

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2006**

OR

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

Commission File Number 0-422

MIDDLESEX WATER COMPANY

(Exact name of registrant as specified in its charter)

New Jersey
(State of Incorporation)

22-1114430
(IRS employer identification no.)

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

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

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

Title of Each Class:

None

Name of each exchange on which registered:

None

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

Common Stock, No par Value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2006 was \$210,829,136 based on the closing market price of \$18.92 per share.

The number of shares outstanding for each of the registrant's classes of common stock, as of March 1, 2007:

Common Stock, No par Value 13,184,376 shares outstanding

Documents Incorporated by Reference

Proxy Statement to be filed in connection with the Registrant's Annual Meeting of Shareholders to be held on May 23, 2007, which will be filed with the Securities and Exchange Commission within 120 days, is incorporated as to Part III.

**MIDDLESEX WATER COMPANY
FORM 10-K**

INDEX

	<u>PAGE</u>
Forward-Looking Statements	1
<u>PART I</u>	
Item 1. Business:	
Overview	2
Financial Information	4
Water Supplies and Contracts	4
Employees	5
Competition	6
Regulation	6
Management	7
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	15
Item 2. Properties	15
Item 3. Legal Proceedings	16
Item 4. Submission of Matters to a Vote of Security Holders	17
<u>PART II</u>	
Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters	17
Item 6. Selected Financial Data	19
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 7A. Qualitative and Quantitative Disclosure About Market Risk	29
Item 8. Financial Statements and Supplementary Data	29
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	54
Item 9A. Controls and Procedures	55
Item 9B. Other Information	58
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	59
Item 11. Executive Compensation	59
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	59
Item 13. Certain Relationships and Related Transactions, and Director Independence	59
Item 14. Principal Accountant Fees and Services	59
<u>PART IV</u>	
Item 15. Exhibits and Financial Statement Schedules	60
Signatures	61
Exhibit Index	62

Forward-Looking Statements

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

- statements as to expected financial condition, performance, prospects and earnings of the Company;
- statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters;
- statements as to the Company’s expected liquidity needs during fiscal 2007 and beyond and statements as to the sources and availability of funds to meet its liquidity needs;
- statements as to expected rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- statements as to the Company’s compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- statements as to the safety and reliability of the Company’s equipment, facilities and operations;
- statements as to financial projections;
- statements as to the ability of the Company to pay dividends;
- statements as to the Company’s plans to renew municipal franchises and consents in the territories it serves;
- expectations as to the amount of cash contributions to fund the Company’s retirement benefit plans, including statements as to anticipated discount rates and rates of return on plan assets;
- statements as to trends; and
- statements regarding the availability and quality of our water supply.

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

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

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

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

PART I**Item 1. Business.****Overview**

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

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

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

Middlesex System

The Middlesex System in New Jersey provides water services to approximately 59,200 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the City of Rahway, Township of Edison, the Boroughs of Highland Park and Sayreville and both the Old Bridge and the Marlboro Township Municipal Utilities Authorities. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes. The Middlesex System also provides water treatment and pumping services to the Township of East Brunswick under contract. The Middlesex System, through its retail and contract sales, produced approximately 67% of 2006 revenue.

The Middlesex System’s retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of the Township of Edison and the Borough of South Plainfield in Middlesex County and, to a minor extent, a portion of the Township of Clark in Union County. Retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These customers are located in generally well-developed areas of central New Jersey. The contract customers of the Middlesex System comprise an area of approximately 146 square miles with a population of approximately 303,000. Contract sales to Edison, Sayreville, Old Bridge, Marlboro and Rahway 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 the South River Basin area of the state to facilitate a reduction in groundwater use in this area. The Middlesex System provides treated surface water under long-term agreements to East Brunswick, Marlboro, Old Bridge and Sayreville consistent with the state-approved plan.

Middlesex provides water service to approximately 300 customers in Cumberland County, New Jersey. This system is referred to as Bayview and is not physically interconnected with the Middlesex system. Bayview produced less than 1% of our total revenue in 2006. Bayview was legally merged into Middlesex effective January 1, 2006.

Tidewater System

Tidewater, together with its wholly-owned subsidiary, Southern Shores, provides water services to approximately 30,100 retail customers for domestic, commercial and fire protection purposes in over 271 separate community water systems in New Castle, Kent and Sussex Counties, Delaware. An additional wholly-owned subsidiary, White Marsh, operates water and wastewater systems under contract for approximately 5,000 residential customers and also owns the office building that Tidewater uses as its business office. White Marsh's rates for water and wastewater operations are not regulated by the Delaware Public Service Commission (PSC). The Tidewater System produced approximately 21% of total revenue in 2006.

Utility Service Affiliates-Perth Amboy

USA-PA operates the City of Perth Amboy, New Jersey's water and wastewater systems under a 20-year agreement, which expires in 2018. USA-PA serves approximately 9,600 customers, most of whom are served by both systems. The agreement was effected under New Jersey's Water Supply Public-Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act and requires USA-PA to lease from Perth Amboy all of its employees who currently work on the Perth Amboy water and wastewater systems. Under the agreement, USA-PA receives both fixed and variable fees. The variable position is based on customer billing. Fixed fee revenues were \$7.6 million in 2006 and are to increase over the term of the 20-year contract to \$10.2 million based upon a schedule of rates. USA-PA produced approximately 10% of total revenue in 2006.

In connection with the agreement, Middlesex guaranteed a series of Perth Amboy's municipal bonds in the principal amount of approximately \$26.3 million, of which approximately \$23.4 million remains outstanding. In connection with the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

Pinelands System

Pinelands Water provides water services to approximately 2,500 residential customers in Burlington County, New Jersey. Pinelands Water produced less than 1% of total revenue in 2006. Pinelands Water is not physically interconnected with the Middlesex System.

Pinelands Wastewater provides wastewater services to approximately 2,500 primarily residential retail customers. Under contract, it also services one municipal wastewater system in Burlington County, New Jersey with about 200 residential customers. Pinelands Wastewater produced approximately 1% of total revenue in 2006.

Utility Service Affiliates, Inc.

USA provides residential customers a service line maintenance program called LineCareSM. LineCareSM is an affordable maintenance program that covers all parts, material and labor required to repair or replace specific elements of the customer's water service line and customer shut-off valve in the event of a failure. USA produced less than 1% of total revenue in 2006.

TESI System

TESI, which was formed in 2005, provides wastewater services to approximately 115 residential retail customers in Delaware. TESI produced less than 1% of our total revenue in 2006.

Financial Information

Consolidated operating revenues and operating income are as follows:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2006	2005	2004
Operating Revenues	\$ 81,061	\$ 74,613	\$ 70,991
Operating Income	\$ 21,318	\$ 17,218	\$ 16,933

Operating revenues were earned from the following sources:

	Years Ended December 31,		
	2006	2005	2004
Residential	42.6%	41.9%	39.9%
Commercial	10.0	9.8	9.5
Industrial	10.7	11.0	10.9
Fire Protection	10.7	10.4	10.2
Contract Sales	12.3	13.4	12.8
Contract Operations	11.0	10.8	11.2
Other	2.7	2.7	5.5
TOTAL	100.0%	100.0%	100.0%

Water Supplies and Contracts

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

Middlesex System

Our Middlesex System, which produced approximately 17 billion gallons in 2006, obtains water from surface sources and wells, or groundwater sources. In 2006, surface sources of water provided approximately 71% of the Middlesex System's water supply, groundwater sources provided approximately 23% from 31 wells and the balance was purchased from a non-affiliated water utility. Middlesex System's distribution storage facilities are used to supply water to customers at times of peak demand, outages and emergencies.

The principal source of surface water for the Middlesex System is the Delaware & Raritan Canal, which is owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority. Middlesex is under contract with the New Jersey Water Supply Authority, which expires November 30, 2023. The contract provides for average purchases of 27 million gallons per day (mgd) of untreated water from the Delaware & Raritan Canal, augmented by the Round Valley/Spruce Run Reservoir System. Surface water is pumped to, and treated, at the Middlesex Carl J. Olsen (CJO) Plant. Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This long-term agreement, which expires February 27, 2011, provides for minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Tidewater System

Our Tidewater System, which produced approximately two billion gallons in 2006, obtains 100% of its supply from groundwater sources from 184 wells. In 2006, 19 new wells were placed into service. We deactivated, sealed and abandoned 10 wells for either water quality reasons or for the purpose of consolidating production facilities for more cost-efficient operation. Tidewater continues to submit applications to Delaware regulatory authorities for the approval of additional wells as growth, demand and water quality warrants. The Tidewater System does not have a central treatment facility but has several regional treatment plants. Several of its water systems in New Castle, Kent and Sussex Counties, Delaware have interconnected transmission systems.

Pinelands System

Water supply to our Pinelands System is derived from groundwater sources from four wells which provided overall system delivery of 197 million gallons in 2006. The pumping capacity of the four wells is 2.2 million gallons per day.

Bayview System

Water supply to Bayview customers is derived from groundwater water sources from two wells, which delivered 7.7 million gallons in 2006.

Pinelands Wastewater System

The Pinelands Wastewater System discharges into the South Branch of the Rancocas Creek through a tertiary treatment plant that provides clarification, sedimentation, filtration and disinfection. The total capacity of the plant is 0.5 mgd, and the system provided overall treatment to 114 million gallons in 2006.

TESI System

The TESI System owns and operates five wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total treatment capacity of the plants is 218,000 gallons per day. The treated effluent is disposed of through land application. Current average flow is approximately 12,000 gallons per day.

Employees

As of December 31, 2006, we had a total of 243 employees. In addition, we lease 19 full-time employees under the USA-PA contract with the City of Perth Amboy, New Jersey. No employees are represented by a union except the leased employees who are subject to a collective bargaining agreement with the City of Perth Amboy. We believe our employee relations are good. Wages and benefits, other than for leased employees, are reviewed annually and are considered competitive within both the industry and the regions where we operate.

Competition

Our business in our franchised service area is substantially free from direct competition with other public utilities, municipalities and other entities. However, our ability to provide contract water supply and wastewater services and operations and maintenance services 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 can be affected by the PSC awarding franchises to other regulated water utilities with whom we compete for such franchises and for projects.

Regulation

We are regulated as to rates charged to customers for water and wastewater services in New Jersey and Delaware, as to the quality of the services we provide and as to certain other matters. Our USA, USA-PA and White Marsh subsidiaries are not regulated utilities. We are subject to environmental and water quality regulation by the United States Environmental Protection Agency (EPA), and the New Jersey Department of Environmental Protection (DEP) with respect to operations in New Jersey and by Department of Natural Resources and Environmental Control (DNREC), the Delaware Department of Health and Social Services-Division of Public Health (DPH), and the Delaware River Basin Commission (DRBC) with respect to operations in Delaware. In addition, our issuances of securities are subject to the prior approval of the SEC and the New Jersey Board of Public Utilities (BPU) or the PSC.

Regulation of Rates and Services

New Jersey water and wastewater service operations (excluding the operations of USA and USA-PA) are subject to regulation by the BPU. Similarly, our Delaware water and wastewater operations (excluding the operations of White Marsh) are subject to regulation by the PSC. These regulatory authorities have jurisdiction with respect to rates, service, the issuance of securities and other matters of utility companies operating within the States of New Jersey and Delaware, respectively. For ratemaking purposes, we account separately for operations in New Jersey and Delaware to facilitate independent ratemaking by the BPU for New Jersey operations and the PSC for Delaware operations.

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 investments within their separate jurisdictions. Rate determinations by the BPU do not guarantee particular rates of return to us 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 permitted by the BPU or the PSC.

On April 28, 2006, Tidewater filed for a \$5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC). The request was intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately \$23.8 million since rates were last established in March 2005. Since June 27, 2006, Tidewater has been billing and recognizing additional revenues through a 15% interim rate increase subject to refund as allowed under PSC regulations. A settlement was reached amongst the parties which concluded that a 26.9% overall increase in base rates would be implemented. The PSC approved the settlement and the remaining 11.9% increase was put into effect on February 28, 2007. The combined effect of the interim and final rate increases was \$3.9 million in additional annual operating revenues.

Effective April 13, 2006, Pinelands Water and Pinelands Wastewater received approval from the New Jersey Board of Public Utilities (BPU) for base rate increases of 7.02% and 0.98%, respectively. These increases

represent a total base rate increase of approximately \$0.1 million for Pinelands to offset increased costs associated with capital improvements and the operation and maintenance of their systems.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2007. Under the terms of a contract with Southern Shores Homeowners Association, the increase cannot exceed the lesser of the regional Consumer Price Index or 3%.

There can be no assurance that any future rate increases will be granted or, if granted, that they will be in the amounts requested.

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, DNREC, DPH and DRBC with respect to operations in Delaware.

Federal, New Jersey and Delaware regulations adopted relating to water quality require us to perform expanded types of testing to ensure that our 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. We participate in industry-related research to identify the various types of technology that might reduce the level of organic, inorganic and synthetic compounds found in the water. The cost to water companies of complying with the proposed water quality standards depends in part on the limits set in the regulations and on the method selected to implement such reduction. We believe the CJO Plant capabilities put us in a strong position to meet any such future standards with regard to our Middlesex System. We regularly test our water to determine compliance with existing federal, New Jersey and Delaware primary water quality standards.

Well water treatment in our Tidewater System is by chlorination for disinfection purposes and, in some cases, pH correction and filtration for nitrate and iron removal.

Well water treatment in the Pinelands and Bayview Systems (disinfection only) is done at individual well sites.

The DEP and the DPH monitor our activities and review the results of water quality tests that are performed for adherence to applicable regulations. Other regulations applicable to us 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.

Management

This table lists information concerning our executive management team:

Name	Age	Principal Position(s)
Dennis W. Doll	48	President and Chief Executive Officer
A. Bruce O'Connor	48	Vice President and Chief Financial Officer
Ronald F. Williams	57	Vice President-Operations and Chief Operating Officer
Kenneth J. Quinn	59	Vice President-General Counsel, Secretary and Treasurer
James P. Garrett	60	Vice President-Human Resources
Richard M. Risoldi	50	Vice President-Subsidiary Operations
Gerard L. Esposito	55	President, Tidewater Utilities, Inc.

Dennis W. Doll - Mr. Doll, a Certified Public Accountant, joined the Company in November 2004 as Executive Vice President. He was elected President and Chief Executive Officer and became a Director of Middlesex effective January 1, 2006. Prior to joining the Company, Mr. Doll was employed by Elizabethtown Water Company since 1985, serving most recently as a member of the senior leadership team of the Northeast Region of American Water, which was comprised of Elizabethtown Water Company, New Jersey-American Water Company and Long Island Water Corporation and included other regulated and non-regulated subsidiaries. In this capacity, Mr. Doll most recently served as Vice President - Finance & Controller and served previously, as Vice President - Merger Integration. Prior to 2001, Mr. Doll served as Vice President & Controller of Elizabethtown, Elizabethtown's parent company, E'town Corporation, and various other regulated and non-regulated subsidiaries, primarily engaged in the water and wastewater fields. Effective January 1, 2006, Mr. Doll became Chairman of the Board and Director of all Middlesex subsidiaries. Mr. Doll is a director of the New Jersey Utilities Association and the National Association of Water Companies effective January 1, 2006.

A. Bruce O'Connor - Mr. O'Connor, a Certified Public Accountant, joined the Company in 1990 as Assistant Controller and was elected Controller in 1992 and Vice President in 1995. He was elected Vice President and Chief Financial Officer in 1996. He is responsible for financial reporting, customer service, rate cases, cash management and financings. He is Treasurer and a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., Utility Service Affiliates, Inc., and White Marsh Environmental Systems, Inc. He is Vice President, Treasurer and a Director of Utility Service Affiliates (Perth Amboy) Inc., Pinelands Water Company and Pinelands Wastewater Company.

Ronald F. Williams - Mr. Williams joined the Company in 1995 as Assistant Vice President-Operations, responsible for the Company's Engineering and Distribution Departments. He was elected Vice President-Operations in October 1995. Mr. Williams was elected to the additional posts of Assistant Secretary and Assistant Treasurer for Middlesex in 2004. He was formerly employed by Garden State Water Company as President and Chief Executive Officer. He is a Director and President of Utility Service Affiliates (Perth Amboy) Inc., and Director of Utility Service Affiliates, Inc., Pinelands Water Company and Pinelands Wastewater Company.

Kenneth J. Quinn - Mr. Quinn joined the Company in 2002 as General Counsel and was elected Assistant Secretary in 2003. In 2004, Mr. Quinn was elected Vice President, Secretary and Treasurer for Middlesex and Secretary and Assistant Treasurer for all subsidiaries of Middlesex. Prior to joining the Company he had been employed in private law practice. Prior to that, Mr. Quinn spent 10 years as in-house counsel to two major banking institutions located in New Jersey. In May 2003, he was elected Assistant Secretary of Tidewater Utilities, Inc., Pinelands Water Company, Pinelands Wastewater Company, Utility Service Affiliates (Perth Amboy) Inc., and White Marsh Environmental Systems, Inc. He is a member of the New Jersey State Bar Association and is also a member of the Public Utility Law Section of the Bar.

James P. Garrett - Mr. Garrett joined the Company in 2003 as Assistant Vice President-Human Resources. In May 2004, he was elected Vice President- Human Resources. Prior to his hire, Mr. Garrett was employed by a national retail chain as Director of Organizational Development.

Richard M. Risoldi - Mr. Risoldi joined the Company in 1989 as Director of Production, responsible for the operation and maintenance of the Company's treatment and pumping facilities. He was appointed Assistant Vice President of Operations in 2003. He was elected Vice President in May 2004, responsible for regulated subsidiary operations and business development. He is a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., White Marsh Environmental Systems Inc and USA-PA. He also serves as Director and President of Pinelands Water Company, Pinelands Wastewater Company and Utility Service Affiliates, Inc.

Gerard L. Esposito - Mr. Esposito joined Tidewater Utilities, Inc. in 1998 as Executive Vice President. He was elected President of Tidewater and White Marsh Environmental Systems, Inc. in 2003 and elected President of Tidewater Environmental Services, Inc. in January 2005. Prior to joining the Company he worked in various executive positions for Delaware environmental protection and water quality governmental agencies. He is a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., and White Marsh Environmental Systems, Inc.

Item 1A. Risk Factors.

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

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

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

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

The EPA and DEP regulate our operations in New Jersey with respect to water supply, treatment and distribution systems and the quality of the water. Our operations in Delaware are regulated by the EPA, DNREC, DPH, and DRBC with respect to water supply, treatment and distribution systems and the quality of water. Federal, New Jersey and Delaware regulations relating to water quality require us to perform expanded types of testing to ensure that our water meets state and federal water quality requirements. We are subject to EPA regulations under the Federal Safe Drinking Water Act, which include the Lead and Copper Rule, the maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule and the Total Coliform Rule. There are also similar state regulations by the DEP in New Jersey. The DEP and DPH monitor our activities and review the results of water quality tests that we perform for adherence to applicable regulations. In addition, environmental regulatory agencies are continually reviewing regulations governing the limits of certain organic compounds found in the water as byproducts of treatment.

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

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

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

We are currently appealing a notice of violation and request for corrective action issued by the Delaware Fire Marshal regarding the alleged failure of one of the community water systems operated by Tidewater to meet Delaware fire protection requirements. If our appeal is unsuccessful, our operating results could be materially affected.

In July 2005, Tidewater received a notice of violation and request for corrective action issued by the Delaware Fire Marshal regarding the alleged failure of one of the community water systems operated by Tidewater to meet Delaware fire protection requirements. Tidewater appealed the Fire Marshal's decision with the Delaware State Fire Prevention Commission (the "SFPC") and, in November 2005, the SFPC denied Tidewater's appeal. In December 2005, Tidewater filed an appeal of the SFPC's decision with the Sussex County Superior Court in Delaware, which is still pending. There are approximately 67 of our other systems that may not meet the Delaware Fire Marshal's recent interpretation of the fire protection requirements. If the Delaware Fire Marshal's interpretation of the regulations is upheld upon appeal, we may be required to make corrections to the system at issue with an estimated cost of \$1.6 million, and there is a possibility that the Delaware Fire Marshal could subsequently issue notices of violation and requests for corrective action for some or all of 67 of our other community systems. At this time, we cannot predict how many community water systems would ultimately require corrective action in that case, the time of the required corrective actions, or the costs we would incur to take the actions. We will apply to the PSC to increase base rates to recover the costs of any such corrective actions. However, if corrective actions need to be taken at several community water systems, our costs could be significant, and to the extent the PSC does not approve rate increases to offset these costs, or if there is a significant delay in receiving approval for such rate increases, such costs could have a material adverse effect on our operating results.

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

We require financing to fund the ongoing capital program for the improvement of our utility system assets and for planned expansion of those systems. We expect to spend between \$122 million and \$194 million for capital projects through 2009. We must obtain regulatory approval to sell debt or equity securities to raise money for these projects. If sufficient capital is not available or the cost of capital is too high, or if the regulatory authorities deny a petition of ours to sell debt or equity securities, we may not be able to meet the costs of complying with environmental laws and regulations or the costs of improving and expanding our utility system assets to the level we believe necessary. This might result in the imposition of fines or restrictions on our operations and may curtail our ability to improve upon and expand our utility system assets.

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

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

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

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

Our water sources may become contaminated by naturally-occurring or man-made compounds and events. This may cause disruption in services and impose costs to restore the water to required levels of quality.

Our sources of water may become contaminated by naturally-occurring or man-made compounds and events. In the event that our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to install treatment equipment or substitute the flow of water from an uncontaminated water source through our transmission and distribution systems. We may also incur significant costs in treating the contaminated water through the use of our current treatment facilities, or development of new treatment methods. Our inability to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner may reduce our revenues and make us less profitable.

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

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

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

Middlesex Water Company and USA-PA operate and maintain the water and wastewater systems of the City of Perth Amboy, New Jersey under a 20-year contract expiring in 2018. This contract does not protect us against incurring costs in excess of revenues we earn pursuant to the contract. There can be no absolute assurance that we will not experience losses resulting from this contract. Losses under this contract or our failure or inability to perform may have a material adverse effect on our financial condition and results of operations. Also, in connection with the contract, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately \$26.3 million. As of December 31, 2006, approximately \$23.4 million of the Series C Serial Bonds remain outstanding. If Perth Amboy defaults on its obligations to pay the bonds we have guaranteed, we would have to raise funds to meet our obligations under that guarantee.

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

The acquisition and/or operation of water and wastewater systems is an important element in our growth strategy. This strategy depends on identifying suitable opportunities and reaching mutually agreeable terms with acquisition candidates or contract partners. These negotiations, as well as the integration of acquired businesses, could require us to incur significant costs and cause diversion of our management's time and resources. Further, acquisitions may result in dilution of our equity securities, incurrence of debt and contingent liabilities, fluctuations in quarterly results and other related expenses. In addition, the assets, operations, contracts or companies we acquire may not achieve the sales and profitability expected.

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

Our Middlesex System provides water services to retail customers who are located primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts to the Township of Edison, the Boroughs of Highland Park and Sayreville, and both the Old Bridge and the Marlboro Township Municipal Utilities Authorities, and the City of Rahway in Union County, New Jersey. Our Tidewater System provides water services to retail customers in the State of Delaware. Our revenues and operating results are therefore subject to local regulatory, economic, demographic, competitive and weather conditions in a relatively concentrated geographic area. A change in any of these conditions could make it more costly or difficult for us to conduct our business. In addition, any such change would have a disproportionate effect on us, compared to water utility companies that do not have such a geographic concentration.

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

Since the September 11, 2001 terrorist attacks and the continuing threats to the health and security of the United States of America, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We are at risk for terrorist attacks and have incurred, and will continue to incur increased costs for security precautions to protect our facilities, operations and supplies from such risks.

Our ability to achieve growth in Delaware is somewhat dependent on the residential building market in the territories we serve. If housing starts decline significantly, our rate of growth may not meet our expectations.

We expect our revenues to increase from customer growth in Delaware for our regulated water operations and, to a lesser degree, our regulated wastewater operations as a result of the anticipated construction and sale of new housing units in the territories we serve. Although the residential building market in Delaware has experienced growth in recent years, this growth may not continue in the future. If housing starts in the Delaware territories we serve decline significantly as a result of economic conditions or otherwise, our revenue growth may not meet our expectations and our financial results could be negatively impacted.

We have restrictions on our dividends. There can also 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.

Our Restated Certificate of Incorporation and our Indenture of Mortgage dated as of April 1, 1927, as supplemented, 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.

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

Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by many factors, some of which are beyond our control. We believe that our cash generated from operations, and, if necessary, borrowings under our existing credit facilities, will be sufficient to enable us to make our debt payments as they become due. If, however, we do not generate sufficient cash, we may be required to refinance our obligations or sell additional equity, which may be on terms that are not as favorable to us.

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

We depend significantly on the services of the members of our senior management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our senior management team. If we lose the services of any member of our senior management or are unable to hire and retain experienced management personnel, it could affect our operating results.

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

Subsection 10A of the New Jersey Business Corporation Act, known as the Shareholder Protection Act, applies to us. The Shareholder Protection Act deters merger proposals, tender offers or other attempts to effect changes in our control 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 by the Board of Directors to discourage, delay or prevent an acquisition that might benefit non-management shareholders.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Utility Plant

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

Middlesex System

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

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

The CJO Plant includes chemical storage and chemical feed equipment, two dual rapid mixing basins, four upflow clarifiers which are also called superpulsators, four underground reinforced chlorine contact tanks, twelve rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The CJO Plant also includes a computerized Supervisory Control and Data Acquisitions system to monitor and control the CJO Plant and the water supply and distribution system in the Middlesex System. There is an on-site State certified laboratory capable of performing bacteriological, chemical, process control and advanced instrumental chemical sampling and analysis. The firm design capacity of the CJO Plant is 45 mgd (60 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 72 mgd.

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

The transmission and distribution system is comprised of 732 miles of mains and includes 23,200 feet of 48-inch reinforced concrete transmission main connecting the CJO Plant to our distribution pipe network and related storage facilities. Also included is a 58,600 foot transmission main and a 38,800 foot transmission main, augmented with a long-term, non-exclusive agreement with the East Brunswick system to transport water to several of our contract customers.

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

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

Tidewater System

The Tidewater System is comprised of 87 production plants that vary in pumping capacity from 26,000 gallons per day to 2.0 mgd. Water is transported to our customers through 520 miles of transmission and distribution mains. Storage facilities include 45 tanks, with an aggregate capacity of 5.8 million gallons. Our Delaware operations are managed from Tidewater's offices in Dover, Delaware and Millsboro, Delaware. Tidewater's Dover, Delaware office property, located on property owned by White Marsh, consists of a 6,800 square foot office building situated on an eleven-acre lot.

Pinelands System

Pinelands Water owns well site and storage properties in Southampton Township, New Jersey. The Pinelands Water storage facility is a 1.2 million gallon standpipe. Water is transported to our customers through 18 miles of transmission and distribution mains.

Pinelands Wastewater System

Pinelands Wastewater owns a 12 acre site on which its 0.5 million gallons per day capacity tertiary treatment plant and connecting pipes are located. Its wastewater collection system is comprised of approximately 25 miles of main.

Bayview System

Bayview owns two well sites, which are located in Downe Township, Cumberland County, New Jersey. Water is transported to its customers through our 3.5 mile distribution system.

TESI System

The TESI System owns and operates five wastewater treatment systems in Southern Delaware. The treatment plants provide clarification, sedimentation, and disinfection. The combined total capacity of the plants is 218,000 gallons per day.

USA-PA, USA and White Marsh

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

Item 3. Legal Proceedings.

In July 2005, Tidewater received a notice of violation and request for corrective action issued by the Delaware Fire Marshal regarding the alleged failure of one of the community water systems operated by Tidewater to meet Delaware fire protection requirements. Tidewater appealed the Fire Marshal's decision with the Delaware State Fire Prevention Commission (the "SFPC") and, in November 2005, the SFPC denied Tidewater's appeal. In December 2005, Tidewater filed an appeal of the SFPC's decision with the Sussex County Superior Court in Delaware, which is still pending. There are approximately 67 of our other systems that may not meet the Delaware Fire Marshal's recent interpretation of the fire protection requirements. If the Delaware Fire Marshal's interpretation of the regulations is upheld upon appeal, we may be required to make corrections to the system at issue and the Delaware Fire Marshal could issue notices of violation and requests for corrective action for some or all of the approximately 67 other community systems. At this time, we cannot predict how many community water systems would ultimately require corrective action if our appeal is unsuccessful nor can we predict the timing and the cost of any required corrective actions. We will apply to the PSC to increase base rates to recover the costs of any such corrective actions. However, if corrective actions need to be taken at several community water systems, our costs could be significant, and to the extent

the PSC does not approve rate increases to offset these costs, or if there is a significant delay in receiving approval for such rate increases, such costs could have a material adverse effect on our operating results.

The Court action is currently on hold while the parties, with the assistance of a mediator, have met in an attempt to resolve as many open issues as possible. If any significant issues remain open after these discussions, they will be referred back to the Court for ultimate decision.

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

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The Company's common stock is traded on the NASDAQ Stock Market, under the symbol MSEX. The following table shows the range of high and low share prices per share for the common stock and the dividend paid to shareholders in such quarter. As of December 31, 2006, there were 2,032 holders of record.

<u>2006</u>	<u>High</u>	<u>Low</u>	<u>Dividend</u>
Fourth Quarter	\$ 19.50	\$ 17.96	\$ 0.1725
Third Quarter	20.50	17.58	0.1700
Second Quarter	19.34	16.50	0.1700
First Quarter	19.72	17.03	0.1700

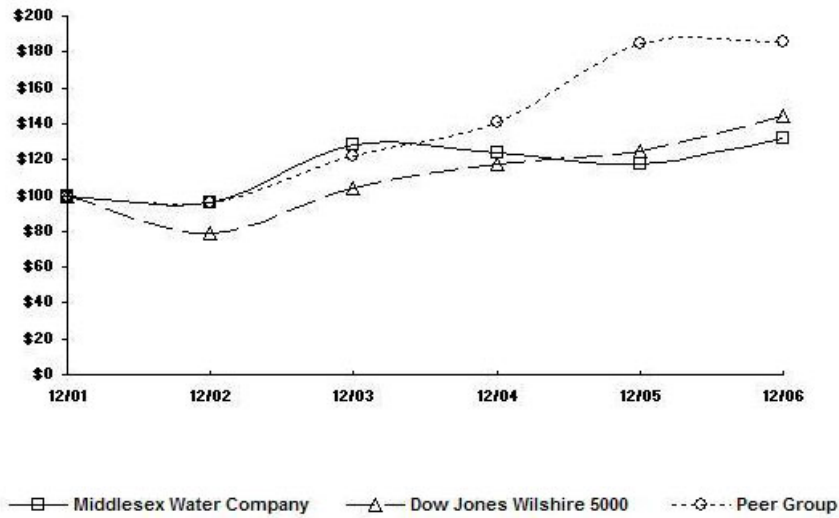
<u>2005</u>	<u>High</u>	<u>Low</u>	<u>Dividend</u>
Fourth Quarter	\$ 23.34	\$ 17.31	\$ 0.1700
Third Quarter	23.47	19.05	0.1675
Second Quarter	20.00	17.07	0.1675
First Quarter	19.16	17.64	0.1675

The Company has paid dividends on its common stock each year since 1912. Although it is the present intention of the Board of Directors of the Company to continue to pay regular quarterly cash dividends on its common stock, the payment of future dividends is contingent upon the future earnings of the Company, its financial condition and other factors deemed relevant by the Board of Directors at its discretion.

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes certain restrictions as to cash dividend payments and other distributions on common stock.

The Company maintains a shareholder approved Restricted Stock Plan, under which 63,837 shares of the Company’s common stock are held in escrow by the Company for key employees. Such stock is subject to forfeiture by the employee in the event of termination of employment within five years of the grant other than as a result of retirement, death or disability. The maximum number of shares authorized for grant under this plan is 240,000 shares.

Set forth below is a line graph comparing the yearly change in the cumulative total return (which includes reinvestment of dividends) of a \$100 investment for the Company’s common stock, a peer group of investor-owned water utilities, and the Dow Jones Wilshire 5000 Stock Index for the period of five years commencing December 31, 2001. The current peer group includes American States Water Company, Aqua America Inc., Artesian Resources Corp., California Water Service Company, Connecticut Water Service, Inc., Pennichuck Corp., SJW Corp., Southwest Water Company, York Water Company and the Company. The Dow Jones Wilshire 5000 Stock Index measures the performance of all U.S. headquartered equity securities with readily available price data.



	2001	2002	2003	2004	2005	2006
Middlesex Water Company	100.00	96.10	128.26	123.82	117.36	131.45
Dow Jones Wilshire 5000	100.00	79.14	104.18	117.33	124.75	144.56
Peer Group	100.00	95.60	122.38	141.20	184.94	185.41

Item 6. Selected Financial Data.**CONSOLIDATED SELECTED FINANCIAL DATA
(In Thousands Except per Share Data)**

	2006		2005		2004		2003		2002	
Operating Revenues	\$	81,061	\$	74,613	\$	70,991	\$	64,111	\$	61,933
Operating Expenses:										
Operations and Maintenance		43,345		42,156		39,984		36,195		32,767
Depreciation		7,060		6,460		5,846		5,363		4,963
Other Taxes		9,338		8,779		8,228		7,816		7,737
Total Operating Expenses		59,743		57,395		54,058		49,374		45,467
Operating Income		21,318		17,218		16,933		14,737		16,466
Other Income, Net		774		740		795		358		442
Interest Charges		7,012		6,245		5,468		5,227		5,144
Income Taxes		5,041		3,237		3,814		3,237		3,999
Net Income		10,039		8,476		8,446		6,631		7,765
Preferred Stock Dividend		248		251		255		255		255
Earnings Applicable to Common Stock	\$	9,791	\$	8,225	\$	8,191	\$	6,376	\$	7,510
Earnings per Share:										
Basic	\$	0.83	\$	0.72	\$	0.74	\$	0.61	\$	0.73
Diluted	\$	0.82	\$	0.71	\$	0.73	\$	0.61	\$	0.73
Average Shares Outstanding:										
Basic		11,844		11,445		11,080		10,475		10,280
Diluted		12,175		11,784		11,423		10,818		10,623
Dividends Declared and Paid	\$	0.683	\$	0.673	\$	0.663	\$	0.649	\$	0.634
Total Assets	\$	370,267	\$	324,383	\$	305,634	\$	267,956	\$	251,971
Convertible Preferred Stock	\$	2,856	\$	2,856	\$	2,961	\$	2,961	\$	2,961
Long-term Debt	\$	130,706	\$	128,175	\$	115,281	\$	97,377	\$	87,483

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

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

Overview

Middlesex Water Company has operated as a water utility in New Jersey since 1897, and in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services, as to the quality of water service we provide and as to certain other matters in New Jersey and in Delaware. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 59,200 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 303,000. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey.

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 30,100 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our TESI subsidiary provides wastewater services to approximately 115 residential retail customers. Our other Delaware subsidiary, White Marsh, services an additional 5,000 customers in Kent and Sussex Counties through 41 operations and maintenance contracts.

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

We expect the growth of our regulated wastewater business in Delaware will eventually become a more significant component of our operations.

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

Operating Results by Segment

The Company has two operating segments, Regulated and Non-Regulated. Our Regulated segment contributed 89% and 89% of total revenues, and 94% and 95% of net income for the years ended December 31, 2006 and 2005, respectively. The discussion of the Company's results of operations is on a consolidated basis, and includes significant factors by subsidiary. The segments in the tables included below are comprised of the following companies: Regulated- Middlesex, Tidewater, Pinelands, Southern Shores, and TESI; Non-Regulated- USA, USA-PA, and White Marsh.

Results of Operations in 2006 Compared to 2005(Millions of Dollars)
Fiscal Years ended December 31,

	2006			2005		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 71.9	\$ 9.2	\$ 81.1	\$ 66.3	\$ 8.3	\$ 74.6
Operations and maintenance	35.7	7.7	43.4	35.0	7.2	42.2
Depreciation	7.0	0.1	7.1	6.3	0.1	6.4
Other taxes	9.1	0.2	9.3	8.6	0.2	8.8
Operating income	20.1	1.2	21.3	16.4	0.8	17.2
Other income (expense)	0.9	(0.1)	0.8	0.7	0.0	0.7
Interest expense	7.0	-	7.0	6.2	-	6.2
Income taxes	4.6	0.5	5.1	2.9	0.3	3.2
Net income	\$ 9.4	\$ 0.6	\$ 10.0	\$ 8.0	\$ 0.5	\$ 8.5

Operating revenues for the year rose \$6.5 million, or 8.7% over the same period in 2005. Water sales improved by \$2.8 million in our Middlesex System, of which \$4.1 million was a result of a base rate increase that was granted to Middlesex on December 8, 2005. This increase was somewhat offset by lower consumption revenues of \$1.3 million due to unfavorable weather from mid-July through the late fall of 2006 as compared to the prior year. Customer growth of 7.07% in Delaware provided additional water consumption sales, facility charges and connection fees of \$0.9 million, higher base rates provided \$1.0 million, and increased consumption for existing customers provided an additional \$0.6 million. New unregulated wastewater contracts in Delaware provided \$0.4 million in additional revenues. Revenues from our operations and maintenance contract with the City of Perth Amboy increased by \$0.4 million due to scheduled fixed fee adjustments under the agreement. USA had increased revenues for its LineCareSM maintenance program of \$0.1 million. TESI revenues increased by \$0.1 million, as we connected new customers to our wastewater systems in Delaware. All other operations contributed \$0.2 million of additional revenues.

While we anticipate continued organic customer and consumption growth among our Delaware systems, such growth and increased consumption cannot be guaranteed. Our water systems are highly dependent on the effects of weather, which may adversely impact future consumption despite customer growth. Appreciable organic customer and consumption growth is less likely in our New Jersey systems due to the extent to which our service territory is developed.

Operation and maintenance expenses increased \$1.2 million or 2.8% as compared to the same period in 2005. Continued growth of our Delaware water and wastewater operations led to higher costs of \$1.1 million. Despite lower water production volume of 3.2% for our Middlesex System, costs increased by \$0.3 million due to increased unit costs for electricity, chemicals and residuals removal. Costs for providing services under our contract with the City of Perth Amboy increased by \$0.1 million and costs for providing services under our contracts in Delaware increased by \$0.2 million. Audit fees declined by \$0.3 million as the Company changed independent accounting firms beginning with the 2006 audit period. Labor and benefits expenses fell by \$0.3 million due to vacant positions and improved performance on investments. All other operating costs increased by \$0.1 million.

Electric generation costs for our Middlesex System will increase in 2007 due to the renewal of a contract for that service in late 2006. Total electric costs account for approximately 10% of our annual operations and maintenance expenses. Pension and postretirement costs increased \$0.4 million during 2006 and we expect

these costs to continue to increase in 2007. In an effort to control the increasing cost of providing retirement benefits, we have instituted two changes for employees hired after March 31, 2007. Our company funded defined benefit pension plan and postretirement health and other benefit plans will not be available to employees hired after that date. A defined contribution plan is available for these future employees. Payroll and related employee benefit costs (excluding pension and postretirement expenses previously discussed) are also expected to be higher in 2007. These increasing costs, in addition to higher business insurances will require us to file a request for a rate increase with the BPU for Middlesex during 2007. We cannot predict whether the BPU will approve, deny or reduce the amount of our request. Our Tidewater system received approval by the PSC to increase its rates by an additional 11.9% effective February 28, 2007. As part of the same rate matter, the PSC had approved an interim rate increase of 15% back in June of 2006. The combined effect of the interim and final rate increases was \$3.9 million in additional annual operating revenues.

Depreciation expense for 2006 increased by \$0.7 million, or 10.9%, due to a higher level of utility plant in service. As our investments in utility plant and operating expenses increase, we continue to seek timely rate relief through base rate filings as discussed above.

Other taxes increased by \$0.5 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate.

Other income increased \$0.1 million, primarily due to higher Allowance for Funds Used During Construction (AFUDC) as capital spending increased compared to the prior year.

Interest expense increased by \$0.8 million, or 12.9%, as a result of a higher level of long-term debt, and higher average interest rates and increased weighted average short-term borrowings as compared to the prior year period.

Income tax expense based on our current year operating results was \$5.1 million.

Net income increased to \$10.0 million from \$8.5 million in the prior year, and basic earnings per share increased from \$0.72 to \$0.83. Diluted earnings per share increased from \$0.71 to \$0.82.

Results of Operations in 2005 Compared to 2004

	(Millions of Dollars)					
	Fiscal Years ended December 31,					
	2005			2004		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 66.3	\$ 8.3	\$ 74.6	\$ 60.8	\$ 10.2	\$ 71.0
Operations and maintenance	35.0	7.2	42.2	31.0	9.0	40.0
Depreciation	6.3	0.1	6.4	5.8	0.1	5.9
Other taxes	8.6	0.2	8.8	7.9	0.3	8.2
Operating income	16.4	0.8	17.2	16.1	0.8	16.9
Other income (expense)	0.7	0.0	0.7	0.8	0.0	0.8
Interest expense	6.2	--	6.2	5.4	0.1	5.5
Income taxes	2.9	0.3	3.2	3.5	0.3	3.8
Net income	\$ 8.0	\$ 0.5	\$ 8.5	\$ 8.0	\$ 0.4	\$ 8.4

Operating revenues for the year rose \$3.6 million, or 5.1% over the same period in 2004. Water sales improved by \$3.6 million in our Middlesex System, of which \$1.8 million was a result of base rate increases that were granted to Middlesex on May 27, 2004 and December 8, 2005, and \$1.8 million was due to increased consumption due to drier weather as compared to the prior year. Customer growth of 9.2% in Delaware provided additional water consumption sales, facility charges and connection fees of \$0.9 million, and higher base rates provided \$1.0 million. New unregulated wastewater contracts in Delaware provided \$0.1 million in additional revenues. USA had reduced revenues of \$2.2 million as compared to the prior year period, due to our meter services venture completing its original contracts during December 2004. This decrease was partially offset by increased revenues for USA's LineCareSM maintenance program of \$0.1 million. All other operations contributed \$0.1 million of additional revenues.

Operation and maintenance expenses increased \$2.2 million or 5.4% as compared to the same period in 2004. In New Jersey, payroll and employee benefits costs increased by \$1.9 million. Water production costs for the Middlesex system increased by \$0.7 million due to higher demand and increased unit costs for electricity, chemicals and residuals removal. Costs to operate the Tidewater system increased \$0.2 million, and increases in our Delaware employee base, general wage increases and higher costs associated with employee medical and retirement benefits increased costs by \$1.0 million. Costs for providing services under our contract with the City of Perth Amboy increased by \$0.1 million. All other operating costs increased by \$0.1 million. The costs of our meter services venture decreased \$1.8 million due to the completion of the original projects during December 2004.

Depreciation expense for 2005 increased by \$0.6 million, or 10.5%, due to a higher level of utility plant in service.

Other taxes increased by \$0.6 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate.

Other income decreased \$0.1 million, primarily due to reduced AFUDC due to reduced capital spending as compared to the prior year.

Interest expense increased by \$0.8 million, or 14.2%, as a result of a higher level of long-term debt, and higher average interest rates and increased weighted average short-term borrowings as compared to the prior year period.

Income tax expense based on our current year operating results was \$3.8 million, which was partially offset by \$0.6 million of tax benefits.

Net income increased to \$8.5 million from \$8.4 million in the prior year, however basic earnings per share decreased from \$0.74 to \$0.72. Diluted earnings per share decreased from \$0.73 to \$0.71. The earnings per share decrease was due to an increase in average shares outstanding as compared to the prior year period as a result of the sale of 700,000 shares of common stock on May 12, 2004, and shares issued under the Company's Dividend Reinvestment Plan during 2005.

Outlook

In addition to factors previously discussed under "Results of Operations in 2006 Compared to 2005," our revenues are expected to increase in 2007 from anticipated customer growth in Delaware for our regulated water operations and, to a lesser degree, from growth in our regulated wastewater operations in Delaware. The recent settlement of our 2006 Tidewater rate case will allow rates to increase by another 11.9%, or \$1.9

million in annual operating revenues, effective February 28, 2007. Earnings per share for 2007 will be fully impacted by the 1,495,000 shares of Common Stock issued in November 2006.

We expect to file for a base rate increase for Middlesex in 2007. Revenues and earnings for 2007 will be impacted by the ultimate timing and outcome of the anticipated filing. Revenues and earnings will also be influenced by weather. Changes in these factors, as well as increases in capital expenditures and operating costs are the primary factors that determine the need for rate increase filings.

We continue to explore viable plans to streamline operations and reduce costs in all aspects of our business.

TESI, our new regulated wastewater operation, commenced operations during fiscal 2005. Due to the start-up nature of this operation, we expect our expenses with respect to this subsidiary may marginally exceed its revenues in 2007.

We expect our interest expense to increase during 2007 as a result of higher expected average borrowings and interest rates on short-term credit facilities in order to finance a portion of our capital expenditures during the coming year (see Liquidity and Capital Resources).

Our strategy includes continued revenue growth through acquisitions, internal expansion, contract operations and when necessary, rate relief. We will continue to pursue opportunities in both the regulated and non-regulated sectors that are financially sound, complement existing operations and increase shareholder value.

Liquidity and Capital Resources

Cash flows from operations are largely based on three factors: weather, adequate and timely rate increases, and customer growth. The effect of those factors on net income is discussed in results of operations. For 2006, cash flows from operating activities increased \$2.4 million to \$15.9 million, as compared to the prior year. This increase was primarily attributable to higher net income, depreciation and the timing of collection of customer billings. The \$15.9 million of net cash flow from operations enabled us to fund approximately 53% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under our Dividend Reinvestment Plan, long-term borrowings and short-term borrowings. In November 2006, we used proceeds from a common stock offering to repay all outstanding short-term debt.

For 2005, cash flows from operating activities decreased \$2.1 million to \$13.5 million, as compared to the prior year. This decrease was primarily attributable to the timing of collection of customer accounts and payments to vendors. These decreases in cash flows were partially offset by receipts of advance service fees and the timing of payments for interest and employee benefit plans. The \$13.5 million of net cash flow from operations allowed us to fund approximately 53% of our utility plant expenditures for the period internally, with the remainder funded with proceeds from equity issued under our Dividend Reinvestment Plan and both short-term and long-term borrowings.

Increases in certain operating costs will impact our liquidity and capital resources. As described in our results of operations discussion, during 2006 we received rate relief for Tidewater and Pinelands. We also plan to file for a base rate increase for Middlesex in 2007 as a result of continued capital investment and increases in operating costs in New Jersey. There is no certainty, however, that the BPU or PSC will approve any or all of this or other future requested increases.

Sources of Liquidity

Short-term Debt. The Company has established revolving lines of credit aggregating \$37.0 million. There were no outstanding borrowings under these credit lines as of December 31, 2006.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$9.5 million and \$9.2 million at 6.13% and 4.36% for the years ended December 31, 2006 and 2005, respectively.

Long-term Debt. Subject to regulatory approval, the Company periodically finances capital projects under State Revolving Fund (SRF) loan programs in New Jersey and Delaware. These government programs provide financing at interest rates that are typically below rates available in the financial markets. A portion of the borrowings under the New Jersey SRF is interest free. We participated in the Delaware and New Jersey SRF loan programs during 2006 and expect to participate in the 2007 New Jersey SRF program for up to \$3.7 million.

During 2006, Middlesex closed on \$3.7 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey SRF loan program in order to finance our 2007 RENEW program. The proceeds of these bonds and any interest earned are held by a trustee, and are classified as Restricted Cash on the Consolidated Balance Sheet.

During 2006, Tidewater closed on a \$1.0 million loan with the Delaware SRF. The proceeds were used to fund the ongoing capital program in Delaware.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes debt service and capital ratio covenants, certain restrictions as to cash dividend payments and other distributions on common stock. The Company is in compliance with all of its mortgage covenants and restrictions.

Common Stock. The Company periodically issues shares of common stock in connection with its Dividend Reinvestment and Common Stock Purchase Plan. Periodically, the Company may issue additional equity to reduce short-term indebtedness and for other general corporate purposes. The majority of the net proceeds of approximately \$26.2 million from the November 2006 common stock offering of 1,495,000 shares were used to repay all of the Company's short-term borrowings outstanding at that time. The Company also raised \$1.3 million through the issuance of shares under its Dividend Reinvestment and Common Stock Purchase Plan (the Plan) during 2006. The Company issued shares under the Plan at a 5% discount for a six-month period during 2005. This allowed the Company to raise \$3.7 million through the Plan during 2005.

Capital Expenditures and Commitments

Under our capital program for 2007, we plan to expend \$19.7 million for additions and improvements for our Delaware water systems, which include the construction of several storage tanks and the creation of new wells and interconnections. We expect to spend approximately \$20.9 million for system additions and acquisitions for our Delaware wastewater systems. We expect to spend \$3.9 million for our RENEW program, which is our program to clean and cement line unlined mains in the Middlesex System. There remains a total of approximately 120 miles of unlined mains in the 732-mile Middlesex System. In 2006, nine miles of unlined mains were cleaned and cement lined. The capital program also includes \$10.1 million for scheduled upgrades to our existing systems in New Jersey. The scheduled upgrades consist of \$1.9 million for improvements to existing plant, \$5.6 million for mains, \$0.7 million for service lines, \$0.4 million for meters, \$0.5 million for hydrants, and \$1.0 million for other infrastructure needs.

To pay for our capital program in 2007, we will utilize internally generated funds and funds available and held in trust under existing NJEIT loans (currently, \$3.7 million) and Delaware SRF loans (currently, \$2.5 million). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks. If necessary, we will also utilize short-term borrowings through \$37.0 million of available lines of credit with several financial institutions. There were no outstanding borrowings under these credit lines as of December 31, 2006.

Going forward into 2008 through 2009, we currently project that we may be required to expend between \$78.0 million and \$140.0 million for capital projects. The exact amount is dependent on customer growth, residential housing sales and project scheduling. To the extent possible and because of favorable interest rates available to regulated water utilities, we expect to finance our capital expenditures under the SRF loan programs. We also expect to use internally generated funds and proceeds from the sale of common stock through the Dividend Reinvestment and Common Stock Purchase Plan. It may also be necessary to sell shares of our Common Stock through a public offering.

Tidewater is appealing a Notice of Violation regarding a plan of correction to a community water system to provide fire protection services. If we are unsuccessful in our defense, approximately 67 additional community water systems could be subject to similar corrective plans of action. While we are unable to estimate the potential capital investment costs for these additional community water systems at this time, Tidewater believes these expenditures would be subject to recovery in rates as set by the PSC. See Item 3. - Legal Proceedings for additional discussion of this matter.

Contractual Obligations

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

The table below presents our known contractual obligations for the periods specified as of December 31, 2006.

	(Millions of Dollars)				
	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Long-term Debt	\$ 133.2	\$ 2.5	\$ 20.4	\$ 5.6	\$ 104.7
Notes Payable	---	---	---	---	---
Interest on Long-term Debt	104.8	6.6	12.0	10.5	75.7
Purchased Water Contracts	48.4	4.2	8.4	6.9	28.9
Wastewater Operations	55.7	4.0	8.3	8.7	34.7
Employee Retirement Plans (1)	3.5	3.5	---	---	---
Total	\$ 345.6	\$ 20.8	\$ 49.1	\$ 31.7	\$ 244.0

(1) Amount not determinable after year one.

Guarantees

USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed

fee payments were \$7.6 million in 2006 and will increase over the term of the contract to \$10.2 million by the end of the contract.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of December 31, 2006, approximately \$23.4 million of the Series C Serial Bonds remained outstanding.

We are obligated to perform under the guarantee in the event notice is received from the Series C Serial Bonds trustee of an impending debt service deficiency. If Middlesex funds any debt service obligations as guarantor, there is a provision in the agreement that requires Perth Amboy to reimburse us. There are other provisions in the agreement that we believe make it unlikely that we will be required to perform under the guarantee, such as scheduled annual rate increases for the water and wastewater services as well as rate increases due to unforeseen circumstances. In the event revenues from customers could not satisfy the reimbursement requirements, Perth Amboy has Ad Valorem taxing powers, which could be used to raise the needed amount.

Critical Accounting Policies and Estimates

The application of accounting policies and standards often requires the use of estimates, assumptions and judgments. Changes in these variables may lead to significantly different financial statement results. Our critical accounting policies are set forth below.

Regulatory Accounting

We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 89% of Operating Revenues and 98% of Total Assets, are subject to regulation in the states in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in the Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting For the Effects of Certain Types of Regulation" (SFAS 71).

In accordance with SFAS No. 71, costs and obligations are deferred if it is probable that these items will be recognized for rate-making purposes in future rates. Accordingly, we have recorded costs and obligations, which will be amortized over various future periods. Any change in the assessment of the probability of rate-making treatment will require us to change the accounting treatment of the deferred item. We have no reason to believe any of the deferred items that are recorded would be treated differently by the regulators in the future.

Revenues

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

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

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

Pension Plan

We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service and who were hired prior to March 31, 2007.

The discount rate utilized for determining future pension obligations has decreased from 5.88% at December 31, 2004 to 5.52% at December 31, 2005 and increased to 5.89% at December 31, 2006. Lowering the discount rate by 0.5% would have increased the net periodic pension cost by \$0.2 million in 2006. Lowering the expected long-term rate of return on the pension plans by 0.5% (from 8.0% to 7.5%) would have increased the net periodic pension cost in 2006 by approximately \$0.1 million.

The discount rate for determining future pension obligations is determined based on market rates for long-term, high-quality corporate bonds at our December 31 measurement date. The expected long-term rate of return for pension assets is determined based on historical returns and our asset allocation.

Future pension expense will depend on future investment performance, changes in future discount rates and various other demographic factors related to the population participating in the pension plan.

Recent Accounting Standards

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

Item 7A. Qualitative and Quantitative Disclosures About Market Risk.

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately \$2.5 million of the current portion of 16 existing long-term debt instruments will mature. Applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet and consolidated statement of capital stock and long-term debt of Middlesex Water Company and subsidiaries (the Company) as of December 31, 2006, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement plans in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Middlesex Water Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 13, 2007 expressed an unqualified opinion on management's assessment of internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ Beard Miller Company LLP
Beard Miller Company LLP
Reading, Pennsylvania
March 13, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet and consolidated statement of capital stock and long-term debt of Middlesex Water Company and subsidiaries (the Company) as of December 31, 2005, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the two years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Parsippany, New Jersey
March 16, 2006

**MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS**

ASSETS		December 31, 2006	December 31, 2005
UTILITY PLANT:	Water Production	\$ 95,323,657	\$ 91,403,549
	Transmission and Distribution	243,958,446	217,098,466
	General	25,153,277	23,292,087
	Construction Work in Progress	6,131,037	6,127,634
	TOTAL	370,566,417	337,921,736
	Less Accumulated Depreciation	59,693,678	54,960,290
	UTILITY PLANT - NET	310,872,739	282,961,446
CURRENT ASSETS:	Cash and Cash Equivalents	5,826,012	2,983,762
	Accounts Receivable, net	8,538,302	8,074,929
	Unbilled Revenues	4,013,285	3,737,627
	Materials and Supplies (at average cost)	1,306,196	1,259,935
	Prepayments	1,228,620	927,254
	TOTAL CURRENT ASSETS	20,912,415	16,983,507
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	3,014,005	3,164,043
	Preliminary Survey and Investigation Charges	3,436,124	1,774,817
	Regulatory Assets	18,341,766	7,469,190
	Restricted Cash	6,850,418	5,782,705
	Non-utility Assets - Net	6,254,895	5,727,806
	Other	584,652	519,610
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	38,481,860	24,438,171
	TOTAL ASSETS	\$ 370,267,014	\$ 324,383,124
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$ 104,248,456	\$ 76,160,949
	Retained Earnings	25,001,295	23,638,301
	Accumulated Other Comprehensive Income (Loss), net of tax	94,255	(206,925)
	TOTAL COMMON EQUITY	129,344,006	99,592,325
	Preferred Stock	3,958,062	3,958,062
	Long-term Debt	130,706,358	128,174,944
	TOTAL CAPITALIZATION	264,008,426	231,725,331
CURRENT LIABILITIES:	Current Portion of Long-term Debt	2,500,537	1,930,617
	Notes Payable	-	4,000,000
	Accounts Payable	5,490,514	6,038,060
	Accrued Taxes	6,683,614	6,466,531
	Accrued Interest	1,879,731	1,868,962
	Unearned Revenues and Advanced Service Fees	600,626	473,627
	Other	984,476	707,446
	TOTAL CURRENT LIABILITIES	18,139,498	21,485,243
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	19,246,396	17,180,962
	Accumulated Deferred Investment Tax Credits	1,812,932	1,617,949
	Accumulated Deferred Income Taxes	15,779,440	14,296,620
	Employee Benefit Plans	16,387,754	6,650,724
	Regulatory Liability - Cost of Utility Plant Removal	6,200,302	5,647,757
	Other	526,345	793,857
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	59,953,169	46,187,869
CONTRIBUTIONS IN AID OF CONSTRUCTION		28,165,921	24,984,681
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 370,267,014	\$ 324,383,124

See Notes to Consolidated Financial Statements.

**MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31,		
	2006	2005	2004
Operating Revenues	\$ 81,061,457	\$ 74,613,305	\$ 70,991,146
Operating Expenses:			
Operations	39,797,755	38,635,382	36,519,355
Maintenance	3,546,677	3,519,914	3,464,036
Depreciation	7,060,360	6,460,241	5,846,191
Other Taxes	9,338,404	8,779,325	8,228,354
Total Operating Expenses	59,743,196	57,394,862	54,057,936
Operating Income	21,318,261	17,218,443	16,933,210
Other Income (Expense):			
Allowance for Funds Used During Construction	632,366	547,714	606,019
Other Income	159,288	219,572	221,950
Other Expense	(17,977)	(27,593)	(32,676)
Total Other Income, net	773,677	739,693	795,293
Interest Charges	7,012,452	6,244,671	5,468,576
Income before Income Taxes	15,079,486	11,713,465	12,259,927
Income Taxes	5,040,591	3,237,324	3,814,418
Net Income	10,038,895	8,476,141	8,445,509
Preferred Stock Dividend Requirements	247,786	251,286	254,786
Earnings Applicable to Common Stock	\$ 9,791,109	\$ 8,224,855	\$ 8,190,723
Earnings per share of Common Stock:			
Basic	\$ 0.83	\$ 0.72	\$ 0.74
Diluted	\$ 0.82	\$ 0.71	\$ 0.73
Average Number of Common Shares Outstanding :			
Basic	11,843,580	11,444,785	11,079,835
Diluted	12,174,720	11,783,925	11,422,975
Cash Dividends Paid per Common Share	\$ 0.683	\$ 0.673	\$ 0.663

See Notes to Consolidated Financial Statements

**MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Twelve Months Ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 10,038,895	\$ 8,476,141	\$ 8,445,509
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	7,761,243	7,159,670	6,387,808
Provision for Deferred Income Taxes and ITC	896,993	164,873	603,275
Allowance for Funds Used During Construction	(632,366)	(547,714)	(606,019)
Changes in Assets and Liabilities:			
Accounts Receivable	(463,373)	(1,758,076)	(634,245)
Unbilled Revenues	(275,658)	(164,914)	(337,925)
Materials & Supplies	(46,261)	(56,029)	215,236
Prepayments	(301,366)	(103,278)	185,328
Other Assets	(563,300)	(151,166)	(578,048)
Operations Contracts Receivable	78,161	-	14,207
Accounts Payable	(538,220)	(17,933)	1,224,406
Accrued Taxes	197,004	(323,227)	528,715
Accrued Interest	10,768	165,831	(107,508)
Employee Benefit Plans	(83,679)	709,988	377,068
Unearned Revenue & Advanced Service Fees	126,999	86,471	(215,698)
Other Liabilities	(298,779)	(143,704)	56,913
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,907,061	13,496,933	15,559,022
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures*	(30,360,491)	(25,287,735)	(28,878,576)
Cash Surrender Value & Other Investments	(154,527)	(294,372)	(273,837)
Restricted Cash	(1,035,943)	7,637,175	(9,431,686)
Preliminary Survey & Investigation Charges	(1,661,307)	(742,635)	348,589
NET CASH USED IN INVESTING ACTIVITIES	(33,212,268)	(18,687,567)	(38,235,510)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(1,914,900)	(1,214,521)	(1,067,258)
Proceeds from Issuance of Long-term Debt	5,016,234	14,948,082	18,995,153
Net Short-term Bank Borrowings (Repayments)	(4,000,000)	(7,000,000)	(1,500,000)
Deferred Debt Issuance Expenses	(27,858)	(166,477)	(65,219)
Common Stock Issuance Expense	(238,405)	-	(379,534)
Restricted Cash	(31,770)	(162,774)	-
Proceeds from Issuance of Common Stock	28,087,507	4,076,047	15,055,874
Payment of Common Dividends	(8,189,710)	(7,690,462)	(7,375,629)
Payment of Preferred Dividends	(247,786)	(251,286)	(254,786)
Construction Advances and Contributions-Net	1,694,145	1,601,019	297,045
NET CASH PROVIDED BY FINANCING ACTIVITIES	20,147,457	4,139,628	23,705,646
NET CHANGES IN CASH AND CASH EQUIVALENTS	2,842,250	(1,051,006)	1,029,158
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,983,762	4,034,768	3,005,610
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,826,012	\$ 2,983,762	\$ 4,034,768

*Excludes Allowance for Funds Used During Construction.

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:

Utility Plant received as Construction Advances and Contributions	\$ 3,543,203	\$ 5,149,990	\$ 2,722,121
---	--------------	--------------	--------------

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash Paid During the Year for:			
Interest	\$ 6,937,230	\$ 5,990,089	\$ 5,409,803
Interest Capitalized	\$ (632,366)	\$ (547,714)	\$ (606,019)
Income Taxes	\$ 4,351,550	\$ 3,792,000	\$ 3,074,513

See Notes to Consolidated Financial Statements.

**MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CAPITAL STOCK
AND LONG-TERM DEBT**

	December 31, 2006	December 31, 2005
Common Stock, No Par Value		
Shares Authorized - 20,000,000		
Shares Outstanding - 2006 - 13,168,081	\$ 104,248,456	\$ 76,160,949
2005 - 11,584,499		
Retained Earnings		
	25,001,295	23,638,301
Accumulated Other Comprehensive Income (Loss), net of tax	94,255	(206,925)
TOTAL COMMON EQUITY	\$ 129,344,006	\$ 99,592,325
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100,000		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value		
Shares Authorized - 139,497		
Convertible:		
Shares Outstanding, \$7.00 Series - 13,881	\$ 1,457,505	\$ 1,457,505
Shares Outstanding, \$8.00 Series - 12,000	1,398,857	1,398,857
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1,017	101,700	101,700
Shares Outstanding, \$4.75 Series - 10,000	1,000,000	1,000,000
TOTAL PREFERRED STOCK	\$ 3,958,062	\$ 3,958,062
Long-term Debt		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,895,875	\$ 2,983,384
6.25%, Amortizing Secured Note, due May 22, 2028	8,995,000	9,415,000
6.44%, Amortizing Secured Note, due August 25, 2030	6,626,667	6,906,667
6.46%, Amortizing Secured Note, due September 19, 2031	6,906,667	7,000,000
4.22%, State Revolving Trust Note, due December 31, 2022	738,773	754,164
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,099,950	3,018,254
3.49%, State Revolving Trust Note, due January 25, 2027	598,144	278,144
4.03%, State Revolving Trust Note, due December 1, 2026	914,537	-
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	730,000	760,000
0.00%, State Revolving Fund Bond, due September 1, 2021	577,222	614,436
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000,000	12,000,000
5.25%, Series T, due October 1, 2023	6,500,000	6,500,000
6.40%, Series U, due February 1, 2009	15,000,000	15,000,000
5.25%, Series V, due February 1, 2029	10,000,000	10,000,000
5.35%, Series W, due February 1, 2038	23,000,000	23,000,000
0.00%, Series X, due September 1, 2018	646,897	700,280
4.25% to 4.63%, Series Y, due September 1, 2018	820,000	870,000
0.00%, Series Z, due September 1, 2019	1,454,749	1,567,367
5.25% to 5.75%, Series AA, due September 1, 2019	1,890,000	1,990,000
0.00%, Series BB, due September 1, 2021	1,804,982	1,926,956
4.00% to 5.00%, Series CC, due September 1, 2021	2,090,000	2,185,000
5.10%, Series DD, due January 1, 2032	6,000,000	6,000,000
0.00%, Series EE, due September 1, 2024	7,482,432	7,715,909
3.00% to 5.50%, Series FF, due September 1, 2024	8,735,000	8,920,000
0.00%, Series GG, due August 1, 2026	1,750,000	-
4.00% to 5.00%, Series HH, due August 1, 2026	1,950,000	-
SUBTOTAL LONG-TERM DEBT	133,206,895	130,105,561
Less: Current Portion of Long-term Debt	(2,500,537)	(1,930,617)
TOTAL LONG-TERM DEBT	\$ 130,706,358	\$ 128,174,944

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE
INCOME

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2004	10,566,937	\$ 56,924,028	\$ 22,668,348	\$ 50,808	\$ 79,643,184
Net Income			8,445,509		8,445,509
Change in Value of Equity Investments, Net of \$3,000 Income Tax				(5,967)	(5,967)
Comprehensive Income					8,439,542
Dividend Reinvestment & Common Stock Purchase Plan	76,935	1,533,507			1,533,507
Issuance of Common Stock	700,000	13,257,000			13,257,000
Restricted Stock Award - Net	14,900	265,367			265,367
Cash Dividends on Common Stock			(7,375,629)		(7,375,629)
Cash Dividends on Preferred Stock			(254,786)		(254,786)
Common Stock Expenses			(379,534)		(379,534)
Balance at December 31, 2004	11,358,772	\$ 71,979,902	\$ 23,103,908	\$ 44,841	\$ 95,128,651
Net Income			8,476,141		8,476,141
Minimum Pension Liability, Net of \$135,000 Income Tax				(262,205)	(262,205)
Change in Value of Equity Investments, Net of \$5,000 Income Tax				10,439	10,439
Comprehensive Income					8,224,375
Dividend Reinvestment & Common Stock Purchase Plan	194,777	3,640,334			3,640,334
Restricted Stock Award - Net	18,950	435,713			435,713
Preferred Stock Conversion	12,000	105,000			105,000
Cash Dividends on Common Stock			(7,690,462)		(7,690,462)
Cash Dividends on Preferred Stock			(251,286)		(251,286)
Balance at December 31, 2005	11,584,499	76,160,949	23,638,301	(206,925)	\$ 99,592,325
Net Income			10,038,895		10,038,895
Minimum Pension Liability, Net of \$135,000 Income Tax				262,205	262,205
Change in Value of Equity Investments, Net of \$20,000 Income Tax				38,975	38,975
Comprehensive Income					10,340,075
Dividend Reinvestment & Common Stock Purchase Plan	69,803	1,321,424			1,321,424
Restricted Stock Award - Net	18,779	275,383			275,383
Issuance of Common Stock	1,495,000	26,490,700			26,490,700
Cash Dividends on Common Stock			(8,189,710)		(8,189,710)
Cash Dividends on Preferred Stock			(247,786)		(247,786)
Common Stock Expenses			(238,405)		(238,405)
Balance at December 31, 2006	13,168,081	\$ 104,248,456	\$ 25,001,295	\$ 94,255	\$ 129,344,006

See Notes to Consolidated Financial Statements.

Middlesex Water Company
Notes to Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

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

Middlesex Water Company has operated as a water utility in New Jersey since 1897, and in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services in New Jersey and Delaware, as to the quality of services we provide and as to certain other matters. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

(b) System of Accounts - Middlesex, Pinelands Water and Pinelands Wastewater maintain their accounts in accordance with the Uniform System of Accounts prescribed by the Board of Public Utilities of the State of New Jersey (BPU). Tidewater, TESI and Southern Shores maintain their accounts in accordance with the Public Service Commission of Delaware (PSC) requirements.

(c) Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 2006, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The Accumulated Provision for Depreciation is charged with the cost of property retired, less salvage. The following table sets forth the range of depreciation rates for the major utility plant categories used to calculate depreciation for the years ended December 31, 2006, 2005 and 2004. These rates have been approved by either the BPU or PSC:

Source of Supply	1.15% - 3.44%	Transmission and Distribution (T&D):	
Pumping	2.87% - 5.04%	T&D - Mains	1.10% - 3.13%
Water Treatment	2.71% - 7.64%	T&D - Services	2.12% - 2.81%
General Plant	2.08% - 17.84%	T&D - Other	1.61% - 4.63%

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

(e) Customers' Advances for Construction - Water utility plant and/or cash advances are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. These contributions are recorded as Customers' Advances for Construction. Refunds on these advances are made by the Company in accordance with agreements with the contributing party and are based on either additional operating revenues related to the utility plant or as new customers are connected to and take service from the utility plant. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction.

Contributions in Aid of Construction - Contributions in Aid of Construction include direct non-refundable contributions of water utility plant and/or cash and the portion of Customers' Advances for Construction that become non-refundable.

Advances and Contributions are not depreciated in accordance with BPU and PSC requirements. In addition, these amounts reduce the investment base for purposes of setting rates.

(f) Allowance for Funds Used During Construction (AFUDC) - Middlesex and its regulated subsidiaries capitalize AFUDC, which represents the cost of financing projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost and construction period thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. For the years ended December 31, 2006, 2005 and 2004 approximately \$0.6 million, \$0.5 million and \$0.6 million, respectively of AFUDC was added to the cost of construction projects. AFUDC is calculated using each company's weighted cost of debt and equity as approved in their most recent respective regulatory rate order. The average AFUDC rate for the years ended December 31, 2006, 2005 and 2004 for Middlesex and Tidewater were 7.37% and 8.15%, respectively.

(g) Accounts Receivable - We record bad debt expense based on historical write-offs. The allowance for doubtful accounts was \$0.3 million at December 31, 2006, and \$0.2 million at December 31, 2005 and 2004. The corresponding expense for the year ended December 31, 2006, 2005 and 2004 was \$0.3 million, \$0.2 million and \$0.1 million, respectively.

(h) Revenues - General metered customer's bills for regulated water service are typically comprised of two components; a fixed service charge and a volumetric or consumption charge. Revenues from general metered service water customers, except Tidewater, include amounts billed in arrears on a cycle basis and unbilled amounts estimated from the last meter reading date to the end of the accounting period. The estimated unbilled amounts are determined by utilizing factors which include historical consumption usage and current climate conditions. Actual billings may differ from our estimates. Revenues are adjusted in the period that the difference is identified. Tidewater customers are billed in advance for their fixed service charge and these revenues are recognized as the service is provided to the customer.

Southern Shores is an unmetered system. Customers are billed a fixed service charge in advance at the beginning of each month and revenues are recognized as earned. Revenues from the City of Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees, which have been set for the life of the contract, are billed monthly and recorded as earned. Variable fees, which are not significant, are recorded upon approval of the amount by the City of Perth Amboy.

USA bills customers on a quarterly or annual basis for its LineCareSM service line maintenance program. Quarterly amounts billed are recognized as earned. Amounts that are billed on an annual basis are deferred and recognized as revenue ratably over the year.

(i) Deferred Charges and Other Assets - Unamortized Debt Expense is amortized over the lives of the related issues. Restricted Cash represents proceeds from loans entered into through state financing programs and is held in trusts. The proceeds are restricted for specific capital expenditures and debt service requirements.

(j) Income Taxes - Middlesex files a consolidated federal income tax return for the Company and income taxes are allocated based on the separate return method. Investment tax credits have been deferred and are amortized over the estimated useful life of the related property.

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

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

(m) Recent Accounting Pronouncements - In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48) "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," to clarify certain aspects of accounting for uncertain tax positions, including recognition and measurement of those tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of this interpretation to materially impact the Company's results of operations and financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," (SFAS 158), which the Company has adopted for the year ended December 31, 2006. SFAS 158 requires recognition of the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability on the balance sheet and recognition of changes in that funded status in the year in which the changes occur generally through comprehensive income. For an underfunded plan, the incremental liability to be recorded is the difference between the projected benefit obligation and the fair value of plan assets. SFAS No. 87, "Employers' Accounting for Pensions" (SFAS 87) and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106) allowed for deferred recognition of this liability through amortization of this difference over time. Under SFAS 158, actuarial gains and losses and prior service costs and credits that arise during the period but, pursuant to SFAS 87 and SFAS 106 were not yet recognized as components of net periodic benefit cost, will be recognized as a component of Other Comprehensive Income (net of tax). SFAS 158 also recognizes an adjustment to the beginning balance of retained earnings (net of tax) for any transition obligation remaining from the initial application of SFAS 87 and SFAS 106. Such amounts subsequently will be amortized as a component of net periodic benefit cost. See Note 7 - Employee Benefits for additional disclosures.

In December 2004, the FASB issued SFAS No.123(R), "Share-Based Payment" (SFAS 123(R)), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". The Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Statement also establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. This statement was originally effective for quarters beginning after June 15, 2005, however on April 14, 2005, the Securities and Exchange Commission adopted a rule which makes the provisions of SFAS 123(R) effective for the first annual reporting period beginning after June 15, 2005 (January 1, 2006 for the Company). The

Company previously recognized compensation expense at fair value for stock-based payment awards in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation," and the adoption of this standard did not have a material impact on its financial position, results of operations, or cash flows.

(n) Other Comprehensive Income - Total comprehensive income includes changes in equity that are excluded from the consolidated statements of income and are recorded into a separate section of capitalization on the consolidated balance sheets. The Company's accumulated other comprehensive income shown on the consolidated balance sheets consists of unrealized gains on investment holdings.

(o) Regulatory Accounting - We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 89% of Operating Revenues and 98% of Total Assets, are subject to regulation in the state in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation."

(p) Pension Plan - We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service, and who were hired as of March 31, 2007. The discount rate utilized for determining pension costs decreased from 6.00% for the year ended December 31, 2004 to 5.88% for the year ended December 31, 2005 to 5.52% for the year ended December 31, 2006. Future actual pension expense will depend on future investment performance, changes in future discount rates and various other factors related to the population participating in the pension plans.

Note 2 - Rate and Regulatory Matters

On April 28, 2006, Tidewater filed for a \$5.5 million, or 38.6%, base rate increase with the Delaware Public Service Commission (PSC). The request is intended to recover increased costs of operations, maintenance and taxes, as well as capital investment of approximately \$23.8 million since rates were last established in March 2005. Since June 27, 2006, Tidewater has been billing and recognizing additional revenues through a 15% interim rate increase subject to refund as allowed under PSC regulations. A settlement was reached amongst the parties which concluded that a 26.9% overall increase in base rates would be implemented. The PSC approved the settlement and the remaining 11.9% increase was put into effect on February 28, 2007.

Effective April 13, 2006, Pinelands Water and Pinelands Wastewater received approval from the New Jersey Board of Public Utilities (BPU) for base rate increases of 7.02% and 0.98%, respectively. These increases represent a total base rate increase of approximately \$0.1 million for Pinelands to offset increased costs associated with capital improvements, and the operation and maintenance of their systems.

In accordance with the tariff established for Southern Shores, an annual rate increase of 3% was implemented on January 1, 2007. Under the terms of a contract with Southern Shores Homeowners Association, the increase cannot exceed the lesser of the regional Consumer Price Index or 3%.

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

(Thousands of Dollars)
Years Ended December 31,

<u>Regulatory Assets</u>	<u>2006</u>	<u>2005</u>	<u>Remaining Recovery Periods</u>
Postretirement Benefits	\$ 11,130	\$ 610	Various
Income Taxes	6,813	6,167	Various
Tank Painting	275	352	3-9 years
Rate Cases and Other	124	340	Up to 3 years
Total	\$ 18,342	\$ 7,469	

Postretirement benefits include pension and other postretirement benefits that have been recorded on the Consolidated Balance Sheet upon adoption of SFAS 158 as of December 31, 2006. These amounts represent obligations in excess of current funding, which the Company believes will be fully recovered in rates set by the regulatory authorities.

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

The Company uses composite depreciation rates for its regulated utility assets, which is currently an acceptable method under generally accepted accounting principles and is widely used in the utility industry. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. The Company recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of December 31, 2006 and 2005, the Company has approximately \$6.2 million and \$5.6 million, respectively, of expected costs of removal recovered currently in rates in excess of actual costs incurred. These amounts are recorded as regulatory liabilities.

The Company is recovering in current rates acquisition premiums totaling \$0.8 million over the remaining lives of the underlying Utility Plant. These deferred costs have been included in rate base as utility plant and a return is being earned on the unamortized balances during the recovery periods.

Note 3 - Income Taxes

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

	Years Ended December 31, (Thousands of Dollars)		
	2006	2005	2004
Income Tax at Statutory Rate	\$ 5,155	\$ 3,982	\$ 4,168
Tax Effect of:			
Utility Plant Related	(338)	(899)	(500)
State Income Taxes - Net	257	176	167
Employee Benefits	(48)	(25)	(25)
Other	15	3	4
Total Income Tax Expense	\$ 5,041	\$ 3,237	\$ 3,814

Income tax expense is comprised of the following:

Current:			
Federal	\$ 3,846	\$ 2,889	\$ 3,128
State	298	183	83
Deferred:			
Federal	884	160	512
State	92	84	170
Investment Tax Credits	(79)	(79)	(79)
Total Income Tax Expense	\$ 5,041	\$ 3,237	\$ 3,814

The statutory review period for income tax returns for the years prior to 2003 has been closed.

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

	Years Ended December 31, (Thousands of Dollars)	
	2006	2005
Utility Plant Related	\$ 23,656	\$ 21,827
Customer Advances	(4,189)	(4,250)
Employee Benefits	(3,515)	(3,210)
Other	(173)	(70)
Total Deferred Tax Liability	\$ 15,779	\$ 14,297

Note 4 - Commitments and Contingent Liabilities

Guarantees - USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments for 2006, 2005 and 2004 were \$7.6 million, \$7.4 million and \$7.4 million, respectively. The fixed fees will increase over the term of the contract to \$10.2 million.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of December 31, 2006, approximately \$23.4 million of the Series C Serial Bonds remained outstanding.

We are obligated to perform under the guarantee in the event notice is received from the Series C Serial Bonds trustee of an impending debt service deficiency. If Middlesex funds any debt service obligations as guarantor, there is a provision in the agreement that requires Perth Amboy to reimburse us. There are other provisions in the agreement that we believe make it unlikely that we will be required to perform under the guarantee, such as scheduled annual rate increases for water and wastewater services as well as rate increases due to unforeseen circumstances. In the event revenues from customers could not satisfy the reimbursement requirements, Perth Amboy has Ad Valorem taxing powers, which could be used to raise the needed amount.

Water Supply - Middlesex has an agreement with the New Jersey Water Supply Authority (NJWSA) for the purchase of untreated water through November 30, 2023, which provides for an average purchase of 27 million gallons a day (mgd). Pricing is set annually by the NJWSA through a public rate making process. The agreement has provisions for additional pricing in the event Middlesex overdrafts or exceeds certain monthly and annual thresholds.

Middlesex also has an agreement with a non-affiliated regulated water utility for the purchase of treated water. This agreement, which expires February 27, 2011, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

<u>Purchased Water</u>	(Millions of Dollars)		
	Years Ended December 31,		
	2006	2005	2004
Untreated	\$ 2.3	\$ 2.3	\$ 2.2
Treated	1.9	1.9	2.1
Total Costs	\$ 4.2	\$ 4.2	\$ 4.3

Construction -The Company may spend up to \$54.6 million in 2007, \$81.6 million in 2008 and \$58.0 million in 2009 on its construction program. The development of these estimates is based in part upon projected housing development and sales in Delaware.

Litigation - In July 2005, Tidewater received a notice of violation and request for corrective action issued by the Delaware Fire Marshal regarding the alleged failure of one of the community water systems operated by Tidewater to meet Delaware fire protection requirements. Tidewater appealed the Fire Marshal's decision with the Delaware State Fire Prevention Commission (the "SFPC") and, in November 2005, the SFPC denied

Tidewater's appeal. In December 2005, Tidewater filed an appeal of the SFPC's decision with the Sussex County Superior Court in Delaware, which is still pending. There are approximately 67 of our other systems that may not meet the Delaware Fire Marshal's recent interpretation of the fire protection requirements. If the Delaware Fire Marshal's interpretation of the regulations is upheld upon appeal, we may be required to make corrections to the system at issue and the Delaware Fire Marshal could issue notices of violation and requests for corrective action for some or all of the approximately 67 other community systems. At this time, we cannot predict how many community water systems would ultimately require corrective action if our appeal is unsuccessful nor can we predict the timing and the cost of any required corrective actions. We will apply to the PSC to increase base rates to recover the costs of any such corrective actions. However, if corrective actions need to be taken at several community water systems, our costs could be significant, and to the extent the PSC does not approve rate increases to offset these costs, or if there is a significant delay in receiving approval for such rate increases, such costs could have a material adverse effect on our operating results.

The Court action is currently on hold while the parties, with the assistance of a mediator, have met in an attempt to resolve as many open issues as possible. If any significant issues remain open after these discussions, they will be referred back to the Court for ultimate decision.

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

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

Note 5 - Short-term Borrowings

Information regarding the Company's short-term borrowings for the years ended December 31, 2006 and 2005 is summarized below:

	(Millions of Dollars)	
	2006	2005
Established Lines at Year-End	\$ 37.0	\$ 40.0
Maximum Amount Outstanding	18.2	16.0
Average Outstanding	9.5	9.2
Notes Payable at Year-End	None	4.0
Weighted Average Interest Rate	6.13%	4.36%
Weighted Average Interest Rate at Year-End	None	5.09%

Middlesex had no outstanding short-term borrowings as of December 31, 2006.

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

Note 6 - Capitalization

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

Common Stock

In November 2006, the Company sold and issued 1,495,000 shares of its common stock in a public offering that was priced at \$18.46. The majority of the net proceeds of approximately \$26.2 million were used to repay all of the Company's short-term borrowings outstanding at that time. Remaining proceeds from the public offering will be used to fund a portion of the 2007 capital program.

The number of shares authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP) is 1,700,000 shares. The cumulative number of shares issued under the DRP at December 31, 2006, is 1,581,646. The Company also has shares authorized and outstanding under a restricted stock plan, which is described in Note 7 - Employee Benefit Plans.

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. At December 31, 2006, no preferred stock dividends were in arrears.

Preferred Stock

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. At December 31, 2006 and 2005, 36,898 shares of preferred stock presently authorized were outstanding and there were no dividends in arrears.

The conversion feature of the no par \$7.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for twelve shares of the Company's common stock. In addition, the Company may redeem up to 10% of the outstanding convertible stock in any calendar year at a price equal to the fair market value of twelve shares of the Company's common stock for each share of convertible stock redeemed. During September 2005, 1,000 shares of the no par \$7.00 Series Cumulative and Convertible Preferred Stock was converted into 12,000 of common stock.

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

Long-term Debt

In November 2006, Middlesex issued \$3.7 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company closed on the first mortgage bonds designated as Series GG and HH on November 4, 2006.

In May 2006, Tidewater closed on a \$1.0 million loan with the Delaware State Revolving Fund (SRF). The proceeds were used to fund capital improvements for one specific community water system in Delaware. The interest rate on the loan is 4.03% and will have a final maturity on December 1, 2026.

In July 2005 Tidewater closed on a \$2.0 million loan with the Delaware SRF. This loan allows, but does not obligate, Tidewater to draw down against a General Obligation Note for two specific projects over a two-year period ending in April 2007. The interest rate on any draw-down will be set at 3.49%. In August 2005, Tidewater converted \$7.0 million of short-term borrowings to a \$7.0 million mortgage-type loan to be repaid over a term of 25 years. This loan bears interest at 6.44%. In September 2005, Tidewater closed on another \$7.0 million mortgage-type loan. This loan bears interest at 6.46% and is to be repaid over a term of 26 years.

First Mortgage Bonds Series S through W and Series DD are term bonds with single maturity dates. With the exception of \$15.0 million for repayment for the First Mortgage Bond Series U due in 2009, principal

repayments for the First Mortgage Bonds extend beyond 2011. The aggregate annual principal repayment obligations for all other long-term debt are shown below:

(Millions of Dollars)	
Year	Annual Maturities
2007	\$2.5
2008	\$2.7
2009	\$2.7
2010	\$2.8
2011	\$2.8

The weighted average interest rate on all long-term debt at December 31, 2006 and 2005 was 5.28% and 5.36%, respectively. Except for the Amortizing Secured Notes and Series U First Mortgage Bonds, all of the Company's outstanding debt has been issued through the New Jersey Economic Development Authority (\$57.5 million), the New Jersey Environmental Infrastructure Trust program (\$29.9 million) and the SRF program (\$5.4 million).

Restricted cash includes proceeds from the Series Y, AA, BB, CC, EE, FF, GG, and HH First Mortgage Bonds and State Revolving Trust Bonds issuances. These funds are held in trusts and restricted for specific capital expenditures and debt service requirements. Series GG and HH proceeds can only be used for the 2007 main cleaning and cement lining program. All other bond issuance balances in restricted cash are for debt service requirements.

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes debt service and capital ratio covenants, certain restrictions as to cash dividend payments and other distributions on common stock. The Company is in compliance with all of its mortgage covenants and restrictions.

Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (EPS) for the three years ended December 31, 2006. Basic EPS is computed on the basis of the weighted average number of shares outstanding. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and \$8.00 Series.

	(In Thousands, Except per Share Amounts)					
	2006		2005		2004	
Basic:	Income	Shares	Income	Shares	Income	Shares
Net Income	\$ 10,039	11,844	\$ 8,476	11,445	\$ 8,446	11,080
Preferred Dividend	(248)		(251)		(255)	
Earnings Applicable to Common Stock	\$ 9,791	11,844	\$ 8,225	11,445	\$ 8,191	11,080
Basic EPS	\$ 0.83		\$ 0.72		\$ 0.74	
Diluted:						
Earnings Applicable to Common Stock	\$ 9,791	11,844	\$ 8,225	11,445	\$ 8,191	11,080
\$7.00 Series Dividend	97	167	101	175	104	179
\$8.00 Series Dividend	96	164	96	164	96	164
Adjusted Earnings Applicable to Common Stock	\$ 9,984	12,175	\$ 8,422	11,784	\$ 8,391	11,423
Diluted EPS	\$ 0.82		\$ 0.71		\$ 0.73	

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, marketable securities, and trade receivables and payables approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt relating to first mortgage bonds is based on quoted market prices for similar issues. The carrying amount and fair market value of the Company's bonds were as follows:

	(Thousands of Dollars)			
	<u>At December 31,</u>			
	<u>2006</u>		<u>2005</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$ 101,124	\$ 103,083	\$ 98,376	\$ 101,080
State Revolving Bonds	\$ 1,307	\$ 1,340	\$ 1,374	\$ 1,402

For other long-term debt for which there was no quoted market price, it was not practicable to estimate their fair value. The carrying amount of these instruments at December 31, 2006 and 2005 was \$30.8 million and \$30.3 million, respectively. Customer advances for construction have a carrying amount of \$19.2 million and \$17.2 million at December 31, 2006 and 2005, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 7 - Employee Benefit Plans*Pension*

The Company has a noncontributory defined benefit pension plan, which covers substantially all employees with more than 1,000 hours of service. Employees hired after March 31, 2007 are not eligible to participate in this plan, but will be able to participate in a defined contribution plan that provides an annual contribution at the discretion of the Company based upon a percentage of the participants' compensation. Eligibility requirements for the defined contribution plan are the same as the defined benefit plan. In addition, the Company maintains an unfunded supplemental pension plan for its executive officers. The Accumulated Benefit Obligation for all pension plans at December 31, 2006 was \$22.1 million.

Postretirement Benefits Other Than Pensions

The Company has a postretirement benefit plan other than pensions for substantially all of its retired employees. Employees hired after March 31, 2007 are not eligible to participate in this plan. Coverage includes healthcare and life insurance. Retiree contributions are dependent on credited years of service. Accrued retirement benefit costs are recorded each year.

The Company has recognized a deferred regulatory asset relating to the difference between the accrued retirement benefit costs and actual cash paid for plan premiums in years prior to 1998. Included in the regulatory asset is a transition obligation from adopting SFAS No.106, "Employers' Accounting for Postretirement Benefits Other than Pensions," on January 1, 1993. In addition to the recognition of annual accrued retirement benefit costs in rates, Middlesex is also recovering the transition obligation over 15 years. The regulatory assets at December 31, 2006 and 2005 were \$0.5 million and \$0.6 million, respectively.

The Company adopted SFAS 158 on December 31, 2006. Because the Company is subject to regulation in the states in which it operates, it is required to maintain its accounts in accordance with the regulatory authority's

rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS 71). Based on prior regulatory practice, and in accordance with the guidance provided by SFAS 71, the Company recorded underfunded pension and postretirement obligations, which otherwise would be recognized as Other Comprehensive Income as of December 31, 2006 under SFAS 158, as a Regulatory Asset, and expects to recover those costs in rates charged to customers. The adoption of this standard had no impact on results of operations or cash flows.

The following table summarizes the effect of adopting SFAS 158 on the Company's Consolidated Balance Sheet as of December 31, 2006.

Assets:	Pre- Adoption	SFAS 158 Adoption	Post- Adoption
Regulatory Assets - Employee Benefits	\$ 524	\$ 10,606	\$ 11,130
Deferred Charges and Other Assets- Employee Benefits	214	(214)	-
Liabilities and Equity:			
Employee Benefit Plans	6,567	10,129	16,696

The Company uses a December 31 measurement date for all of its employee benefit plans. The table below sets forth information relating to the Company's pension plans and other postretirement benefits for 2006 following the disclosure requirements of SFAS 158 and for 2005 following the disclosure requirements prior to the adoption of SFAS 158.

(Thousands of Dollars)
Years Ended December 31,

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
Reconciliation of Projected Benefit Obligation				
Beginning Balance	\$ 29,666	\$ 26,099	\$ 15,247	\$ 11,133
Service Cost	1,311	1,126	756	621
Interest Cost	1,703	1,559	804	771
Actuarial (Gain)/Loss	544	2,141	(1,655)	3,130
Benefits Paid	(1,496)	(1,259)	(454)	(408)
Ending Balance	\$ 31,728	\$ 29,666	\$ 14,698	\$ 15,247
Reconciliation of Plan Assets at Fair Value				
Beginning Balance	\$ 20,338	\$ 19,510	\$ 4,666	\$ 3,430
Actual Return on Plan Assets	2,578	885	1,045	225
Employer Contributions	1,608	1,202	1,444	1,419
Benefits Paid	(1,496)	(1,259)	(454)	(408)
Ending Balance	\$ 23,028	\$ 20,338	\$ 6,701	\$ 4,666
Funded Status	\$ (8,700)	\$ (9,328)	\$ (7,997)	\$ (10,581)
Amounts Not Recognized in the Consolidated Balance Sheets				
Unrecognized Net Transition Obligation	-	-	-	947
Unrecognized Net Actuarial (Gain)/Loss	-	5,163	-	7,533
Unrecognized Prior Service Cost	-	81	-	(3)
Net Amount Recognized	\$ (8,700)	\$ (4,084)	\$ (7,997)	\$ (2,104)
Amounts Recognized in the Consolidated Balance Sheets consist of:				
Accrued Benefit Cost	\$ -	\$ (4,084)	\$ -	\$ (2,104)
Additional Minimum Liability	-	(476)	-	-
Intangible Asset	-	79	-	-
Accumulated Other Comprehensive Income (pre-tax)	-	397	-	-
Current Liability	(308)	-	-	-
Noncurrent Liability	(8,392)	-	(7,997)	-
Net Liability Recognized	\$ (8,700)	\$ (4,084)	\$ (7,997)	\$ (2,104)
Separate Disclosure for Plans with Accumulated Benefit Obligation in Excess of Plan Assets:				
Projected Benefit Obligation	\$ -	\$ 25,822		
Accumulated Benefit Obligation	-	21,500		
Fair Value of Plan Assets	-	20,338		

(Thousands of Dollars)
Years Ended December 31,

	Pension Benefits			Other Benefits		
	2006	2005	2004	2006	2005	2004
Components of Net Periodic Benefit Cost						
Service Cost	\$ 1,311	\$ 1,126	\$ 746	\$ 756	\$ 622	\$ 426
Interest Cost	1,703	1,559	1,387	804	771	580
Expected Return on Plan Assets	(1,608)	(1,547)	(1,492)	(330)	(275)	(213)
Amortization of Net Transition Obligation	-	-	-	135	135	135
Amortization of Net Actuarial (Gain)/Loss	258	49	-	443	482	292
Amortization of Prior Service Cost	11	92	92	-	-	-
Net Periodic Benefit Cost	\$ 1,675	\$ 1,279	\$ 733	\$ 1,808	\$ 1,735	\$ 1,220

	2006	2005	2004	2006	2005	2004
Weighted Average Assumptions:						
Expected Return on Plan Assets	8.00%	8.00%	8.00%	7.50%	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	5.89%	5.52%	5.88%	5.89%	5.52%	5.88%
Benefit Cost	5.52%	5.88%	6.00%	5.52%	5.88%	6.00%
Compensation Increase for:						
Benefit Obligation	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Benefit Cost	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

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

A 9.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2006 and assumed to decline by 1.0% per year through 2008 and by 0.5% per year to 5% by year 2011. A one-percentage point change in assumed healthcare cost trend rates would have the following effects:

	(Thousands of Dollars) 1 Percentage Point	
	Increase	Decrease
Effect on Current Year's Service and Benefit Cost	\$ 377	\$ (282)
Effect on Benefit Obligation	2,719	(2,113)

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

Year	Pension Benefits	Other Benefits
2007	\$ 1,500	\$ 502
2008	1,568	524
2009	1,539	564
2010	1,547	583
2011	1,612	599
2012-2016	9,004	3,536
Totals	\$ 16,770	\$ 6,308

Benefit Plans Assets

The allocation of plan assets at December 31, 2006 and 2005, by asset category is as follows:

<u>Asset Category</u>	<u>Pension Plan</u>		<u>Other Benefits</u>		<u>Target</u>	<u>Range</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>		
Equity Securities	60.0%	63.7%	48.5%	56.3%	60%	30-65%
Debt Securities	36.9	33.4	33.0	41.0	38%	25-70%
Cash	3.1	2.9	18.5	2.7	2%	0-10%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>		

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

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

Equity securities include Middlesex common stock in the amounts of \$0.7 million (3.2% of total plan assets) and \$0.7 million (3.3% of total plan assets) at December 31, 2006 and 2005, respectively.

For the pension plan, Middlesex made total cash contributions of \$1.6 million in 2006 and expects to make cash contributions of approximately \$1.8 million in 2007.

For the postretirement health benefit plan, Middlesex made cash contributions of \$1.4 million in 2006 and expects to make contributions of approximately \$1.6 million in 2007.

401(k) Plan

The Company has a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1%, but not more than 6%. The Company's matching contributions were \$0.3 million for each of the years ended December 31, 2006, 2005 and 2004. As described above, employees hired after March 31, 2007 may be eligible to participate in a defined contribution plan that intends to provide an annual cash contribution to each participant's account based upon a percentage of the eligible participants' compensation. The timing and extent of any contributions are at the discretion of the Company.

Stock-Based Compensation

The Company maintains a Restricted Stock Plan, under which 63,837 shares of the Company's common stock were held in escrow by the Company as of December 31, 2006 for key employees. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the award other than as a result of retirement, death, disability or change in control. The maximum number of shares authorized for grant under this plan is 240,000 shares.

The Company recognizes compensation expense at fair value for the restricted stock awards in accordance with SFAS No.123(R), "Share-Based Payment." Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period.

The following table presents information on the Restricted Stock Plan:

	Shares	Unearned Compensation	Weighted Average Grant Price
Balance, January 1, 2004	69,400	\$ 612,172	
Granted	14,900	265,367	\$ 17.81
Vested	(19,067)		
Amortization of Compensation Expense		(271,298)	
Balance, December 31, 2004	65,233	606,241	
Granted	19,000	435,713	\$ 22.95
Vested	(28,166)		
Amortization of Compensation Expense		(342,122)	
Balance, December 31, 2005	56,067	699,832	
Granted	21,027	404,520	\$ 19.24
Vested	(11,009)		
Forfeited	(2,248)	(38,339)	
Amortization of Compensation Expense		(271,159)	
Balance, December 31, 2006	63,837	\$ 794,854	

Note 8 - Business Segment Data

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

(Thousands of Dollars)
Twelve Months Ended December 31,

Operations by Segments:	2006	2005	2004
Revenues:			
Regulated	\$ 71,948	\$ 66,317	\$ 60,745
Non - Regulated	9,317	8,416	10,366
Inter-segment Elimination	(204)	(120)	(120)
Consolidated Revenues	\$ 81,061	\$ 74,613	\$ 70,991
Operating Income:			
Regulated	\$ 20,062	\$ 16,390	\$ 16,075
Non - Regulated	1,256	828	858
Consolidated Operating Income	\$ 21,318	\$ 17,218	\$ 16,933
Depreciation:			
Regulated	\$ 6,936	\$ 6,357	\$ 5,762
Non - Regulated	124	103	84
Consolidated Depreciation	\$ 7,060	\$ 6,460	\$ 5,846
Other Income, Net:			
Regulated	\$ 951	\$ 836	\$ 892
Non - Regulated	(78)	---	(1)
Inter-segment Elimination	(99)	(96)	(96)
Consolidated Other Income, Net	\$ 774	\$ 740	\$ 795
Interest Expense:			
Regulated	\$ 7,012	\$ 6,245	\$ 5,469
Non - Regulated	99	96	96
Inter-segment Elimination	(99)	(96)	(96)
Consolidated Interest Charges	\$ 7,012	\$ 6,245	\$ 5,469
Net Income:			
Regulated	\$ 9,417	\$ 8,037	\$ 7,993
Non - Regulated	622	439	453
Consolidated Net Income	\$ 10,039	\$ 8,476	\$ 8,446
Capital Expenditures:			
Regulated	\$ 30,122	\$ 25,016	\$ 28,669
Non - Regulated	238	272	210
Total Capital Expenditures	\$ 30,360	\$ 25,288	\$ 28,879

	As of December 31, 2006	As of December 31, 2005
Assets:		
Regulated	\$ 366,149	\$ 320,889
Non - Regulated	6,808	5,912
Inter-segment Elimination	(2,690)	(2,418)
Consolidated Assets	\$ 370,267	\$ 324,383

Note 9 - Quarterly Operating Results - Unaudited

Operating results for each quarter of 2006 and 2005 are as follows:

	(Thousands of Dollars, Except per Share Data)					
	1 st	2 nd	3 rd	4 th	Total	
2006						
Operating Revenues	\$ 18,230	\$ 21,037	\$ 22,632	\$ 19,162	\$ 81,061	
Operating Income	3,973	6,149	6,858	4,338	21,318	
Net Income	1,812	2,968	3,377	1,882	10,039	
Basic Earnings per Share	\$ 0.15	\$ 0.25	\$ 0.29	\$ 0.14	\$ 0.83	
Diluted Earnings per Share	\$ 0.15	\$ 0.25	\$ 0.28	\$ 0.14	\$ 0.82	
2005						
Operating Revenues	\$ 16,743	\$ 18,431	\$ 20,832	\$ 18,607	\$ 74,613	
Operating Income	3,171	4,259	6,013	3,775	17,218	
Net Income	1,380	1,946	3,024	2,126	8,476	
Basic Earnings per Share	\$ 0.12	\$ 0.17	\$ 0.26	\$ 0.17	\$ 0.72	
Diluted Earnings per Share	\$ 0.12	\$ 0.16	\$ 0.26	\$ 0.17	\$ 0.71	

The information above, in the opinion of the Company, includes all adjustments consisting only of normal recurring accruals necessary for a fair presentation of such amounts. The business of the Company is subject to seasonal fluctuation with the peak period usually occurring during the summer months.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Deloitte & Touche LLP (D&T) was previously the independent registered public accounting firm for Middlesex Water Company (the Company). On March 31, 2006, the Audit Committee of the Registrant's Board of Directors agreed to engage Beard Miller Company LLP (BMC) as its independent registered public accounting firm to replace D&T, effective for fiscal year 2006, including the Company's audit for the year ended December 31, 2006. The change was made after the Audit Committee reviewed proposals from three independent accounting firms, including D&T.

D&T's audit reports on the Company's consolidated financial statements for each of the past two fiscal years ended December 31, 2005 and December 31, 2004 did not contain any adverse opinions or disclaimers of opinion, nor were such reports qualified or modified as to uncertainty, audit scope or accounting principles. The audit report of D&T on management's assessment of internal control over financial reporting and the effectiveness of internal control over financial reporting as of December 31, 2005 did not contain an adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope or accounting principles.

During the two most recent fiscal years ended December 31, 2005 and 2004, and through April 5, 2006, there were no disagreements with D&T on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to D&T's satisfaction would have caused them to make reference to the subject matter of the disagreement in connection with the audit reports of the financial statements for such years. During the two most recent fiscal years ended December 31, 2005 and 2004, and through April 5, 2006, there was one reportable event. On November 9, 2005, the Company informed D&T of an identified material weakness in internal controls related to recording and reporting construction advances and contributions for utility plant. Subsequent to the notification, the

Company filed an amended Form 10-K for the year ended December 31, 2004 and Form 10-Q's for the quarters ended March 31, 2005 and June 30, 2005. The material weakness identified is discussed in Item 9A of the Company's Form 10-K/A for the year ended December 31, 2004.

We have provided D&T with a copy of the foregoing disclosures and requested from them a letter indicating whether they agree with these disclosures. A copy of their letter dated April 5, 2006 is attached as Exhibit 16 hereto.

During the Company's two most recent fiscal years and through March 31, 2006, the Company did not consult with BMC regarding either (1) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or (2) any matter that was either the subject of disagreement or reportable events.

Item 9A. Controls and Procedures

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

As required by Rule 13a-15 under the Exchange Act, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted by the Company's Chief Executive Officer along with the Company's Chief Financial Officer for the quarter ended December 31, 2006. Based upon that evaluation the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. Accordingly, management believes the consolidated financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

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

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

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the adequacy of financial statement preparation and presentation. Middlesex's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control- Integrated Framework*. Based on our assessment, we believe that as of December 31, 2006, the Company's internal control over financial reporting is operating as designed and is effective based on those criteria.

Middlesex's independent registered public accounting firm has issued their report on our assessment of the Company's internal control over financial reporting. This report appears on pages 57 and 58.

/s/ Dennis W. Doll

Dennis W. Doll
President and Chief
Executive Officer

/s/ A. Bruce O'Connor

A. Bruce O'Connor
Vice President and Chief
Financial Officer

Iselin, New Jersey
March 13, 2007

(3) Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Middlesex Water Company (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet and the consolidated statement of capital stock and long-term debt of the Company as of December 31, 2006, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for the year ended December 31,

2006, and our report dated March 13, 2007 expressed an unqualified opinion on these consolidated financial statements.

/s/ Beard Miller Company LLP
Beard Miller Company LLP
Reading, Pennsylvania
March 13, 2007

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information with respect to Directors of Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2007 Annual Meeting of Stockholders and is incorporated herein by reference.

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

Item 11. Executive Compensation.

This Information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2007 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2007 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2007 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2007 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

Consolidated Balance Sheets at December 31, 2006 and 2005.

Consolidated Statements of Income for each of the three years in the period ended December 31, 2006, 2005 and 2004.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2006, 2005 and 2004.

Consolidated Statements of Capital Stock and Long-term Debt at December 31, 2006 and 2005.

Consolidated Statements of Common Stockholders Equity and Comprehensive Income for each of the three years in the period ended December 31, 2006, 2005 and 2004.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

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

3. Exhibits

See Exhibit listing immediately following the signature page.

SIGNATURES

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

MIDDLESEX WATER COMPANY

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

Date: March 13, 2007

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities on March 13, 2007.

By: /s/ A. Bruce O'Connor
A. Bruce O'Connor
Vice President and Chief Financial Officer

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

By: /s/ J. Richard Tompkins
J. Richard Tompkins
Chairman of the Board and Director

By: /s/ Annette Catino
Annette Catino
Director

By: /s/ John C. Cutting
John C. Cutting
Director

By: /s/ John R. Middleton
John R. Middleton
Director

By: /s/ John P. Mulkerin
John P. Mulkerin
Director

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

By: /s/ Jeffries Shein
Jeffries Shein
Director

EXHIBIT INDEX

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

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
3.1	Certificate of Incorporation of the Company, as amended, filed as Exhibit 3.1 of 1998 Form 10-K.		
3.2	Bylaws of the Company, as amended, filed as Exhibit 3.2 of 2005 Form 10-K.		
3.3	Certificate of Correction of Middlesex Water Company filed with the State of New Jersey on April 30, 1999, filed as Exhibit 3.3 of 2003 Form 10-K/A-2.		
3.4	Certificate of Amendment to the Restated Certificate of Incorporation Middlesex Water Company, filed with the State of New Jersey on February 17, 2000, filed as Exhibit 3.4 of 2003 Form 10-K/A-2.		
3.5	Certificate of Amendment to the Restated Certificate of Incorporation Middlesex Water Company, filed with the State of New Jersey on June 5, 2002, filed as Exhibit 3.5 of 2003 Form 10-K/A-2.		
4.1	Form of Common Stock Certificate.	2-55058	2(a)
4.2	Registration Statement, Form S-3, under Securities Act of 1933 filed February 3, 1987, relating to the Dividend Reinvestment and Common Stock Purchase Plan.	33-11717	
4.3	Revised Prospectus relating to the Dividend Reinvestment and Common Stock Purchase Plan, Submitted to the Securities and Exchange Commission, January 20, 2000.	33-11717	
4.4	Post Effective Amendments No. 7, Form S-3, under Securities Act of 1933 filed February 1, 2002, relating to the Dividend Reinvestment and Common Stock Purchase Plan.	33-11717	
10.1	Copy of Purchased Water Agreement between the Company and Elizabethtown Water Company, filed as Exhibit 10 of 2006 First Quarter Form 10-Q.		
10.2	Copy of Mortgage, dated April 1, 1927, between the Company and Union County Trust Company, as Trustee, as supplemented by Supplemental Indentures, dated as of October 1, 1939 and April 1, 1949.	2-15795	4(a)-4(f)
10.3	Copy of Supplemental Indenture, dated as of July 1, 1964 and June 15, 1991, between the Company and Union County Trust Company, as Trustee.	33-54922	10.4-10.9
10.4	Copy of Supply Agreement, dated as of November 17, 1986, between the Company and the Old Bridge Municipal Utilities Authority.	33-31476	10.12
10.5	Copy of Supply Agreement, dated as of July 14, 1987, between the Company and the Marlboro Township Municipal Utilities Authority, as amended.	33-31476	10.13

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.6	Copy of Supply Agreement, dated as of February 11, 1988, with modifications dated February 25, 1992, and April 20, 1994, between the Company and the Borough of Sayreville filed as Exhibit No. 10.11 of 1994 First Quarter Form 10-Q.		
10.7	Copy of Water Purchase Contract, dated as of September 25, 2003, between the Company and the New Jersey Water Supply Authority, filed as Exhibit No. 10.7 of 2003 Form 10-K.		
10.8	Copy of Treating and Pumping Agreement, dated April 9, 1984, between the Company and the Township of East Brunswick.	33-31476	10.17
10.9	Copy of Supply Agreement, dated June 4, 1990, between the Company and Edison Township.	33-54922	10.24
10.10	Copy of amended Supply Agreement, between the Company and the Borough of Highland Park, filed as Exhibit No. 10.1 of 2006 First Quarter Form 10-Q.		
(t)10.11	Copy of Supplemental Executive Retirement Plan, filed as Exhibit 10.13 of 1999 Third Quarter Form 10-Q.		
(t)10.12	Copy of 1989 Restricted Stock Plan, filed as Appendix B to the Company's Definitive Proxy Statement, dated and filed April 25, 1997.	33-31476	10.22
(t)10.13(a)	Employment Agreement between Middlesex Water Company and Dennis W. Doll, filed as Exhibit 10.13(i) of 2004 Form 10-K.		
(t)10.13(b)	Employment Agreement between Middlesex Water Company and A. Bruce O'Connor, filed as Exhibit 10.15(c) of 1999 Third Quarter Form 10-Q.		
(t)10.13(c)	Employment Agreement between Middlesex Water Company and Ronald F. Williams, as filed as Exhibit 10.15(g) of 1999 Third Quarter Form 10-Q.		
(t)10.13(d)	Employment Agreement between Middlesex Water Company and Richard M. Risoldi, filed as Exhibit 10.13(d) of 2003 Form 10-K.		
(t)10.13(e)	Employment Agreement between Middlesex Water Company and Kenneth J. Quinn, filed as Exhibit 10.13(e) of 2003 Form 10-K.		
(t)10.13(f)	Employment Agreement between Middlesex Water Company and James P. Garrett, filed as Exhibit 10.13(f) of 2003 Form 10-K.		
(t)10.13(g)	Employment Agreement between Tidewater Utilities, Inc. and Gerard L. Esposito, filed as Exhibit 10.13(g) of 2003 Form 10-K.		
(t)10.13(h)	Consulting Agreement between Middlesex Water Company and J. Richard Tompkins, filed as Exhibit 10.13(h) of 2005 Form 10-K.		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.14	Copy of Transmission Agreement, dated October 16, 1992, between the Company and the Township of East Brunswick.	33-54922	10.23
10.15	Copy of Supplemental Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series U & V), between the Company and United Counties Trust Company, as Trustee, filed as Exhibit No. 10.22 of 1993 Form 10-K.		
10.16	Copy of Trust Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series V), between the New Jersey Economic Development Authority and First Fidelity Bank (Series S & T), as Trustee, and Midlantic National Bank (Series V), as Trustee, filed as Exhibit No. 10.23 of 1993 Form 10-K.		
10.17	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the New Jersey and Middlesex Water Company (Series X), filed as Exhibit No. 10.22 of the 1998 Third Quarter Form 10-Q.		
10.18	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the State of New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series Y), filed as Exhibit No. 10.23 of the 1998 Third Quarter Form 10-Q.		
10.19	Copy of Operation, Maintenance and Management Services Agreement dated January 1, 1999 between the Company City of Perth Amboy, Middlesex County Improvement Authority and Utility Service Affiliates, Inc.	333-66727	10.24
10.20	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the State of New Jersey and Middlesex Water Company (Series Z), filed as Exhibit No. 10.25 of the 1999 Form 10-K.		
10.21	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series AA), filed as Exhibit No. 10.26 of the 1999 Form 10-K.		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.22	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the State of New Jersey and Middlesex Water Company (Series BB). Filed as Exhibit No. 10.22 of the 2001 Form 10-K.		
10.23	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series CC). Filed as Exhibit No. 10.22 of the 2001 Form 10-K.		
10.24	Copy of Supplemental Indenture dated January 15, 2002 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated January 1, 2002 between the New Jersey Economic Development Authority and Middlesex Water Company (Series DD), filed as Exhibit No. 10.24 of the 2001 Form 10-K.		
10.25	Copy of Supplemental Indenture dated March 1, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Trust Indenture dated March 1, 1998 between the New Jersey Economic Development Authority and PNC Bank, National Association, as Trustee (Series W), filed as Exhibit No. 10.21 of the 1998 Third Quarter Form 10-Q.		
10.26	Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the State of New Jersey and Middlesex Water Company (Series EE), filed as Exhibit No. 10.26 of the 2004 Form 10-K.		
10.27	Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series FF), filed as Exhibit No. 10.27 of the 2004 Form 10-K.		
10.29	Copy of Supply Agreement, between the Company and the City of Rahway, filed as Exhibit No. 10.2 of 2006 First Quarter Form 10-Q.		

EXHIBIT INDEX

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
*10.30	Copy of Supplemental Indenture dated October 15, 2006 between Middlesex Water Company and U.S. Bank National Association, as Trustee and copy of Loan Agreement dated November 1, 2006 between the State of New Jersey and Middlesex Water Company (Series GG).		
*10.31	Copy of Supplemental Indenture dated October 15, 2006 between Middlesex Water Company and U.S. Bank National Association, as Trustee and copy of Loan Agreement dated November 1, 2006 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series HH).		
*21	Middlesex Water Company Subsidiaries.		
*23.1	Consent of Independent Registered Public Accounting Firm, Beard Miller Company LLP.		
*23.2	Consent of Independent Registered Public Accounting Firm, Deloitte & Touche, LLP.		
*31	Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.		
*31.1	Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.		
*32	Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350.		
*32.1	Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350.		

LOAN AGREEMENT

BY AND BETWEEN

THE STATE OF NEW JERSEY,

**ACTING BY AND THROUGH THE NEW JERSEY
DEPARTMENT OF ENVIRONMENTAL PROTECTION,**

AND

MIDDLESEX WATER COMPANY

DATED AS OF NOVEMBER 1, 2006

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I	
DEFINITIONS	
SECTION 1.01. Definitions	2
ARTICLE II	
REPRESENTATIONS AND COVENANTS OF BORROWER	
SECTION 2.01. Representations of Borrower	6
SECTION 2.02. Particular Covenants of Borrower	9
ARTICLE III	
LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS	
SECTION 3.01. Loan; Loan Term	14
SECTION 3.02. Disbursement of Loan Proceeds	14
SECTION 3.03. Amounts Payable	15
SECTION 3.04. Unconditional Obligations	16
SECTION 3.05. Loan Agreement to Survive Loan	16
SECTION 3.06. Disclaimer of Warranties and Indemnification	16
SECTION 3.07. Option to Prepay Loan Repayments	17
SECTION 3.08. Priority of Loan and Trust Loan	17
SECTION 3.09. Approval of the New Jersey State Treasurer	18
ARTICLE IV	
ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND	
SECTION 4.01. Assignment and Transfer by State	19
SECTION 4.02. Assignment by Borrower	19
ARTICLE V	
EVENTS OF DEFAULT AND REMEDIES	
SECTION 5.01. Events of Default	20
SECTION 5.02. Notice of Default	21
SECTION 5.03. Remedies on Default	21
SECTION 5.04. Attorneys' Fees and Other Expenses	21
SECTION 5.05. Application of Moneys	21

SECTION 5.06. No Remedy Exclusive; Waiver; Notice	21
SECTION 5.07. Retention of State's Rights	22

ARTICLE VI

MISCELLANEOUS

SECTION 6.01. Notices	23
SECTION 6.02. Binding Effect	23
SECTION 6.03. Severability	23
SECTION 6.04. Amendments, Supplements and Modifications	23
SECTION 6.05. Execution in Counterparts	24
SECTION 6.06. Applicable Law and Regulations	24
SECTION 6.07. Consents and Approvals	24
SECTION 6.08. Captions	24
SECTION 6.09. Further Assurances	24

NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FUND LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of November 1, 2006, by and between THE STATE OF NEW JERSEY, acting by and through the New Jersey Department of Environmental Protection, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings ascribed thereto in Section 1.01 hereof);

WITNESSETH THAT:

WHEREAS, the Borrower has, in accordance with the Regulations, made timely application to the State for a Loan to finance a portion of the Cost of the Project;

WHEREAS, the State has approved the Borrower's application for a Loan from Federal Funds, if and when received by and available to the State, and moneys from repayments of loans previously made from such Federal Funds, in the amount of the loan commitment set forth in Exhibit A-2 attached hereto and made a part hereof to finance a portion of the Cost of the Project;

WHEREAS, the New Jersey State Legislature has approved an appropriations act that authorizes an expenditure of said proceeds, Federal Funds or related moneys to finance a portion of the Cost of the Project;

WHEREAS, the Borrower, in accordance with the Business Corporation Law and all other applicable law, will issue a Borrower Bond to the State evidencing said Loan at the Loan Closing; and

WHEREAS, in accordance with the New Jersey Environmental Infrastructure Trust Act, P.L. 1985, c. 334, as amended, and the Regulations, the Borrower has been awarded a Trust Loan for a portion of the Cost of the Project plus, if applicable to the Borrower, capitalized interest on the Trust Loan, certain costs of issuance and bond insurance premium related thereto.

NOW, THEREFORE, for and in consideration of the award of the Loan by the State, the Borrower agrees to complete the Project and to perform under this Loan Agreement in accordance with the conditions, covenants and procedures set forth herein and attached hereto as part hereof, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, have the following meanings:

"Administrative Fee" means an annual fee of up to one percent (1.0%) of the initial principal amount of the Loan or such lesser amount, if any, as may be authorized by any act of the New Jersey State Legislature and as the State may approve from time to time.

"Authorized Officer" means, in the case of the Borrower, any person or persons authorized pursuant to a resolution of the board of directors of the Borrower to perform any act or execute any document relating to the Loan, the Borrower Bond or this Loan Agreement.

"Borrower" means the corporation that is a party to and is described in Schedule A to this Loan Agreement, and its successors and assigns.

"Borrower Bond" means the general obligation bond, note, debenture or other evidence of indebtedness authorized, executed, attested and delivered by the Borrower to the State and authenticated, if applicable, on behalf of the Borrower to evidence the Loan, a specimen of which is attached hereto as Exhibit D and made a part hereof.

"Borrowers" means any other Local Government Unit or Private Entity (as such terms are defined in the Regulations) authorized to construct, operate and maintain Environmental Infrastructure Facilities that have entered into Loan Agreements with the State pursuant to which the State will make Loans to such recipients from Federal Funds.

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

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

"Cost" means those costs that are eligible, reasonable, necessary, allocable to the Project and permitted by generally accepted accounting principles, including Allowances and Building Costs (as defined in the Regulations), as shall be determined on a project-specific basis in accordance with the Regulations as set forth in Exhibit B hereto, as the same may be amended by subsequent eligible costs as evidenced by a certificate of an authorized officer of the State.

"Department" means the New Jersey Department of Environmental Protection

"Environmental Infrastructure Facilities" means Water Supply Facilities (as such term is defined in the Regulations).

"Environmental Infrastructure System" means the Environmental Infrastructure Facilities of the Borrower, including the Project, described in Exhibit A-1 attached hereto and made a part hereof for which the Borrower is borrowing the Loan under this Loan Agreement.

"Event of Default" means any occurrence or event specified in Section 5.01 hereof.

"Excess Project Funds" shall have the meaning set forth in Section 3.03A hereof.

"Federal Funds" means those funds awarded to the State pursuant to the Clean Water Act (33 U.S.C. §1251 *et seq.*) or the Safe Drinking Water Act (42 U.S.C. §300f *et seq.*), as the same may from time to time be amended and supplemented.

"Loan" means the loan made by the State to the Borrower to finance or refinance a portion of the Cost of the Project pursuant to this Loan Agreement. For all purposes of this Loan Agreement, the principal amount of the Loan at any time shall be the amount of the loan commitment set forth in Exhibit A-2 attached hereto and made a part hereof (such amount being also specified as the initial aggregate principal amount of the Borrower Bond) less any amount of such principal amount that has been repaid by the Borrower under this Loan Agreement and less any adjustment made for low bid or final building costs pursuant to the provisions of N.J.A.C. 7:22-3.26 and the appropriations act of the New Jersey State Legislature authorizing the expenditure of moneys to finance a portion of the Cost of the Project.

"Loan Agreement" means this Loan Agreement, including the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof.

"Loan Agreements" means any other loan agreements entered into by and between the State and one or more of the Borrowers pursuant to which the State will make Loans to such Borrowers from Federal Funds.

"Loan Closing" means the date upon which the Borrower shall deliver its Borrower Bond, as previously authorized, executed, attested and, if applicable, authenticated, to the State.

"Loan Repayments" means the sum of (i) the repayments of the principal amount of the Loan payable by the Borrower pursuant to Section 3.03(a) of this Loan Agreement and (ii) any late charges incurred hereunder, but shall not include the Administrative Fee.

"Loan Term" means the term of this Loan Agreement provided in Sections 3.01 and 3.03 hereof and in Exhibit A-2 attached hereto and made a part hereof.

"Loans" means the loans made by the State to the Borrowers under the Loan Agreements from Federal Funds.

"Master Program Trust Agreement" means that certain Master Program Trust Agreement, dated as of November 1, 1995, by and among the Trust, the State, United States

Trust Company of New York, as Master Program Trustee thereunder, The Bank of New York (NJ), in several capacities thereunder, and First Fidelity Bank, N.A. (predecessor to Wachovia Bank, National Association), in several capacities thereunder, as supplemented by that certain Agreement of Resignation of Outgoing Master Program Trustee, Appointment of Successor Master Program Trustee and Acceptance Agreement, dated as of November 1, 2001, by and among United States Trust Company of New York, as Outgoing Master Program Trustee, State Street Bank and Trust Company, N.A. (predecessor to U.S. Bank Trust National Association), as Successor Master Program Trustee, and the Trust, as the same may be amended and supplemented from time to time in accordance with its terms.

"Prime Rate" means the prevailing commercial interest rate announced by the Trustee from time to time in the State as its prime lending rate.

"Project" means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the State is permitted to make a loan to the Borrower pursuant to the Regulations, all or a portion of the Cost of which is financed or refinanced by the State through the making of the Loan under this Loan Agreement and which may be identified under either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

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

"State" means the State of New Jersey, acting, unless otherwise specifically indicated, by and through the Department, and its successors and assigns.

"Trust" means the New Jersey Environmental Infrastructure Trust, a public body corporate and politic with corporate succession duly created and validly existing under and by virtue of P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 *et seq.*).

"Trust Loan" means the loan made to the Borrower by the Trust pursuant to the Trust Loan Agreement.

"Trust Loan Agreement" means the loan agreement by and between the Borrower and the Trust dated as of November 1, 2006 to finance or refinance a portion of the Cost of the Project.

"Trustee" means, initially, U.S. Bank National Association, the Trustee appointed by the Trust and its successors as Trustee under the Bond Resolution, as provided in Article X of the Bond Resolution.

(b) In addition to the capitalized terms defined in subsection (a) of this Section 1.01, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in Schedule A attached hereto and made a part hereof.

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

SECTION 2.01. Representations of Borrower. The Borrower represents for the benefit of the State as follows:

(a) Organization and Authority.

(i) The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State, including the Business Corporation Law.

(ii) The acting officers of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in this Loan Agreement either are or, at the time any such action was performed, were the duly appointed or elected officers of such Borrower empowered by applicable New Jersey law and, if applicable, authorized by resolution of the Borrower to perform such actions. To the extent any such action was performed by an officer no longer the duly acting officer of such Borrower, all such actions previously taken by such officer are still in full force and effect.

(iii) The Borrower has full legal right and authority and all necessary licenses and permits required as of the date hereof to own, operate and maintain its Environmental Infrastructure System, to carry on its activities relating thereto, to execute, attest and deliver this Loan Agreement and the Borrower Bond, to authorize the authentication of the Borrower Bond, to sell the Borrower Bond to the State, to undertake and complete the Project and to carry out and consummate all transactions contemplated by this Loan Agreement.

(iv) The proceedings of the Borrower's board of directors approving this Loan Agreement and the Borrower Bond, authorizing the execution, attestation and delivery of this Loan Agreement and the Borrower Bond, authorizing the sale of the Borrower Bond to the State, authorizing the authentication of the Borrower Bond on behalf of the Borrower and authorizing the Borrower to undertake and complete the Project, including, without limitation, the Borrower Bond Resolution (collectively, the "Proceedings"), have been duly and lawfully adopted in accordance with the Business Corporation Law and other applicable New Jersey law at a meeting or meetings that were duly called and held in accordance with the Borrower By-Laws and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the

Borrower Bond and the sale thereof to the State upon the terms set forth herein; and (C) the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement.

(vi) This Loan Agreement and the Borrower Bond have each been duly authorized by the Borrower and duly executed, attested and delivered by Authorized Officers of the Borrower, and the Borrower Bond has been duly sold by the Borrower to the State, duly authenticated by the trustee or paying agent, if applicable, under the Borrower Bond Resolution and duly issued by the Borrower in accordance with the terms of the Borrower Bond Resolution; and assuming that the State has all the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, this Loan Agreement, and assuming further that this Loan Agreement is the legal, valid and binding obligation of the State, enforceable against the State in accordance with its terms, each of this Loan Agreement and the Borrower Bond constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective terms, except as the enforcement thereof may be affected by bankruptcy, insolvency or other laws or the application by a court of legal or equitable principles affecting creditors' rights; and the information contained under "Description of Loan" in Exhibit A-2 attached hereto and made a part hereof is true and accurate in all respects.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the State in writing on the Borrower's application for the Loan or otherwise that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or the ability of the Borrower to make all Loan Repayments or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect (i) the undertaking or completion of the Project, (ii) the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, (iii) the ability of the Borrower to make all Loan Repayments, (iv) the authorization, execution, attestation or delivery of this Loan Agreement or the Borrower Bond, (v) the issuance of the Borrower Bond and the sale thereof to the State, (vi) the adoption of the Borrower Bond Resolution, or (vii) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond, which proceedings have not been previously disclosed in writing to the State either in the Borrower's application for the Loan or otherwise.

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the

Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the State, (iii) the adoption of the Borrower Bond Resolution, (iv) the observance and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (B) result in any breach of any of the terms, conditions or provisions of, or (C) constitute a default under, any existing resolution, outstanding debt or lease obligation, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument to which the Borrower is a party or by which the Borrower, its Environmental Infrastructure System or any of its properties or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Borrower was established or any laws, ordinances, injunctions, judgments, decrees, rules, regulations or existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the State, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it, its Environmental Infrastructure System or its properties may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System or the ability of the Borrower to make all Loan Repayments, to pay all other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, for the issuance of the Borrower Bond and the sale thereof to the State, for the adoption of the Borrower Bond Resolution, for the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond and for the undertaking or completion of the Project and the financing or refinancing thereof, including, but not limited to, if required, the approval by the New Jersey Board of Public Utilities (the "BPU") of the issuance by the Borrower of the Borrower Bond to the State and any other approvals required therefor by the BPU; and the Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Borrower of its duties,

covenants, obligations and agreements under this Loan Agreement and the Borrower Bond or with the undertaking or completion of the Project and the financing or refinancing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental body or officer that has not been obtained is required on the part of the Borrower as a condition to the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the State, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

(g) Compliance with Law. The Borrower:

(i) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject, the failure to comply with which would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System; and

(ii) has obtained all licenses, permits, franchises or other governmental authorizations presently necessary for the ownership of its properties or for the conduct of its activities that, if not obtained, would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the State as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the Cost of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Cost of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the State and is eligible for such reimbursement under and pursuant to the Regulations, the Code and any other applicable law. All of such costs constitute Costs for which the State is authorized to make Loans to the Borrower pursuant to the Regulations.

SECTION 2.02. Particular Covenants of Borrower.

(a) Promise to Pay. The Borrower unconditionally promises, in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal of the Loan and the Borrower Bond and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable State and federal laws, rules and regulations in the performance of this Loan Agreement; (ii) to maintain its Environmental Infrastructure System in good repair and operating condition; (iii) to cooperate with the State in the observance and performance of

the respective duties, covenants, obligations and agreements of the Borrower and the State under this Loan Agreement; and (iv) to establish, levy and collect rents, rates and other charges for the products and services provided by its Environmental Infrastructure System, which rents, rates and other charges shall be at least sufficient to comply with all covenants pertaining thereto contained in, and all other provisions of, any bond resolution, trust indenture or other security agreement, if any, relating to any bonds, notes or other evidences of indebtedness issued or to be issued by the Borrower, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of and Interest on the Borrower Bond, plus all other amounts due hereunder.

(c) Revenue Obligation; No Prior Pledges. The Borrower shall not be required to make payments under this Loan Agreement except from the revenues of its Environmental Infrastructure System and from such other funds of such Environmental Infrastructure System legally available therefor and from any other sources pledged to such payment pursuant to subsection (a) of this Section 2.02. In no event shall the Borrower be required to make payments under this Loan Agreement from any revenues or receipts not derived from its Environmental Infrastructure System or pledged pursuant to subsection (a) of this Section 2.02. Except for (i) loan repayments required with respect to the Trust Loan, (ii) the debt service on any future bonds or notes of the Borrower issued at parity with the Borrower Bond under the Borrower Bond Resolution, and (iii) the debt service on any bonds, notes or evidences of indebtedness of the Borrower at parity with the Borrower Bond under the Borrower Bond Resolution and currently outstanding or issued on the date hereof, the revenues derived by the Borrower from its Environmental Infrastructure System, after the payment of all costs of operating and maintaining the Environmental Infrastructure System, are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the obligation of the Borrower to make Loan Repayments under this Loan Agreement and the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

(d) Completion of Project and Provision of Moneys Therefor. The Borrower covenants and agrees (i) to exercise its best efforts in accordance with prudent environmental infrastructure utility practice to complete the Project and to accomplish such completion on or before the estimated Project completion date set forth in Exhibit G hereto and made a part hereof; (ii) to comply with the terms and provisions contained in Exhibit G hereto; and (iii) to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives under the Loan and Trust Loan, required to complete the Project.

(e) See Section 2.02(e) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(e) by reference as if set forth in full herein.

(f) Reserved.

(g) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall, in accordance with prudent environmental infrastructure utility practice, (i) at all times operate the properties of its Environmental Infrastructure System and any business in connection therewith in an efficient manner, (ii)

maintain its Environmental Infrastructure System in good repair, working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Environmental Infrastructure System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(h) Records and Accounts. The Borrower shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent certified public accountant, which may be part of the annual audit of the General Records of the Borrower. Such System Records and General Records shall be made available for inspection by the State at any reasonable time upon prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the State within 150 days of the close of the fiscal year being so audited or, with the consent of the State, such additional period as may be provided by law.

(i) Inspections; Information. The Borrower shall permit the State and any party designated by the State, at any and all reasonable times during construction of the Project and thereafter upon prior written notice, to examine, visit and inspect the property, if any, constituting the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the State may reasonably require in connection therewith.

(j) Insurance. The Borrower shall maintain or cause to be maintained, in force, insurance policies with responsible insurers or self-insurance programs providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining Environmental Infrastructure Facilities of the nature of the Borrower's Environmental Infrastructure System, including liability coverage, all to the extent available at reasonable cost but in no case less than will satisfy all applicable regulatory requirements.

(k) Cost of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the State a certificate from a licensed professional engineer authorized to practice in the State stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds the maturity date of the Borrower Bond.

(l) Delivery of Documents. Concurrently with the delivery of this Loan Agreement (as previously authorized, executed and attested) at the Loan Closing, the Borrower will cause to be delivered to the State each of the following items:

(i) an opinion of the Borrower's bond counsel substantially in the form of Exhibit E hereto; provided, however, that the State may permit portions of such opinion to be rendered by general counsel to the Borrower and may permit variances in such opinion from the form set forth in Exhibit E if such variances are acceptable to the State;

(ii) counterparts of this Loan Agreement as previously executed and attested by the parties hereto;

(iii) copies of those resolutions finally adopted by the board of directors of the Borrower and requested by the State, including, without limitation, (A) the resolution of the Borrower authorizing the execution, attestation and delivery of this Loan Agreement, (B) the Borrower Bond Resolution, as amended and supplemented as of the date of the Loan Closing, authorizing the execution, attestation, authentication, sale and delivery of the Borrower Bond to the State, (C) the resolution of the Borrower confirming the details of the sale of the Borrower Bond to the State, each of said resolutions of the Borrower being certified by an Authorized Officer of the Borrower as of the date of the Loan Closing, (D) the resolution of the BPU approving the issuance by the Borrower of the Borrower Bond to the State and setting forth any other approvals required therefor by the BPU, if applicable, and (E) any other Proceedings; and

(iv) the certificates of insurance coverage as required pursuant to the terms of Section 3.06(c) hereof and such other certificates, documents, opinions and information as the State may require in Exhibit F hereto, if any.

(m) Execution and Delivery of Borrower Bond. Concurrently with the delivery of this Loan Agreement at the Loan Closing, the Borrower shall also deliver to the State the Borrower Bond, as previously executed, attested and, if applicable, authenticated.

(n) Notice of Material Adverse Change. The Borrower shall promptly notify the State of any material adverse change in the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or in the ability of the Borrower to make all Loan Repayments and otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(o) Continuing Representations. The representations of the Borrower contained herein shall be true at the time of the execution of this Loan Agreement and at all times during the term of this Loan Agreement.

(p) Additional Covenants and Requirements. (i) No later than the Loan Closing and, if necessary, in connection with the making of the Loan, additional covenants and requirements have been included in Exhibit F hereto and made a part hereof. Such covenants and requirements may include, but need not be limited to, the maintenance of specified levels of Environmental Infrastructure System rates, the issuance of additional debt of the Borrower and the transfer of revenues and receipts from the Borrower's Environmental Infrastructure System. The Borrower agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto. (ii) Additional defined terms, covenants, representations and requirements have been included in Schedule A attached hereto and made a part hereof. Such additional defined terms, covenants, representations and requirements are incorporated in this Loan Agreement by reference thereto as if set forth in full herein and the

Borrower hereby agrees to observe and comply with each such additional term, covenant, representation and requirement included in Schedule A as if the same were set forth in its entirety where reference thereto is made in this Loan Agreement.

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

SECTION 3.01. Loan; Loan Term. The State hereby agrees to make the Loan as described in Exhibit A-2 hereof and to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, and the Borrower hereby agrees to borrow and accept the Loan from the State upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof; provided, however, that the State shall be under no obligation to make the Loan if (a) at the Loan Closing, the Borrower does not deliver to the State a Borrower Bond and such other documents required under Section 2.02(l) hereof, or (b) an Event of Default has occurred and is continuing under this Loan Agreement. Although the State intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Cost of the Project, due to unforeseen circumstances there may not be sufficient Federal Funds on deposit on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the aggregate principal amount set forth in Exhibit A-2 hereto shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and the State shall have no obligation thereafter to loan any additional amounts to the Borrower.

The Borrower shall have no legal or equitable interest in the Federal Funds received by and available to the State or in moneys from repayments of loans previously made from Federal Funds by the State.

The Borrower shall use the proceeds of the Loan strictly in accordance with Section 2.01(h) hereof.

The payment obligations created under this Loan Agreement and the obligations to pay the principal of and other amounts due under the Borrower Bond are each direct, general, irrevocable and unconditional obligations of the Borrower payable from any source legally available to the Borrower in accordance with the terms of and to the extent provided in the Borrower Bond Resolution.

SECTION 3.02. Disbursement of Loan Proceeds. (a) The State shall disburse Federal Funds earmarked for the Loan to the Borrower in accordance with the terms hereof. Before each and every disbursement of the proceeds of the Loan by the State to the Borrower, the Borrower shall in accordance with the procedures set forth in the Regulations submit to the State a requisition executed by an Authorized Officer of the Borrower.

(b) The State shall not be under any obligation to disburse any Loan proceeds to the Borrower under this Loan Agreement, unless:

(i) the Loan Closing shall have occurred on the date established therefor by the State;

(ii) there shall be Federal Funds available from time to time to fund the Loan, as determined solely by the State;

(iii) in accordance with the "New Jersey Environmental Infrastructure Trust Act", P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 *et seq.*), and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Trust Loan for a portion of the Allowable Costs (as defined in such Regulations) of the Project in an amount not in excess of the amount of Allowable Costs of the Project financed by the Loan from the State, plus the amount of: (i) capitalized interest during the Project construction period, if any, (ii) the cost of funding reserve capacity for the Project, if any, as well as that portion of the Debt Service Reserve Fund (as defined in the Trust Loan Agreement) attributable to the cost of funding such reserve capacity for the Project, and (iii) certain issuance expenses related thereto, including, if applicable, a municipal bond insurance policy premium;

(iv) the Borrower shall have on hand moneys to pay for the greater of (A) that portion of the total cost of the Project that is not eligible to be funded from the Loan or the Trust Loan, or (B) that portion of the total cost of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the Loan and the Trust Loan; and

(v) no Event of Default nor any event that, with the passage of time or service of notice or both, would constitute an Event of Default shall have occurred and be continuing hereunder.

SECTION 3.03. Amounts Payable. (a) The Borrower shall repay the Loan at zero-interest in principal installments payable to the Trustee semiannually on the Principal Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by the State, in particular, without limitation, to make any adjustments to the amount of the Loan in accordance with the definition thereof; provided, however, that the amount of any reduction in the principal amount of the Loan pursuant to N.J.A.C. 7:22-3.26 shall be credited to the principal payments set forth in Exhibit A-2 in inverse order of their maturity. The obligations of the Borrower under the Borrower Bond shall be deemed to be amounts payable under this Section 3.03. Each payment made to the Trustee pursuant to the Borrower Bond shall be deemed to be a credit against the corresponding obligation of the Borrower under this Section 3.03, and any such payment made to the Trustee shall fulfill the Borrower's obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trustee pursuant to this Section 3.03 shall be applied to the principal of the Loan.

(b) In addition to the principal payments on the Loan required by subsection (a) of this Section 3.03, the Borrower shall pay a late charge for any such payment that is received by the Trustee later than the tenth (10th) day following its due date in an amount equal to the greater of twelve percent (12%) per annum or the Prime Rate plus one half of one percent per annum on

such late payment from its due date to the date actually paid; provided, however, that such late charge payable on the Loan shall not be in excess of the maximum interest rate permitted by law.

(c) In addition to the Loan Repayments payable under subsections (a) and (b) of this Section 3.03, the Borrower shall pay one-half of the Administrative Fee, if any, to the Trustee semiannually on each Principal Payment Date, commencing with the first Principal Payment Date subsequent to the Loan Closing.

SECTION 3.03A. Amounts on Deposit in Project Loan Account after Completion of Draw Schedule. (a) If, on the date which is one hundred eighty (180) days following the final date for which a disbursement of Loan proceeds is scheduled to be made pursuant to Exhibit C hereto, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(b) If, on the date which is one hundred eighty (180) days following the final date for which a disbursement of Loan proceeds is scheduled to be made pursuant to a revised draw schedule certified to the Trust and the Department in accordance with Section 3.03A(a) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(c) If the Borrower fails to provide the certificate described in paragraphs (a) or (b) of this Section 3.03A, when due, or if such certificate states that the Borrower does not require all or any portion of the amount on deposit in the Project Loan Account to complete the Project, such amounts on deposit in the Project Loan Account which are not certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds") shall be applied as follows:

(i) If the Excess Project Funds are less than or equal to the greater of (A) \$250,000 or (B) the amount of Loan Repayments due from the Borrower to the Trust in the next succeeding calendar year, the Excess Project Funds shall be applied by the Trust toward the Borrower's obligation to make the Loan Repayments next coming due; or

(ii) If the Excess Project Funds are greater than the greater of (A) \$250,000 or (B) the amount of Loan Repayments due from the Borrower to the Trust in the next succeeding calendar year, the Excess Project Funds shall be applied by the Trust as a prepayment of the Borrower's Loan Repayments, and shall be applied to the principal payments (including premium, if any) on the Loan in inverse order of their maturity.

SECTION 3.04. Unconditional Obligations. The obligation of the Borrower to make the Loan Repayments and all other payments required hereunder and the obligation to perform and observe the other duties, covenants, obligations and agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever while any Loan Repayments remain unpaid, for any reason, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Project or Environmental Infrastructure System, commercial frustration of the purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, any failure of the State to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project or this Loan Agreement, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the State, the Trustee or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements.

SECTION 3.05. Loan Agreement to Survive Loan. The Borrower acknowledges that its duties, covenants, obligations and agreements set forth in Sections 3.06(a) and (b) hereof shall survive the payment in full of the Loan.

SECTION 3.06. Disclaimer of Warranties and Indemnification. (a) The Borrower acknowledges and agrees that: (i) the State does not make any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the State or its agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the State harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the State may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed, or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

(b) It is mutually agreed by the Borrower and the State that the State and its commissioners, officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed under this Loan Agreement and any claim or suit of whatsoever nature, except in the event of loss or damage resulting from their own negligence or willful misconduct.

(c) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the State and its employees and officers as additional "named insureds" on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the later of the date of the Loan Closing or the date of the initiation of construction of the Project until the date the Borrower receives the written certificate of Project completion from the State, the Borrower shall maintain said liability insurance covering the State and said employees and officers in good standing; and (ii) the Borrower shall include the State as an additional "named insured" on any certificate of insurance providing against risk of direct physical loss, damage or destruction of the Environmental Infrastructure System, and during the Loan Term the Borrower shall maintain said insurance covering the State in good standing.

The Borrower shall provide the State with a copy of each of any such original, supplemental, amendatory or reissued certificates of insurance (or other similar documents evidencing the insurance coverage) required pursuant to this Section 3.06(c).

SECTION 3.07. Option to Prepay Loan Repayments. The Borrower may prepay the Loan Repayments, in whole or in part, upon not less than ninety (90) days' prior written notice to the State; provided, however, that, with respect to any prepayment other than those required by Section 3.03A hereof, any such full or partial prepayment may only be made (i) if the Borrower is not then in arrears on its Trust Loan, (ii) if the Borrower is contemporaneously making a full or partial prepayment of the Trust Loan such that, after the prepayment of the Loan and the Trust Loan, the Trust gives its consent required under Section 3.07(iii) of the Trust Loan Agreement, and (iii) upon the prior written approval of the State. Prepayments shall be applied to the principal payments on the portion of the Loan to be prepaid in inverse order of their maturity.

SECTION 3.08. Priority of Loan and Trust Loan. (a) The Borrower hereby agrees that, to the extent allowed by law, including, without limitation, the appropriations act of the New Jersey State Legislature authorizing the expenditure of Trust bond proceeds to finance a portion of the Cost of the Project, or the Borrower Bond Resolution, any loan repayments then due and payable on the Borrower's Trust Loan, including, without limitation, any administrative fees and any late payment charges then due and payable under the Trust Loan Agreement, shall be satisfied by the Borrower before any Loan Repayments then due and payable hereunder on the Loan shall be satisfied by the Borrower.

(b) The Borrower hereby acknowledges that in the event the Borrower fails or is unable to pay promptly to the Trust in full any loan repayments on the Trust Loan, then any Loan Repayments paid by the Borrower on the Loan under this Loan Agreement and received by the Trustee during the time of any such loan repayment deficiency under the Trust Loan Agreement shall be applied by the Trustee *first* to satisfy such Trust Loan Agreement loan repayment deficiency as a credit against the obligations of the Borrower to make loan repayments of that portion of interest under the Trust Loan Agreement that is allocable to the interest payable on the Trust Bonds (as defined in the Trust Loan Agreement) and to make payments of that portion of interest under the bond or note issued by the Borrower to the Trust that is allocable to the interest

payable on the Trust Bonds, *second*, to the extent available, to make loan repayments of principal under the Trust Loan Agreement and payments of principal on the bond or note issued by the Borrower to the Trust pursuant to the Trust Loan Agreement, *third*, to the extent available, to the payment of the administrative fee payable under the Trust Loan Agreement and to make payments of that portion of interest under the bond or note issued by the Borrower to the Trust that is allocable to the administrative fee payable under the Trust Loan Agreement, *fourth*, to the extent available, to the payment of late charges payable under the Trust Loan Agreement and to make payments of that portion of interest under the bond or note issued by the Borrower to the Trust that is allocable to the late charges payable under the Trust Loan Agreement, and *finally*, to the extent available, to make Loan Repayments on the Loan.

(c) The Borrower hereby further acknowledges that any Loan Repayments paid by the Borrower on the Loan under this Loan Agreement shall be applied according to the provisions of the Master Program Trust Agreement.

SECTION 3.09. Approval of the New Jersey State Treasurer. The Borrower and the State hereby acknowledge that prior to or simultaneously with the Loan Closing the New Jersey State Treasurer, in satisfaction of the requirements of Section 9a of the Act, issued the "Certificate of the New Jersey State Treasurer Regarding the Approval of the Trust Loan and the Fund Loan" (the "Treasurer's Certificate"). Pursuant to the terms of the Treasurer's Certificate, the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

SECTION 4.01. Assignment and Transfer by State. The Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement and the Borrower Bond that the State deems to be necessary in connection with the environmental infrastructure loan program of the State under the Regulations.

SECTION 4.02. Assignment by Borrower. Neither this Loan Agreement nor the Borrower Bond may be assigned by the Borrower for any reason, unless the following conditions shall be satisfied: (i) the State shall have approved said assignment in writing; (ii) the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Borrower's duties, covenants, obligations and agreements under this Loan Agreement and, to the extent permitted under applicable law, the Borrower Bond; and (iii) immediately after such assignment, the assignee shall not be in default in the observance or performance of any duties, covenants, obligations or agreements of the Borrower under this Loan Agreement or the Borrower Bond.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.01. Events of Default. If any of the following events occur, it is hereby defined as and declared to be and to constitute an "Event of Default":

- (a) failure by the Borrower to pay, or cause to be paid, any Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;
- (b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;
- (c) failure by the Borrower to pay, or cause to be paid, any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d)(ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the State, unless the State shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the State may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;
- (d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;
- (e) a petition is filed by or against the Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or trustee) of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;
- (f) the Borrower shall generally fail to pay its debts as such debts become due; and

(g) failure of the Borrower to observe or perform such additional duties, covenants, obligations, agreements or conditions as are required by the State and specified in Exhibit F attached hereto and made a part hereof.

SECTION 5.02. Notice of Default. The Borrower shall give the State prompt telephonic notice of the occurrence of any Event of Default referred to in Section 5.01(d) or (e) hereof and of the occurrence of any other event or condition that constitutes an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

SECTION 5.03. Remedies on Default. Whenever an Event of Default referred to in Section 5.01 hereof shall have occurred and be continuing, the State shall have the right to take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce the observance and performance of any duty, covenant, obligation or agreement of the Borrower hereunder.

In addition, if an Event of Default referred to in Section 5.01(a) hereof shall have occurred and be continuing, the State shall, to the extent allowed by applicable law, have the right to declare all Loan Repayments and all other amounts due hereunder (including, without limitation, payments under the Borrower Bond) to be immediately due and payable, and upon notice to the Borrower the same shall become due and payable without further notice or demand.

SECTION 5.04. Attorneys' Fees and Other Expenses. The Borrower shall on demand pay to the State the reasonable fees and expenses of attorneys and other reasonable expenses (including, without limitation, the reasonably allocated costs of in-house counsel and legal staff) incurred by the State in the collection of Loan Repayments or any other sum due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

SECTION 5.05. Application of Moneys. Any moneys collected by the State pursuant to Section 5.03 hereof shall be applied (a) *first* to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 5.04 hereof, (b) *second*, to the extent available, to pay principal due and payable on the Loan, (c) *third*, to the extent available, to pay any other amounts due and payable hereunder, and (d) *fourth*, to the extent available, to pay principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

SECTION 5.06. No Remedy Exclusive; Waiver; Notice. No remedy herein conferred upon or reserved to the State is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the State to exercise any remedy reserved to it in this Article V, it shall not be necessary to give any notice other than such notice as may be required in this Article V.

SECTION 5.07. Retention of State's Rights. Notwithstanding any assignment or transfer of this Loan Agreement pursuant to the provisions hereof, or anything else to the contrary contained herein, the State shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Borrower at law or in equity, as the State may, in its discretion, deem necessary to enforce the obligations of the Borrower to the State pursuant to Section 5.03 hereof.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified in Exhibit A-1 attached hereto and made a part hereof and to the State and the Trustee at the following addresses:

(a) State:

New Jersey Department of Environmental Protection
Municipal Finance and Construction Element
401 East State Street - 3rd Floor
Trenton, New Jersey 08625-0425
Attention: Assistant Director

New Jersey Department of the Treasury
Office of Public Finance
State Street Square - 5th Floor
Trenton, New Jersey 08625-0002
Attention: Director

(b) Trustee:

U.S. Bank National Association
21 South Street, 3rd Floor
Morristown, New Jersey 07960
Attention: Corporate Trust Department

Any of the foregoing parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent by notice in writing given to the others.

SECTION 6.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the State and the Borrower and their respective successors and assigns.

SECTION 6.03. Severability. In the event any provision of this Loan Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

SECTION 6.04. Amendments, Supplements and Modifications. This Loan Agreement may not be amended, supplemented or modified without the prior written consent of the State and the Borrower.

SECTION 6.05. Execution in Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.06. Applicable Law and Regulations. This Loan Agreement shall be governed by and construed in accordance with the laws of the State, including the Regulations, which Regulations are, by this reference thereto, incorporated herein as part of this Loan Agreement.

SECTION 6.07. Consents and Approvals. Whenever the written consent or approval of the State shall be required under the provisions of this Loan Agreement, such consent or approval may only be given by the State.

SECTION 6.08. Captions. The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

SECTION 6.09. Further Assurances. The Borrower shall, at the request of the State, authorize, execute, attest, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights, security interests and agreements granted or intended to be granted by this Loan Agreement and the Borrower Bond.

IN WITNESS WHEREOF, the State and the Borrower have caused this Loan Agreement to be executed, sealed and delivered as of the date first above written.

**THE STATE OF NEW JERSEY,
ACTING BY AND THROUGH THE
NEW JERSEY DEPARTMENT OF
ENVIRONMENTAL PROTECTION**

[SEAL]

ATTEST:

/s/ Lisa P. Jackson
Lisa P. Jackson
Commissioner, Department of
Environmental Protection

/s/ **Stanley V. Cach, Jr.**
Stanley V. Cach, Jr. P.E., P.P.
Assistant Director,
Municipal Finance and Construction Element,
Department of Environmental Protection

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

/s/ Dennis W. Doll
Authorized Officer

/s/ Kenneth J. Quinn
Authorized Officer

LOAN AGREEMENT

BY AND BETWEEN

NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

AND

MIDDLESEX WATER COMPANY

DATED AS OF NOVEMBER 1, 2006

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS

[SECTION 1.01. Definitions](#)

2

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

[SECTION 2.01. Representations of Borrower](#)

7

[SECTION 2.02. Particular Covenants of Borrower](#)

11

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

[SECTION 3.01. Loan; Loan Term](#)

20

[SECTION 3.02. Disbursement of Loan Proceeds](#)

20

[SECTION 3.03. Amounts Payable](#)

21

[SECTION 3.04. Unconditional Obligations](#)

22

[SECTION 3.05. Loan Agreement to Survive Bond Resolution and Trust Bonds](#)

23

[SECTION 3.06. Disclaimer of Warranties and Indemnification](#)

23

[SECTION 3.07. Option to Prepay Loan Repayments](#)

24

[SECTION 3.08. Priority of Loan and Fund Loan](#)

25

[SECTION 3.09. Approval of the New Jersey State Treasurer](#)

25

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

[SECTION 4.01. Assignment and Transfer by Trust](#)

27

[SECTION 4.02. Assignment by Borrower](#)

27

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

[SECTION 5.01. Events of Default](#)

28

[SECTION 5.02. Notice of Default](#)

29

[SECTION 5.03. Remedies on Default](#)

29

[SECTION 5.04. Attorneys' Fees and Other Expenses](#)

29

SECTION 5.05. Application of Moneys	29
SECTION 5.06. No Remedy Exclusive; Waiver; Notice	30
SECTION 5.07. Retention of Trust's Rights	30

ARTICLE VI

MISCELLANEOUS

SECTION 6.01. Notices	31
SECTION 6.02. Binding Effect	31
SECTION 6.03. Severability	31
SECTION 6.04. Amendments, Supplements and Modifications	31
SECTION 6.05. Execution in Counterparts	32
SECTION 6.06. Applicable Law and Regulations	32
SECTION 6.07. Consents and Approvals	32
SECTION 6.08. Captions	32
SECTION 6.09. Benefit of Loan Agreement; Compliance with Bond Resolution	32
SECTION 6.10. Further Assurances	32

NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of this November 1, 2006, by and between the NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, a public body corporate and politic with corporate succession, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings set forth in said Section 1.01);

WITNESSETH THAT:

WHEREAS, the Trust, in accordance with the Act, the Bond Resolution and a financial plan approved by the State Legislature in accordance with Sections 22 and 22.1 of the Act, will issue its Trust Bonds on or prior to the Loan Closing for the purpose of making the Loan to the Borrower and the Loans to the Borrowers from the proceeds of the Trust Bonds to finance a portion of the Costs of Environmental Infrastructure Facilities;

WHEREAS, the Borrower has, in accordance with the Act and the Regulations, made timely application to the Trust for a Loan to finance a portion of the Costs of the Project;

WHEREAS, the State Legislature, in accordance with Sections 20 and 20.1 of the Act, has in the form of an appropriations act approved a project priority list that includes the Project and that authorizes an expenditure of proceeds of the Trust Bonds to finance a portion of the Costs of the Project;

WHEREAS, the Trust has approved the Borrower's application for a Loan from available proceeds of the Trust Bonds to finance a portion of the Costs of the Project;

WHEREAS, in accordance with the applicable Bond Act (as defined in the Fund Loan Agreement), and the Regulations, the Borrower has been awarded a Fund Loan for a portion of the Costs of the Project; and

WHEREAS, the Borrower, in accordance with the Act, the Regulations, the Business Corporation Law and all other applicable law, will issue a Borrower Bond to the Trust evidencing said Loan at the Loan Closing.

NOW, THEREFORE, for and in consideration of the award of the Loan by the Trust, the Borrower agrees to complete the Project and to perform under this Loan Agreement in accordance with the conditions, covenants and procedures set forth herein and attached hereto as part hereof, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. (a) The following terms as used in this Loan Agreement shall, unless the context clearly requires otherwise, have the following meanings:

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

"Administrative Fee" means that portion of Interest on the Loan or Interest on the Borrower Bond payable hereunder as an annual fee of up to four-tenths of one percent (.40%) of the initial principal amount of the Loan or such lesser amount, if any, as may be authorized by any act of the State Legislature and as the Trust may approve from time to time.

"Authorized Officer" means, in the case of the Borrower, any person or persons authorized pursuant to a resolution of the board of directors of the Borrower to perform any act or execute any document relating to the Loan, the Borrower Bond or this Loan Agreement.

"Bond Counsel" means a law firm appointed or approved by the Trust, as the case may be, having a reputation in the field of municipal law whose opinions are generally acceptable by purchasers of municipal bonds.

"Borrower" means the corporation that is a party to and is described in Schedule A to this Loan Agreement, and its successors and assigns.

"Borrower Bond" means the general obligation bond, note, debenture or other evidence of indebtedness authorized, executed, attested and delivered by the Borrower to the Trust and, if applicable, authenticated on behalf of the Borrower to evidence the Loan, a specimen of which is attached hereto as Exhibit D and made a part hereof.

"Borrowers" means any other Local Government Unit or Private Entity (as such terms are defined in the Regulations) authorized to construct, operate and maintain Environmental Infrastructure Facilities that have entered into Loan Agreements with the Trust pursuant to which the Trust will make Loans to such recipients from moneys on deposit in the Project Fund, excluding the Project Loan Account.

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

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

"Cost" means those costs that are eligible, reasonable, necessary, allocable to the Project and permitted by generally accepted accounting principles, including Allowances and Building Costs (as defined in the Regulations), as shall be determined on a project-specific basis in accordance with the Regulations as set forth in Exhibit B hereto, as the same may be amended by subsequent eligible costs as evidenced by a certificate of an authorized officer of the Trust.

"Debt Service Reserve Fund" means the Debt Service Reserve Fund as defined in the Bond Resolution.

"Department" means the New Jersey Department of Environmental Protection.

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

"Environmental Infrastructure System" means the Environmental Infrastructure Facilities of the Borrower, including the Project, described in Exhibit A-1 attached hereto and made a part hereof for which the Borrower is borrowing the Loan under this Loan Agreement.

"Event of Default" means any occurrence or event specified in Section 5.01 hereof.

"Excess Project Funds" shall have the meaning set forth in Section 3.03A hereof.

"Fund Loan" means the loan made to the Borrower by the State, acting by and through the Department, pursuant to the Fund Loan Agreement dated as of November 1, 2006 by and between the Borrower and the State, acting by and through the Department, to finance or refinance a portion of the Costs of the Project.

"Fund Loan Agreement" means the loan agreement dated as of November 1, 2006 by and between the Borrower and the State, acting by and through the Department, regarding the terms and conditions of the Fund Loan.

"Interest on the Loan" or **"Interest on the Borrower Bond"** means the sum of (i) the Interest Portion, (ii) the Administrative Fee, and (iii) any late charges incurred hereunder.

"Interest Portion" means that portion of Interest on the Loan or Interest on the Borrower Bond payable hereunder that is necessary to pay the Borrower's proportionate share of interest on the Trust Bonds (i) as set forth in Exhibit A-2 hereof under the column heading entitled "Interest", or (ii) with respect to any prepayment of Trust Bond Loan Repayments in accordance with Section 3.07 or 5.03 hereof, to accrue on any principal amount of Trust Bond Loan Repayments to the date of the optional redemption or acceleration, as the case may be, of the Trust Bonds allocable to such prepaid or accelerated Trust Bond Loan Repayment.

"Loan" means the loan made by the Trust to the Borrower to finance or refinance a portion of the Costs of the Project pursuant to this Loan Agreement.

"Loan Agreement" means this Loan Agreement, including the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof and of the Bond Resolution.

"Loan Agreements" means any other loan agreements entered into by and between the Trust and one or more of the Borrowers pursuant to which the Trust will make Loans to such Borrowers from moneys on deposit in the Project Fund, excluding the Project Loan Account, financed with the proceeds of the Trust Bonds.

"Loan Closing" means the date upon which the Trust shall issue and deliver the Trust Bonds and the Borrower shall deliver its Borrower Bond, as previously authorized, executed, attested and, if applicable, authenticated, to the Trust.

"Loan Repayments" means the sum of (i) Trust Bond Loan Repayments, (ii) the Administrative Fee, and (iii) any late charges incurred hereunder.

"Loan Term" means the term of this Loan Agreement provided in Sections 3.01 and 3.03 hereof and in Exhibit A-2 attached hereto and made a part hereof.

"Loans" means the loans made by the Trust to the Borrowers under the Loan Agreements from moneys on deposit in the Project Fund, excluding the Project Loan Account.

"Master Program Trust Agreement" means that certain Master Program Trust Agreement, dated as of November 1, 1995, by and among the Trust, the State, United States Trust Company of New York, as Master Program Trustee thereunder, The Bank of New York (NJ), in several capacities thereunder, and First Fidelity Bank, N.A. (predecessor to Wachovia Bank, National Association), in several capacities thereunder, as supplemented by that certain Agreement of Resignation of Outgoing Master Program Trustee, Appointment of Successor Master Program Trustee and Acceptance Agreement, dated as of November 1, 2001, by and among United States Trust Company of New York, as Outgoing Master Program Trustee, State Street Bank and Trust Company, N.A. (predecessor to U.S. Bank Trust National Association), as Successor Master Program Trustee, and the Trust, as the same may be amended and supplemented from time to time in accordance with its terms.

"Official Statement" means the Official Statement relating to the issuance of the Trust Bonds.

"Preliminary Official Statement" means the Preliminary Official Statement relating to the issuance of the Trust Bonds.

"Prime Rate" means the prevailing commercial interest rate announced by the Trustee from time to time in the State as its prime lending rate.

"Project" means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the Trust is permitted to make a loan to the Borrower pursuant to the Act, the Regulations and the

Bond Resolution, all or a portion of the Costs of which is financed or refinanced by the Trust through the making of the Loan under this Loan Agreement and which may be identified under either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

"Project Fund" means the Project Fund as defined in the Bond Resolution.

"Project Loan Account" means the project loan account established on behalf of the Borrower in the Project Fund in accordance with the Bond Resolution to finance all or a portion of the Costs of the Project.

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

"State" means the State of New Jersey.

"Trust" means the New Jersey Environmental Infrastructure Trust, a public body corporate and politic with corporate succession duly created and validly existing under and by virtue of the Act.

"Trust Bond Loan Repayments" means the repayments of the principal amount of the Loan plus the payment of any premium associated with prepaying the principal amount of the Loan in accordance with Section 3.07 hereof plus the Interest Portion.

"Trust Bonds" means bonds authorized by Section 2.03 of the Bond Resolution, together with any refunding bonds authenticated, if applicable, and delivered pursuant to Section 2.04 of the Bond Resolution, in each case issued in order to finance (i) the portion of the Loan deposited in the Project Loan Account, (ii) the portion of the Loans deposited in the balance of the Project Fund, (iii) any capitalized interest related to such bonds, (iv) a portion of the costs of issuance related to such bonds, and (v) that portion of the Debt Service Reserve Fund, if any, allocable to the Loan or Loans, as the case may be, a portion of which includes the funding of reserve capacity, if applicable, for the Environmental Infrastructure Facilities of the Borrower or Borrowers, as the case may be, or to refinance any or all of the above.

"Trustee" means, initially, U.S. Bank National Association, the Trustee appointed by the Trust and its successors as Trustee under the Bond Resolution, as provided in Article X of the Bond Resolution.

(b) In addition to the capitalized terms defined in subsection (a) of this Section 1.01, certain additional capitalized terms used in this Loan Agreement shall, unless the context clearly requires otherwise, have the meanings ascribed to such additional capitalized terms in Schedule A attached hereto and made a part hereof.

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

SECTION 2.01. Representations of Borrower. The Borrower represents for the benefit of the Trust, the Trustee and the holders of the Trust Bonds as follows:

(a) Organization and Authority.

(i) The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State, including the Business Corporation Law.

(ii) The acting officers of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in this Loan Agreement either are or, at the time any such action was performed, were the duly appointed or elected officers of such Borrower empowered by applicable State law and, if applicable, authorized by resolution of the Borrower to perform such actions. To the extent any such action was performed by an officer no longer the duly acting officer of such Borrower, all such actions previously taken by such officer are still in full force and effect.

(iii) The Borrower has full legal right and authority and all necessary licenses and permits required as of the date hereof to own, operate and maintain its Environmental Infrastructure System, to carry on its activities relating thereto, to execute, attest and deliver this Loan Agreement and the Borrower Bond, to authorize the authentication of the Borrower Bond, to sell the Borrower Bond to the Trust, to undertake and complete the Project and to carry out and consummate all transactions contemplated by this Loan Agreement.

(iv) The proceedings of the Borrower's board of directors approving this Loan Agreement and the Borrower Bond, authorizing the execution, attestation and delivery of this Loan Agreement and the Borrower Bond, authorizing the sale of the Borrower Bond to the Trust, authorizing the authentication of the Borrower Bond on behalf of the Borrower and authorizing the Borrower to undertake and complete the Project, including, without limitation, the Borrower Bond Resolution (collectively, the "Proceedings"), have been duly and lawfully adopted in accordance with the Business Corporation Law and other applicable State law at a meeting or meetings that were duly called and held in accordance with the Borrower By-Laws and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the

Borrower Bond and the sale thereof to the Trust upon the terms set forth herein; (C) the approval of the inclusion, if such inclusion is deemed necessary in the sole discretion of the Trust, in the Preliminary Official Statement and the Official Statement of all statements and information relating to the Borrower set forth in "APPENDIX B" thereto (the "Borrower Appendices") and any amendment thereof or supplement thereto; and (D) the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement, including, without limitation, the designation of the Borrower Appendices portion of the Preliminary Official Statement, if any, as "deemed final" for the purposes and within the meaning of Rule 15c2-12 ("Rule 15c2-12") of the Securities and Exchange Commission ("SEC") promulgated under the Securities Exchange Act of 1934, as amended or supplemented, including any successor regulation or statute thereto.

(vi) This Loan Agreement and the Borrower Bond have each been duly authorized by the Borrower and duly executed, attested and delivered by Authorized Officers of the Borrower, and the Borrower Bond has been duly sold by the Borrower to the Trust, duly authenticated by the trustee or paying agent, if applicable, under the Borrower Bond Resolution and duly issued by the Borrower in accordance with the terms of the Borrower Bond Resolution; and assuming that the Trust has all the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, this Loan Agreement, and assuming further that this Loan Agreement is the legal, valid and binding obligation of the Trust, enforceable against the Trust in accordance with its terms, each of this Loan Agreement and the Borrower Bond constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its respective terms, except as the enforcement thereof may be affected by bankruptcy, insolvency or other laws or the application by a court of legal or equitable principles affecting creditors' rights; and the information contained under "Description of Loan" in Exhibit A-2 attached hereto and made a part hereof is true and accurate in all respects.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the Trust in writing on the Borrower's application for the Loan or otherwise that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or the ability of the Borrower to make all Loan Repayments and any other payments required under this Loan Agreement or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(c) Pending Litigation. There are no proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect (i) the undertaking or completion of the Project, (ii) the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental

Infrastructure System, (iii) the ability of the Borrower to make all Loan Repayments or any other payments required under this Loan Agreement, (iv) the authorization, execution, attestation or delivery of this Loan Agreement or the Borrower Bond, (v) the issuance of the Borrower Bond and the sale thereof to the Trust, (vi) the adoption of the Borrower Bond Resolution, or (vii) the Borrower's ability otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond, which proceedings have not been previously disclosed in writing to the Trust either in the Borrower's application for the Loan or otherwise.

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the Trust, (iii) the adoption of the Borrower Bond Resolution, (iv) the observation and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (B) result in any breach of any of the terms, conditions or provisions of, or (C) constitute a default under, any existing resolution, outstanding debt or lease obligation, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument to which the Borrower is a party or by which the Borrower, its Environmental Infrastructure System or any of its properties or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Borrower was established or any laws, ordinances, injunctions, judgments, decrees, rules, regulations or existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. The Borrower is not in violation of, and has not received notice of any claimed violation of, any term of any agreement or other instrument to which it is a party or by which it, its Environmental Infrastructure System or its properties may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System or the ability of the Borrower to make all Loan Repayments, to pay all other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, for the issuance of the Borrower Bond and the sale thereof to the Trust, for the adoption of the Borrower Bond Resolution, for the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond and for the undertaking or completion of the Project and the financing or refinancing thereof, including, but not limited to, if required, the approval by the New Jersey Board of Public Utilities (the "BPU") of the issuance by the Borrower of the Borrower Bond to the Trust, as required by Section 9a of the Act, and any other approvals required therefor by the BPU; and the Borrower has complied with all applicable provisions of law requiring any notification, declaration, filing or registration with any governmental body or officer in connection with the making, observance and performance by the Borrower of its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond or with the undertaking or completion of the Project and the financing or refinancing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental body or officer that has not been obtained is required on the part of the Borrower as a condition to the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the undertaking or completion of the Project or the consummation of any transaction herein contemplated.

(g) Compliance with Law. The Borrower:

(i) is in compliance with all laws, ordinances, governmental rules and regulations to which it is subject, the failure to comply with which would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System; and

(ii) has obtained all licenses, permits, franchises or other governmental authorizations presently necessary for the ownership of its properties or for the conduct of its activities that, if not obtained, would materially adversely affect (A) the ability of the Borrower to conduct its activities or to undertake or complete the Project, (B) the ability of the Borrower to make the Loan Repayments and to pay all other amounts due hereunder, or (C) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the Trust as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the Costs of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Costs of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the Trust and is eligible for such reimbursement under and pursuant to the Regulations, the Code and any other applicable law. All of such costs constitute Costs for which the Trust is authorized to make Loans to the Borrower pursuant to the Act and the Regulations.

(i) **Official Statement.** The descriptions and information set forth in the Borrower Appendices, if any, contained in the Official Statement relating to the Borrower, its operations and the transactions contemplated hereby, as of the date of the Official Statement, were and, as of the date of delivery hereof, are true and correct in all material respects, and did not and do not contain any untrue statement of a material fact or omit to state a material fact that is necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(j) **Preliminary Official Statement.** As of the date of the Preliminary Official Statement, the descriptions and information set forth in the Borrower Appendices, if any, contained in the Preliminary Official Statement relating to the Borrower, its operations and the transactions contemplated hereby (i) were "deemed final" by the Borrower for the purposes and within the meaning of Rule 15c2-12 and (ii) were true and correct in all material respects, and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

SECTION 2.02. Particular Covenants of Borrower.

(a) **Promise to Pay.** The Borrower unconditionally and irrevocably promises, in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal and redemption premium, if any, of the Loan and the Borrower Bond, the Interest on the Loan, the Interest on the Borrower Bond and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

(b) **Performance Under Loan Agreement; Rates.** The Borrower covenants and agrees (i) to comply with all applicable State and federal laws, rules and regulations in the performance of this Loan Agreement; (ii) to maintain its Environmental Infrastructure System in good repair and operating condition; (iii) to cooperate with the Trust in the observance and performance of the respective duties, covenants, obligations and agreements of the Borrower and the Trust under this Loan Agreement; and (iv) to establish, levy and collect rents, rates and other charges for the products and services provided by its Environmental Infrastructure System, which rents, rates and other charges shall be at least sufficient to comply with all covenants pertaining thereto contained in, and all other provisions of, any bond resolution, trust indenture or other security agreement, if any, relating to any bonds, notes or other evidences of indebtedness issued or to be issued by the Borrower, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of and Interest on the Borrower Bond, plus all other amounts due hereunder.

(c) **Borrower Bond; No Prior Liens.** Except for (i) the Borrower Bond, (ii) any bonds or notes at parity with the Borrower Bond and currently outstanding or issued on the date hereof, (iii) any future bonds or notes of the Borrower issued under the Borrower Bond Resolution at parity with the Borrower Bond, and (iv) any Permitted Encumbrances (as defined in the Borrower Bond Resolution), the assets of the Borrower that are subject to the Borrower Bond

Resolution are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

(d) Completion of Project and Provision of Moneys Therefor. The Borrower covenants and agrees (i) to exercise its best efforts in accordance with prudent environmental infrastructure utility practice to complete the Project and to accomplish such completion on or before the estimated Project completion date set forth in Exhibit G hereto and made a part hereof; (ii) to comply with the terms and provisions contained in Exhibit G hereto; and (iii) to provide from its own fiscal resources all moneys, in excess of the total amount of loan proceeds it receives under the Loan and Fund Loan, required to complete the Project.

(e) See Section 2.02(e) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(e) by reference as if set forth in full herein.

(f) Exclusion of Interest from Federal Gross Income and Compliance with Code.

(i) The Borrower covenants and agrees that it shall not take any action or omit to take any action that would result in the loss of the exclusion of the interest on any Trust Bonds now or hereafter issued from gross income for purposes of federal income taxation as that status is governed by Section 103(a) of the Code.

(ii) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds (or amounts replaced with such proceeds) or any other funds or take any action or omit to take any action that would cause the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds) to be "arbitrage bonds" within the meaning of Section 148(a) of the Code.

(iii) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay the principal of or the interest or redemption premium on or any other amount in connection with the retirement or redemption of any issue of state or local governmental obligations ("refinancing of indebtedness"), unless the Borrower shall (A) establish to the satisfaction of the Trust, prior to the issuance of the Trust Bonds, that such refinancing of indebtedness will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds, and (B) provide to the Trust an opinion of Bond Counsel to that effect in form and substance satisfactory to the Trust.

(iv) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to reimburse the Borrower for an expenditure with respect to Costs of the Borrower's Project paid by the Borrower prior to the issuance of the Trust Bonds, unless (A) the allocation by the Borrower of the proceeds of the Trust Bonds to reimburse such expenditure complies with the requirements of Treasury Regulations §1.150-2 necessary to enable the reimbursement allocation to be treated as an expenditure of the proceeds of the Trust Bonds for purposes of applying Sections 103 and 141-150,

inclusive, of the Code, or (B) such proceeds of the Trust Bonds will be used for refinancing of indebtedness that was used to pay Costs of the Borrower's Project or to reimburse the Borrower for expenditures with respect to Costs of the Borrower's Project paid by the Borrower prior to the issuance of such indebtedness in accordance with a reimbursement allocation for such expenditures that complies with the requirements of Treasury Regulations §1.150-2.

(v) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to pay any Costs of the Borrower's Project that does not constitute a "capital expenditure" within the meaning of Treasury Regulations §1.150-1.

(vi) The Borrower shall not use the proceeds of the Trust Bonds (assuming solely for this purpose that the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds) in any manner that would cause the Trust Bonds to be considered "federally guaranteed" within the meaning of Section 149(b) of the Code or "hedge bonds" within the meaning of Section 149(g) of the Code.

(vii) The Borrower shall not issue any debt obligations that (A) are sold at substantially the same time as the Trust Bonds and finance or refinance the Loan made to the Borrower, (B) are sold pursuant to the same plan of financing as the Trust Bonds and finance or refinance the Loan made to the Borrower, and (C) are reasonably expected to be paid out of substantially the same source of funds as the Trust Bonds and finance or refinance the Loan made to the Borrower.

(viii) Neither the Borrower nor any "related party" (within the meaning of Treasury Regulations §1.150-1) shall purchase Trust Bonds in an amount related to the amount of the Loan.

(ix) The Borrower will not issue or permit to be issued obligations that will constitute an "advance refunding" of the Borrower Bond within the meaning of Section 149(d)(5) of the Code without the express written consent of the Trust, which consent may only be delivered by the Trust after the Trust has received notice from the Borrower of such contemplated action no later than sixty (60) days prior to any such contemplated action, and which consent is in the sole discretion of the Trust.

(x) See Section 2.02(f)(x) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(f)(x) by reference as if set forth in full herein.

(xi) No "gross proceeds" of the Trust Bonds held by the Borrower (other than amounts in a "bona fide debt service fund") will be held in a "commingled fund" (as such terms are defined in Treasury Regulations §1.148-1(b)).

(xii) Based upon all of the objective facts and circumstances in existence on the date of issuance of the Trust Bonds used to finance the Project, (A) within six months of the date of issuance of the Trust Bonds used to finance the Project, the Borrower will

incur a substantial binding obligation to a third party to expend on the Project at least five percent (5%) of the "net sale proceeds" (within the meaning of Treasury Regulations §1.148-1) of the Loan used to finance the Project (treating an obligation as not being binding if it is subject to contingencies within the control of the Borrower, the Trust or a "related party" (within the meaning of Treasury Regulations §1.150-1)), (B) completion of the Project and the allocation to expenditures of the "net sale proceeds" of the Loan used to finance the Project will proceed with due diligence, and (C) all of the proceeds of the Loan used to finance the Project (other than amounts deposited into the Debt Service Reserve Fund allocable to that portion of the Loan used to finance reserve capacity, if any) and investment earnings thereon will be spent prior to the period ending three (3) years subsequent to the date of issuance of the Trust Bonds used to finance the Project. Accordingly, the proceeds of the Loan deposited in the Project Loan Account used to finance the Project will be eligible for the 3-year arbitrage temporary period since the expenditure test, time test and due diligence test, as set forth in Treasury Regulations §1.148-2(e)(2), will be satisfied.

(xiii) The weighted average maturity of the Loan does not exceed 120% of the average reasonably expected economic life of the Project financed or refinanced with the Loan, determined in the same manner as under Section 147(b) of the Code. Accordingly, the term of the Loan will not be longer than is reasonably necessary for the governmental purposes of the Loan within the meaning of Treasury Regulations §1.148-1(c)(4).

For purposes of this subsection and subsection (h) of this Section 2.02, quoted terms shall have the meanings given thereto by Section 148 of the Code, including, particularly, Treasury Regulations §§1.148-1 through 1.148-11, inclusive, as supplemented or amended, to the extent applicable to the Trust Bonds, and any successor Treasury Regulations applicable to the Trust Bonds.

(g) Operation and Maintenance of Environmental Infrastructure System. The Borrower covenants and agrees that it shall, in accordance with prudent environmental infrastructure utility practice, (i) at all times operate the properties of its Environmental Infrastructure System and any business in connection therewith in an efficient manner, (ii) maintain its Environmental Infrastructure System in good repair, working order and operating condition, and (iii) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its Environmental Infrastructure System so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

(h) Records and Accounts.

(i) The Borrower shall keep accurate records and accounts for its Environmental Infrastructure System (the "System Records") separate and distinct from its other records and accounts (the "General Records"). Such System Records shall be audited annually by an independent certified public accountant, which may be part of the annual audit of the General Records of the Borrower. Such System Records and General Records shall be made available for inspection by the Trust at any reasonable time upon

prior written notice, and a copy of such annual audit(s) therefor, including all written comments and recommendations of such accountant, shall be furnished to the Trust within 150 days of the close of the fiscal year being so audited or, with the consent of the Trust, such additional period as may be provided by law.

(ii) Unless otherwise advised in writing by the Trust, in furtherance of the covenant of the Borrower contained in subsection (f) of this Section 2.02 not to cause the Trust Bonds to be arbitrage bonds, the Borrower shall keep, or cause to be kept, accurate records of each investment it makes in any "nonpurpose investment" acquired with, or otherwise allocated to, "gross proceeds" of the Trust Bonds not held by the Trustee and each "expenditure" it makes allocated to "gross proceeds" of the Trust Bonds. Such records shall include the purchase price, including any constructive "payments" (or in the case of a "payment" constituting a deemed acquisition of a "nonpurpose investment" (e.g., a "nonpurpose investment" first allocated to "gross proceeds" of the Trust Bonds after it is actually acquired because it is deposited in a sinking fund for the Trust Bonds)), the "fair market value" of the "nonpurpose investment" on the date first allocated to the "gross proceeds" of the Trust Bonds, nominal interest rate, dated date, maturity date, type of property, frequency of periodic payments, period of compounding, yield to maturity, amount actually or constructively received on disposition (or in the case of a "receipt" constituting a deemed disposition of a "nonpurpose investment" (e.g., a "nonpurpose investment" that ceases to be allocated to the "gross proceeds" of the Trust Bonds because it is removed from a sinking fund for the Trust Bonds)), the "fair market value" of the "nonpurpose investment" on the date it ceases to be allocated to the "gross proceeds" of the Trust Bonds, the purchase date and disposition date of the "nonpurpose investment" and evidence of the "fair market value" of such property on the purchase date and disposition date (or deemed purchase or disposition date) for each such "nonpurpose investment". The purchase date, disposition date and the date of determination of "fair market value" shall be the date on which a contract to purchase or sell the "nonpurpose investment" becomes binding, i.e., the trade date rather than the settlement date. For purposes of the calculation of purchase price and disposition price, brokerage or selling commissions, administrative expenses or similar expenses shall not increase the purchase price of an item and shall not reduce the amount actually or constructively received upon disposition of an item, except to the extent such costs constitute "qualified administrative costs".

(iii) Within thirty (30) days of the last day of the fifth and each succeeding fifth "bond year" (which, unless otherwise advised by the Trust, shall be the five-year period ending on the date five years subsequent to the date immediately preceding the date of issuance of the Trust Bonds and each succeeding fifth "bond year") and within thirty (30) days of the date the last bond that is part of the Trust Bonds is discharged (or on any other periodic basis requested in writing by the Trust), the Borrower shall (A) calculate, or cause to be calculated, the "rebate amount" as of the "computation date" or "final computation date" attributable to any "nonpurpose investment" made by the Borrower and (B) remit the following to the Trust: (1) an amount of money that when added to the "future value" as of the "computation date" of any previous payments made to the Trust on account of rebate equals the "rebate amount", (2) the calculations

supporting the "rebate amount" attributable to any "nonpurpose investment" made by the Borrower allocated to "gross proceeds" of the Trust Bonds, and (3) any other information requested by the Trust relating to compliance with Section 148 of the Code (e.g., information related to any "nonpurpose investment" of the Borrower for purposes of application of the "universal cap").

(iv) The Borrower covenants and agrees that it will account for "gross proceeds" of the Trust Bonds, investments allocable to the Trust Bonds and expenditures of "gross proceeds" of the Trust Bonds in accordance with Treasury Regulations §1.148-6. All allocations of "gross proceeds" of the Trust Bonds to expenditures will be recorded on the books of the Borrower kept in connection with the Trust Bonds no later than 18 months after the later of the date the particular Costs of the Borrower's Project is paid or the date the portion of the project financed by the Trust Bonds is placed in service. All allocations of proceeds of the Trust Bonds to expenditures will be made no later than the date that is 60 days after the fifth anniversary of the date the Trust Bonds are issued or the date 60 days after the retirement of the Trust Bonds, if earlier. Such records and accounts will include the particular Cost paid, the date of the payment and the party to whom the payment was made.

(i) Inspections; Information. The Borrower shall permit the Trust and the Trustee and any party designated by any of such parties, at any and all reasonable times during construction of the Project and thereafter upon prior written notice, to examine, visit and inspect the property, if any, constituting the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating thereto and to its financial standing, and shall supply such reports and information as the Trust and the Trustee may reasonably require in connection therewith.

(j) Insurance. The Borrower shall maintain or cause to be maintained, in force, insurance policies with responsible insurers or self-insurance programs providing against risk of direct physical loss, damage or destruction of its Environmental Infrastructure System at least to the extent that similar insurance is usually carried by utilities constructing, operating and maintaining Environmental Infrastructure Facilities of the nature of the Borrower's Environmental Infrastructure System, including liability coverage, all to the extent available at reasonable cost but in no case less than will satisfy all applicable regulatory requirements.

(k) Costs of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the Trust a certificate from a licensed professional engineer authorized to practice in the State stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds the maturity date of the Borrower Bond.

(l) Delivery of Documents. Concurrently with the delivery of this Loan Agreement (as previously authorized, executed and attested) at the Loan Closing, the Borrower will cause to be delivered to the Trust and the Trustee each of the following items:

(i) an opinion of the Borrower's bond counsel substantially in the form of Exhibit E hereto; provided, however, that the Trust may permit portions of such opinion to be rendered by general counsel to the Borrower and may permit variances in such opinion from the form set forth in Exhibit E if, in the opinion of the Trust, such variances are not to the material detriment of the interests of the holders of the Trust Bonds;

(ii) counterparts of this Loan Agreement as previously executed and attested by the parties hereto;

(iii) copies of those resolutions finally adopted by the board of directors of the Borrower and requested by the Trust, including, without limitation, (A) the resolution of the Borrower authorizing the execution, attestation and delivery of this Loan Agreement, (B) the Borrower Bond Resolution, as amended and supplemented as of the date of the Loan Closing, authorizing the execution, attestation, authentication, sale and delivery of the Borrower Bond to the Trust, (C) the resolution of the Borrower, if any, confirming the details of the sale of the Borrower Bond to the Trust, (D) the resolution of the Borrower, if any, declaring its official intent to reimburse expenditures for the Costs of the Project from the proceeds of the Trust Bonds, each of said resolutions of the Borrower being certified by an Authorized Officer of the Borrower as of the date of the Loan Closing, (E) the resolution of the BPU approving the issuance by the Borrower of the Borrower Bond to the Trust and setting forth any other approvals required therefor by the BPU, if applicable, and (F) any other Proceedings;

(iv) if the Loan is being made to reimburse the Borrower for all or a portion of the Costs of the Borrower's Project or to refinance indebtedness or reimburse the Borrower for the repayment of indebtedness previously incurred by the Borrower to finance all or a portion of the Costs of the Borrower's Project, an opinion of Bond Counsel, in form and substance satisfactory to the Trust, to the effect that such reimbursement or refinancing will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds; and

(v) the certificates of insurance coverage as required pursuant to the terms of Section 3.06(d) hereof and such other certificates, documents, opinions and information as the Trust may require in Exhibit F hereto, if any.

(m) Execution and Delivery of Borrower Bond. Concurrently with the delivery of this Loan Agreement at the Loan Closing, the Borrower shall also deliver to the Trust the Borrower Bond, as previously executed, attested and, if applicable, authenticated, upon the receipt of a written certification of the Trust that a portion of the net proceeds of the Trust Bonds shall be deposited in the Project Loan Account simultaneously with the delivery of the Borrower Bond.

(n) Notice of Material Adverse Change. The Borrower shall promptly notify the Trust of any material adverse change in the properties, activities, prospects or condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System, or in the ability of the Borrower to make all Loan Repayments and otherwise to observe and perform its

duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

(o) Continuing Representations. The representations of the Borrower contained herein shall be true at the time of the execution of this Loan Agreement and at all times during the term of this Loan Agreement.

(p) Continuing Disclosure Covenant. To the extent that the Trust, in its sole discretion, determines, at any time prior to the termination of the Loan Term, that the Borrower is a material "obligated person", as the term "obligated person" is defined in Rule 15c2-12, with materiality being determined by the Trust pursuant to criteria established, from time to time, by the Trust in its sole discretion and set forth in a bond resolution or official statement of the Trust, the Borrower hereby covenants that it will authorize and provide to the Trust, for inclusion in any preliminary official statement or official statement of the Trust, all statements and information relating to the Borrower deemed material by the Trust for the purpose of satisfying Rule 15c2-12 as well as Rule 10b-5 promulgated pursuant to the Securities Exchange Act of 1934, as amended or supplemented, including any successor regulation or statute thereto ("Rule 10b-5"), including certificates and written representations of the Borrower evidencing its compliance with Rule 15c2-12 and Rule 10b-5; and the Borrower hereby further covenants that the Borrower shall execute and deliver the Continuing Disclosure Agreement, in substantially the form attached hereto as Exhibit H, with such revisions thereto prior to execution and delivery thereof as the Trust shall determine to be necessary, desirable or convenient, in its sole discretion, for the purpose of satisfying Rule 15c2-12 and the purposes and intent thereof, as Rule 15c2-12, its purposes and intent may hereafter be interpreted from time to time by the SEC or any court of competent jurisdiction; and pursuant to the terms and provisions of the Continuing Disclosure Agreement, the Borrower shall thereafter provide on-going disclosure with respect to all statements and information relating to the Borrower in satisfaction of the requirements set forth in Rule 15c2-12 and Rule 10b-5, including, without limitation, the provision of certificates and written representations of the Borrower evidencing its compliance with Rule 15c2-12 and Rule 10b-5.

(q) Additional Covenants and Requirements. (i) No later than the Loan Closing and, if necessary, in connection with the Trust's issuance of the Trust Bonds or the making of the Loan, additional covenants and requirements have been included in Exhibit F hereto and made a part hereof. Such covenants and requirements may include, but need not be limited to, the maintenance of specified levels of Environmental Infrastructure System rates, the issuance of additional debt of the Borrower, the use by or on behalf of the Borrower of certain proceeds of the Trust Bonds as such use relates to the exclusion from gross income for federal income tax purposes of the interest on any Trust Bonds, the transfer of revenues and receipts from the Borrower's Environmental Infrastructure System, compliance with Rule 15c2-12, Rule 10b-5 and any other applicable federal or State securities laws, and matters in connection with the appointment of the Trustee under the Bond Resolution and any successors thereto. The Borrower hereby agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto. (ii) Additional defined terms, covenants, representations and requirements have been included in Schedule A attached hereto and made a part hereof. Such additional defined terms, covenants, representations and requirements are

incorporated in this Loan Agreement by reference thereto as if set forth in full herein and the Borrower hereby agrees to observe and comply with each such additional term, covenant, representation and requirement included in Schedule A as if the same were set forth in its entirety where reference thereto is made in this Loan Agreement.

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

SECTION 3.01. Loan; Loan Term. The Trust hereby agrees to make the Loan as described in Exhibit A-2 hereof and to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, and the Borrower hereby agrees to borrow and accept the Loan from the Trust upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof; provided, however, that the Trust shall be under no obligation to make the Loan if (a) at the Loan Closing, the Borrower does not deliver to the Trust a Borrower Bond and such other documents required under Section 2.02(l) hereof, or (b) an Event of Default has occurred and is continuing under the Bond Resolution or this Loan Agreement. Although the Trust intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Costs of the Project, due to unforeseen circumstances there may not be a sufficient amount on deposit in the Project Fund on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of (i) certain costs of issuance and underwriter's discount for all Trust Bonds issued to finance the Loan; (ii) capitalized interest during the Project construction period, if applicable; and (iii) that portion of the Debt Service Reserve Fund attributable to the cost of funding reserve capacity for the Project, if applicable, shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and neither the Trust nor the Trustee shall have any obligation thereafter to loan any additional amounts to the Borrower.

The Borrower shall use the proceeds of the Loan strictly in accordance with Section 2.01(h) hereof.

The payment obligations created under this Loan Agreement and the obligations to pay the principal of the Borrower Bond, Interest on the Borrower Bond and other amounts due under the Borrower Bond are each direct, general, irrevocable and unconditional obligations of the Borrower payable from any source legally available to the Borrower in accordance with the terms of and to the extent provided in the Borrower Bond Resolution.

SECTION 3.02. Disbursement of Loan Proceeds. (a) The Trustee, as the agent of the Trust, shall disburse the amounts on deposit in the Project Loan Account to the Borrower upon receipt of a requisition executed by an Authorized Officer of the Borrower, and approved by the Trust, in a form meeting the requirements of Section 5.02(3) of the Bond Resolution.

(b) The Trust and Trustee shall not be required to disburse any Loan proceeds to the Borrower under this Loan Agreement, unless:

(i) the proceeds of the Trust Bonds shall be available for disbursement, as determined solely by the Trust;

(ii) in accordance with the Bond Act, and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Fund Loan for a portion of the Allowable Costs (as defined in such Regulations) of the Project in an amount not in excess of the amount of Allowable Costs of the Project financed by the Loan from the Trust;

(iii) the Borrower shall have on hand moneys to pay for the greater of (A) that portion of the total Costs of the Project that is not eligible to be funded from the Fund Loan or the Loan, or (B) that portion of the total Costs of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the Fund Loan and the Loan; and

(iv) no Event of Default nor any event that, with the passage of time or service of notice or both, would constitute an Event of Default shall have occurred and be continuing hereunder.

SECTION 3.03. Amounts Payable. (a) The Borrower shall repay the Loan in installments payable to the Trustee as follows:

(i) the principal of the Loan shall be repaid annually on the Principal Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by any credits applicable to the Borrower as set forth in the Bond Resolution;

(ii) the Interest Portion described in clause (i) of the definition thereof shall be paid semiannually on the Interest Payment Dates, in accordance with the schedule set forth in Exhibit A-2 attached hereto and made a part hereof, as the same may be amended or modified by any credits applicable to the Borrower as set forth in the Bond Resolution; and

(iii) the Interest Portion described in clause (ii) of the definition thereof shall be paid upon the date of optional redemption or acceleration, as the case may be, of the Trust Bonds allocable to any prepaid or accelerated Trust Bond Loan Repayment.

The obligations of the Borrower under the Borrower Bond shall be deemed to be amounts payable under this Section 3.03. Each Loan Repayment, whether satisfied through a direct payment by the Borrower to the Trustee or (with respect to the Interest Portion) through the use of Trust Bond proceeds and income thereon on deposit in the Interest Account (as defined in the Bond Resolution) to pay interest on the Trust Bonds, shall be deemed to be a credit against the corresponding obligation of the Borrower under this Section 3.03 and shall fulfill the Borrower's obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trustee pursuant to this Section 3.03 shall be applied *first* to the Interest Portion then due and payable, *second* to the principal of the Loan then due and payable, *third* to the payment of the Administrative Fee, and *finally* to the payment of any late charges hereunder.

(b) The Interest on the Loan described in clause (iii) of the definition thereof shall (i) consist of a late charge for any Trust Bond Loan Repayment that is received by the Trustee later than the tenth (10th) day following its due date and (ii) be payable immediately thereafter in an amount equal to the greater of twelve percent (12%) per annum or the Prime Rate plus one half of one percent per annum on such late payment from its due date to the date it is actually paid; provided, however, that the rate of Interest on the Loan, including, without limitation, any late payment charges incurred hereunder, shall not exceed the maximum interest rate permitted by law.

(c) The Borrower shall receive, as a credit against its semiannual payment obligations of the Interest Portion, the amounts certified by the Trust pursuant to Section 5.10 of the Bond Resolution. Such amounts shall represent the Borrower's allocable share of the interest earnings on certain funds and accounts established under the Bond Resolution, calculated in accordance with Section 5.10 of the Bond Resolution.

(d) In accordance with the provisions of the Bond Resolution, the Borrower shall receive, as a credit against its Trust Bond Loan Repayments, the amounts set forth in the certificate of the Trust filed with the Trustee pursuant to Section 5.02(4) of the Bond Resolution.

(e) The Interest on the Loan described in clause (ii) of the definition thereof shall be paid by the Borrower in the amount of one-half of the Administrative Fee, if any, to the Trustee on each Interest Payment Date, commencing with the first Interest Payment Date subsequent to the Loan Closing.

(f) The Borrower hereby agrees to pay to the Trust at the Loan Closing a "Security Review Fee" in the amount necessary to reimburse the Trust for all of its costs and expenses incurred in connection with reviewing the additional security securing the Trust Loan as set forth in Exhibit F hereto, if any, including without limitation the fees and expenses of any professional advisers hired by the Trust in connection therewith.

SECTION 3.03A. Amounts on Deposit in Project Loan Account after Completion of Draw Schedule. (a) If, on the date which is one hundred eighty (180) days following the final date for which a disbursement of Loan proceeds is scheduled to be made pursuant to Exhibit C hereto, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(b) If, on the date which is one hundred eighty (180) days following the final date for which a disbursement of Loan proceeds is scheduled to be made pursuant to a revised draw schedule certified to the Trust and the Department in accordance with Section 3.03A(a) hereof, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must provide to the Trust and the Department a certificate of an Authorized Officer of the Borrower (i) stating that the Borrower has not yet completed the Project, (ii) stating that the Borrower intends

to complete the Project, (iii) setting forth the amount of remaining Loan Proceeds required to complete the Project, and (iv) providing a revised draw schedule, in a form similar to Exhibit C hereto and approved by the Department.

(c) If the Borrower fails to provide the certificate described in paragraphs (a) or (b) of this Section 3.03A, when due, or if such certificate states that the Borrower does not require all or any portion of the amount on deposit in the Project Loan Account to complete the Project, such amounts on deposit in the Project Loan Account which are not certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds") shall be applied as follows:

(i) If the Excess Project Funds are less than or equal to the greater of (A) \$250,000 or (B) the amount of Loan Repayments due from the Borrower to the Trust in the next succeeding calendar year, the Excess Project Funds shall be applied by the Trust toward the Borrower's obligation to make the Loan Repayments next coming due; or

(ii) If the Excess Project Funds are greater than the greater of (A) \$250,000 or (B) the amount of Loan Repayments due from the Borrower to the Trust in the next succeeding calendar year, the Excess Project Funds shall be applied by the Trust as a prepayment of the Borrower's Loan Repayments, and shall be applied to the principal payments (including premium, if any) on the Loan in inverse order of their maturity.

SECTION 3.04. Unconditional Obligations. The obligation of the Borrower to make the Loan Repayments and all other payments required hereunder and the obligation to perform and observe the other duties, covenants, obligations and agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever while any Trust Bonds remain outstanding or any Loan Repayments remain unpaid, for any reason, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Project or Environmental Infrastructure System, commercial frustration of the purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, any failure of the Trust or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project, this Loan Agreement or the Bond Resolution, or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the Trust, the Trustee or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements or the Bond Resolution.

The Borrower acknowledges that payment of the Trust Bonds by the Trust, including payment from moneys drawn by the Trustee from the Debt Service Reserve Fund, does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond. If at any time the amount in the Debt Service Reserve Fund shall be less than the Debt Service

Reserve Requirement as the result of any transfer of moneys from the Debt Service Reserve Fund to the Debt Service Fund (as all such terms are defined in the Bond Resolution) as the result of a failure by the Borrower to make any Trust Bond Loan Repayments required hereunder, the Borrower agrees to replenish (i) such moneys so transferred and (ii) any deficiency arising from losses incurred in making such transfer as the result of the liquidation by the Trust of Investment Securities (as defined in the Bond Resolution) acquired as an investment of moneys in the Debt Service Reserve Fund, by making payments to the Trust in equal monthly installments for the lesser of six (6) months or the remaining term of the Loan at an interest rate to be determined by the Trust necessary to make up any loss caused by such deficiency.

The Borrower acknowledges that payment of the Trust Bonds from moneys that were originally received by the Trustee from repayments by the Borrowers of loans made to the Borrowers by the State, acting by and through the Department, pursuant to loan agreements dated as of November 1, 2006 by and between the Borrowers and the State, acting by and through the Department, to finance or refinance a portion of the Costs of the Environmental Infrastructure Facilities of the Borrowers, and which moneys were upon such receipt by the Trustee deposited in the Trust Bonds Security Account (as defined in the Bond Resolution), does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond.

SECTION 3.05. Loan Agreement to Survive Bond Resolution and Trust Bonds. The Borrower acknowledges that its duties, covenants, obligations and agreements hereunder shall survive the discharge of the Bond Resolution applicable to the Trust Bonds and shall survive the payment of the principal and redemption premium, if any, of and the interest on the Trust Bonds until the Borrower can take no action or fail to take any action that could adversely affect the exclusion from gross income of the interest on the Trust Bonds for purposes of federal income taxation, at which time such duties, covenants, obligations and agreements hereunder shall, except for those set forth in Sections 3.06(a) and (b) hereof, terminate.

SECTION 3.06. Disclaimer of Warranties and Indemnification. (a) The Borrower acknowledges and agrees that (i) neither the Trust nor the Trustee makes any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the Trust or the Trustee or their respective agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the Trust and the Trustee harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the Trust and the Trustee may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed, or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

(b) It is mutually agreed by the Borrower, the Trust and the Trustee that the Trust and its officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed under this Loan Agreement and any claim or suit of whatsoever nature, except in the event of loss or damage resulting from their own negligence or willful misconduct. It is further agreed that the Trustee and its directors, officers, agents, servants or employees shall not be liable for, and shall be indemnified and saved harmless by the Borrower in any event from, any action performed pursuant to this Loan Agreement, except in the event of loss or damage resulting from their own negligence or willful misconduct.

(c) The Borrower and the Trust agree that all claims shall be subject to and governed by the provisions of the New Jersey Contractual Liability Act, N.J.S.A. 59:13-1 *et seq.* (except for N.J.S.A. 59:13-9 thereof), although such Act by its express terms does not apply to claims arising under contract with the Trust.

(d) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the Trust and its directors, employees and officers as additional "named insureds" on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the later of the date of the Loan Closing or the date of the initiation of construction of the Project until the date the Borrower receives the written certificate of Project completion from the Trust, the Borrower shall maintain said liability insurance covering the Trust and said directors, employees and officers in good standing; and (ii) the Borrower shall include the Trust as an additional "named insured" on any certificate of insurance providing against risk of direct physical loss, damage or destruction of the Environmental Infrastructure System, and during the Loan Term the Borrower shall maintain said insurance covering the Trust in good standing.

The Borrower shall provide the Trust with a copy of each of any such original, supplemental, amendatory or reissued certificates of insurance (or other similar documents evidencing the insurance coverage) required pursuant to this Section 3.06(d).

SECTION 3.07. Option to Prepay Loan Repayments. The Borrower may prepay the Trust Bond Loan Repayments, in whole or in part (but if in part, in the amount of \$100,000 or any integral multiple thereof), upon prior written notice to the Trust and the Trustee not less than ninety (90) days in addition to the number of days' advance notice to the Trustee required for any optional redemption of the Trust Bonds, and upon payment by the Borrower to the Trustee of amounts that, together with investment earnings thereon, will be sufficient to pay the principal amount of the Trust Bond Loan Repayments to be prepaid plus the Interest Portion described in clause (ii) of the definition thereof on any such date of redemption; provided, however, that, with respect to any prepayment other than those required by Section 3.03A hereof, any such full or partial prepayment may only be made (i) if the Borrower is not then in arrears on its Fund Loan, (ii) if the Borrower is contemporaneously making a full or partial prepayment of the Fund Loan such that, after the prepayment of the Loan and the Fund Loan, the Trust, in its sole discretion, determines that the interests of the owners of the Trust Bonds are not adversely affected by such

prepayments, and (iii) upon the prior written approval of the Trust. In addition, if at the time of such prepayment the Trust Bonds may only be redeemed at the option of the Trust upon payment of a premium, the Borrower shall add to its prepayment of Trust Bond Loan Repayments an amount, as determined by the Trust, equal to such premium allocable to the Trust Bonds to be redeemed as a result of the Borrower's prepayment. Prepayments shall be applied first to the Interest Portion that accrues on the portion of the Loan to be prepaid until such prepayment date as described in clause (ii) of the definition thereof and then to principal payments (including premium, if any) on the Loan in inverse order of their maturity.

SECTION 3.08. Priority of Loan and Fund Loan. (a) The Borrower hereby agrees that, to the extent allowed by law or the Borrower Bond Resolution, any Loan Repayments then due and payable on the Loan shall be satisfied by the Borrower before any loan repayments on the Borrower's Fund Loan shall be satisfied by the Borrower.

(b) The Borrower hereby acknowledges that in the event the Borrower fails or is unable to pay promptly to the Trust in full any Trust Bond Loan Repayments under this Loan Agreement when due, then any (i) Administrative Fee paid hereunder, (ii) late charges paid hereunder, and (iii) loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor, any of which payments shall be received by the Trustee during the time of any such Trust Bond Loan Repayment deficiency, shall be applied by the Trustee *first* to satisfy such Trust Bond Loan Repayment deficiency as a credit against the obligations of the Borrower to make payments of the Interest Portion under the Loan and the Borrower Bond, *second*, to the extent available, to make Trust Bond Loan Repayments of principal hereunder and payments of principal under the Borrower Bond, *third*, to the extent available, to pay the Administrative Fee, *fourth*, to the extent available, to pay any late charges hereunder, *fifth*, to the extent available, to satisfy the repayment of the Borrower's Fund Loan under its related loan agreement therefor, and *finally*, to the extent available, to satisfy the repayment of the administrative fee under any such related loan agreement.

(c) The Borrower hereby further acknowledges that any loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor shall be applied according to the provisions of the Master Program Trust Agreement.

SECTION 3.09. Approval of the New Jersey State Treasurer. The Borrower and the Trust hereby acknowledge that prior to or simultaneously with the Loan Closing the New Jersey State Treasurer, in satisfaction of the requirements of Section 9a of the Act, issued the "Certificate of the New Jersey State Treasurer Regarding the Approval of the Trust Loan and the Fund Loan" (the "Treasurer's Certificate"). Pursuant to the terms of the Treasurer's Certificate, the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

SECTION 4.01. Assignment and Transfer by Trust. (a) The Borrower hereby expressly acknowledges that, other than the provisions of Section 2.02(d)(ii) hereof, the Trust's right, title and interest in, to and under this Loan Agreement and the Borrower Bond have been assigned to the Trustee as security for the Trust Bonds as provided in the Bond Resolution, and that if any Event of Default shall occur, the Trustee or any Bond Insurer (as such term may be defined in the Bond Resolution), if applicable, pursuant to the Bond Resolution, shall be entitled to act hereunder in the place and stead of the Trust. The Borrower hereby acknowledges the requirements of the Bond Resolution applicable to the Trust Bonds and consents to such assignment and appointment. This Loan Agreement and the Borrower Bond, including, without limitation, the right to receive payments required to be made by the Borrower hereunder and to compel or otherwise enforce observance and performance by the Borrower of its other duties, covenants, obligations and agreements hereunder, may be further transferred, assigned and reassigned in whole or in part to one or more assignees or subassignees by the Trustee at any time subsequent to their execution without the necessity of obtaining the consent of, but after giving prior written notice to, the Borrower.

The Trust shall retain the right to compel or otherwise enforce observance and performance by the Borrower of its duties, covenants, obligations and agreements under Section 2.02(d)(ii) hereof; provided, however, that in no event shall the Trust have the right to accelerate the Borrower Bond in connection with the enforcement of Section 2.02(d)(ii) hereof.

(b) The Borrower hereby approves and consents to any assignment or transfer of this Loan Agreement and the Borrower Bond that the Trust deems to be necessary in connection with any refunding of the Trust Bonds or the issuance of additional bonds under the Bond Resolution or otherwise, all in connection with the pooled loan program of the Trust.

SECTION 4.02. Assignment by Borrower. Neither this Loan Agreement nor the Borrower Bond may be assigned by the Borrower for any reason, unless the following conditions shall be satisfied: (i) the Trust and the Trustee shall have approved said assignment in writing; (ii) the assignee shall have expressly assumed in writing the full and faithful observance and performance of the Borrower's duties, covenants, obligations and agreements under this Loan Agreement and, to the extent permitted under applicable law, the Borrower Bond; (iii) immediately after such assignment, the assignee shall not be in default in the observance or performance of any duties, covenants, obligations or agreements of the Borrower under this Loan Agreement or the Borrower Bond; and (iv) the Trust shall have received an opinion of Bond Counsel to the effect that such assignment will not adversely affect the security of the holders of the Trust Bonds or the exclusion of the interest on the Trust Bonds from gross income for purposes of federal income taxation under Section 103(a) of the Code.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.01. Events of Default. If any of the following events occur, it is hereby defined as and declared to be and to constitute an "Event of Default":

- (a) failure by the Borrower to pay, or cause to be paid, any Trust Bond Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;
- (b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;
- (c) failure by the Borrower to pay, or cause to be paid, the Administrative Fee or any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d)(ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the Trustee may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;
- (d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;
- (e) a petition is filed by or against the Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or trustee) of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;
- (f) the Borrower shall generally fail to pay its debts as such debts become due; and

(g) failure of the Borrower to observe or perform such additional duties, covenants, obligations, agreements or conditions as are required by the Trust and specified in Exhibit F attached hereto and made a part hereof.

SECTION 5.02. Notice of Default. The Borrower shall give the Trustee and the Trust prompt telephonic notice of the occurrence of any Event of Default referred to in Section 5.01(d) or (e) hereof and of the occurrence of any other event or condition that constitutes an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

SECTION 5.03. Remedies on Default. Whenever an Event of Default referred to in Section 5.01 hereof shall have occurred and be continuing, the Borrower acknowledges the rights of the Trustee and of any Bond Insurer to direct any and all remedies in accordance with the terms of the Bond Resolution, and the Borrower also acknowledges that the Trust shall have the right to take, or to direct the Trustee to take, any action permitted or required pursuant to the Bond Resolution and to take whatever other action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce the observance and performance of any duty, covenant, obligation or agreement of the Borrower hereunder.

In addition, if an Event of Default referred to in Section 5.01(a) hereof shall have occurred and be continuing, the Trust shall, to the extent allowed by applicable law and to the extent and in the manner set forth in the Bond Resolution, have the right to declare, or to direct the Trustee to declare, all Loan Repayments and all other amounts due hereunder (including, without limitation, payments under the Borrower Bond) together with the prepayment premium, if any, calculated pursuant to Section 3.07 hereof to be immediately due and payable, and upon notice to the Borrower the same shall become due and payable without further notice or demand.

SECTION 5.04. Attorneys' Fees and Other Expenses. The Borrower shall on demand pay to the Trust or the Trustee the reasonable fees and expenses of attorneys and other reasonable expenses (including, without limitation, the reasonably allocated costs of in-house counsel and legal staff) incurred by either of them in the collection of Trust Bond Loan Repayments or any other sum due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

SECTION 5.05. Application of Moneys. Any moneys collected by the Trust or the Trustee pursuant to Section 5.03 hereof shall be applied (a) *first* to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 5.04 hereof, (b) *second*, to the extent available, to pay the Interest Portion then due and payable, (c) *third*, to the extent available, to pay the principal due and payable on the Loan, (d) *fourth*, to the extent available, to pay the Administrative Fee, any late charges incurred hereunder or any other amounts due and payable under this Loan Agreement, and (e) *fifth*, to the extent available, to pay the Interest Portion and the principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

SECTION 5.06. No Remedy Exclusive; Waiver; Notice. No remedy herein conferred upon or reserved to the Trust or the Trustee is intended to be exclusive, and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trust or the Trustee to exercise any remedy reserved to it in this Article V, it shall not be necessary to give any notice other than such notice as may be required in this Article V.

SECTION 5.07. Retention of Trust's Rights. Notwithstanding any assignment or transfer of this Loan Agreement pursuant to the provisions hereof or of the Bond Resolution, or anything else to the contrary contained herein, the Trust shall have the right upon the occurrence of an Event of Default to take any action, including (without limitation) bringing an action against the Borrower at law or in equity, as the Trust may, in its discretion, deem necessary to enforce the obligations of the Borrower to the Trust pursuant to Section 5.03 hereof.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified in Exhibit A-1 attached hereto and made a part hereof and to the Trust and the Trustee at the following addresses:

(a) Trust:

New Jersey Environmental Infrastructure Trust
P.O. Box 440
Trenton, New Jersey 08625
Attention: Executive Director

(b) Trustee:

U.S. Bank National Association
21 South Street, 3rd Floor
Morristown, New Jersey 07960
Attention: Corporate Trust Department

Any of the foregoing parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent by notice in writing given to the others.

SECTION 6.02. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Trust and the Borrower and their respective successors and assigns.

SECTION 6.03. Severability. In the event any provision of this Loan Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

SECTION 6.04. Amendments, Supplements and Modifications. Except as otherwise provided in this Section 6.04, this Loan Agreement may not be amended, supplemented or modified without the prior written consent of the Trust and the Borrower and without the satisfaction of all conditions set forth in Section 11.12 of the Bond Resolution. Notwithstanding the conditions set forth in Section 11.12 of the Bond Resolution, (i) Section 2.02(p) hereof may be amended, supplemented or modified upon the written consent of the Trust and the Borrower and without the consent of the Trustee, any Bond Insurer or any holders of the Trust Bonds, and (ii) Exhibit H hereto may be amended, supplemented or modified prior to the execution and delivery thereof as the Trust, in its sole discretion, shall determine to be necessary, desirable or convenient for the purpose of satisfying Rule 15c2-12 and the purpose and intent thereof as Rule 15c2-12, its purpose and intent may hereafter be interpreted from time to time by the SEC or any

court of competent jurisdiction, and such amendment, supplement or modification shall not require the consent of the Borrower, the Trustee, any Bond Insurer or any holders of the Trust Bonds.

SECTION 6.05. Execution in Counterparts. This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 6.06. Applicable Law and Regulations. This Loan Agreement shall be governed by and construed in accordance with the laws of the State, including the Act and the Regulations, which Regulations are, by this reference thereto, incorporated herein as part of this Loan Agreement.

SECTION 6.07. Consents and Approvals. Whenever the written consent or approval of the Trust shall be required under the provisions of this Loan Agreement, such consent or approval may only be given by the Trust unless otherwise provided by law or by rules, regulations or resolutions of the Trust or unless expressly delegated to the Trustee and except as otherwise provided in Section 6.09 hereof.

SECTION 6.08. Captions. The captions or headings in this Loan Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Loan Agreement.

SECTION 6.09. Benefit of Loan Agreement; Compliance with Bond Resolution. This Loan Agreement is executed, among other reasons, to induce the purchase of the Trust Bonds. Accordingly, all duties, covenants, obligations and agreements of the Borrower herein contained are hereby declared to be for the benefit of and are enforceable by the Trust, the holders of the Trust Bonds and the Trustee. The Borrower covenants and agrees to observe and comply with, and to enable the Trust to observe and comply with, all duties, covenants, obligations and agreements contained in the Bond Resolution.

SECTION 6.10. Further Assurances. The Borrower shall, at the request of the Trust, authorize, execute, attest, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights, security interests and agreements granted or intended to be granted by this Loan Agreement and the Borrower Bond.

IN WITNESS WHEREOF, the Trust and the Borrower have caused this Loan Agreement to be executed, sealed and delivered as of the date first above written.

**NEW JERSEY ENVIRONMENTAL
INFRASTRUCTURE TRUST**

[SEAL]

ATTEST:

/s/ Robert A. Briant, Sr.
Robert A. Briant, Sr.
Chairman

/s/ Eileen Swan
Eileen Swan
Secretary

[SEAL]

ATTEST:

MIDDLESEX WATER COMPANY

/s/ Dennis W. Doll
Dennis W. Doll
Authorized Officer

/s/ Kenneth J. Quinn
Kenneth J. Quinn
Authorized Officer

Middlesex Water Company

Subsidiaries

**Jurisdiction of
Organization**

Tidewater Utilities, Inc.	Delaware
Tidewater Environmental Services, Inc.	Delaware
Pinelands Water Company	New Jersey
Pinelands Wastewater Company	New Jersey
Utility Service Affiliates (Perth Amboy) Inc.	New Jersey
Utility Service Affiliates, Inc.	New Jersey

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 33-11717) of Middlesex Water Company of our reports dated March 13, 2007, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appear in this Form 10-K.

/s/ Beard Miller Company LLP
Beard Miller Company LLP
Reading, Pennsylvania
March 13, 2007

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 33-11717 on Form S-3 of our report dated March 16, 2006, relating to the consolidated financial statements of Middlesex Water Company, appearing in this Annual Report on Form 10-K of Middlesex Water Company for the year ended December 31, 2006.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
March 13, 2007

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

I, Dennis W. Doll, certify that:

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

/s/ Dennis W. Doll

Dennis W. Doll
Chief Executive Officer

Date: March 13, 2007

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

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

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

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

Date: March 13, 2007

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

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

/s/ Dennis W. Doll

Dennis W. Doll
Chief Executive Officer

Date: March 13, 2007

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

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

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

/s/ A. Bruce O'Connor

A. Bruce O'Connor
Chief Financial Officer

Date: March 13, 2007

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