

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2013**

OR

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

For the transition period from _____ to _____

Commission File Number 0-422

MIDDLESEX WATER COMPANY

(Exact name of registrant as specified in its charter)

New Jersey
(State of incorporation)

22-1114430
(IRS employer identification no.)

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

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

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

The number of shares outstanding of each of the registrant's classes of common stock, as of July 31, 2013: Common Stock, No Par Value: 15,847,729 shares outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues	\$ 29,102	\$ 27,401	\$ 56,140	\$ 50,947
Operating Expenses:				
Operations and Maintenance	15,148	14,765	30,578	29,140
Depreciation	2,725	2,582	5,434	5,130
Other Taxes	3,058	2,844	6,092	5,590
Total Operating Expenses	20,931	20,191	42,104	39,860
Operating Income	8,171	7,210	14,036	11,087
Other Income (Expense):				
Allowance for Funds Used During Construction	89	137	127	273
Other Income	—	125	97	317
Other Expense	(11)	(11)	(21)	(151)
Total Other Income, net	78	251	203	439
Interest Charges	1,538	1,779	2,693	3,133
Income before Income Taxes	6,711	5,682	11,546	8,393
Income Taxes	2,230	1,957	3,888	2,861
Net Income	4,481	3,725	7,658	5,532
Preferred Stock Dividend Requirements	51	51	103	103
Earnings Applicable to Common Stock	\$ 4,430	\$ 3,674	\$ 7,555	\$ 5,429
Earnings per share of Common Stock:				
Basic	\$ 0.28	\$ 0.23	\$ 0.48	\$ 0.35
Diluted	\$ 0.28	\$ 0.23	\$ 0.47	\$ 0.35
Average Number of Common Shares Outstanding :				
Basic	15,829	15,716	15,818	15,704
Diluted	16,092	15,979	16,081	15,967
Cash Dividends Paid per Common Share	\$ 0.1875	\$ 0.1850	\$ 0.3750	\$ 0.3700

See Notes to Condensed Consolidated Financial Statements.

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

ASSETS		June 30,	December 31,
		2013	2012
UTILITY PLANT:	Water Production	\$ 130,503	\$ 129,840
	Transmission and Distribution	346,973	343,074
	General	55,433	54,830
	Construction Work in Progress	12,780	7,834
	TOTAL	545,689	535,578
	Less Accumulated Depreciation	104,884	100,360
	UTILITY PLANT - NET	440,805	435,218
CURRENT ASSETS:	Cash and Cash Equivalents	2,992	3,025
	Accounts Receivable, net	11,558	12,447
	Unbilled Revenues	6,731	5,483
	Materials and Supplies (at average cost)	2,104	1,403
	Prepayments	2,734	2,255
	TOTAL CURRENT ASSETS	26,119	24,613
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	3,596	3,606
	Preliminary Survey and Investigation Charges	5,024	5,117
	Regulatory Assets	59,455	72,831
	Operations Contracts, Developer and Other Receivables	598	992
	Restricted Cash	5,362	9,019
	Non-utility Assets - Net	11,076	9,882
	Other	390	448
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	85,501	101,895
	TOTAL ASSETS	\$ 552,425	\$ 561,726
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION:	Common Stock, No Par Value	\$ 144,724	\$ 143,572
	Retained Earnings	39,685	38,060
	TOTAL COMMON EQUITY	184,409	181,632
	Preferred Stock	3,353	3,353
	Long-term Debt	133,504	131,467
	TOTAL CAPITALIZATION	321,266	316,452
CURRENT LIABILITIES:	Current Portion of Long-term Debt	5,285	11,130
	Notes Payable	27,950	27,950
	Accounts Payable	5,133	3,808
	Accrued Taxes	9,796	9,266
	Accrued Interest	1,144	955
	Unearned Revenues and Advanced Service Fees	759	756
	Other	1,950	2,067
	TOTAL CURRENT LIABILITIES	52,017	55,932
COMMITMENTS AND CONTINGENT LIABILITIES (Note 7)			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	21,944	21,990
	Accumulated Deferred Investment Tax Credits	1,028	1,068
	Accumulated Deferred Income Taxes	40,920	41,776
	Employee Benefit Plans	44,288	54,768
	Regulatory Liability - Cost of Utility Plant Removal	9,230	8,811
	Other	991	973
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	118,401	129,386
CONTRIBUTIONS IN AID OF CONSTRUCTION		60,741	59,956
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 552,425	\$ 561,726

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 7,658	\$ 5,532
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	5,705	5,489
Provision for Deferred Income Taxes and Investment Tax Credits	1,075	990
Equity Portion of Allowance for Funds Used During Construction (AFUDC)	(82)	(170)
Cash Surrender Value of Life Insurance	(112)	(90)
Stock Compensation Expense	269	372
Changes in Assets and Liabilities:		
Receivables	1,283	4,201
Unbilled Revenues	(1,248)	(1,351)
Materials & Supplies	(701)	(18)
Prepayments	(479)	(620)
Accounts Payable	1,325	(909)
Accrued Taxes	530	1,405
Accrued Interest	189	(6)
Employee Benefit Plans	767	1,846
Unearned Revenue & Advanced Service Fees	3	9
Other Assets and Liabilities	14	(867)
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,196	15,813
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures, Including AFUDC of \$45 in 2013, \$103 in 2012	(10,222)	(12,574)
Restricted Cash	(2,630)	(2,578)
Investment in Joint Venture	(1,005)	(500)
NET CASH USED IN INVESTING ACTIVITIES	(13,857)	(15,652)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(7,724)	(1,590)
Proceeds from Issuance of Long-term Debt	3,987	4,929
Net Short-term Bank Borrowings	—	1,000
Deferred Debt Issuance Expense	—	(22)
Restricted Cash	6,070	—
Proceeds from Issuance of Common Stock	883	788
Payment of Common Dividends	(5,930)	(5,809)
Payment of Preferred Dividends	(103)	(103)
Construction Advances and Contributions-Net	445	267
NET CASH USED IN FINANCING ACTIVITIES	(2,372)	(540)
NET CHANGES IN CASH AND CASH EQUIVALENTS	(33)	(379)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,025	3,106
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,992	\$ 2,727
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:		
Utility Plant received as Construction Advances and Contributions	\$ 291	\$ 453
Long-term Debt Deobligation	\$ 64	\$ —
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 2,627	\$ 3,208
Interest Capitalized	\$ 45	\$ 103
Income Taxes	\$ 3,190	\$ 774

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2013	December 31, 2012
Common Stock, No Par Value		
Shares Authorized - 40,000		
Shares Outstanding - 2013 - 15,844	\$ 144,724	\$ 143,572
2012 - 15,795		
Retained Earnings		
	39,685	38,060
TOTAL COMMON EQUITY	\$ 184,409	\$ 181,632
Cumulative Preferred Stock, No Par Value:		
Shares Authorized - 134		
Shares Outstanding - 32		
Convertible:		
Shares Outstanding, \$7.00 Series - 14	1,457	1,457
Shares Outstanding, \$8.00 Series - 7	816	816
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1	80	80
Shares Outstanding, \$4.75 Series - 10	1,000	1,000
TOTAL PREFERRED STOCK	\$ 3,353	\$ 3,353
Long-term Debt:		
8.05%, Amortizing Secured Note, due December 20, 2021	\$ 2,089	\$ 2,169
6.25%, Amortizing Secured Note, due May 19, 2028	6,265	6,475
6.44%, Amortizing Secured Note, due August 25, 2030	4,807	4,947
6.46%, Amortizing Secured Note, due September 19, 2031	5,087	5,227
4.22%, State Revolving Trust Note, due December 31, 2022	486	506
3.30% to 3.60%, State Revolving Trust Note, due May 1, 2025	3,305	3,413
3.49%, State Revolving Trust Note, due January 25, 2027	586	602
4.03%, State Revolving Trust Note, due December 1, 2026	763	784
4.00% to 5.00%, State Revolving Trust Bond, due August 1, 2021	388	388
0.00%, State Revolving Fund Bond, due August 1, 2021	313	320
3.64%, State Revolving Trust Note, due July 1, 2028	339	347
3.64%, State Revolving Trust Note, due January 1, 2028	113	116
3.45%, State Revolving Trust Note, due August 1, 2031	409	397
6.59%, Amortizing Secured Note, due April 20, 2029	5,523	5,697
7.05%, Amortizing Secured Note, due January 20, 2030	4,146	4,271
5.69%, Amortizing Secured Note, due January 20, 2030	8,504	8,761
3.75%, State Revolving Trust Note, due July 1, 2031	2,565	2,615
3.75%, State Revolving Trust Note, due November 30, 2030	1,361	1,388
First Mortgage Bonds:		
0.00%, Series X, due September 1, 2018	316	322
4.25% to 4.63%, Series Y, due September 1, 2018	355	355
0.00%, Series Z, due September 1, 2019	766	782
5.25% to 5.75%, Series AA, due September 1, 2019	955	955
0.00%, Series BB, due September 1, 2021	1,064	1,085
4.00% to 5.00%, Series CC, due September 1, 2021	1,275	1,275
5.10%, Series DD, due January 1, 2032	—	6,000
0.00%, Series EE, due August 1, 2023	4,295	4,386
3.00% to 5.50%, Series FF, due August 1, 2024	5,755	5,755
0.00%, Series GG, due August 1, 2026	1,242	1,262
4.00% to 5.00%, Series HH, due August 1, 2026	1,560	1,560
0.00%, Series II, due August 1, 2024	1,038	1,060
3.40% to 5.00%, Series JJ, due August 1, 2027	1,235	1,235
0.00%, Series KK, due August 1, 2028	1,410	1,435
5.00% to 5.50%, Series LL, due August 1, 2028	1,570	1,570
0.00%, Series MM, due August 1, 2030	1,704	1,801
3.00% to 4.375%, Series NN, due August 1, 2030	1,910	1,910
0.00%, Series OO, due August 1, 2031	2,809	2,860
2.00% to 5.00%, Series PP, due August 1, 2031	915	915
5.00%, Series QQ, due October 1, 2023	9,915	9,915
3.80%, Series RR, due October 1, 2038	22,500	22,500
4.25%, Series SS, due October 1, 2047	23,000	23,000
0.00%, Series TT, due August 1, 2032	2,960	—
3.00% to 3.25%, Series UU, due August 1, 2032	1,015	—
SUBTOTAL LONG-TERM DEBT	136,613	140,361
Add: Premium on Issuance of Long-term Debt	2,176	2,236

Less: Current Portion of Long-term Debt

(5,285)

(11,130)

TOTAL LONG-TERM DEBT

\$

133,504

\$

131,467

See Notes to Condensed Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation and Recent Developments

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

The consolidated notes within the 2012 Annual Report on Form 10-K (the 2012 Form 10-K) are applicable to these financial statements and, in the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary (including normal recurring accruals) to present fairly the financial position as of June 30, 2013 and the results of operations and cash flows for the three and six month periods ended June 30, 2013, and 2012. Information included in the Condensed Consolidated Balance Sheet as of December 31, 2012, has been derived from the Company's audited financial statements for the year ended December 31, 2012 included in the 2012 Form 10-K. Certain reclassifications have been made to prior year financial statements to conform with current year presentation.

Borough of Sayreville, New Jersey and Hess Corporation

Middlesex has received notification from the Borough of Sayreville, New Jersey (Sayreville), one of Middlesex's wholesale contract customers, that Sayreville will not be renewing its contract for the purchase of water from Middlesex. In accordance with the terms, this contract will remain in effect through August 12, 2013. Gross operating revenues from water sales to Sayreville amounted to \$1.9 million in 2012. In addition, Hess Corporation (Hess), Middlesex's largest retail water customer, ceased its oil refining operations at its Port Reading, New Jersey facility in February 2013. Revenues from Hess amounted to \$2.6 million in 2012. Revenue reductions from either of these customers may accelerate the need for Middlesex to file a base rate increase petition with the New Jersey Board of Public Utilities (NJBPUB).

Recent Accounting Guidance

In the second quarter of 2013, there was no new adopted or proposed accounting guidance that could have a material impact on the Company's financial statements.

Note 2 – Rate Matters

Middlesex – In June 2013, the NJBPUB approved a Middlesex Petition to defer approximately \$0.4 million of costs of Superstorm Sandy related costs. These costs include labor, outside contractor costs, fuel, generator rental and other directly related expenses resulting from storm damage mitigation, repair, clean-up and restoration activities. Middlesex has submitted claims for these costs through its insurance carrier. Middlesex will seek recovery of any Superstorm Sandy related costs not recovered through insurance in its next base rate increase proceeding. Middlesex cannot predict the timing of or whether these costs, if any, will be recovered through insurance or in its next base rate proceeding.

In April 2013, the NJBPUB approved a Middlesex Petition to establish a Purchased Water Adjustment Clause and implement a tariff rate sufficient to recover increased costs of \$0.1 million to purchase untreated water from the New Jersey Water Supply Authority (NJWSA) and treated water from a non-affiliated regulated water utility.

In November 2012, Middlesex filed a Petition with the NJBPU seeking approval of foundational information (Foundational Filing) that would allow for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC is a rate-mechanism that allows water utilities to recover investment in capital improvements to their water distribution system made between base rate proceedings. In February 2013, the Foundational Filing was approved by the NJBPU, which allows Middlesex to implement a DSIC rate in September 2013 to recover costs for qualifying projects that are placed in service in the six-month post-approval period. The DSIC rate is allowed to increase in three subsequent six month periods for any additional qualifying projects placed in service during those time periods. The maximum annual revenue allowed to be recovered under the approved Foundational Filing is \$1.4 million.

Pinelands - In March 2013, the NJBPU approved a combined \$0.2 million increase in Pinelands Water and Pinelands Wastewater's annual base revenues. In its initial request, filed in August 2012, Pinelands had sought an increase of \$0.3 million on a combined basis. The rate increase for the water service, which is approximately 50% of the approved increase, will be phased-in over one year.

TESI – In November 2012, TESI filed an application with the Delaware Public Service Commission (DEPSC) seeking approval to purchase all of the utility assets of the 600 customer wastewater system serving the residents of the Plantations development (the Plantations) in Rehoboth Beach, Delaware. The application also requests the transfer of the wastewater franchise from the current owner to TESI. In connection with this transaction, TESI also filed an application with DEPSC seeking an approximate \$0.1 million increase in the Plantations' residents base wastewater rates. TESI's willingness to purchase the Plantations' wastewater system is contingent upon several requirements being met to TESI's satisfaction, including, among other things, the DEPSC's approval of the sale and transfer application as well as a rate decision by the DEPSC that provides TESI a reasonable opportunity to earn its authorized return from the date of acquisition. In June 2013, a settlement agreement executed by TESI, the DEPSC Staff and the Delaware Department of the Public Advocate was submitted to a DEPSC-appointed Hearing Examiner as part of an evidentiary hearing. The homeowners association of the Plantations elected not to execute the settlement agreement and submitted objections to the Hearing Examiner. We cannot predict whether the DEPSC will ultimately approve or deny the settlement agreement. A decision by the DEPSC is not expected until the middle of the third quarter of 2013.

Note 3 – Capitalization

Common Stock

During the six months ended June 30, 2013 and 2012, there were 45,378 common shares (approximately \$0.9 million) and 42,472 common shares (approximately \$0.8 million), respectively, issued under the Company's Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan.

The Company maintains a stock plan for its non-management directors (Outside Director Stock Compensation Plan). In May 2013 and May 2012, the Company granted and issued 5,432 (approximately \$0.1 million) and 5,768 shares (approximately \$0.1 million) of common stock, respectively, to the non-management directors under the Outside Director Stock Compensation Plan.

Long-term Debt

In May 2013, Middlesex borrowed \$4.0 million through the New Jersey Environmental Infrastructure Trust under the New Jersey State Revolving Fund (SRF) loan program and issued first mortgage bonds designated as Series TT (\$3.0 million) and Series UU (\$1.0 million). The interest rate on the Series TT bond is zero and the interest rate on the Series UU bond ranges from 3.0% to 3.25% depending on the serial maturity date. The final maturity date for both bonds is August 1, 2032. Proceeds were recorded as Restricted Cash and may only be used for the Middlesex 2013 RENEW project, which is part of a program to clean and cement all unlined mains in the Middlesex system.

Fair Value of Financial Instruments

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

	(Thousands of Dollars)			
	June 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$ 89,565	\$ 84,195	\$ 91,938	\$ 93,556
SRF Bonds	\$ 701	\$ 704	\$ 708	\$ 712

For other long-term debt for which there was no quoted market price and there is not an active trading market, it was not practicable to estimate their fair value (for details, including carrying value, interest rate and due date on these series of long-term debt, please refer to those series noted as "Amortizing Secured Note" and "State Revolving Trust Note" on the Condensed Consolidated Statements of Capital Stock and Long-Term Debt). The carrying amount of these instruments was \$46.3 million at June 30, 2013 and \$47.7 million at December 31, 2012. Customer advances for construction have a carrying amount of \$21.9 million and \$22.0 million, respectively, at June 30, 2013 and December 31, 2012. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 4 – Earnings Per Share

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

	(In Thousands Except per Share Amounts)			
	Three Months Ended June 30,			
	2013		2012	
Basic:	Income	Shares	Income	Shares
Net Income	\$ 4,481	15,829	\$ 3,725	15,716
Preferred Dividend	(51)		(51)	
Earnings Applicable to Common Stock	\$ 4,430	15,829	\$ 3,674	15,716
Basic EPS	\$ 0.28		\$ 0.23	
Diluted:				
Earnings Applicable to Common Stock	\$ 4,430	15,829	\$ 3,674	15,716
\$7.00 Series Preferred Dividend	24	167	24	167
\$8.00 Series Preferred Dividend	14	96	14	96
Adjusted Earnings Applicable to Common Stock	\$ 4,468	16,092	\$ 3,712	15,979
Diluted EPS	\$ 0.28		\$ 0.23	

(In Thousands Except per Share Amounts)
Six Months Ended June 30,

	2013		2012	
	Income	Shares	Income	Shares
Basic:				
Net Income	\$ 7,658	15,818	\$ 5,532	15,704
Preferred Dividend	(103)		(103)	
Earnings Applicable to Common Stock	\$ 7,555	15,818	\$ 5,429	15,704
Basic EPS	\$ 0.48		\$ 0.35	
Diluted:				
Earnings Applicable to Common Stock	\$ 7,555	15,818	\$ 5,429	15,704
\$7.00 Series Preferred Dividend	49	167	49	167
\$8.00 Series Preferred Dividend	28	96	28	96
Adjusted Earnings Applicable to Common Stock	\$ 7,632	16,081	\$ 5,506	15,967
Diluted EPS	\$ 0.47		\$ 0.35	

Note 5 – Business Segment Data

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

	(In Thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
Operations by Segments:	2013	2012	2013	2012
Revenues:				
Regulated	\$ 25,637	\$ 24,442	\$ 49,061	\$ 45,300
Non – Regulated	3,580	3,089	7,316	5,847
Inter-segment Elimination	(115)	(130)	(237)	(200)
Consolidated Revenues	\$ 29,102	\$ 27,401	\$ 56,140	\$ 50,947
Operating Income:				
Regulated	\$ 7,678	\$ 6,878	\$ 13,016	\$ 10,381
Non – Regulated	493	332	1,020	706
Consolidated Operating Income	\$ 8,171	\$ 7,210	\$ 14,036	\$ 11,087
Net Income:				
Regulated	\$ 4,235	\$ 3,557	\$ 7,145	\$ 5,144
Non – Regulated	246	168	513	388
Consolidated Net Income	\$ 4,481	\$ 3,725	\$ 7,658	\$ 5,532
Capital Expenditures:				
Regulated	\$ 5,703	\$ 6,296	\$ 10,104	\$ 12,335
Non – Regulated	13	140	118	239
Total Capital Expenditures	\$ 5,716	\$ 6,436	\$ 10,222	\$ 12,574
	As of June 30, 2013	As of December 31, 2012		
Assets:				
Regulated	\$ 551,039	\$ 560,165		
Non – Regulated	11,444	11,674		
Inter-segment Elimination	(10,058)	(10,113)		
Consolidated Assets	\$ 552,425	\$ 561,726		

Note 6 – Short-term Borrowings

As of June 30, 2013, the Company has established lines of credit aggregating \$60.0 million. At June 30, 2013, the outstanding borrowings under these credit lines were \$28.0 million at a weighted average interest rate of 1.27%.

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

	(In Thousands)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Average Daily Amounts Outstanding	\$ 25,873	\$ 24,635	\$ 26,895	\$ 24,102
Weighted Average Interest Rates	1.34%	1.38%	1.37%	1.35%

The maturity dates for the \$28 million outstanding as of June 30, 2013 are all in July 2013 and are extendable at the discretion of the Company.

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

Note 7 – Commitments and Contingent Liabilities

Contract Operations

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

Water Supply

Middlesex has an agreement with the 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, 2016, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

	(In Thousands)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Treated	\$ 762	\$ 775	\$ 1,523	\$ 1,494
Untreated	515	516	1,121	1,128
Total Costs	\$ 1,277	\$ 1,291	\$ 2,644	\$ 2,622

Construction

The Company expects to spend approximately \$21.9 million on its construction program in 2013. The actual amount and timing of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain projects.

Litigation

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

Change in Control Agreements

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

Note 8 – Employee Benefit Plans

Pension Benefits

The Company's Pension Plan covers substantially all employees hired prior to March 31, 2007. Employees hired after March 31, 2007 are not eligible to participate in this plan, but do participate in a defined contribution plan that provides an annual contribution into a self-directed retirement account at the discretion of the Company, based upon a percentage of the participants' compensation. In order to be eligible for contribution, the participating employee must be employed by the Company on December 31st of the year to which the award relates. For the three months ended June 30, 2013 and 2012, the Company did not make any Pension Plan cash contributions. For the six months ended June 30, 2013 and 2012, the Company made Pension Plan cash contributions of \$0.6 and \$0.8 million, respectively. The Company expects to make additional Pension Plan cash contributions of approximately \$2.7 million over the remainder of the current year. The Company also maintains an unfunded supplemental retirement benefit plan for certain active and retired Company officers and currently pays \$0.3 million in annual benefits to the retired participants.

Other Postretirement Benefits

The Company's postretirement plan other than pensions (Other Benefits Plan) covers 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. Effective January 1, 2013, the Company has amended a provision of the Other Benefits Plan increasing the level of retiree contributions required towards the insurance premiums. Eligible employees retiring in 2013 and beyond will contribute a higher percentage towards their healthcare premiums. The amendment resulted in a \$10.2 million decrease in the Company's Employee Benefit Plans' Liability, and related Regulatory Asset, as of January 1, 2013. For the three months ended June 30, 2013 and 2012, the Company did not make any Other Benefits Plan cash contributions. For the six months ended June 30, 2013 and 2012, the Company made Other Benefits Plan cash contributions of \$0.7 million and \$0.8 million, respectively. The Company expects to make additional Other Benefits Plan cash contributions of approximately \$1.5 million over the remainder of the current year.

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

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Three Months Ended June 30,			
	2013	2012	2013	2012
Service Cost	\$ 575	\$ 549	\$ 335	\$ 446
Interest Cost	617	604	398	467
Expected Return on Assets	(723)	(614)	(405)	(315)
Amortization of Unrecognized Losses	408	388	517	442
Amortization of Unrecognized Prior Service Cost	3	3	(432)	—
Amortization of Transition Obligation	—	—	—	34
Net Periodic Benefit Cost	\$ 880	\$ 930	\$ 413	\$ 1,074

	(In Thousands)			
	Pension Benefits		Other Benefits	
	Six Months Ended June 30,			
	2013	2012	2013	2012
Service Cost	\$ 1,150	\$ 1,099	\$ 669	\$ 892
Interest Cost	1,234	1,208	797	934
Expected Return on Assets	(1,447)	(1,229)	(811)	(629)
Amortization of Unrecognized Losses	816	775	1,033	883
Amortization of Unrecognized Prior Service Cost	5	5	(864)	—
Amortization of Transition Obligation	—	—	—	68
Net Periodic Benefit Cost	\$ 1,758	\$ 1,858	\$ 824	\$ 2,148

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

The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of Middlesex Water Company (Middlesex or the Company) included elsewhere herein and with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Forward-Looking Statements

Certain statements contained in this periodic report and in the documents incorporated by reference constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The Company intends that these statements be covered by the safe harbors created under those laws. 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, including the recovery of certain costs recorded as regulatory assets;
- statements as to the Company's expected liquidity needs during the upcoming fiscal year and beyond and statements as to the sources and availability of funds to meet its liquidity needs;
- statements as to expected customer rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- statements as to financial projections;
- statements as to the expected amount of cash contributions to fund the Company's retirement benefit plans, anticipated discount rates and rates of return on retirement benefit plan assets;
- statements as to the ability of the Company to pay dividends;
- 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 the Company's plans to renew municipal franchises and consents in the territories it serves;
- 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 rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- the existence of financially attractive acquisition candidates and the risks involved in pursuing those acquisitions;
- acts of war or terrorism;
- significant changes in the pace of housing development in Delaware;
- the availability and cost of capital resources;
- the ability to translate Preliminary Survey & Investigation charges into viable projects; and
- other factors discussed elsewhere in this quarterly report.

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

For an additional discussion of factors that may affect the Company's business and results of operations, see Item 1A. - Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Overview

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

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 60,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 300,000. We also have an investment in a joint venture, Ridgewood Green RME, LLC, that is constructing, and will own and operate, facilities to optimize the production of electricity at the Village of Ridgewood, New Jersey wastewater treatment plant and other municipal facilities (full operation of the facilities is expected to begin in the third quarter of 2013). In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey (Perth Amboy). Our Bayview subsidiary provides water services in Downe Township, New Jersey. Our other New Jersey subsidiaries, Pinelands Water Company (Pinelands Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), provide water and wastewater services to residents in Southampton Township, New Jersey.

USA offers residential customers in New Jersey and Delaware water service line and sewer lateral maintenance programs (LineCare). USA entered into a marketing agreement (the Agreement), expiring in 2021, with HomeServe USA (HomeServe), a leading provider of home maintenance service programs to service, develop and grow USA's LineCare customer base. USA receives a service fee for the billing, cash collection and other administrative matters associated with HomeServe's service contracts. On July 1, 2012, USA began service to the Borough of Avalon, New Jersey (Avalon) under a ten-year operations and maintenance contract for the Avalon water utility, sewer utility and storm water system. In addition to performing the day to day operations, USA is responsible for billing, collections, customer service, emergency responses and management of capital projects funded by Avalon.

Our Delaware subsidiaries, Tidewater and Southern Shores Water Company, LLC (Southern Shores), provide water services to approximately 37,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Tidewater's subsidiary, White Marsh, services an additional 4,600 customers in Kent and Sussex Counties through various operations and maintenance contracts.

Our Tidewater Environmental Services, Inc. (TESI) subsidiary provides wastewater services to approximately 2,400 retail customers. We expect our regulated wastewater operations in Delaware will continue to become a more significant component of our operations.

Our Pennsylvania subsidiary, Twin Lakes, provides water services to approximately 100 retail customers in the Township of Shohola, Pike County, Pennsylvania.

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

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

Recent Developments

Rate Matters

Middlesex - In June 2013, the New Jersey Board of Public Utilities (NJBPU) approved a Middlesex Petition to defer approximately \$0.4 million of costs of Superstorm Sandy related costs. These costs include labor, outside contractor costs, fuel, generator rental and other directly related expenses resulting from storm damage mitigation, repair, clean-up and restoration activities. Middlesex has submitted claims for these costs through its insurance carrier. Middlesex will seek recovery of any Superstorm Sandy related costs not recovered through insurance in its next base rate increase proceeding. Middlesex cannot predict the timing of or whether these costs, if any, will be recovered through insurance or in its next base rate proceeding.

In April 2013, the NJBPU approved a Middlesex Petition to establish a Purchased Water Adjustment Clause (PWAC) and implement a tariff rate sufficient to recover increased costs of \$0.1 million to purchase untreated water from the New Jersey Water Supply Authority and treated water from a non-affiliated regulated water utility.

In November 2012, Middlesex filed a Petition with the NJBPU seeking approval of foundational information (Foundational Filing) that would allow for the implementation of a Distribution System Improvement Charge (DSIC). A DSIC is a rate-mechanism that allows water utilities to recover investment in capital improvements to their water distribution system made between base rate proceedings. In February 2013, the Foundational Filing was approved by the NJBPU, which allows Middlesex to implement a DSIC rate in September 2013 to recover costs for qualifying projects that are placed in service in the six-month post-approval period. The DSIC rate is allowed to increase in three subsequent six month periods for any additional qualifying projects placed in service during those time periods. The maximum annual revenues allowed to be recovered under the approved Foundational Filing is \$1.4 million.

Pinelands - In March 2013, the NJBPU approved a combined \$0.2 million increase in Pinelands Water and Pinelands Wastewater's annual base revenues. In its initial request, filed in August 2012, Pinelands had sought an increase of \$0.3 million on a combined basis. The rate increase for the water service, which is approximately 50% of the approved increase, will be phased-in over one year.

TESI - In November 2012, TESI filed an application with the Delaware Public Service Commission (DEPSC) seeking approval to purchase all of the utility assets of the 600 customer wastewater system serving the residents of the Plantations development (the Plantations) in Rehoboth Beach, Delaware. The application also requests the transfer of the wastewater franchise from the current owner to TESI. In connection with this transaction, TESI also filed an application with DEPSC seeking an approximate \$0.1 million increase in the Plantations' residents base wastewater rates. TESI's willingness to purchase the Plantations' wastewater system is contingent upon several requirements being met to TESI's satisfaction, including, among other things, the DEPSC's approval of the sale and transfer application as well as a rate decision by the DEPSC that provides TESI a reasonable opportunity to earn its authorized return from the date of acquisition. In June 2013, a settlement agreement executed by TESI, the DEPSC Staff and the Delaware Department of the Public Advocate was submitted to a DEPSC-appointed Hearing Examiner as part of an evidentiary hearing. The homeowners association of the Plantations elected not to execute the settlement agreement and submitted objections to the Hearing Examiner. We cannot predict whether the DEPSC will ultimately approve or deny the settlement agreement. A decision by the DEPSC is not expected until the middle of the third quarter of 2013.

Outlook

Revenues for 2013 are expected to be favorably impacted by the full year effect of approved 2012 and 2013 base rate increases for Middlesex, Tidewater, TESI, Southern Shores, Twin Lakes, Pinelands Water and Pinelands Wastewater. Also expected to contribute to additional revenues in 2013 are the Tidewater DSIC and the Middlesex PWAC and DSIC.

Middlesex has received notification from the Borough of Sayreville, New Jersey (Sayreville), one of Middlesex's wholesale contract customers, that Sayreville will not be renewing its contract for the purchase of water from Middlesex. In accordance with the terms, this contract will remain in effect through August 12, 2013. Gross operating revenues from water sales to Sayreville amounted to \$1.9 million in 2012. In addition, Hess Corporation (Hess), Middlesex's largest retail water customer, ceased its oil refining operations at its Port Reading, New Jersey facility in February 2013. Revenues from Hess amounted to \$2.6 million in 2012. Revenue reductions from either of these customers are expected to accelerate the need for Middlesex to file a base rate increase petition with the NJBPU in 2013.

Effective January 1, 2013, the Company has amended a provision of its postretirement medical plan (Other Benefits Plan) increasing the level of retiree contributions required towards the insurance premiums. Eligible employees retiring in 2013 and beyond will contribute a higher percentage towards their postretirement healthcare premiums. This amendment, combined with somewhat improved performance in 2012 on our investment of retirement plan funds, is expected to lower employee benefit plan expenses by approximately \$2.8 million in 2013, as compared to 2012. In addition, we expect our cash contributions to our Other Benefits Plan to decrease to \$2.2 million in 2013 from \$3.9 million in 2012. See Note 8 of the Notes to Unaudited Condensed Consolidated Financial Statements for further discussion of our Employee Benefit Plans.

Ongoing economic conditions continue to negatively impact our customers' water consumption, particularly the level of water usage by our commercial and industrial customers in our Middlesex system. We are unable to determine when these customers' water demands may fully return to previous levels, or if a reduced level of demand will continue indefinitely. We were given appropriate recognition for a portion of this decrease in customer consumption in Middlesex's July 2012 rate increase.

Revenues and earnings are influenced by weather. Recent levels of precipitation and unexpected weather patterns have negatively impacted usage by our water customers in New Jersey and Delaware. Changes in usage patterns, as well as increases in capital expenditures and operating costs, are the primary factors in determining the need for rate increase requests. We continue to implement plans to streamline operations and reduce operating costs.

As a result of ongoing challenging economic conditions impacting the pace of new residential home construction, there may be an increase in the amount of preliminary survey and investigation (PS&I) costs that will not be currently recoverable in rates. If it is determined that recovery is unlikely, the applicable PS&I costs will be charged against income in the period of determination.

Our strategy is focused on four key areas:

- Serve as a trusted and continually-improving provider of safe, reliable and cost-effective water, wastewater and related services;
- Provide a comprehensive suite of water and wastewater solutions in the continually-developing Delaware market that results in profitable growth;
- Pursue profitable growth in our core states of New Jersey and Delaware, as well as additional states; and
- Invest in products, services and other viable opportunities that complement our core competencies.

Operating Results by Segment

The discussion of the Company's operating results is on a consolidated basis and includes significant factors by subsidiary. The Company has two operating segments, Regulated and Non-Regulated.

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

Results of Operations – Three Months Ended June 30, 2013

	(In Thousands)					
	Three Months Ended June 30,					
	2013			2012		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 25,610	\$ 3,492	\$ 29,102	\$ 24,389	\$ 3,012	\$ 27,401
Operations and maintenance expenses	12,286	2,862	15,148	12,207	2,558	14,765
Depreciation expense	2,680	45	2,725	2,541	41	2,582
Other taxes	2,966	92	3,058	2,763	81	2,844
Operating income	7,678	493	8,171	6,878	332	7,210
Other income, net	78	—	78	235	16	251
Interest expense	1,514	24	1,538	1,754	25	1,779
Income taxes	2,007	223	2,230	1,802	155	1,957
Net income	\$ 4,235	\$ 246	\$ 4,481	\$ 3,557	\$ 168	\$ 3,725

Operating Revenues

Operating revenues for the three months ended June 30, 2013 increased \$1.7 million from the same period in 2012. This increase was primarily related to the following factors:

- Middlesex System revenues increased \$1.3 million due to:
 - Sales to General Metered Service (GMS) customers increased by \$0.8 million primarily due to the July 2012 base water rate increase partially offset by decreased GMS customer demand resulting from:
 - § greater than expected precipitation during the second quarter of 2013;
 - § Hess, Middlesex's largest GMS customer, ceasing its oil refining operations at its Port Reading, New Jersey facility in February 2013 (see discussion in "Outlook" section above);
 - Contract Sales to Municipalities increased by \$0.4 million, primarily due to the July 2012 base water rate increase and increased demand;
 - Operating revenues for all other categories increased \$0.1 million;

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- Tidewater System revenues decreased \$0.2 million, primarily due to lower customer demand resulting from greater than expected precipitation during the second quarter of 2013 partially offset by increased fees for new water customer connections and the June 2012 implementation of the final component of the base rate increase. Interim rates had been in effect since November 2011;
- USA's revenues increased \$0.4 million, primarily due to revenues earned under our contract to operate the Avalon water utility, sewer utility and storm water system, which commenced in July 2012;
- TESI's revenues increased \$0.1 million, primarily due to the June 2012 base rate increase; and
- All other subsidiaries revenues increased \$0.1 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the three months ended June 30, 2013 increased \$0.4 million from the same period in 2012. This increase was primarily related to the following factors:

- Labor costs increased \$0.4 million due to lower capitalized payroll, increased overtime expended on emergency repairs and higher average labor rates;
- Variable production costs increased \$0.3 million, primarily from higher water treatment costs due to increased precipitation during the second quarter of 2013;
- Water main break costs increased \$0.1 million, as we experienced a higher number of main breaks in 2013 as compared to 2012;
- Expenditures for USA's contract operations serving Avalon, commencing July 1, 2012, resulted in a \$0.1 million increase in labor costs and a \$0.2 million increase in direct costs for billable supplemental services;
- Employee benefit expenses increased \$0.1 million due primarily to lower capitalized benefits. These increases were completely offset by lower costs of \$0.6 million primarily due to the amendment of the Other Benefits Plan which increases contributions by future retirees; and
- All other operation and maintenance expense categories decreased \$0.2 million.

Depreciation

Depreciation expense for the three months ended June 30, 2013 increased \$0.1 million from the same period in 2012 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the three months ended June 30, 2013 increased \$0.2 million from the same period in 2012, primarily due to increased revenue related taxes on revenues in our Middlesex system.

Interest Charges

Interest charges for the three months ended June 30, 2013 decreased \$0.2 million from the same period in 2012, primarily due to lower average interest rates on long-term debt, resulting from Middlesex's refinancing of \$57.5 million of First Mortgage Bonds in the fourth quarter of 2012.

Other Income, net

Other Income, net for the three months ended June 30, 2013 decreased \$0.2 million from the same period in 2012, primarily due to lower Allowance for Funds Used During Construction, resulting from lower average construction work in progress balances, and lower rental income offset by increased earnings from investments.

Income Taxes

Income taxes for the three months ended June 30, 2013 increased \$0.3 million from the same period in 2012, due to increased operating income in 2013 as compared to 2012.

Net Income and Earnings Per Share

Net income for the three months ended June 30, 2013 increased \$0.8 million from the same period in 2012. Basic and diluted earnings per share increased to \$0.28 for the three months ended June 30, 2013, as compared to \$0.23 for the three months ended June 30, 2012.

Results of Operations – Six Months Ended June 30, 2013

	(In Thousands)					
	Six Months Ended June 30,					
	2013			2012		
	Regulated	Non-Regulated	Total	Regulated	Non-Regulated	Total
Revenues	\$ 49,002	\$ 7,138	\$ 56,140	\$ 45,230	\$ 5,717	\$ 50,947
Operations and maintenance expenses	24,733	5,845	30,578	24,363	4,777	29,140
Depreciation expense	5,344	90	5,434	5,053	77	5,130
Other taxes	5,909	183	6,092	5,433	157	5,590
Operating income	13,016	1,020	14,036	10,381	706	11,087
Other income, net	203	—	203	376	63	439
Interest expense	2,645	48	2,693	3,086	47	3,133
Income taxes	3,429	459	3,888	2,527	334	2,861
Net income	\$ 7,145	\$ 513	\$ 7,658	\$ 5,144	\$ 388	\$ 5,532

Operating Revenues

Operating revenues for the six months ended June 30, 2013 increased \$5.2 million from the same period in 2012. This increase was primarily related to the following factors:

- Middlesex System revenues increased \$3.2 million due to:
 - Sales to GMS customers increased by \$2.4 million primarily due to the July 2012 base water rate increase partially offset by decreased GMS customer demand resulting from:
 - § Greater than expected precipitation during the second quarter of 2013;
 - § Hess, Middlesex's largest GMS customer, ceasing its oil refining operations at its Port Reading, New Jersey facility in February 2013 (see discussion in "Outlook" section above);
 - Contract Sales to Municipalities increased by \$0.8 million, primarily due to the July 2012 base water rate increase and increased demand;
- Tidewater System revenues increased \$0.3 million, primarily due to increased fees for new water customer connections and the June 2012 implementation of the final component of the base rate increase partially offset by lower customer demand resulting from greater than expected precipitation during the second quarter of 2013;
- USA's revenues increased \$1.1 million, primarily due to revenues earned under our contract to operate the Avalon water utility, sewer utility and storm water system, which commenced in July 2012;
- USA-PA's revenues increased \$0.2 million, primarily from scheduled increases in the fixed fees paid under contract with the City of Perth Amboy;
- TESI's revenues increased \$0.2 million, primarily due to the June 2012 base rate increase; and
- All other subsidiaries revenues increased \$0.2 million.

Operation and Maintenance Expense

Operation and maintenance expenses for the six months ended June 30, 2013 increased \$1.4 million from the same period in 2012. This increase was primarily related to the following factors:

- Labor costs increased \$0.6 million due to lower capitalized payroll, increased overtime expended on emergency repairs and higher average labor rates. These increases were partially offset by a workforce reduction in our Delaware operations in March 2012;
- Variable production costs increased \$0.5 million, primarily from higher water treatment costs due to increased precipitation during the second quarter of 2013;
- Water main break costs increased \$0.2 million, as we experienced a higher number of main breaks in 2013 as compared to 2012;
- Expenditures for USA's contract operations serving Avalon, commencing July 1, 2012, resulted in a \$0.2 million increase in labor costs and a \$0.7 million increase in direct costs for billable supplemental services;
- Employee benefit expenses increased \$0.5 million due primarily to lower capitalized benefits. These increases were completely offset by lower costs of \$1.2 million primarily due to the amendment of the Other Benefits Plan which increases contributions by future retirees; and
- All other operation and maintenance expense categories decreased \$0.1 million.

Depreciation

Depreciation expense for the six months ended June 30, 2013 increased \$0.3 million from the same period in 2012 due to a higher level of utility plant in service.

Other Taxes

Other taxes for the six months ended June 30, 2013 increased \$0.5 million from the same period in 2012, primarily due to increased revenue related taxes on higher taxable revenues in our Middlesex system.

Interest Charges

Interest charges for the six months ended June 30, 2013 decreased \$0.4 million from the same period in 2012, primarily due to lower average interest rates on long-term debt, resulting from Middlesex's refinancing of \$57.5 million of First Mortgage Bonds in the fourth quarter of 2012.

Other Income, net

Other Income, net for the six months ended June 30, 2013 decreased \$0.2 million from the same period in 2012, primarily due to lower Allowance for Funds Used During Construction, resulting from lower average construction work in progress balances and lower rental income offset by increased earnings from investments and costs incurred in 2012 related to potential projects at our Delaware subsidiaries.

Income Taxes

Income taxes for the six months ended June 30, 2013 increased \$1.0 million from the same period in 2012, due to increased operating income in 2013 as compared to 2012.

Net Income and Earnings Per Share

Net income for the six months ended June 30, 2013 increased \$2.1 million from the same period in 2012. Basic and diluted earnings per share increased to \$0.48 and \$0.47 for the six months ended June 30, 2013, respectively, as compared to \$0.35 for the six months ended June 30, 2012.

Liquidity and Capital Resources

Operating Cash Flows

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

For the six months ended June 30, 2013, cash flows from operating activities increased \$0.4 million to \$16.2 million. Increased net income resulting from rate increases that went into effect in 2012 were the primary reason for the increase in cash flow. The \$16.2 million of net cash flow from operations enabled us to fund all of our utility plant expenditures internally for the period.

Capital Expenditures and Commitments

To fund our capital program, we use internally generated funds, short-term and long-term debt borrowings and, when market conditions are favorable, proceeds from sales of common stock under our Amended and Restated Dividend Reinvestment and Common Stock Purchase Plan (DRP) and common stock offerings. See below for a more detailed discussion regarding the funding of our capital program.

The capital investment program for 2013 is currently estimated to be approximately \$21.9 million. Through June 30, 2013, we have expended \$10.2 million and expect to incur approximately \$11.7 million for capital projects for the remainder of 2013.

We currently project that we may expend approximately \$51.1 million for capital projects in 2014 and 2015. The actual amount and timing of capital expenditures is dependent on project scheduling and refinement of engineering estimates for certain capital projects.

To fund our capital program for the remainder of 2013, we plan on utilizing:

- Internally generated funds;
- Proceeds from the sale of common stock through the DRP;
- Funds available and held in trust under existing New Jersey and Delaware State Revolving Fund (SRF) loans (currently, \$4.1 million and \$0.7 million, respectively). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks; and
- Short-term borrowings, if necessary, through \$60.0 million of available lines of credit with several financial institutions. As of June 30, 2013, the outstanding borrowings under these credit lines were \$28.0 million.

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

Item 3. Quantitative and Qualitative Disclosures of Market Risk

We are exposed to market risk associated with changes in interest rates and commodity prices. The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company’s interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2018 to 2047. Over the next twelve months, approximately \$5.3 million of the current portion of 37 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.

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

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

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The information about risk factors does not differ materially from those set forth in Part I, Item 1A. of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- 10.33 Amended and Restated Line of Credit Note between registrant and PNC Bank
- 10.34 Uncommitted Line of Credit Letter Agreement and Master Promissory Note between registrant and Bank of America, N.A
- 10.35 Uncommitted Line of Credit Letter Agreement between registrant's wholly-owned subsidiary Utility Services Affiliates (Perth Amboy) Inc. and Bank of America, N.A
- 10.42 Copy of Loan Agreement By and Between The State of New Jersey, Acting By and Through The New Jersey Department of Environmental Protection and Middlesex Water Company, dated as of May 1, 2013 (Series TT)
- 10.43 Copy of Loan Agreement by and Between New Jersey Environmental Infrastructure Trust and Middlesex Water Company dated as of May 1, 2013 (Series UU)
- 31.1 Section 302 Certification by Dennis W. Doll pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- 31.2 Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.
- 32.1 Section 906 Certification by Dennis W. Doll pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.2 Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

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

MIDDLESEX WATER COMPANY

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

Date: August 2, 2013



Waiver and Amendment to Loan Documents

THIS WAIVER AND AMENDMENT TO LOAN DOCUMENTS (this “**Amendment**”) is made as of January 30, 2013, by and between **MIDDLESEX WATER COMPANY** (the “**Borrower**”), and **PNC BANK, NATIONAL ASSOCIATION** (the “**Bank**”).

BACKGROUND

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

B. The Borrower and the Bank desire to amend the Loan Documents, and to waive certain defaults thereunder, as provided for in this Amendment.

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

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

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

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

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

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

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

7. The Bank may modify this Amendment for the purposes of completing missing content or correcting erroneous content, without the need for a written amendment, provided that the Bank shall send a copy of any such modification to the Borrower (which notice may be given by electronic mail).

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

9. This Amendment has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank's office indicated in the Loan Documents is located. This Amendment will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State where the Bank's office indicated in the Loan Documents is located, excluding its conflict of laws rules.

REMAINDER OF PAGE INTENTIONALLY LEFT BLANK

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

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

WITNESS / ATTEST:

/s/Kenneth J. Quinn

Print Name: Kenneth J. Quinn

Title: VP-General Counsel, Secy & Treasurer

MIDDLESEX WATER COMPANY

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

Print Name: A. Bruce O'Connor

Title: VP & CFO

PNC BANK, NATIONAL ASSOCIATION

By: /s/Virginia G. Alling (SEAL)

Virginia G. Alling
Vice President

**EXHIBIT A TO
WAIVER AND AMENDMENT TO LOAN DOCUMENTS
DATED AS OF JANUARY 30, 2013**

- A. The “Loan Documents” that are the subject of this Amendment include the following (as any of the foregoing have previously been amended, modified or otherwise supplemented):
1. Letter Agreement dated August 27, 2001 between the Borrower and the Bank (the “**Agreement**”)
 2. \$20,000,000.00 Amended and Restated Committed Line of Credit Note dated January 29, 2010 executed and delivered by the Borrower to the Bank (the “**Note**”)
 3. Amendment to Loan Documents dated November 29, 2002 between the Borrower and the Bank
 4. Amendment to Loan Documents dated May 19, 2003 between the Borrower and the Bank
 5. Amendment to Loan Documents dated September 4, 2003 between the Borrower and the Bank
 6. Amendment to Loan Documents dated April 19, 2004 between the Borrower and the Bank
 7. Amendment to Loan Documents dated January 22, 2009 between the Borrower and the Bank
 8. Amendment to Loan Documents dated January 29, 2010 between the Borrower and the Bank
 9. All other documents, instruments, agreements, and certificates executed and delivered in connection with the Loan Documents listed in this Section A.
- B. The Borrower has acknowledged and agreed with the Bank that the Borrower failed to comply with the last sentence of section 4 of the Agreement regarding the repayment of the Line of Credit in full each fiscal year, for the fiscal years ending 2011 and 2012. The Borrower’s failure to comply with section 4 of the Agreement constitutes an Event of Default under the Loan Documents. The Borrower has requested that the Bank waive the Event of Default. In reliance upon the Borrower’s representations and warranties and subject to the terms and conditions herein set forth, the Bank agrees to grant a waiver of Borrower’s non-compliance with Section 4 of the Agreement and of the Event of Default that would otherwise result from a violation of such section solely for the above-referenced periods. The Borrower agrees that it will hereafter comply fully with all other provisions of the Loan Documents, which remain in full force and effect. Except as expressly described in this Amendment, this waiver shall not constitute (a) a modification or an alteration of the terms, conditions or covenants of the Loan Documents or (b) a waiver, release or limitation upon the Bank’s exercise of any of its rights and remedies thereunder, which are hereby expressly reserved. This waiver shall not relieve or release the Borrower in any way from any of its respective duties, obligations, covenants or agreements under the Loan Documents or from the consequences of any Event of Default thereunder, except as expressly described above. This waiver shall not obligate the Bank, or be construed to require the Bank, to waive any other Events of Default or defaults, whether now existing or which may occur after the date of this waiver.

C. The Loan Documents are amended as follows:

1. The Expiration Date, as set forth in the Letter Agreement and the Note, is hereby extended from January 29, 2013 to January 29, 2014, effective on January 30, 2013.
2. Section 4 of the Agreement is hereby amended and restated to read in its entirety as follows:

“4. Repayment. Subject to the terms and conditions of this Letter Agreement, the Borrower may borrow, repay and re-borrow under the Line of Credit until the Expiration Date, on which date the outstanding principal balance and any accrued but unpaid interest shall be due and payable. Interest will be due and payable as set forth in the Note, and will be computed on the basis of a year of 360 days and paid on the actual number of days that principal is outstanding.”

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

1. Execution by all parties and delivery to the Bank of this Amendment.
2. Reimbursement of the fees and expenses of the Bank's in-house counsel in connection with this Amendment, which fees and expenses as of the date of this Amendment are \$0.00.

Effective as of May 29, 2013

May 22, 2013

Middlesex Water Company
1500 Ronson Road
Iselin, New Jersey 08830

Attention: Mr. Bruce O'Connor, Vice President and Chief Financial Officer

Re: Extension of Maturity Date

Dear Mr. O'Connor:

Reference is made to the Master Promissory Note, dated February 2, 2009 (the "Note"), in the original maximum principal amount of Twenty Five Million and 00/100 Dollars (\$25,000,000), executed by Middlesex Water Company, a New Jersey corporation (the "Borrower") and delivered to Bank of America, N.A. (the "Bank"), and the Uncommitted Line of Credit Letter Agreement, dated February 2, 2009, between the Borrower and Bank (the "Letter Agreement"). The Note, Letter Agreement, and any and all other documents, instruments, and agreements executed in connection therewith are referred to herein as the "Loan Documents". Capitalized terms used herein shall have the meaning ascribed to them in the Loan Documents.

The Borrower has requested that the Note, the Letter Agreement and all documents, instruments, agreements and amendments that evidence, govern or secure the Note (together with the Note, and the Loan Documents) be modified for the purpose of extending the Maturity Date (as such term is defined in the Loan Documents) and the Bank has agreed to such extension.

The Bank agrees that the Maturity Date as set forth in the Note shall be extended from May 29, 2013 to May 28, 2014.

Upon (a) the execution and delivery of this Letter Agreement by the Borrower and (b) receipt by the Bank of any unpaid payments under the Loan Documents, if any, through but not including the date of the execution and delivery of this letter and the extension set forth in this letter shall be effective and enforceable against the Borrower. Nothing herein contained or implied shall be construed as a waiver of any other provision of the Loan Documents or any other document executed in connection with the Loan Documents or a waiver of any presently existing or future default in the non-payment of principal and/or interest or any other amounts due under the Loan Documents.

The Borrower hereby warrants and represents that the representations and warranties contained in the Loan Documents continue to be true and correct and that no event of default, and no event which with the giving of notice or lapse of time or both would become an event of default, has occurred or is continuing under the Loan Documents. The Borrower acknowledges that as of the date hereof there are no offsets, defenses, claims, counterclaims, charges or deductions of any nature against amounts due and owing under the Note or against the Bank or any of its officers, directors or employers.

The Borrower hereby ratifies and confirms all respects and without condition all of the terms and provisions of the Loan Documents, as modified herein, as applicable, and each agrees that said terms and provisions, except to the extent expressly modified herein, continue in full force and effect.

This letter shall be binding upon the Borrower and each endorser and guarantor of the Loan Documents and their respective successors, heirs and assigns and shall inure to the benefit of the Bank and its successors and assigns. This Agreement shall take effect as a sealed instrument and shall be governed by the laws of the State of New Jersey

In no event shall this letter agreement constitute or be construed as a waiver or release of the obligations of any maker, guarantor, endorser or other person liable for the Borrower's obligations under the Note, and the obligations of such parties shall remain in full force and effect.

If this letter extending the Maturity Date is acceptable, please acknowledge below and return the acknowledged copy to me.

If you have any questions, please contact me.

Sincerely,

BANK OF AMERICA, N.A.

By: /s/ William T. Franey
Name: William T. Franey
Title: Senior Vice President

This letter is agreed to by:

WITNESS:

MIDDLESEX WATER COMPANY

By: /s/Kenneth J. Quinn
Name: Kenneth J. Quinn
Title: VP-General Counsel & Secretary

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

[Bank of America Letterhead]

Effective as of May 29, 2013

May 22, 2013

Utility Services Affiliates (Perth Amboy) Inc.
1500 Ronson Road
Iselin, New Jersey 08830

Attention: Mr. Bruce O'Connor, Vice President and Chief Financial Officer

Re: Extension of Maturity Date

Dear Mr. O'Connor:

Reference is made to the Master Promissory Note, dated July 18, 2008 (the "Note"), in the original maximum principal amount of Three Million and 00/100 Dollars (\$3,000,000), executed by Utility Services Affiliates (Perth Amboy) Inc., a New Jersey corporation (the "Borrower") and delivered to Bank of America, N.A. (the "Bank"), and the Uncommitted Line of Credit Letter Agreement, dated July 18, 2008, between the Borrower and Bank (the "Letter Agreement"). The obligations to the Bank are guaranteed by Middlesex Water Company (the "Guarantor") under Continuing and Unconditional Guaranty, dated July 22, 2008 (the "Guaranty"). The Note, Letter Agreement, and any and all other documents, instruments, and agreements executed in connection therewith are referred to herein as the "Loan Documents". Capitalized terms used herein shall have the meaning ascribed to them in the Loan Documents.

The Borrower has requested that the Note, the Letter Agreement and all documents, instruments, agreements and amendments that evidence, govern or secure the Note (together with the Note, and the Loan Documents) be modified for the purpose of extending the Maturity Date (as such term is defined in the Loan Documents) and the Bank has agreed to such extension.

The Bank agrees that the Maturity Date as set forth in the Note shall be extended from May 29, 2013 to May 28, 2014.

Upon (a) the execution and delivery of this Letter Agreement by the Borrower and the Guarantor (b) receipt by the Bank of any unpaid payments under the Loan Documents, if any, through but not including the date of the execution and delivery of this letter and the extension set forth in this letter shall be effective and enforceable against the Borrower and the Guarantor. Nothing herein contained or implied shall be construed as a waiver of any other provision of the Loan Documents or any other document executed in connection with the Loan Documents or a waiver of any presently existing or future default in the non-payment of principal and/or interest or any other amounts due under the Loan Documents.

Each of the Borrower and the Guarantor hereby warrants and represents that the representations and warranties contained in the Loan Documents continue to be true and correct and that no event of default, and no event which with the giving of notice or lapse of time or both would become an event of default, has occurred or is continuing under the Loan Documents. The Borrower acknowledges that as of the date hereof there are no offsets, defenses, claims, counterclaims, charges or deductions of any nature against amounts due and owing under the Note or against the Bank or any of its officers, directors or employers.

The Borrower and the Guarantor hereby ratify and confirm all respects and without condition all of the terms and provisions of the Loan Documents, as modified herein, as applicable, and each agrees that said terms and provisions, except to the extent expressly modified herein, continue in full force and effect.

This letter shall be binding upon the Borrower and each endorser and guarantor of the Loan Documents (including the Guarantor) and their respective successors, heirs and assigns and shall inure to the benefit of the Bank and its successors and assigns. This Agreement shall take effect as a sealed instrument and shall be governed by the laws of the State of New Jersey

In no event shall this letter agreement constitute or be construed as a waiver or release of the obligations of any maker, guarantor, endorser or other person liable for the Borrower's obligations under the Note, and the obligations of such parties shall remain in full force and effect.

If this letter extending the Maturity Date is acceptable, please acknowledge below and return the acknowledged copy to me.

If you have any questions, please contact me.

Sincerely,

BANK OF AMERICA, N.A.

By: /s/ William T. Franey
Name: William T. Franey
Title: Senior Vice President

This letter is agreed to by:

WITNESS:

UTILITY SERVICE AFFILIATES
(PERTH AMBOY) INC.

By: /s/Kenneth J. Quinn
Name: Kenneth J. Quinn
Title: Secretary

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

GUARANTOR:

MIDDLESEX WATER COMPANY

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

LOAN AGREEMENT

BY AND BETWEEN

THE STATE OF NEW JERSEY,

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

AND

MIDDLESEX WATER COMPANY

DATED AS OF MAY 1, 2013

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FUND LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of May 1, 2013 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 Costs 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 Costs 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 Costs 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 Costs of the Project plus, if applicable to the Borrower, capitalized interest on the Trust Loan and certain costs of issuance.

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.

(a) 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.

“Bond Counsel” means a law firm appointed or approved by the State, 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 State and 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 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.

“Costs” 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 Costs 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 Costs of the Project.

“Loan Agreement” means this Loan Agreement, including Schedule A and 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 moneys from Federal Funds.

“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 Costs 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.*, 7:22-6 *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, 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 May 1, 2013 to finance or refinance a portion of the Costs of the Project.

(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 of New Jersey, 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 Trust 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 Trust 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 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 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 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 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 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 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 if any 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.

(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 or 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.

(ii) Within 30 days following receipt of any Loan proceeds, including without limitation the "Allowance for Administrative Costs" or the "Allowance for Planning and Design" set forth in Exhibit B hereto, the Borrower shall allocate such proceeds to an expenditures in a manner that satisfies the requirements of Treasury Regulation §1.148-6(d) and transmit a copy of each such allocation to the State. No portion of the Allowance for Administrative Costs will be allocated to a cost other than a cost described in N.J.A.C. 7:22-5.11(a) 3, 4 or 6. No portion of the Allowance for Planning and Design will be allocated to a cost other than a cost described N.J.A.C. 7:22-5.12, or other costs of the Borrower's Environmental Infrastructure System which are "capital expenditures," within the meaning of Treasury Regulations §1.150-1. The Borrower shall retain records of such allocations for at least until the date that is three years after the scheduled maturity date of the Loan. The Borrower shall make such records available to the State within 15 days of any request by the State.

(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) 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 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 their 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 Costs 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 Fund 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 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, 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 Costs of the Project that is not eligible to be funded from the Loan or the Trust 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 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 Trust 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 Trust 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 Trust shall fulfill the Borrower’s obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Trust 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 Trust 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 Trust semiannually on each February 1 and August 1, commencing August 1, 2013, as further described in Exhibit B hereto.

(d) Upon thirty (30) days prior written notice to the Borrower, an Authorized Officer of the State may, in the sole discretion of such Authorized Officer, prescribe the particular method by which payments pursuant to, and in satisfaction of, this Section 3.03 shall be made by the Borrower. Such method as prescribed by an Authorized Officer of the State may include, without limitation, the automatic debit by the State or the Trustee of the respective amounts of such payments, as required by this Section 3.03, from an account that shall be identified by the Borrower in writing and recorded on file with the State. In the absence of any such written notice to the Borrower by an Authorized Officer of the State pursuant to this subsection (d), the Borrower shall implement the payments required pursuant to, and in satisfaction of, this Section 3.03 either via electronic transfer of immediately available funds or via check.

SECTION 3.03A. Loan Proceeds after Completion of Project Draws.

(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 Loan Proceeds remain undisbursed, 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 Loan Proceeds remain undisbursed, 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 Loan Proceeds to complete the Project, such Loan Proceeds which are not certified by an Authorized Officer of the Borrower as being required to complete the Project ("Excess Project Funds") shall be applied by the State 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 Trust 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 Costs 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 Trust before any Loan Repayments then due and payable hereunder on the Loan shall be satisfied by the Trust. The Borrower agrees not to interfere with any such action by the Trust.

(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 Trust during the time of any such loan repayment deficiency under the Trust Loan Agreement shall be applied by the Trust *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 amounts payable on Exhibit A-2 of the Trust Loan Agreement under the heading “bond interest”, *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 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.

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 Trust 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(e) or (f) 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 (to the extent permitted by Section 3.08(b) hereof), (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 Trust 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 of New Jersey, 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]

By: /s/ Michele N. Siekerka, Esq.
Michele N. Siekerka, Esq.
Assistant Commissioner
Water Resource Management,
Department of Environmental
Protection

ATTEST:

/s/Eugene J. Chebra, P.E.
Eugene J. Chebra, P.E.
Assistant Director
Municipal Finance and Construction Element,
Department of Environmental Protection

MIDDLESEX WATER COMPANY

[SEAL]

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

ATTEST:

/s/Kenneth J. Quinn
Kenneth J. Quinn
Vice President, General Counsel, Secretary
and Treasurer

[signature page]

SCHEDULE A

Certain Additional Loan Agreement Provisions

In addition to the terms defined in subsection (a) of Section 1.01 of this Loan Agreement, 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 this Schedule A.

Additional Definitions:

“**Borrower**” means Middlesex Water Company, a corporation duly created and validly existing under the laws of the State of New Jersey.

“**Borrower Bond Resolution**” means an indenture of the Borrower dated as of April 1, 1927 and entitled “INDENTURE OF MORTGAGE”, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond dated as of May 1, 2013 and entitled “FORTY-FIFTH SUPPLEMENTAL INDENTURE”, pursuant to which the Borrower Bond has been issued.

“**Principal Payment Dates**” means February 1 and August 1 of each year, commencing on August 1, 2013.

SECTION 2.02(e):

Disposition of Environmental Infrastructure System. The Borrower shall not permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a "Disposition"), except on ninety (90) days' prior written notice to the State, and, in any event, shall not permit a Disposition unless the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond.

EXHIBIT A-1

Description of Project and Environmental Infrastructure System

A-1

EXHIBIT A-1

1) Name and Address of Local Unit:

Middlesex Water Company
1500 Ronson Road
Iselin, New Jersey 08830-0452

Attention: Richard M. Risoldi. Vice President - Operations

2) Description of the Project:

The proposed project will involve cleaning/relining and spot replacement of water mains, hydrants, service lines, and valves. Approximately forty five thousand feet of 6, 8, 10, 12, 16 & 20-inch diameter water mains will be relined. The project will occur in Colonia Section of Woodbridge Township and spot locations within Middlesex Water Company Service area as needed.

3) Description of the Water Treatment System:

The Middlesex Water Company is an investor-owned water utility that provides water service to retail customers primarily in eastern Middlesex County. Water services are now furnished to approximately 58,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield and the City of South Amboy in Middlesex County, and a portion of the Township of Clark in Union County.

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

EXHIBIT A-2

Description of Loan

See Schedule to Specimen Borrower Bond (Exhibit D hereto)

EXHIBIT B

Basis for Determination of Allowable Project Costs

B-1

EXHIBIT B

Basis for the Determination of Allowable Costs

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

Cost Classification	Application Amount	Allowable Amount
1. Administrative Expenses	\$ 99,000	\$ 24,641
2. Other Costs	\$ 0	\$ 0
3. Engineering Fees	\$ 160,000	\$ 160,000
4. Building Costs	\$ 3,300,000	\$ 3,486,025
5. Contingencies	\$ 165,000	\$ 0
6. Allowance for Planning and Design	\$ 276,000	\$ 276,000
7. Sub-Total	\$ 4,000,000	\$ 3,946,666
8. DEP Fee (Financed Portion (50%))		\$ 39,467
9. Total Project Costs	\$ 4,000,000	\$ 3,986,133
A. Fund Loan (75% of Sub-Total)		\$ 2,960,000
B. Trust Loan (25% of Sub-Total)		\$ 986,666
C. DEP Fee (Financed Portion (50%))		\$ 39,467

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

1. Administrative Expenses:

The total amount requested for this line item on the application was \$99,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is $\$3,486,025 \times 0.03 = \$104,581$. However, this line item is reduced to \$24,641 in order not to exceed local authorization limits.

Allowable Administrative Expenses are \$24,641.

2. Other costs:

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

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$160,000. Middlesex Water will provide engineering services with in-house personnel as provided in a response letter received on May 30, 2012.

Allowable Engineering Fees are \$160,000.

4. Building Costs:

The amount requested for this line item on the application was \$3,300,000. The allowable amount based on the low bid received is \$3,486,025

Allowable Building Costs are \$3,486,025.

5. Contingencies:

The amount requested for this line item on the application was \$165,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is $\$3,486,025 \times 0.05 = \$174,301$. However, this line item is reduced to \$0 in order not to exceed local authorization limits.

Allowable Contingencies are \$0.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$267,000. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$\$250,000 + 0.12 \times (\$3,486,025 - 1,000,000) = \$548,323$. At the request of the applicant the amount is reduced to \$276,000.

Allowable Planning and Design Allowance is \$267,000.

7. Sub-total :

The total amount applied for was \$4,000,000. The subtotal line item amount is \$3,946,666.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the 2013 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Loan made by the Trust to the Borrower from the proceeds of the Trust bonds sold as part of the 2013 Financing Program, 50% of which will be imposed as an annual administrative fee upon the Borrower by DEP (pursuant to the terms of the Fund Loan agreement and invoices evidencing such obligation to be submitted to the Borrower by or on behalf of DEP), and paid semi-annually by the Borrower to DEP in eight (8) equal installments commencing September 1, 2013 (regardless of the date of commencement of Fund Loan principal amortization). Upon the issuance of the Trust bonds, the Trust shall direct the Trustee for the Trust bonds to transfer to DEP from the Project Fund that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee financed thereby and allocable to the Borrower. The DEP's authority to assess a Loan Surcharge or Loan Origination Fee was established pursuant to P.L. 2002, c.34 approved on July 1, 2002.

$$\text{DEP Fee} = \$3,946,666 \times 2\% = \underline{\$78,933}$$

$$\underline{\$78,933} \times .50 = \underline{\$39,467} \text{ (financed through the Trust Loan and paid to DEP upon closing of the Trust Loan)}$$

$$\underline{\$78,933} \times .50 = \underline{\$39,467} \text{ (paid as an annual administrative fee to DEP in 8 equal semiannual installments, commencing September 1, 2013).}$$

9. Total Project Costs:

The total project costs are (loan amount + DEP Fee) \$3,986,133.

I. Disbursement to Borrower is \$3,946,666.

Fund Share is \$2,960,000 (75%)

Trust Share is \$986,666 (25%)

II. Disbursement to Department is \$39,467.

EXHIBIT C

Estimated Disbursement Schedule

C-1

EXHIBIT C

1. Disbursement Schedule

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

Year	Month	Fund Share (75%) Borrower Disbursement (\$)	Trust Share (25%) Borrower Disbursement (\$)	Trust Share DEP Disbursement (\$)	Total
2013	May			\$ *39,467	\$ *39,467
	May	843,750	281,250		\$ 1,125,000
	June	442,425	147,475		\$ 589,900
	July	591,450	197,150		\$ 788,600
	August	592,025	197,341		\$ 789,366
	September	271,875	90,625		\$ 362,500
	October	218,475	72,825		\$ 291,300
Total		\$ 2,960,000	\$ 986,666	\$ 39,467	\$ 3,986,133

- This is the DEP loan origination fee. No action is required on the part of the borrower. The Trust will make a single transfer to DEP, through the Trust's Trustee, on behalf of all of the Borrowers in 2013 Financing Program.

2. Project Schedule

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

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u> Water Mains	February 7, 2013
<u>Bid Receipt:</u> Water Mains	March 13, 2013
<u>Award:</u> Water Mains	April 15, 2013
<u>Issuance of Notice to Proceed:</u> Water Mains	May 13, 2013
<u>Completion of Construction:</u> Water Mains	September 13, 2013
<u>Initiation of Operation:</u> Water Mains	September 13, 2013
<u>Project Performance Certification:</u> Water Mains	September 15, 2014

EXHIBIT D

Specimen Borrower Bond

D-1

EXHIBIT E

Opinions of Borrower's Bond Counsel and General Counsel

E-1

EXHIBIT F

Additional Covenants and Requirements

None.

F-1

EXHIBIT G

**General Administrative Requirements for the
State Environmental Infrastructure Financing Program**

G-1

LOAN AGREEMENT
BY AND BETWEEN
NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST
AND
MIDDLESEX WATER COMPANY

DATED AS OF MAY 1, 2013

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of May 1, 2013, 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 ascribed thereto in Section 1.01 hereof);

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.

“Costs” 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, if any, as defined in the Bond Resolution.

“Department” means the New Jersey Department of Environmental Protection

“Environmental Infrastructure Facilities” means 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 May 1, 2013 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 May 1, 2013 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, as further described in Schedule A attached hereto.

“Loan Agreement” means this Loan Agreement, including Schedule A and 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 (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution), 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 a 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 which are not Costs of the Borrower's Project that 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)(xi) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(f)(xi) 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 (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) 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).

(xiv) The Borrower shall, within 30 days of date the Borrower concludes that no additional proceeds of the Loan will be required to pay costs of the Project, provide to the Trust a certificate of the Borrower evidencing such conclusion.

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) Within 30 days following receipt of any Loan proceeds, including without limitation the “Allowance for Administrative Costs” or the “Allowance for Planning and Design” set forth in Exhibit B hereto, the Borrower shall allocate such proceeds to an expenditures in a manner that satisfies the requirements of Treasury Regulation §1.148-6(d) and transmit a copy of each such allocation to the Trust. No portion of the Allowance for Administrative Costs will be allocated to a cost other than a cost described in N.J.A.C. 7:22-5.11(a) 3, 4 or 6. No portion of the Allowance for Planning and Design will be allocated to a cost other than a cost described N.J.A.C. 7:22-5.12, or other costs of the Borrower’s Environmental Infrastructure System which are “capital expenditures,” within the meaning of Treasury Regulations §1.150-1. The Borrower shall retain records of such allocations for at least until the date that is three years after the scheduled maturity date of the Trust Bonds. The Borrower shall make such records available to the Trust within 15 days of any request by the Trust.

(iii) 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”.

(iv) 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”).

(v) 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 Costs paid, the date of the payment and the party to whom the payment was made.

(vi) From time to time as directed by the Trust, the Borrower shall provide to the Trust a written report demonstrating compliance by the Borrower with the provisions of Section 2.02(f) of this Loan Agreement, each such written report to be submitted by the Borrower to the Trust in the form of a full and complete written response to a questionnaire provided by the Trust to the Borrower. Each such questionnaire shall be provided by the Trust to the Borrower not less than fourteen (14) days prior to the date established by the Trust for receipt from the Borrower of the full and complete written response to the questionnaire.

(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 as if the same were set forth herein in its entirety. (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 (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution) 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 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 semiannually on each February 1 and August 1, commencing August 1, 2013.

(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.

(g) Upon thirty (30) days prior written notice to the Borrower, an Authorized Officer of the Trust may, in the sole discretion of such Authorized Officer, prescribe the particular method by which payments pursuant to, and in satisfaction of, this Section 3.03 shall be made by the Borrower. Such method as prescribed by an Authorized Officer of the Trust may include, without limitation, the automatic debit by the Trust or the Trustee of the respective amounts of such payments, as required by this Section 3.03, from an account that shall be identified by the Borrower in writing and recorded on file with the Trust and the Trustee. In the absence of any such written notice to the Borrower by an Authorized Officer of the Trust pursuant to this subsection (g), the Borrower shall implement the payments required pursuant to, and in satisfaction of, this Section 3.03 either via electronic transfer of immediately available funds or via check.

SECTION 3.03A. Amounts on Deposit in Project Loan Account After Completion of Project Draws.

(a) If, on the date which is thirty (30) 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 thirty (30) 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, on the date which the Borrower has completed the Project, any amounts remain on deposit in the Borrower's Project Loan Account, the Borrower must within thirty (30) days following such date provide to the Trust and the Department a certificate (i) stating that the Project is complete and (ii) setting forth the remaining costs, if any, of the Project for which a disbursement of Loan will be required.

(d) If the Borrower fails to provide the certificate described in paragraphs (a), (b) or (c) 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 Trust Bonds can be redeemed within sixty (60) days of the date the Borrower is required to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, the Excess Project Funds shall be used by the Trust within such sixty (60) day period to redeem Trust Bonds, including payment of any pre-payment premium. The Trust Bonds shall be redeemed in inverse order of their maturity. The amount of any maturity redeemed shall not exceed the same proportion as the Loan bears to all Loans made from proceeds of the Trust Bonds rounded down to whole denominations or any integral multiple. The aggregate amount of Trust Bonds so redeemed shall not be less than the amount of nonqualified bonds allocable to the Borrower under Treasury Regulations §1.142-12. The Excess Project Funds used to redeem Trust Bonds shall be applied by the Trust as a prepayment of the Borrower's Loan Repayments with respect to the redeemed bonds. Any excess shall be held by Trust invested at a yield which does not exceed the yield on the Trust Bonds.

(ii) If Trust Bonds can not be redeemed within sixty (60) days of the date the Borrower is required to provide the certificate described in paragraphs (a), (b) or (c) of this Section 3.03A, the Trust shall, within such sixty (60) day period, (A) deposit all of the Excess Project Funds in a defeasance escrow established to defease Trust Bonds in inverse order of their maturity, in the same proportion as the Loan bears to all Loans made from proceeds of the Trust Bonds, (B) provide the notice to the Internal Revenue Service required pursuant to Treasury Regulations §1.142-2(c)(2), or any successor income tax regulations, and (C) apply the Excess Project Funds as a prepayment of the Borrower's Loan Repayments for the defeased Trust Bonds. The aggregate amount of Trust Bonds so defeased shall not be less than the amount of nonqualified bonds allocable to the Borrower under Treasury Regulations §1.142-12

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 (to the extent the Trust establishes a Debt Service Reserve Fund pursuant to the Bond Resolution), 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 May 1, 2013 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 acknowledges 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 Trustee before any loan repayments on the Borrower’s Fund Loan shall be satisfied by the Trustee. The Borrower agrees not to interfere with any such action by the Trustee.

(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, and/or any proceeding with respect to such petition and/or pursuant to any such law shall occur or be pending (including, without limitation, the operation and administration of the Borrower pursuant to any plan of reorganization approved and implemented under any such law), unless in the case of any such petition filed against the Borrower or any such proceeding such petition and such proceeding shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal or the further jurisdiction of any court; 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
3131 Princeton Pike
Building 6, Suite 201
Lawrenceville, New Jersey 08648
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.

(a) 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]

By: /s/Warren H. Victor

Warren H. Victor
Chairman

ATTEST:

/s/David E. Zimmer

David E. Zimmer
Assistant Secretary

MIDDLESEX WATER COMPANY

[SEAL]

By: /s/A. Bruce O'Connor

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

ATTEST:

/s/Kenneth J. Quinn

Kenneth J. Quinn,
Vice President, General Counsel, Secretary and Treasurer

[signature page]

SCHEDULE A

Certain Additional Loan Agreement Provisions

In addition to the terms defined in subsection (a) of Section 1.01 of this Loan Agreement, 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 this Schedule A.

Additional Definitions:

“Borrower” means Middlesex Water Company, a corporation duly created and validly existing under the laws of the State of New Jersey.

“Bond Resolution” means the “Environmental Infrastructure Trust Bond Resolution, Series 2013B”, as adopted by the Board of Directors of the Trust on or about April 11, 2013, authorizing the issuance of the Trust Bonds, and all further amendments and supplements thereto adopted in accordance with the provisions thereof.

“Borrower Bond Resolution” means an indenture of the Borrower dated as of April 1, 1927 and entitled “INDENTURE OF MORTGAGE”, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond dated as of May 1, 2013 and entitled “FORTY-SIXTH SUPPLEMENTAL INDENTURE”, pursuant to which the Borrower Bond has been issued.

“Interest Payment Dates” means February 1 and August 1 of each year, commencing on August 1, 2013.

“Loan” means the loan made by the Trust 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 amount of the Loan at any time shall be the initial aggregate principal amount of the Borrower Bond (which amount equals the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of certain costs of issuance, and underwriter's discount for all Trust Bonds issued to finance the Loan), less any amount of such principal amount that has been repaid by the Borrower under this Loan Agreement and less any adjustment made pursuant to the provisions of the Bond Resolution, including, without limitation, Section 5.02(4) thereof, N.J.A.C. 7:22-4.26 and the appropriations act of the State Legislature authorizing the expenditure of Trust Bond proceeds to finance a portion of the Costs of the Project.

“Principal Payment Dates” means August 1 of each year, commencing on August 1, 2014.

SECTION 2.02(e)

Disposition of Environmental Infrastructure System. The Borrower shall not permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a “Disposition”), except on ninety (90) days' prior written notice to the Trust, and, in any event, shall not permit a Disposition unless the following conditions are met: (i) the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond; and (ii) the Trust shall by appropriate action determine, in its sole discretion, that such sale, lease, abandonment or other disposition will not adversely affect (A) the Trust's ability to meet its duties, covenants, obligations and agreements under the Bond Resolution, (B) the value of this Loan Agreement or the Borrower Bond as security for the payment of Trust Bonds and the interest thereon, or (C) the excludability from gross income for federal income tax purposes of the interest on Trust Bonds then outstanding or that could be issued in the future.

SECTION 2.02(f)(x)

The Borrower will not have a reserve or replacement fund (within the meaning of Section 148(d)(1) of the Code) allocable to the Borrower Bond evidencing the Loan.

EXHIBIT A-1

Description of Project and Environmental Infrastructure System

A-1

EXHIBIT A-1

1) Name and Address of Local Unit:

Middlesex Water Company
1500 Ronson Road
Iselin, New Jersey 08830-0452

Attention: Richard M. Risoldi. Vice President - Operations

2) Description of the Project:

The proposed project will involve cleaning/relining and spot replacement of water mains, hydrants, service lines, and valves. Approximately forty five thousand feet of 6, 8, 10, 12, 16 & 20-inch diameter water mains will be relined. The project will occur in Colonia Section of Woodbridge Township and spot locations within Middlesex Water Company Service area as needed.

3) Description of the Water Treatment System:

The Middlesex Water Company is an investor-owned water utility that provides water service to retail customers primarily in eastern Middlesex County. Water services are now furnished to approximately 58,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield and the City of South Amboy in Middlesex County, and a portion of the Township of Clark in Union County.

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

EXHIBIT A-2

Description of Loan

See Exhibit to Specimen Borrower Bond (Exhibit D hereto)

EXHIBIT B

Basis for Determination of Allowable Project Costs

B-1

EXHIBIT B

Basis for the Determination of Allowable Costs

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

Cost Classification	Application Amount	Allowable Amount
1. Administrative Expenses	\$ 99,000	\$ 24,641
2. Other Costs	\$ 0	\$ 0
3. Engineering Fees	\$ 160,000	\$ 160,000
4. Building Costs	\$ 3,300,000	\$ 3,486,025
5. Contingencies	\$ 165,000	\$ 0
6. Allowance for Planning and Design	\$ 276,000	\$ 276,000
7. Sub-Total	\$ 4,000,000	\$ 3,946,666
8. DEP Fee (Financed Portion (50%))		\$ 39,467
9. Total Project Costs	\$ 4,000,000	\$ 3,986,133
A. Fund Loan (75% of Sub-Total)		\$ 2,960,000
B. Trust Loan (25% of Sub-Total)		\$ 986,666
C. DEP Fee (Financed Portion (50%))		\$ 39,467

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

1. Administrative Expenses:

The total amount requested for this line item on the application was \$99,000. The allowable administrative expense is authorized to be 3% of the total allowable building costs (Line Item No. 4). Therefore, the amount for the administrative line item is $\$3,486,025 \times 0.03 = \$104,581$. However, this line item is reduced to \$24,641 in order not to exceed local authorization limits.

Allowable Administrative Expenses are \$24,641.

2. Other costs:

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

Allowable Other Costs are \$0.

3. Engineering Fees:

The amount requested for this line item on the application was \$160,000. Middlesex Water will provide engineering services with in-house personnel as provided in a response letter received on May 30, 2012.

Allowable Engineering Fees are \$160,000.

4. Building Costs:

The amount requested for this line item on the application was \$3,300,000. The allowable amount based on the low bid received is \$3,486,025

Allowable Building Costs are \$3,486,025.

5. Contingencies:

The amount requested for this line item on the application was \$165,000. The allowable amount is authorized to be 5% of the allowable building cost. Therefore, the allowable amount for this line item is $\$3,486,025 \times 0.05 = \$174,301$. However, this line item is reduced to \$0 in order not to exceed local authorization limits.

Allowable Contingencies are \$0.

6. Allowance for Planning and Design:

The amount requested for this line item on the application was \$267,000. The allowable amount for this line item based on the allowable building costs and the planning and design allowance as per N.J.A.C. 7:22-5.12 is as follows:

$\$250,000 + 0.12 \times (\$3,486,025 - 1,000,000) = \$548,323$. At the request of the applicant the amount is reduced to \$276,000.

Allowable Planning and Design Allowance is \$267,000.

7. Sub-total :

The total amount applied for was \$4,000,000. The subtotal line item amount is \$3,946,666.

8. DEP Fee:

This item represents the DEP Loan Surcharge or Loan Origination Fee imposed by DEP as a portion of the cost of the project of the borrower. This DEP Loan Surcharge or Loan Origination Fee is a portion of the cost of the project that has been incurred for engineering and environmental services provided by DEP for the borrower in connection with, and as a condition precedent to, the inclusion of the project of the borrower in the 2013 Financing Program of the Trust, 50% of which will be financed for the Borrower as part of the Trust Loan made by the Trust to the Borrower from the proceeds of the Trust bonds sold as part of the 2013 Financing Program, 50% of which will be imposed as an annual administrative fee upon the Borrower by DEP (pursuant to the terms of the Fund Loan agreement and invoices evidencing such obligation to be submitted to the Borrower by or on behalf of DEP), and paid semi-annually by the Borrower to DEP in eight (8) equal installments commencing September 1, 2013 (regardless of the date of commencement of Fund Loan principal amortization). Upon the issuance of the Trust bonds, the Trust shall direct the Trustee for the Trust bonds to transfer to DEP from the Project Fund that portion (50%) of the DEP Loan Surcharge or Loan Origination Fee financed thereby and allocable to the Borrower. The DEP's authority to assess a Loan Surcharge or Loan Origination Fee was established pursuant to P.L. 2002, c.34 approved on July 1, 2002.

$$\text{DEP Fee} = \$3,946,666 \times 2\% = \underline{\$78,933}$$

$$\underline{\$78,933} \times .50 = \underline{\$39,467} \text{ (financed through the Trust Loan and paid to DEP upon closing of the Trust Loan)}$$

$$\underline{\$78,933} \times .50 = \underline{\$39,467} \text{ (paid as an annual administrative fee to DEP in 8 equal semiannual installments, commencing September 1, 2013).}$$

9. Total Project Costs:

The total project costs are (loan amount + DEP Fee) \$3,986,133.

I. Disbursement to Borrower is \$3,946,666.

Fund Share is \$2,960,000 (75%)

Trust Share is \$986,666 (25%)

II. Disbursement to Department is \$39,467.

EXHIBIT C

Estimated Disbursement Schedule

C-1

EXHIBIT C

1. Disbursement Schedule

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

Year	Month	Fund Share (75%) Borrower Disbursement (\$)	Trust Share (25%) Borrower Disbursement (\$)	Trust Share DEP Disbursement (\$)	Total
2013	May			\$ *39,467	\$ *39,467
	May	843,750	281,250		\$ 1,125,000
	June	442,425	147,475		\$ 589,900
	July	591,450	197,150		\$ 788,600
	August	592,025	197,341		\$ 789,366
	September	271,875	90,625		\$ 362,500
	October	218,475	72,825		\$ 291,300
Total		\$ 2,960,000	\$ 986,666	\$ 39,467	\$ 3,986,133

- This is the DEP loan origination fee. No action is required on the part of the borrower. The Trust will make a single transfer to DEP, through the Trust's Trustee, on behalf of all of the Borrowers in 2013 Financing Program.

2. Project Schedule

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

<u>EVENT</u>	<u>DATE</u>
<u>Advertisement:</u> Water Mains	February 7, 2013
<u>Bid Receipt:</u> Water Mains	March 13, 2013
<u>Award:</u> Water Mains	April 15, 2013
<u>Issuance of Notice to Proceed:</u> Water Mains	May 13, 2013
<u>Completion of Construction:</u> Water Mains	September 13, 2013
<u>Initiation of Operation:</u> Water Mains	September 13, 2013
<u>Project Performance Certification:</u> Water Mains	September 15, 2014

EXHIBIT D

Specimen Borrower Bond

D-1

EXHIBIT E

Opinions of Borrower's Bond Counsel and General Counsel

E-1

EXHIBIT F

Additional Covenants and Requirements

Qualified Private Activity Bonds:

(a) No portion of the proceeds of the Trust Bonds loaned to the Local Unit will be used to finance issuance costs (within the meaning of Section 147(g) of the Code).

(b) Assuming for this purpose that (i) the Trust has used two percent (2%) of the proceeds of the Trust Bonds to finance issuance costs (within the meaning of Section 147(g) of the Code), (ii) the proceeds of the Trust Bonds loaned to the Local Unit represent all of the remaining proceeds of the Trust Bonds, (iii) the Trust Bonds are issued as qualified bonds (within the meaning of Section 141(e) of the Code) that meet the requirements of Section 142(a)(4) of the Code, and (iv) interest on the Trust Bonds is otherwise excluded from the gross income of the holders thereof for federal income tax purposes under the Code, the Local Unit shall not, directly or indirectly, use or permit the use of any proceeds of the Trust Bonds in a manner that would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds.

EXHIBIT G

**General Administrative Requirements for the
State Environmental Infrastructure Financing Program**

EXHIBIT H

Form of Continuing Disclosure Agreement

B-1

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

I, Dennis W. Doll, certify that:

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

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

Date: August 2, 2013

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

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

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

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

Date: August 2, 2013

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: August 2, 2013

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: August 2, 2013

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.
