission main, both of which extend to the City a distance of approximately 8.5 miles
11. Approximately 59 miles of water distribution mains and a similar amount of sewer collection mains, 700 fire hydrants and 1100 sewer catch basins; and
12. The sewer system, consisting of 18 combined sewer out falls, a main pumping station rated at 12.5 million gallons per day and 3 lift stations.

SCHEDULE M  
LEASED EMPLOYEES

Title -----	Name -----	Date of Hire ----	Union -----
Director of PW/MU	Jimenez, Luis	3/30/87	Management
Laborer	Allen, Alfred	1/8/90	Blue Collar
	Covington, Charles	7/15/91	Blue Collar
	DeLeon, Pablo	11/16/97	Blue Collar
	Fernandez, Benjamin	2/16/89	Blue Collar
	Leon, Hector	10/20/97	Blue Collar
	Rivera, William	8/19/95	Blue Collar
	Vega, Jose	3/2/92	Blue Collar
Supervisor Water	Aviles, Alberto	5/2/83	Blue Supv.
	Zawiskowski, Joseph	9/27/71	Blue Supv.
Water Repairer	Cruz, Catalino	1/21/85	Blue Collar
	Deak, Alan	4/25/88	Blue Collar
	Lund, Robert	4/20/89	Blue Collar
	Mroczkowski, Kenneth	8/23/88	Blue Collar
	Santiago, Mario	6/28/82	Blue Collar
Supv. Accountant	David, Acela	11/23/87	Blue Collar
W Plant Operator	Donnelly, Brian	6/8/88	Blue Collar
Chief Clerk	Olexa, Rose Ann	10/1/79	White Supv.
Water Res Attend.	Kurtz, Michael	11/22/76	Blue Collar
	Rios, Andy	7/9/91	Blue Collar
Prin. Acct. Clerk	Morales, Annette	1/28/85	White Collar
Prin. Water Shed	Pejakovich, Danilo	10/29/73	Blue Supt.
SWT Plant Oper.	Porcaro, Joseph	4/7/86	Blue Collar
	Walters, Clynton	7/12/82	Blue Collar
Super WT Rep	Rivera, Epifano	7/16/84	Blue Supv.
Meter Reader	Burns, Thomas	3/11/85	Blue Collar
Meter Repairer	Stek, Charles	10/15/74	Blue Collar

Title -----	Name -----	Date of Hire -----	Union -----
Asst Watershed Supt	Tanko, Leon	8/15/83	Blue Supt.
Equip. Operator	Wild, Francis	8/4/86	Blue Collar
Cashier	Ziembra, Dolores	7/15/91	White Collar
Sr. Clerk Typist	Bergman, Gerd	8/19/95	White Collar
Laborer	Bosques Jr., Pablo	5/16/83	Blue Collar
Filter Operator	Cameron, Rodney Silva, Edwardo	9/15/86 4/1/85	Blue Collar Blue Collar
Equipment Operator	Delibero, Vincent	9/14/81	Blue Collar
Super Main Repairer	Diaz, Juventino	3/13/79	Blue Supv.
Pumping Station Operator	Febles, Guillermo	11/17/88	Blue Collar
Sewer Plant Repairer	Feliciano, Robert	11/23/81	Blue Collar
Sewer Plant Operator	Klempa, Gregory	12/14/82	Blue Collar
Super Sewer Maint	LaRosa, Joseph	8/16/73	Blue Supv.
Sewer Superintendent	Olexa, Michael	1/9/67	Blue Supt.

The City agrees that it will not hire additional employees for positions held by Leased Employees. Nothing shall prevent the City from transferring a Leased Employee to a job not held by a Leased Employee and not covered by this Agreement. Likewise, nothing shall prevent a Leased Employee from applying for and accepting a transfer to a job not held by a Leased Employee and not covered by this Agreement.

The discipline protocol for all Leased Employees shall be governed by the applicable Civil Service Regulations and by the Collective Bargaining Agreements in effect between the City and the Unions. The following disciplinary protocols are currently in effect:

1. BLUE COLLAR UNION, AFSCME, LOCAL 2633

ARTICLE 37

DISCIPLINE AND DISCHARGE

An employee may be disciplined or discharged for just cause. Employees shall have the opportunity to be represented by the Union when such employees is advised of disciplinary action being taken against him/her.

A copy of all disciplinary actions shall be sent to the Union President.

2. WHITE COLLAR UNION, AFSCME, LOCAL 2270

ARTICLE 36

DISCIPLINE AND DISCHARGE

An employee may be disciplined or discharged for just cause. Employees shall have the opportunity to be represented by the Union when such employee is advised of disciplinary or discharge action being taken against him or her.

3. BLUE COLLAR SUPERINTENDENTS UNION EMPLOYEES SERVICE UNION, LOCAL 702

ARTICLE 33

DISCIPLINE AND DISCHARGE

Employees may be disciplined or discharged for just case and shall have the opportunity to be represented by the Union when advised of such disciplinary or discharge action.

A copy of all disciplinary actions shall be sent to the Union Representative.

4. BLUE COLLAR SUPERVISORS UNION, PUBLIC EMPLOYEES SERVICE UNION, LOCAL 702

ARTICLE 33

DISCIPLINE AND DISCHARGE

An Employee may be disciplined or discharged for just cause. Employees shall have the opportunity to be represented by the Union when such employee is advised of disciplinary or discharge action being taken against him/her.

A copy of all disciplinary actions shall be sent to the Union Representative.

ARTICLE 33

DISCIPLINE AND DISCHARGE

Employees may be disciplined or discharged for just cause and shall have the opportunity to be represented by the Union when advised of such disciplinary or discharge action. A copy of all disciplinary actions shall be sent to the Union representative.

The City shall be responsible for notifying the Company promptly of any changes in its applicable Collective Bargaining Agreements and/or discipline protocols. The City shall also provide the Company with copies of all applicable Collective Bargaining Agreements, any changes to said Agreements and/or discipline protocols.

In the event a Leased Employee engages in conduct which, in the Company's judgment, warrants discipline, the Company shall promptly report such conduct to the City. If after consultation between the Company and City, it is determined by the Company that disciplinary action is warranted, the City will administer the appropriate discipline in accordance with its obligations under any applicable Collective Bargaining Agreement.

In the event a disciplinary incident warrants immediate action, the Company is authorized to have any Leased Employee removed from the workplace until such time that a final decision on disciplinary action can be made.

The City is solely responsible for determining and administering its own discipline. In the event that any disciplinary action results in a Leased Employee filing a grievance or arbitration, the City is solely responsible for participating in and administering the grievance/arbitration. The Company agrees to provide any reasonable support needed to assist the City in the grievance/arbitration process.

SCHEDULE N

MCUA FEES

CONTRACT YEAR	AMOUNT
1	\$1,700,000*
2	1,751,000
3	1,804,000
4	1,858,000
5	1,913,000
6	1,971,000
7	2,030,000
8	2,091,000
9	2,154,000
10	2,218,000
11	2,285,000
12	2,353,000
13	2,424,000
14	2,497,000
15	2,571,000
16	2,649,000
17	2,728,000
18	2,810,000
19	2,894,000
20	2,981,000
21	3,070,000*

- - - - -

\* Amount to be Prorated during a short first and last Contract Year.

SCHEDULE 0  
NON-PROFIT FACILITIES

NAME -----	LOCATION -----
1. Beth Israel Congregation	164 Jefferson Street
2. Bethel Christian Church	188 Hall Avenue
3. Christian Church Mt. Carmel- Assembly of God	282 King Street
4. Church of God in Christ	361 High Street
5. Congregation Shaarey Tefiloh	15 Market Street
6. First Baptist Church of Perth Amboy	High & Market Streets
7. First Presbyterian Church of Perth Amboy	250 High Street
8. Glad Tidings Assembly	463 Amboy Avenue
9. Grade Lutheran Church	600 New Brunswick Ave.
10. Holy Spirit Catholic Church	496 Penn Street
11. Holy Trinity Catholic Church	331 Kirkland Place
12. Hungarian Reformed Church	255 Goodwin Street
13. Jehovah's Witnesses	255 Goodwin Street
14. John Calvin Magyar Reformed Church	493 Amboy Avenue
15. Our Lady of Hungary Catholic Church	697 Cortland
16. Perth Amboy English S.D.A. Church	411 Neville Street
17. Perth Amboy Hungarian S.D.A. Church	Alpine & Francis St.
18. Perth Amboy Spanish S.D.A. Church	258 State Street
19. St. Cyril & Methodist National Catholic Church	598 Jacques Street
20. St. Demetrios Greek Orthodox Church	Sadowski Pkwy & Wisteria
21. St. James A.M.E. Zion Church	68 Commerce Street

NAME -----	LOCATION -----
22. St. John's Firt Hungarian Lutheran Church	662 Amboy Avenue
23. Deliverance Tabernacle	Pulaski Ave. & State St.
24. Our Lady of Fatima Church	380 Smith Street
25. Iglesia Christian Bethel Church	197 Hall Avenue
26. Iglesia Pentecostal Cruz Del Calvary	189 Gordon Street
27. Magyar S.D.A. Church	331 Kirkland Place
28. Magyar Reformed Church	145 Broad Street
29. St. John's Greek Catholic Church	145 Broad Street
30. St. Mary's Catholic Church	104 Center Street
31. St. Michael's Byzantine Catholic Church	401 Hall Avenue
32. St. Nicholas Byzantine Catholic Church	320 Washington Street
33. St. Paul's Evangelical Reformed Church	68 Brighton Avenue
34. St. Paul's Evangelical Reformed Church	231 Brighton Avenue
35. St. Peter's Episcopal Church	183 Rector Street
36. St. Spiridon Russian Orthodox Church	649 Charles Street
37. St. Stephen's Chatholic Church	490 State Street
38. Second Baptist Church	101 Broad Street
39. Seventh Day Adventist Spanish Church	260 State Street
40. Simpson United Methodist Church	331 High Street
41. Temple Baptist Church	495 Pfeiffer Blvd.



NAME -----	LOCATION -----
42. Temple Beth Mordecai	224 High Street
43. Ukrainian Catholic Church of the Assumption	684 Alta Vista Place
44. Alpine Cemetery	Amboy Avenue
45. St. Mary's Cemetery	Amboy Avenue
46. St. Peter's Cemetery	Kearney Avenue
47. St. Nicholas Cemetery	Florida Grove Road
48. Ukrainian Cemetery	Florida Grove Road
49. Jewish Cemetery	Florida Grove Road
50. Italian Tripoli Club	Johnstone Street
51. Elk's Lodge	New Brunswick Avenue
52. P.R.A.H.D.	First Street
53. V.F.W.	Brace Avenue
54. American Legion	Smith Street
55. Knights of Columbus	High Street

SCHEDULE P

ONGOING CAPITAL IMPROVEMENTS

A. WATER SYSTEM

1. Previously City authorized Water System capital improvements:

- a. Ordinance #553-91 providing for acquisition of various equipment, machinery and vehicles for the water utility, lagoon modifications, and the construction and installation of improvements to the water system, including a sludge handling project and reservoir construction, together with other purposes necessary, appurtenant or incidental thereto or therefor;
- b. Ordinance #598-92 providing for the purchase and installation of one pilot style meter on the 30" River Main Crossing, 2 butterfly valves at Runyon Water Facility, a 1 MGD service pump, 2 high efficiency motors on existing pumps at the South Amboy Booster Station, the replacement of two booster pumps and the refurbishment of the 16" Main at Runyon Water Facility, the conversion to hypochlorite disinfectant and the environmental disposal of primer, and the installation of various improvements to the Standpipe Project, all such improvements for the City Sewer Utility, together with other purposes necessary, appurtenant or incidental thereto or therefor;
- c. Ordinance #773-95 providing for improvements to the City's Water Distribution System, including projects designed to increase flows within the distributio system, eliminate dead ends, increase the minimum size of the mains and reestablish the control offered by the Alert Street standpipe, including all work and materials necessary therefor and incidental thereto; and

- d. Ordinance #873-96 providing for the improvements to the Runyon Water Treatment Plant, including the acquisition and installation of water clarifiers, filters and a water tower, and also including all work and materials necessary and incidental to the water delivery system improvements.
- e. Ordinance #947-98 providing for several improvements to (a) Runyon Watershed deep run reservoir safe yield analysis; (b) Runyon Water Treatment Plant engineering design and study; (c) Maurer Road Water Distribution Project - construction of new water supply main from State Street to supply point for Chevron water service; (d) design and construction of Amboy Avenue - Maurer Road water main loop; and (e) Runyon Treatment Plant improvements.

2. Additional Capital Improvement Program:

- a. Replacement of all meters within first three years of Agreement and again 10 years from date of installation provided the City consents to such additional meter acquisition; and
- b. Improvements to upgrade the City's Water Distribution System within first 5 years of Agreement.

B. WASTEWATER SYSTEM

1. Previously City authorized but unfunded Wastewater System Capital Improvements:

- a. Ordinance #394-85 providing for the acquisition, construction and installation of the Marine Combined Sewer Overflow Abatement System including the Budapest sewer separation, rehabilitation of the State Street and Front Street Pump Stations, and rehabilitations of diversion chambers and tidegate installations; reconstruction of Second Street outfall; and Step 3 Program consisting of sewer improvements, construction and furnishing prefabricated 30 MGD pump

station, main pump station construction and site improvements and main pump station and force main meter pit;

- b. Ordinance #439-87 providing for the various capital improvements to the sewer utility consisting of, but not limited to, the acquisition and installation of various items of equipment, acquisition or motor vehicle (truck), and construction of sewers, and anything incidentally relating thereto.
- c. Ordinance #554-91 providing for the acquisition of various equipment, machinery and vehicles for the sewer utility and the installation of improvements to and the rehabilitation of manholes, storm sewers and pumping stations, together with other purposes necessary appurtenant or incidental thereto or therefor;
- d. Ordinance #599-92 providing for various improvements to the Spa Springs Brook Channel and to the drainage system pipes and ditches at Discharge Point 901 at outer Smith Street, the removal of underground tanks at Front Street and State Street Lift Stations, the purchase and installation of a gas fired boiler and surface fuel tank at the Main Pumping Station, the installation of a pipe line connection with the State Street Sewer Line, the installation of a separate storm sewer line at Herber Street and Vincent Place, the replacement/repair of the storm discharge line from the diversion chamber to the discharge head wall at Discharge Point 007, Fayette Street and the replacement of an underground pump station at the Amboy Avenue Lift Station, together with other purposes necessary appurtenant or incidental thereto or therefor;
- e. Ordinance #723-94 providing engineering costs required to eliminate dry weather overflows and solids/floatables reduction from the City's Sewer System

- f. Ordinance #772-95 providing for construction of a new Amboy Avenue force main to replace deteriorated main, from pump station to Thomas Street; and replacement of slip lining of the Thomas Street interceptor sewer, each including all work and materials necessary therefor and incidental thereto; and
- g. Ordinance #801-95 providing for the replacement of the motor of the sewage pump at main pumping station with natural gas driven motor in order to save energy costs, including all work and materials necessary therefor and incidental thereto.

2. Additional Capital Improvement Program:

- a. Improvements to the wastewater system to eliminate solids and floatables;
- b. Replace sewer main at the State Street S-turn in the vicinity of High Street and Buckingham Avenue.
- c. Silzer Avenue Sewer Improvements.
- d. Improvements to the Amboy Avenue Pumping Station.

SCHEDULE Q

OUTSTANDING CITY INDEBTEDNESS

1980 Sewer Improvement Bonds .....	\$ 119,000
1988 Sewer Improvement Bonds .....	\$ 460,000
1993 Sewer Improvement Bonds .....	\$7,431,000
1993 Water Improvement Bonds .....	\$3,832,000

SCHEDULE R

PERMITS

Permit Number -----	Description -----
#5006	NJDEP Water Allocation Permit
#0085472	NJDEP Water Discharge Permit
#1216001	NJDEP Water Operation Permit

SCHEDULE S  
DRAW PAPERS

Requisition No. \_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Attention: Corporate Trust Department

Re: The Middlesex County Improvement Authority  
City of Perth Amboy Utility System Revenue Bonds  
(Perth Amboy Franchise Acquisition Project) Series 1998B  
-----

Dear Sirs:

Pursuant to (i) Section 7.6 of that certain "Agreement Between the City of Perth Amboy, in the County of Middlesex, New Jersey, the Middlesex County Improvement Authority and Utility Service Affiliates, Inc., a Subsidiary of Middlesex Water Company for Operation, Maintenance and Management Services for the City's Water System and Wastewater System" dated as of \_\_\_\_\_, 1998 (the "Agreement") by and among The Middlesex County Improvement Authority (the "Authority"), the City of Perth Amboy, New Jersey (the "City") and Utility Service Affiliates, Inc.(the "Company"), a subsidiary of Middlesex Water Company, and (ii) [Section \_\_\_\_ of the Authority's bond resolution entitled "RESOLUTION AUTHORIZING THE ISSUANCE OF UTILITY SYSTEM REVENUE BONDS AND/OR NOTES (PERTH AMBOY FRANCHISE ACQUISITION PROJECT) SERIES B OF THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY", duly adopted by the Authority on \_\_\_\_\_, 1998, as amended and supplemented, \_\_\_\_\_, as Trustee for the holders of the captioned bonds (the "Bonds"),] [Section \_\_\_\_ of the revenue collection and disbursement agreement dated as of \_\_\_\_\_, \_\_\_\_ among \_\_\_\_\_, \_\_\_\_\_, as System Trustee] is hereby requested to pay from moneys on deposit in the [Project Fund] [Capital Improvement Fund] the sum of \$\_\_\_\_\_, which amount shall be payable to

[\_\_\_\_\_ for  
\_\_\_\_\_ services]

[the Company for reimbursement of Costs previously paid by the Company to  
\_\_\_\_\_ for  
\_\_\_\_\_ services]

incurred in connection with the acquisition, construction, renovation or installation of the Capital Improvements described as follows:



Such payment obligation has been properly incurred, is an item of the cost of such Capital Improvements or portion thereof, is a proper charge against the [Project Fund] [Capital Improvement Fund], and has not been the basis of any previous withdrawal. Attached hereto is a bill, invoice, receipt or other evidence that payment of the cost of the Capital Improvements or portion thereof is due or has been paid by or on behalf of the Company.

Very truly yours,

UTILITY SERVICE AFFILIATES, INC.

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Authorized Officer

Approved by City:

By: \_\_\_\_\_  
Authorized Officer

Approved as to form by Authority:

By: \_\_\_\_\_  
Authorized Officer

SCHEDULE T

RATES

Year	Blended Annual Percentage Increase
1	0.00%
2	0.00%
3	1.10%
4	1.11%
5	1.13%
6	4.74%
7	4.75%
8	4.76%
9	4.77%
10	4.78%
11	4.79%
12	4.80%
13	4.81%
14	4.82%
15	4.83%
16	4.84%
17	4.85%
18	0.00%
19	0.00%
20	0.00%

CITY OF PERTH AMBOY  
WATER AND SEWER PRIVATIZATION INITIATIVE

SUMMARY OF RATE INCREASES

Year	Water Meters										Sewer Meters			
	5/8"	3/4"	1"	1 1/2"	2"	3"	4"	6"	8"	10"	Residential	Commercial	Industrial	Monitoring Fees
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3	0.00%	0.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	0.00%	2.50%	2.50%	2.50%
4	0.00%	0.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	0.00%	2.50%	2.50%	2.50%
5	0.00%	0.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	0.00%	2.50%	2.50%	2.50%
6	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
7	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
8	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
9	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
10	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
11	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
12	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
13	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
14	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
15	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
16	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
17	4.00%	4.00%	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	5.75%	4.00%	5.75%	5.75%	5.75%
18	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
19	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
20	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

SCHEDULE U

DESCRIPTION OF WASTEWATER SYSTEM

The City operates a combined sewer collection system, consisting of approximately 59 miles of sewer mains as more fully described in Schedule D. It also consists of 1,100 storm water catch basins and 18 storm water out falls. The City maintains 3 lift stations and a main pumping station located on Second Street, at Sadowski Parkway, which is rated at 12.5 million gallons per day and which pumps City sewerage to the Middlesex County Utility Authority's Sayreville Treatment Plant for final disposition.

U-1

SCHEDULE V

DESCRIPTION OF CITY'S WATER SYSTEM

The Perth Amboy Water system consists of approximately 59 miles of City distribution mains with 8.5 miles of transmission pipelines with a permit capacity of 8 million gallons per day located in the Runyon Watershed, primarily in the Township of Old Bridge, with facilities more specifically described in Schedule D.

SCHEDULE W

CERTIFICATE OF COMPLETION AND ACCEPTANCE

The undersigned, being an Authorized Representative of the Utility Service Affiliates, Inc. (the "Company"), a subsidiary of Middlesex Water Company, under that certain "Agreement Between the City of Perth Amboy, in the County of Middlesex, New Jersey, The Middlesex County Improvement Authority and Utility Service Affiliates, Inc., a Subsidiary of Middlesex Water Company for Operation, Maintenance and Management Services for the City's Water System and Wastewater System" dated as of \_\_\_\_\_, 1998 (the "Agreement") by and among the Company, The Middlesex County Improvement Authority (the "Authority") and the City of Perth Amboy, New Jersey (the "City"), HEREBY CERTIFY on behalf of the Company in connection with the Ongoing Capital Improvement described on Schedule A attached hereto to be acquired, constructed, renovated and installed under the Agreement, that such Ongoing Capital Improvements has been acquired, constructed, renovated and installed pursuant to and in accordance with said Agreement, and have been accepted by the Company and are now available for use by the Company in accordance with the terms of the Agreement and the Authority Series B Bond Resolution (as defined in the Agreement).

[The proceeds in the Project Fund previously available for draws made under the Agreement have been fully disbursed for costs of the Ongoing Capital Improvements.]

[Moneys remain on deposit in the Project Fund created under the Authority Series B Bond Resolution after payment of all Ongoing Capital Improvements. Attached hereto is a schedule indicating when and how much of the remaining moneys are to be applied as stated in the Authority Series B Bond Resolution.]

UTILITY SERVICE AFFILIATES, INC.

Dated: \_\_\_\_\_

By: \_\_\_\_\_  
Authorized Officer

Approved by City:

By: \_\_\_\_\_  
Authorized Officer

Approved as to form only (without  
any representations or warranty  
with respect to the costs)

THE MIDDLESEX COUNTY IMPROVEMENT AUTHORITY

By: -----  
Authorized Officer

DATED: \_\_\_\_\_

SCHEDULE X

MINIMUM VARIABLE FRANCHISE FEE

Contract Year	Amount
1	\$130,457*
2	394,367
3	604,782
4	679,496
5	418,806
6	225,394
7	99,420
8	581,950
9	483,651
10	661,141
11	794,083
12	687,718
13	882,996
14	950,343
15	968,825
16	872,795
17	875,313
18	792,310
19	621,386
20	358,843
21	349,900*

- - - - -

\* Prorated for the first and twenty first Contract Years.



SCHEDULE Y  
VEHICLES AND EQUIPMENT

SCHEDULE Y  
VEHICLES AND EQUIPMENT

A. WATER VEHICLES

1991 Chevy Utility Truck Odom Reading-009269 VIN-1GBJR33K2MF306486	5,000.00
1993 Ford 150 P/U Odom Reading-33404 VIN-2FTEF15YOPCA73980	4,000.00
1987 GMC Siera 2500 Utility Truck Odom Reading-30012 VIN-GTFR24Z3HF720955	1,000.00
1986 GMC Sierra Dump Odom Reading-022413 VIN-1GDL7D1BXGV506931	2,500.00
1989 Ford F Series Dump Odom Reading-22983 VIN-2FDLF47GOKCA75729	6,500.00
1983 GMC 7000 Dump Odom Reading-15137 VIN-GDM7D1E5DV531584	5,000.00
1987 John Deere 210C Front End Loader w/Backhoe SER-T0210CA739719	14,500.00
1986 GMC Sierra 2500 Utility Truck Odom Reading-71531 VIN-2GTEC24N9G1526429	3,000.00
1993 Chevy 4x4 Odom Reading-24084 VIN-1GNCT18WXP0153702	4,000.00
1987 GMC Stake Body Odom Reading-39763 VIN-1GDHR34N7HS518778	2,500.00
1992 Chevy 4x4 VIN-1GNCT18W9N0158936	3,250.00
1990 Hyster Forklift SER-DFD4895V	5,500.00

1980 Ford F800 Dump Cap. 5-6 Odom Reading-31967 VIN-F82KVJJ8609	2,000.00
1993 Melrose Bobcat Front End Loader SER-510125817	7,500.00
1993 Case Front End Loader 621B SER-SER-JAKC028020	25,000.00
John Deere 310A Front End Loader w/Backhoe SER-346335T	2,500.00
1992 Chevy 4x4 Odom Reading-068466 VIN-1GNCT18W3N0158706	4,000.00
1993 Chevy Van Odom Reading-12087 VIN-2GCEG25Z8P4143683	3,500.00
Subtotal Water Vehicles: -----	\$101,250.00 -----

B. WATER VEHICLES LEASED FROM MCIA

1996 Ford Explorer VIN-1FMCU2YXXTUD26823	
John Deere 310E Front End Loader w/Backhoe SER-T0310EX834714	

C. WASTEWATER VEHICLES

1998 Ford 250 Truck Odom Reading-62848 VIN-2FDHF27Y3FCA93232	1,500.00
1992 Chevy Van Odom Reading-013501 VIN-2GCEG255Z7N4154848	5,000.00
1992 Ford L8000 Sewer Vacuum Truck Odom Reading--16595 VIN-1FDYR82A2NVA07566	25,000.00
1985 Ford 800 Truck Odom Reading--029145 VIN-1FDXK84N1FVA32783	7,500.00

1988 Dodge Wagon 4x4 Odom Reading-39683 VIN-3B4GW02Y4JM839502	3,000.00
1993 Ford P/U Odom Reading-29989 VIN-1FTEF15Y8PNA66866	7,500.00
1985 Ford Dump Odom Reading-36567 VIN-DKF37G0FCA1422	1,000.00
1990 GMC Vandura 3500 Odom Reading-001736 VIN-2GDHG31K3M4501324	7,000.00
Subtotal Wastewater Vehicles: -----	\$57,500.00 -----

D. WASTEWATER VEHICLES LEASED FROM MCIA

1996 Ford F350 Odom Reading-8669 VIN-1FDJW35H1TEB29872
1995 Ford F350 Dump Odom Reading-9951 VIN-2FDKF38G33SCA51266
1995 Ford Truck w/IMT 2200Ser Boom Crane & Dump Odom Reading-17722 VIN-1FDLF47G7SEA50661

VEHICLE VALUE RECAP:

WATER VEHICLES	\$101,250.00
WASTEWATER VEHICLES	\$ 57,500.00
TOTAL	\$158,750.00

## FURNITURE &amp; ELECTRONICS

EXECUTIVE DESK	100.00
IBM 433 SX/S COMPUTER	250.00
XEROX COPY MACHINE W/ DOCUMENT FEEDER	1,250.00
METAL DESKS W/ RETURNS 2@65.00	----- 130.00
IBM TYPEWRITER	75.00
DRAFTING TABLE	150.00
UTILITY CABINET WOOD	50.00
LOT-CABINET PARTS	75.00
SHELVING UNIT	75.00
WOOD DP DESKS 2@75.00	150.00
4DR FILE CABINETS 6@50.00	300.00
WORKBENCHES 3@75.00	225.00
6DR FILE CABINET	75.00
UTILITY CABINET METAL 4@75.00	300.00
WORK BENCH	75.00
UTILITY CABINETS W/ SINK 3@75.00	225.00
	----- \$3,505.00

PETER COSTANZO

-----  
auctioneers inc.

UTILITY DESK	75.00
PACKARD BELL COMPUTER & MONITOR	350.00
IBM TYPEWRITER 2@75.00	150.00
WELBUILT STOVE	200.00
IBM SELECT II TYPEWRITER	100.00
MONROE COPY MACHINE	200.00
METAL MICA DESKS W/ RETURNS 2@75.00	150.00
DRAFTING TABLE	150.00
MULTIPLE DRAWER FLAT FILE 3@100.00	300.00
4DR FILE CABINETS 7@50.00	350.00
AIR CONDITIONERS 2@75.00	150.00
WOOD DESKS W/ RETURNS 5@75.00	375.00
WOOD 2 DR LATTERAL 5@50.00	250.00
STORAGE UNIT W/ COUNTER TOP 2@75.00	150.00
IBM TERMINAL COMPUTER MONITORS 4@50.00	200.00
IBM MAINFRAME	500.00
IBM SELECTRIC II	----- 100.00
3DR LATTERAL 3@90.00	270.00
SENTRY SAFE 2@125.00	250.00
IBM TYPEWRITER	75.00
LOT-BURSTER FORMS	150.00
RECEPTION COUNTER	100.00
OMRON PRINTER	50.00
I-0 TERMINAL COMPUTER MONITOR 2@75.00	150.00
	-----
TOTAL FURNITURE & ELECTRONICS	8,300.00

December 7, 1998

MOBILE RADIOS  
-----

Motorola Mobile Radios 15 Units  
Motorola Station Base  
Motorola Walkie Talkies 3 Units  
Midland Mobile Radio  
Midland Walkie Talkies 2 Units

There were other radios located in vehicles not on supplied list

TOTAL MOBILE RADIOS 7,500.00

COMPRESSOR  
-----

1993 INGERSOLL-RAND COMPRESSOR ON TRAILER 4,500.00  
Ser - 218092UJC309

1987 INGERSOLL-RAND COMPRESSOR ON TRAILER 3,750.00  
Ser - 159860U7923

1980 INGERSOLL-RAND COMPRESSOR ON TRAILER 1,500.00  
Ser - 115441U480919

TOTAL COMPRESSORS 9,750.00

Y-6

TOOLS AND EQUIPMENT  
 -----

CHE WATER PUMP	200.00
WHEELER PIPE CUTTER	100.00
GREASE PUMP	50.00
PLOW ATTACHMENT - MEYER	750.00
CHE WATER PUMP	200.00
GORDON RUPP WATER PUMP	200.00
HOMELITE WATER PUMP	200.00
WHEELER PIPE CUTTER	100.00
JACK HAMMER	350.00
JACK HAMMER	250.00
RIDGID 535 PIPE THREADER	1000.00
CP JACK HAMMER	350.00
CP JACK HAMMER	350.00
GORDON RUPP WATER PUMP	250.00
GORDON RUPP WATER PUMP	250.00
GREASE PUMP	50.00
METROTECH PIPE LOCATOR	175.00
TOLEDO VALVE CONTROL	75.00
MAQSAND BLASTER	1000.00
BLACKHAWK BENCH GRINDER	100.00
GYM LOCKERS (15)	100.00
INGERSOLL-RAND JACK HAMMER	350.00



HOMELITE PIPE CUTTER	150.00
BINKS STATIONARY AIR COMPRESSOR	350.00
PUBLIC SAFETY LIGHT BAR	50.00
SPEED AIRE STATIONARY AIR COMPRESSOR	350.00
LINCOLN ARC WELDER	375.00
WALKER TURNER DRILL PRESS	150.00
STANLEY BENCH GRINDER	100.00
HEIN WERNER FLOOR JACK	275.00
GYM LOCKERS (17)	100.00
HOMELITE PIPE CUTTER	200.00
MILWAUKEE CUT OFF SAW	75.00
MILWAUKEE HAMMER DRILL	100.00
HOMELITE CHAINSAW	100.00
CARRIER AIR CONDITIONER	50.00
GORMAN RUPP WATER PUMP	2,000.00
FORD MOWER ATTACHMENT	300.00
FORD MOWER ATTACHMENT	300.00
CRAFTSMAN RIDER MOWER	250.00
KENDALL GREASE PUMP	50.00
DAYTON POWER WASHER	250.00
BENNETT FUEL PUMP	200.00
RIDGID PIPE VISE	100.00
DAYTON METER PUMP	300.00

VANGUARD METER PUMP	200.00
VANGUARD METER PUMP	200.00
CHE WATER PUMP	200.00
HOMELITE PORTABLE GENERATOR	350.00
TOTAL TOOLS AND EQUIPMENT	\$14,075.00

SCHEDULE Z

AMENDMENT TO A PIPELINE LEASE AGREEMENT  
BETWEEN MIDDLESEX WATER COMPANY  
AND  
THE CITY OF PERTH AMBOY

DATED AS OF \_\_\_\_\_, \_\_\_\_

This Agreement (hereinafter referred to as the "First Amendment") made this \_\_\_\_ day of \_\_\_\_\_, 1998 between Middlesex Water Company, a corporation and public utility, organized under the laws of the State of New Jersey, having its principal office at 1500 Ronson Road, Iselin, New Jersey 08830 (hereinafter referred to as "Middlesex" or "Tenant") and the City of Perth Amboy, a municipal corporation having its principal office at Perth Amboy City Hall, High Street, Perth Amboy, New Jersey (hereinafter referred to as the "City").

BACKGROUND

WHEREAS, Middlesex and the City have an agreement for the lease by the City to Middlesex of water transmission lines and appurtenances, dated as of January 9, 1987 ("Lease Agreement") and have agreed to amend that Lease Agreement; and

WHEREAS, there is currently pending in the Superior Court of New Jersey, Law Division, Middlesex County, a certain lawsuit entitled "Chevron USA, Inc. and Middlesex Water Company v. City of Perth Amboy, et al.", Docket No. L-2747-93, in which Middlesex is a plaintiff (hereinafter referred to as "Lawsuit"); and

WHEREAS, there are currently pending before the New Jersey Board of Public Utilities ("BPU") two administrative proceedings instituted by Middlesex entitled "Middlesex Water Co. v. City of Perth Amboy", Docket No. BPUWE9310042 (Administrative Proceeding No. 12), and "In the Matter of the Petition of Middlesex Water Company for Approval of a Municipal Consent to Serve Certain Customers in Perth Amboy", Docket No. WE97100783 (Administrative Proceeding No. 2); and

WHEREAS, the City and Middlesex have agreed to resolve the Lawsuit and the Administrative Proceedings on terms set forth in the Settlement Agreement annexed hereto, such terms to amend the Lease Agreement; and

WHEREAS, the City and Middlesex (through a subsidiary) have agreed to enter into an agreement for operation, maintenance and management services for the City's water system and wastewater system ("Service Agreement"), which Service Agreement has been submitted to the BPU for approval; and

WHEREAS, the terms of the settlement of the litigation, including this First Amendment to the Lease Agreement, are intended to be conditioned upon execution of the Service Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties agree as follows:

1. The Lease Agreement is hereby amended by adding the following provision.

In addition to other rights of Tenant, as set forth in this Lease Agreement and the Service Agreement, Tenant shall have the right to purchase for the sum of \$500,000 the Demised Premises and System including the right to use any and all easements and/or rights-of-way, including rights in public streets, all as described in Exhibit A annexed to this Lease Agreement. Thus, such right may be exercised between July 1, 2011 and June 30, 2012.

2. Except as modified by this First Amendment, the Lease Agreement shall remain in effect and unchanged.

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

MIDDLESEX WATER COMPANY

ATTEST:

-----  
Marion F. Reynolds  
Vice President, Secretary  
and Treasurer

By: -----  
J. Richard Tompkins  
Chairman of the Board  
and President

CITY OF PERTH AMBOY

ATTEST:

-----  
Elaine M. Kiczula, Clerk

By: -----  
Joseph Vas, Mayor

SCHEDULE AA  
ASSIGNMENT AND ACKNOWLEDGMENT

AA-1

ASSIGNMENT AND ACCEPTANCE

THIS ASSIGNMENT dated \_\_\_\_\_, 1999 executed and delivered by Utility Service Affiliates, Inc., a New Jersey corporation ("Assignor") for ten dollars and other good and valuable consideration (receipt of which is hereby acknowledged) evidences and effects the absolute and irrevocable assignment to Utility Service Affiliates (Perth Amboy), Inc., a New Jersey corporation (the "Assignee") of all the right, title and interest of Assignor in and under that certain Agreement Between the City of Perth Amboy, in the County of Middlesex, New Jersey, the Middlesex County Improvement Authority and Utility Service Affiliates, Inc., a subsidiary of Middlesex Water Company, for Operation, Maintenance and Management Services for the City's Water System and Wastewater System (the "Operating Agreement"), and in and under the Revenue Agreement (as defined in the Operating Agreement).

IN WITNESSETH WHEREOF, Assignor has caused thereto its duly authorized officers to set his hand and affix its seal this \_\_\_\_\_ day of \_\_\_\_\_, 199\_\_.

UTILITY SERVICE AFFILIATES, INC.

By: \_\_\_\_\_  
J. Richard Tompkins, President

STATE OF NEW JERSEY )  
COUNTY OF \_\_\_\_\_ )

On the \_\_\_\_\_ day of \_\_\_\_\_, 199\_\_, before me personally came J. Richard Tompkins, President, to me known, who, being by me duly sworn, did depose and say that he resides at \_\_\_\_\_; that he is the President of Utility Service Affiliates, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument in such corporate seal; that it was so affixed by order of the board of directors of said corporation and that he signed his name thereto by like order.

-----

-----  
Commission Expiry Date

THIS ACCEPTANCE of Assignment by Assignee hereby evidences and accepts the above Assignment by Assignor and further evidences Assignee's undertaking to discharge all duties and obligations and to receive all benefits and emoluments as the assignee of Assignor in and under the Operating Agreement and the Revenue Agreement.

IN WITNESS WHEREOF, Assignee has caused its thereto duly authorized officer to set his hand and affix its deal this \_\_\_\_ day of \_\_\_\_\_, 199\_\_.

UTILITY SERVICE AFFILIATES  
(PERTH AMBOY), INC.

By: \_\_\_\_\_  
J. Richard Tompkins, President

STATE OF NEW JERSEY )  
COUNTY OF )

On the \_\_\_\_ day of \_\_\_\_\_, 199\_\_, before me personally came J. Richard Tompkins, President, to me known, who, being by me duly sworn, did depose and say that he resides at \_\_\_\_\_; that he is the President of Utility Service Affiliates, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation and that he signed his name thereto by like order.

-----

-----  
Commission Expiry Date

SCHEDULE BB  
SETTLEMENT AGREEMENT

BB-1



SETTLEMENT AGREEMENT

THIS AGREEMENT, made this 8th day of December, 1998, by and between THE CITY OF PERTH AMBOY (hereinafter referred to as "City") and MIDDLESEX WATER COMPANY, a public utility corporation of the State of New Jersey, with offices at 1500 Ronson Road, Iselin, New Jersey 08830 (hereinafter referred to as "Middlesex").

WITNESSETH:

WHEREAS, Middlesex and the City have been engaged in negotiations concerning a proposed "Service Agreement" under which Middlesex, through a subsidiary, will be retained to operate, manage and maintain the City's water and wastewater systems on the terms and conditions to be set forth in said Agreement;

WHEREAS, there is currently pending in the Superior Court of New Jersey, Law Division Middlesex County, a certain lawsuit entitled "Chevron USA, Inc. and Middlesex Water Company v. City of Perth Amboy, et al." Docket No. L-2747-93, in which Middlesex is a plaintiff (hereinafter referred to as "Lawsuit");

WHEREAS, the Lawsuit involves various claims by Middlesex against the City for monetary damages;

WHEREAS, there are currently pending before the New Jersey Board of Public Utilities ("BPU") two administrative proceedings instituted by Middlesex "Middlesex Water Co. v. City of Perth Amboy", Docket No. BPUWE9310042 (Administrative Proceeding No. 1), and "In the Matter of the Petition of Middlesex Water Company for Approval of a Municipal Consent to Serve Certain Customers in Perth Amboy", Docket No. WE97100783 (Administrative Proceeding No. 2);

WHEREAS, Administrative Proceeding No. 1 arises out of a petition by Middlesex to

the BPU for a determination that it has a lawful right to serve a facility in Perth Amboy owned and operated by Chevron and that Municipal consent authorizing it to do so was conferred by the City;

WHEREAS, the BPU issued a Decision and Order in Administrative Proceeding No. 1 on July 30, 1997, holding that Middlesex had lawful authority to serve the Chevron USA Inc. (Chevron) facility, but remanding the matter to the Office of Administrative Law ("OAL") for a determination as to the duration and exclusivity of such authority;

WHEREAS, the remand is presently pending before the OAL, and no determination has yet been rendered on the issues forming the subject matter of the remand;

WHEREAS, Administrative Proceeding No. 2 arises out of a petition by Middlesex to the BPU for authorization to serve certain other customers in the City of Perth Amboy pursuant to consents granted by the City;

WHEREAS, in the context of their discussions concerning the "Service Agreement", the parties hereto believe it would be desirable for the lawsuit to be dismissed and for the two administrative proceedings to be amicably resolved in the manner set forth herein without the necessity of further adversarial proceedings;

WHEREAS, the City, as an inducement to Middlesex to dismiss the lawsuit, and as an integral part of the consideration for such dismissal, has agreed to adopt appropriate ordinances or resolutions formally granting Middlesex consent to serve the Chevron facility at issue in Administrative Proceeding No. 1 and consent to serve the various Perth Amboy customers identified in Administrative Proceeding No. 2;

WHEREAS, The City has also agreed as an integral part of the consideration for

Middlesex's agreement to dismiss the lawsuit, to enter into an amendment to a certain "Pipeline Lease Agreement" with Middlesex dated January 9, 1987, so as to grant Middlesex the right, upon the terms, conditions and price specified in said amendment, to purchase the water transmission lines and appurtenances described in and forming the subject matter of said "Pipeline Lease Agreement";

NOW THEREFORE, for and in consideration of the mutual covenants and agreements of the parties and for One Dollar and other good and valuable consideration, it is hereby agreed as follows:

1. The City shall adopt appropriate ordinances or resolutions that, consistent with the terms of this Settlement Agreement, formally grant and invest Middlesex with consent to furnish water service to the Chevron facility in the City of Perth Amboy which is the subject to Administrative Proceeding No. 1, as well as the specific geographic areas within the City of Perth Amboy occupied by the customers served by Middlesex which are the subject of Administrative Proceeding No. 2 (the "Other Perth Amboy Customers").

2. It is agreed and understood that before any ordinance or resolution adopted by the City can lawfully constitute a valid franchise, that BPU approval of such ordinance must be obtained. The City shall fully cooperate with Middlesex in connection with any further proceedings before the BPU seeking approval of the subject ordinances or resolutions. Consistent therewith, Middlesex shall simultaneously seek approval of City's consents. The parties agree that the franchise rights granted Middlesex to provide service in the City of Perth Amboy shall, upon BPU approval, solely derive from and be governed by this settlement agreement and the municipal consent provided for herein without reference to the BPU Decision

and Order of July 30, 1997 and that this settlement agreement, that consent and the BPU approval of such consent shall supercede that Decision and Order.

3. It is further agreed and understood that the municipal consents to be embodied in the ordinances or resolutions shall expressly grant Middlesex the City's consent to serve the specific areas within Perth Amboy occupied by Chevron and the Other Perth Amboy Customers and that the rights conferred by the municipal consent shall terminate as to any properties served by Middlesex now developed for industrial use, upon re-development of such properties for residential use, commercial use or other type of industrial use substantially different from its present use and as to any properties now developed for commercial use upon redevelopment of such properties for industrial or residential use.

4. The City and Middlesex acknowledge and agree that: a) Chevron has agreed to purchase forty percent of Chevron's total annual water supply needs, consistent with a certain "Stipulation of Settlement" between the City and Chevron dated August 21, 1996, which are incorporated herein by reference, b) such agreement the City and Chevron is lawful and enforceable, and c) Middlesex shall not interfere with agreement.

5. The City further agrees that consistent with the "Stipulation of Settlement", the City shall not compel or induce Chevron to increase its water purchases from the City to a level in excess of 40% of its annual water needs through the use of its municipal powers (other than operation of its water utility) by offering Chevron benefits such as tax relief or abatements, but this shall not limit the City in enacting future lawful water rate schedules provided that, the rates applicable to Chevron are uniformly applicable to relatively high volume industrial use customers in the same rate class. It is agreed and understood that the City shall consent to

Middlesex having the authority to supply Chevron up to that sixty percent of its annual water requirements and that upon BPU approval of such consent, Middlesex is free to sell said 60% of Chevron's water requirements to Chevron pursuant to that authorization.

6. In addition to all of the foregoing obligations of the City under this Agreement, and in connection with the Service Agreement (which has been submitted the BPU for approval), the City shall also execute an amendment to a certain "Pipeline Lease Agreement" dated January 9, 1987, in conformity with Exhibit A, annexed hereto and made part hereof, so as to grant Middlesex the right to purchase, upon the terms, conditions and the price set forth therein, the water transmission line and appurtenances forming the subject matter of the aforesaid "Pipeline lease Agreement".

7. In consideration for the City's agreement and undertaking to adopt the ordinances or resolutions referred to herein and to execute the amendment to the "Pipeline Lease Agreement", Middlesex agrees to dismiss the lawsuit pending before the Middlesex County Superior Court with prejudice and to amend the petitions filed in the two administrative proceedings for the purpose of seeking BPU approval of the ordinances or resolutions to be adopted by the City hereunder in lieu of the affirmative relief previously requested in the two administrative proceedings and in lieu of the authority granted by the BPU Decision and Order in Administrative Proceeding Number 1, dated July 30, 1997.

8. It is agreed and understood, however, that the dismissal of the lawsuit is expressly contingent upon: (a) the City having first adopted appropriate municipal resolutions or ordinances consistent with the Settlement Agreement formally consenting to Middlesex's provision of water service to Chevron and the Other Perth Amboy Customers; (b) the City's

execution of the amendment to the "Pipeline Lease Agreement"; (c) the execution by both parties of the "Service Agreement"; and (d) formal ratification of all the foregoing by the City Council of the City of Perth Amboy. All actions listed in this paragraph may be contingent upon Middlesex's dismissal of the lawsuit pending before the Middlesex County Superior Court with prejudice, and the BPU terminating Administrative Proceeding Number 1 and Administrative Proceeding 2 in a manner consistent herewith. The City shall, upon request provide written confirmation of the completion of contingencies listed herein.

9. In the event that any of the forgoing conditions have not been satisfied, Middlesex shall have no obligation to dismiss the Superior Court lawsuit.

10. This Settlement Agreement shall be privileged, null and void and of no force and effect unless the terms and conditions subject to the BPU's jurisdiction and the municipal consents anticipated therein are approved in their entirety and without modification or condition, other than requirements of ministerial acts such as provision of information, by the BPU, and all contingencies are fully satisfied.

11. The Agreement shall be construed in accordance with the law of the State of New Jersey.

IN WITNESS WHEREOF, the parties hereto have caused this document to be signed by their properly authorized corporate officers and caused their proper corporate seals to be affixed hereto, the date and year first above written.

ATTEST:

CITY OF PERTH AMBOY

-----

By: -----

ATTEST:

MIDDLESEX WATER COMPANY

-----

By: -----

EXHIBIT A



AMENDMENT TO A PIPELINE LEASE AGREEMENT  
BETWEEN MIDDLESEX WATER COMPANY  
AND THE  
CITY OF PERTH AMBOY  
DATED AS OF JANUARY 9, 1987

This Agreement (hereinafter referred to as the "First Amendment") made this \_\_\_\_ day of \_\_\_\_, 1998 between Middlesex Water Company, a corporation and public utility, organized under the laws of the State of New Jersey, having its principal office 1500 Ronson Road, Iselin, New Jersey 08830 (hereinafter referred to as "Middlesex" or "Tenant") and the City of Perth Amboy, a municipal corporation having its principal office at Perth Amboy City Hall, High Street Perth Amboy, New Jersey, (hereinafter referred to as the "City").

BACKGROUND

WHEREAS, Middlesex and the City have and agreement for the lease by the City to Middlesex of water transmission lines and appurtenances, dated as of January 9, 1987 ("Lease Agreement") and have agreed to amend that Lease Agreement; and

WHEREAS, there is currently pending in the Superior Court of New Jersey, Law Division, Middlesex County, a certain lawsuit entitled "Chevron USA, Inc. and Middlesex is a plaintiff (hereinafter referred to as "Lawsuit"); and

WHEREAS, there are currently pending before the New Jersey Board of Public Utilities ("BPU") two administrative proceedings instituted by Middlesex entitled "Middlesex Water Co. v. City of Perth Amboy", Docket No. BPU WE9310042 (Administrative Proceeding No. 1), and "In the Matter of the Petition of Middlesex Water Company for Approval of a Municipal Consent

to Serve Certain Customers in Perth Amboy", Docket No. WE971007893 (Administrative Proceeding No. 2); and

WHEREAS, the City and Middlesex have agreed to resolve the Lawsuit and the Administrative Proceedings on terms set forth in the Settlement Agreement annexed hereto, such terms to amend the Lease Agreement; and

WHEREAS, the City and Middlesex (through a subsidiary) have agreed to enter into an agreement for operation, maintenance and management services for the City's water system and wastewater system ("Service Agreement"), which Service Agreement has been submitted to the BPU for approval; and

WHEREAS, the terms of the settlement of the litigation, including this First Amendment to the Lease Agreement, are intended to be conditioned upon execution of the Service Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties agree as follows:

1. The Lease Agreement is hereby amended by adding the following provision:

In addition to other rights of Tenant, as set forth in this Lease Agreement and the Service Agreement, Tenant shall have the right to purchase for the sum of \$500,000 the Demised Premises and System including the right to use any and all easements and/or rights-of-way, including rights in public streets, all as described in Exhibit A annexed to this Lease Agreement. This right may be exercised within six months before or within six months after the end of the last renewal period of the Lease Agreement. Thus, such right may be exercised between July 1, 2011 and June 30, 2012.

2. Except as modified by this First Amendment, the Lease Agreement shall remain in effect and unchanged.

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

ATTEST: MIDDLESEX WATER COMPANY

-----  
Marion F. Reynolds  
Vice President, Secretary  
& Treasurer

By: -----  
J. Richard Tompkins  
Chairman of the Board and  
President

ATTEST: CITY OF PERTH AMBOY

-----  
Elaine M. Kiczula  
Clerk

By: -----  
Joseph Vas  
Mayor

ASSIGNMENT AND ACCEPTANCE

THIS ASSIGNMENT dated December 8, 1998 executed and delivered by Utility Service Affiliates, Inc., a New Jersey corporation ("Assignor") for ten dollars and other good and valuable consideration (receipt of which is hereby acknowledged) evidences and effects the absolute and irrevocable assignment to Utility Service Affiliates (Perth Amboy), Inc., a New Jersey corporation (the "Assignee") of all the right, title and interest of Assignor in and under that certain Agreement Between the City of Perth Amboy, in the County of Middlesex, New Jersey, the Middlesex County Improvement Authority and Utility Service Affiliates, Inc., a subsidiary of Middlesex Water Company, for Operation, Maintenance and Management Services for the City's Water System and Wastewater System (the "Operating Agreement"), and in and under the Revenue Agreement (as defined in the Operating Agreement).

IN WITNESSETH WHEREOF, Assignor has caused thereto its duly authorized officers to set his hand and affix its seal this 8th day of December, 1998.

UTILITY SERVICE AFFILIATES, INC.

By: /s/ J. RICHARD TOMPKINS

-----  
J. Richard Tompkins, President

STATE OF NEW JERSEY )  
COUNTY OF MIDDLESEX )

On the 8th day of December, 1998, before me personally came J. Richard Tompkins, President, to me known, who, being by me duly sworn, did depose and say that he resides at Colts Neck, New Jersey; that he is the President of Utility Service Affiliates, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument in such corporate seal; that it was so affixed by order of the board of directors of said corporation and that he signed his name thereto by like order.

/s/ J. RICHARD TOMPKINS  
-----

/s/ PETER D. HUTCHEON  
-----

Commission Expiry Date  
Peter D. Hutcheon  
Attorney at Law of New Jersey

THIS ACCEPTANCE of Assignment by Assignee hereby evidences and accepts the above Assignment by Assignor and further evidences Assignee's undertaking to discharge all duties and obligations and to receive all benefits and emoluments as the assignee of Assignor in and under the Operating Agreement and the Revenue Agreement.

IN WITNESS WHEREOF, Assignee has caused its thereto duly authorized officer to set his hand and affix its seal this 8th day of December, 1998.

UTILITY SERVICE AFFILIATES  
(PERTH AMBOY), INC.

By: /s/ J. RICHARD TOMPKINS

-----  
J. Richard Tompkins, President

STATE OF NEW JERSEY )  
COUNTY OF MIDDLESEX )

On the 8th day of December, 1998, before me personally came J. Richard Tompkins, President, to me known, who, being by me duly sworn, did depose and say that he resides at Colts Neck, New Jersey; that he is the President of Utility Service Affiliates, Inc., the corporation described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the board of directors of said corporation and that he signed his name thereto by like order.

/s/ J. RICHARD TOMPKINS  
-----

/s/ PETER D. HUTCHEON

-----  
Commission Expiry Date  
Peter D. Hutcheon  
Attorney at Law of New Jersey