

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 1998

Commission File  
No. 0-422

MIDDLESEX WATER COMPANY  
(Exact name of registrant as specified in its charter)

New Jersey

22-1114430

State or Other Jurisdiction of  
Incorporation or Organization)

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

1500 Ronson Road, Iselin, New Jersey

08830-3020

(Address of principal executive offices)

(Zip Code)

(732) 634-1500

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the past 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 the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 30, 1998
Common Stock, No par Value	4,368,897

MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Operating Revenues	\$12,073,985	\$10,968,031	\$32,434,440	\$30,241,199
Operating Expenses:				
Operations and Maintenance	5,703,460	4,984,799	15,791,226	14,510,277
Depreciation	823,148	750,761	2,446,871	2,265,872
Taxes, other than Income Taxes	1,666,111	1,556,779	4,580,355	4,377,776
Federal Income Taxes	903,758	1,035,095	2,422,447	2,390,122
Total Operating Expenses	9,096,477	8,327,434	25,240,899	23,544,047
Utility Operating Income	2,977,508	2,640,597	7,193,541	6,697,152
Other Income-Net	460,637	71,527	983,058	251,549
Income Before Interest Charges	3,438,145	2,712,124	8,176,599	6,948,701
Interest Charges	1,090,573	818,181	2,991,768	2,461,913
Net Income	2,347,572	1,893,943	5,184,831	4,486,788
Preferred Stock Dividend Requirements	79,697	66,398	239,090	145,861
Earnings Applicable to Common Stock	\$ 2,267,875	\$ 1,827,545	\$ 4,945,741	\$ 4,340,927
Earnings per share of Common Stock:				
Basic	\$ 0.52	\$ 0.43	\$ 1.14	\$ 1.03

Diluted	\$ 0.51	\$ 0.43	\$ 1.13	\$ 1.02
Average Number of Common Shares Outstanding:				
Basic	4,357,571	4,243,478	4,326,337	4,226,241
Diluted	4,583,997	4,425,304	4,552,763	4,346,792
Cash Dividends Paid per Common Share	\$0.28 1/2	\$0.28	\$0.85 1/2	\$0.84

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONSOLIDATED BALANCE SHEETS

ASSETS AND OTHER DEBITS

	September 30, 1998	December 31, 1997
	----- (Unaudited)	-----
UTILITY PLANT:		
Water Production	\$ 28,055,246	\$ 27,689,254
Transmission and Distribution	115,437,754	113,104,789
General	18,991,442	18,845,301
Construction Work in Progress	21,331,320	5,683,217
	-----	-----
TOTAL	183,815,762	165,322,561
Less Accumulated Depreciation	31,771,030	30,251,825
	-----	-----
UTILITY PLANT-NET	152,044,732	135,070,736
	-----	-----
NONUTILITY ASSETS-NET	3,730,571	2,038,568
	-----	-----
CURRENT ASSETS:		
Cash and Cash Equivalents	1,675,405	2,513,294
Temporary Cash Investments-Restricted	11,496,575	218,787
Accounts Receivable (net of allowance for doubtful accounts)	5,165,277	3,794,860
Unbilled Revenues	2,595,479	2,175,934
Materials and Supplies (at average cost)	1,151,314	960,577
Prepayments and Other Current Assets	571,540	387,487
	-----	-----
TOTAL CURRENT ASSETS	22,655,590	10,050,939
	-----	-----
DEFERRED CHARGES:		
Regulatory Assets	7,260,065	7,359,969
Unamortized Debt Expense	3,149,262	2,773,233
Preliminary Survey and Investigation Charges	250,344	213,650
Other	2,323,936	2,253,678
	-----	-----
TOTAL DEFERRED CHARGES	12,983,607	12,600,530
	-----	-----
TOTAL	\$191,414,500	\$159,760,773
	=====	=====

See Notes to Consolidated Financial Statements

MIDDLESEX WATER COMPANY  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND OTHER CREDITS

	September 30, 1998	December 31, 1997
	----- (Unaudited)	-----
CAPITALIZATION (see accompanying statements)	\$135,209,317	\$109,139,429
	-----	-----
CURRENT LIABILITIES:		
Current Portion of Long-term Debt	45,341	42,708
Notes Payable	4,500,000	564,701
Accounts Payable	4,365,465	3,602,420
Customer Deposits	406,451	393,376
Taxes Accrued	5,550,901	5,142,089
Interest Accrued	694,880	1,183,561
Other	2,173,228	2,039,828
	-----	-----
TOTAL CURRENT LIABILITIES	17,736,266	12,968,683
	-----	-----
DEFERRED CREDITS:		
Customer Advances for Construction	11,152,914	10,830,646
Accumulated Deferred Investment Tax Credits	2,183,303	2,237,060
Accumulated Deferred Federal Income Taxes	12,378,560	12,177,993
Other	2,361,273	2,051,895
	-----	-----
TOTAL DEFERRED CREDITS	28,076,050	27,297,594
	-----	-----
CONTRIBUTIONS IN AID OF CONSTRUCTION	10,392,867	10,355,067
	-----	-----
TOTAL	\$191,414,500	\$159,760,773
	=====	=====

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF CAPITALIZATION AND RETAINED EARNINGS

	September 30, 1998	December 31, 1997
	----- (Unaudited)	-----
<b>CAPITALIZATION:</b>		
Common Stock, No Par Value		
Shares Authorized, 10,000,000		
Shares Outstanding - 1998 - 4,368,897; 1997 - 4,269,217	\$ 32,994,426	\$ 31,138,484
Retained Earnings	21,335,315	20,087,065
	-----	-----
TOTAL COMMON EQUITY	54,329,741	51,225,549
	-----	-----
Cumulative Preference Stock, No Par Value		
Shares Authorized, 100,000; Shares Outstanding, None		
Cumulative Preferred Stock, No Par Value, Shares Authorized - 149,980		
Convertible:		
Shares Outstanding, \$7.00 Series - 14,881	1,562,505	1,562,505
Shares Outstanding, \$8.00 Series - 20,000	2,331,430	2,331,430
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1,017	101,700	101,700
Shares Outstanding, \$4.75 Series - 10,000	1,000,000	1,000,000
	-----	-----
TOTAL CUMULATIVE PREFERRED STOCK	4,995,635	4,995,635
	-----	-----
Long-term Debt:		
8.02% Amortizing Secured Note, due December 20, 2021	3,429,282	3,460,953
First Mortgage Bonds:		
7.25%, Series R, due July 1, 2021	6,000,000	6,000,000
5.20%, Series S, due October 1, 2022	12,000,000	12,000,000
5.25%, Series T, due October 1, 2023	6,500,000	6,500,000
6.40%, Series U, due February 1, 2009	15,000,000	15,000,000
5.25%, Series V, due February 1, 2029	10,000,000	10,000,000
5.35%, Series W, due February 1, 2038	23,000,000	--
	-----	-----
SUBTOTAL LONG-TERM DEBT	75,929,282	52,960,953
	-----	-----
Less: Current Portion of Long-term Debt	(45,341)	(42,708)
	-----	-----
TOTAL LONG-TERM DEBT	75,883,941	52,918,245
	-----	-----
TOTAL CAPITALIZATION	\$ 135,209,317	\$ 109,139,429
	=====	=====
	Nine Months Ended September 30, 1998	Year Ended December 31, 1997
	----- (Unaudited)	-----
<b>RETAINED EARNINGS:</b>		
BALANCE AT BEGINNING OF PERIOD	\$ 20,087,065	\$ 19,226,847
Net Income	5,184,831	5,860,906
	-----	-----
TOTAL	25,271,896	25,087,753
	-----	-----
Cash Dividends:		
Cumulative Preferred Stock	239,054	239,361
Common Stock	3,697,527	4,761,327
	-----	-----
TOTAL DEDUCTIONS	3,936,581	5,000,688
	-----	-----
BALANCE AT END OF PERIOD	\$ 21,335,315	\$ 20,087,065
	=====	=====

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended 1998	September 30, 1997
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 5,184,831	\$ 4,486,788
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,803,102	2,321,104
Provision for Deferred Income Taxes	200,567	570,310
Allowance for Funds Used During Construction	(653,156)	(63,637)
Changes in Current Assets and Liabilities:		
Accounts Receivable	(1,370,417)	(308,882)
Materials and Supplies	(190,737)	(33,844)
Accounts Payable	763,045	313,273
Accrued Income Taxes	408,812	716,549
Accrued Interest	(488,681)	(712,121)
Unbilled Revenues	(419,545)	(294,187)
Other-Net	89,015	(273,798)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,326,836	6,721,555
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Utility Plant Expenditures*	(18,764,047)	(7,257,652)
Cash from Acquisition of Subsidiary	--	158,436
Note Receivable	(1,644,308)	--
Preliminary Survey and Investigation Charges	(36,694)	1,523,479
Other-Net	(150,849)	(87,781)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(20,595,898)	(5,663,518)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Long-term Debt	(31,671)	(28,955)
Proceeds from Issuance of Long-term Debt	23,000,000	--
Short-term Bank Borrowings-Net	3,935,299	--
Deferred Debt Issuance Expenses	(474,096)	--
Temporary Cash Investments-Restricted	(11,277,788)	10,125
Proceeds from Issuance of Common Stock-Net	1,855,942	844,197
Payment of Preferred Dividends	(239,054)	(159,628)
Payment of Common Dividends	(3,697,527)	(3,547,732)
Customer Advances and Contributions-Net	360,068	793,159
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	13,431,173	(2,088,834)
	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS	(837,889)	(1,030,797)
	-----	-----
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,513,294	4,262,862
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,675,405	\$ 3,232,065
	=====	=====

\* Excludes Allowance for Funds Used During Construction

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash Paid During the Period for:		
Interest (net of amounts capitalized)	\$ 3,052,732	\$ 3,038,530
Income Taxes	\$ 2,206,125	\$ 1,102,200

See Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1 - Summary of Significant Accounting Policies

Organization - Middlesex Water Company (Middlesex or Company) is the parent company and sole shareholder of Tidewater Utilities, Inc. (Tidewater), Pinelands Water Company, Pinelands Wastewater Company and Utility Service Affiliates, Inc. (USA). Public Water Supply Company, Inc. (Public) and White Marsh Environmental Systems, Inc. are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (Consolidated Group) are reported on a consolidated basis. All intercompany accounts and transactions have been eliminated.

The consolidated notes accompanying the 1997 Form 10-K are applicable to this report and, in the opinion of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 1998 and the results of operations and its cash flows for the periods ended September 30, 1998 and 1997. Information included in the Balance Sheet as of December 31, 1997 has been derived from the Company's audited financial statements included in its annual report on Form 10-K for the year ended December 31, 1997.

### Note 2 - Regulatory Matters

On September 17, 1998, Middlesex filed a petition with the New Jersey Board of Public Utilities (BPU) for a base rate increase of \$7.9 million or 2.1%. Approximately 75% of the increase is necessary to recover the investment in the upgrade and expansion of the Carl J. Olsen Water Treatment Plant (CJO Plant) serving our Central New Jersey water system. The purpose of the CJO Plant upgrade is to meet the new and anticipated regulatory standards concerning water quality, as well as to increase the plant's production capacity. A decision by the BPU is expected in the summer of 1999. In January 1998, Middlesex received approval from the BPU for an overall rate increase of 4.4% or a \$1.5 million based on an original petition filed in November 1996.

### Note 3 - Capitalization

Common Stock - On September 9, 1998, Middlesex filed a petition with the BPU seeking approval to issue up to 525,000 shares of its no par common stock through a public offering. A decision is expected in November 1998. A registration statement on Form S-3 is expected to be filed on or about the same date as the Form 10-Q for the quarter ended September 30, 1998.

During the three months ended September 30, 1998, 23,652 common shares (0.3 million) were issued under the Company's Restricted Stock Plan and the Dividend Reinvestment and Common Stock Purchase Plan.

Long-term Debt In November 1998, the Company will close on a BPU approved \$2.2 million, 20 year loan from the State of New Jersey and the New Jersey Environmental Infrastructure Trust (Trust). The proceeds will be used to fund the 1999 capital project to clean and cement line previously unlined pipes and mains. The State loan of \$1.05 million will come from the New Jersey Department of Environmental Protection, which is funded under a Federal grant program to finance projects that improve water quality. This portion of the loan is interest free.

The Trust loan of \$1.15 million will carry a coupon interest rate that averages approximately 4.50%. The weighted rate for this combination of loans will be about 2.35%. The Company has delivered in escrow two Mortgage Bonds to evidence these loans.

Note 4-- Commitments

The Company has formed a new subsidiary, Utility Service Affiliates (Perth Amboy), Inc. (USA-PA), which is negotiating a 20-year agreement with the City of Perth Amboy, New Jersey (Perth Amboy) and the Middlesex County Improvement Authority (MCIA) to operate and maintain the water and wastewater systems of the municipality. Perth Amboy has a population of 40,000 and has approximately 9,500 customers, most of whom are served by both systems. The agreement is being effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA would receive a fixed fee and a variable fee based on increased system billing. Fixed fee payments begin at \$6.4 million in the first year and increase to \$9.7 in year 20. The agreement would also require USA-PA to lease from Perth Amboy all of its employees who currently work on the Perth Amboy water and wastewater systems. In connection with the agreement, the MCIA will issue up to \$69.5 million in three series of bonds. One of those series of bonds, in principal amount up to \$27.5 million, is to be guaranteed by the Company. The other series of bonds are to be guaranteed by Perth Amboy. The agreement and related financing have received the approvals of the BPU and the New Jersey Department of Community Affairs-Local Finance Board. If the agreement goes into effect, USA-PA may enter into a subcontract with a sewer contracting firm for the operation and maintenance of the Perth Amboy wastewater system. This potential contract would result in certain sharing of fixed and variable fees as well as the leased employees.

Note 5-- Earnings Per Share

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	1998		1997		1998		1997	
	Income	Shares	Income	Shares	Income	Shares	Income	Shares
	-----	-----	-----	-----	-----	-----	-----	-----
Basic:								
Net Income	\$ 2,348	4,358	\$ 1,894	4,243	\$ 5,185	4,326	\$ 4,487	4,226
Preferred Stock Dividend Requirements	(80)		(66)		(239)		(146)	
Basic Earnings Applicable to Common Stock	\$ 2,268	4,358	\$ 1,828	4,243	\$ 4,946	4,326	\$ 4,341	4,226
Basic Earnings Per Share of Common Stock	\$ 0.52		\$ 0.43		\$ 1.14		\$ 1.03	
Diluted:								
Basic Earnings Applicable to Common Stock	\$ 2,268	4,358	\$ 1,828	4,243	\$ 4,946	4,326	\$ 4,341	4,226
Convertible Preferred Stock	66	226	53	182	198	226	105	121
Diluted Earnings Applicable to Common Stock	\$ 2,334	4,584	\$ 1,881	4,425	\$ 5,144	4,552	\$ 4,446	4,347
Diluted Earnings Per Share of Common Stock	\$ 0.51		\$ 0.43		\$ 1.13		\$ 1.02	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

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

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

Our plan to finance these projects is well underway. Proceeds from the \$23.0 million Series W First Mortgage Bond issued in March 1998 and the anticipated common stock offering will be used to finance the CJO Plant expenditures in 1998 and 1999. Our Middlesex system will receive \$2.2 million from New Jersey State Revolving Fund to cover the cost of the 1999 RENEW Program, which is our program to clean and line with cement nine miles of unlined mains in the Middlesex system. There is a total of approximately 170 miles of unlined mains in the 670 mile Middlesex System. We expect to apply for similar funds in 1999 for the year 2000 RENEW Program.

The financing of our Delaware subsidiaries capital program will be a combination of a capital contribution from Middlesex and long-term debt financing from either a financial institution or Middlesex. The debt financing decision will be based upon the terms of financing available to our Delaware subsidiaries. We anticipate that we may file with the Delaware Public Service Commission during 1999 for a rate increase for Tidewater Utilities, Inc.

We expect to be able to cover the costs of scheduled upgrades to the existing systems with the cash flow generated from our utility operations through the year 2000. For the nine months ended, our consolidated group has expended \$18.8 million for capital projects, including \$12.2 for the CJO Plant.

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

Regulatory Matters

On September 17, 1998, Middlesex filed a petition with the New Jersey Board of Public Utilities (BPU) for a base rate increase of \$7.9 million or 21.9%. Approximately 75% of the increase is

necessary to recover the investment in the upgrade and expansion of the Carl J. Olsen Water Treatment Plant (CJO Plant) serving our Central New Jersey water system. The purpose of the CJO Plant upgrade is to meet the new and anticipated regulatory standards concerning water quality, as well as to increase the plant's production capacity. A decision by the BPU is expected in the summer of 1999.

On January 29, 1998, the BPU approved an increase in the rates of Middlesex by 4.4% or \$1.5 million. The original petition was filed in November 1996. Under the approval, the allowed return on equity is 11.0% with an overall rate of return of 8.56%. The increase includes the recovery of post-retirement costs other than pension expenses which are mandated by the Company's compliance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

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

#### Accounting Standards

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.128, "Earnings Per Share," (SFAS No.128). This statement supersedes Accounting Principles Bulletin Opinion No.15, "Earnings Per Share," and simplifies the reporting and computing of earnings per share (EPS). SFAS No.128 requires dual presentation of basic and diluted earnings per share on the face of the income statement and requires a reconciliation of the basic EPS computation to the diluted EPS computation. At December 31,1997, the Company adopted SFAS No.128. See Note 5 to the Consolidated Financial Statements.

Statement of Financial Accounting Standards (SFAS) No.130, "Reporting Comprehensive Income" establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. At September 30, 1998, the Company does not have any items of comprehensive income that would affect the current reporting of the Company's financial position, results of operations or cash flows.

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

SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," revises and standardizes disclosure requirements for pension and other post-retirement benefit

plans but does not change the measurement or recognition of those plans. This Statement is required to be adopted for the fiscal year ending December 31, 1998.

#### Year 2000

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

#### Forward Looking Information

Certain matters discussed in this report on Form 10-Q are "forward-looking statements" intended to qualify for safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such statements may address future plans, objectives, expectations and events concerning various matters such as capital expenditures, earnings, litigation, growth potential, rate and other regulatory matters, liquidity and capital resources and accounting matters. Actual results in each case could differ materially from those currently anticipated in such statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

#### Results of Operations - Nine Months Ended September 30, 1998

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

A subsidiary acquisition added \$0.6 million to revenues. The acquisition of Public Water

Supply Company, Inc. (Public) by our wholly-owned subsidiary, Tidewater Utilities, Inc. (Tidewater) was completed on July 31, 1997. As a result, the nine months of consolidated revenue for 1997 only include two months of revenue from Public.

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

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

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

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

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

Interest charges rose \$0.5 million which represents our obligation to pay interest on those

## Series W Mortgage Bonds.

Net Income for the nine months ended September 30, 1998 increased \$0.7 million or 15.6% over the comparable 1997 period based upon the discussion above. The increase in the preferred stock dividend requirement is attributable to the issuance of preferred stock in July 1997 to complete the acquisition of Public. Through September 1998 nine months worth of the dividend requirements were recorded while for the same period in 1997 only two months were recorded.

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

## Results of Operations - Three Months Ended September 30, 1998

Operating Revenues in the third quarter increased \$1.1 million or 10.1% compared to the same period in 1997. Rate increases resulted in additional revenue of \$0.5 million. The inclusion of Public in consolidated operations for the third quarter contributed additional revenue of \$0.2 million over 1997, Consumption increases for both Middlesex residential customers and a contract customer, as well as growth in Tidewater's customer base, accounted for \$0.4 million of the higher revenues.

Total Operating Expenses rose \$0.8 million or 9.2% for the third quarter. These increases are partially the result of higher operations and maintenance expenses. Purchased water and electric power each rose \$0.1 million. Water treatment costs and mandated recognition of accrued post-retirement benefit costs other than pensions also increased \$0.1 million each and the inclusion of Public's expenses added \$0.2 million.

Depreciation for the third quarter increased 9.6%. On a consolidated basis almost \$9.5 million of newly constructed utility plant or utility plant acquired through acquisition was placed in service since September 30, 1997.

Taxes other than Income Taxes increased \$0.1 million due to higher revenue based taxes. Federal Income Taxes decreased \$0.1 million for the quarter as a result of a deferred tax benefit related to increased capitalized interest.

Other income increased \$0.4 million for the quarter over last year. One of the components of the increase is higher earnings on the unexpended proceeds from the Series W Mortgage Bonds. Another piece of the increase pertains to interest capitalized on the CJO Plant work in process expenditures.

Interest charges rose \$0.3 million which represents our obligation to pay interest on those Series W Mortgage Bonds.

Net Income for the three months ended September 30, 1998 increased \$0.5 million or 24.0% over the comparable 1997 period based upon the discussion above. The increase in the preferred stock dividend requirement is attributable to the issuance of preferred

stock in July 1997 to complete the acquisition of Public. Only two months worth of the dividend requirements were recorded for the third quarter of 1997.

Basic Earnings per Share increased by \$0.09 over last year and Diluted Earnings per Share increased by \$0.08 over last year. There is a \$0.01 per share difference between Basic and Diluted Earnings per Share for the quarter ended September 30, 1998.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

None.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other In Formation

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

11 Statement Regarding Computation of Per Share Earnings

10.21 Copy of Supplemental Indenture dated March 1, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Trust Indenture dated March 1, 1998 between the New Jersey Economic Development Authority and PNC Bank, National Association, as Trustee. (Series W First Mortgage Bond)

10.22 Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the State of New Jersey and Middlesex Water Company. (Series X First Mortgage Bond)

10.23 Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of loan Agreement dated November 1, 1998 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company. (Series Y First Mortgage Bond)

27 Financial Data Schedule.

(b) Reports on Form 8-K: Filed September 11, 1998

SIGNATURE

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

MIDDLESEX WATER COMPANY  
(Registrant)

Date: November 2, 1998

/s/ A. Bruce O'Connor  
-----  
A. Bruce O'Connor  
Vice President and Controller

M O R T G A G E

=====

TWENTY-SECOND SUPPLEMENTAL INDENTURE

-----

MIDDLESEX WATER COMPANY

TO

FIRST UNION NATIONAL BANK  
Trustee

-----

Dated as of March 1, 1998

=====

Record and Return to:

Walter G. Reinhard, Esq.  
Norris, McLaughlin & Marcus  
721 Route 202/206  
P.O. Box 1018  
Somerville, NJ 08876  
(908) 722-0700

Prepared By: \_\_\_\_\_  
Peter D. Hutcheon, Esq.

THIS TWENTY-SECOND SUPPLEMENTAL INDENTURE, dated as of the first day of March, 1998, between MIDDLESEX WATER COMPANY, a corporation organized and existing under the laws of the State of New Jersey, having its principal office in the Township of Iselin, New Jersey (herein called the "Water Company"), and FIRST UNION NATIONAL BANK, as successor to Meridian Bank, the successor to United Counties Trust Company, a corporation organized and existing under the laws of the United States, having its principal New Jersey corporate trust office in the City of Newark, New Jersey, as Trustee under the Indenture of Mortgage hereinafter mentioned (herein called the "Trustee"):

WHEREAS, on April 1, 1927, Water Company executed and delivered to the Trustee an Indenture of Mortgage (herein called the "Mortgage") to secure its First and Refunding Mortgage Gold Bonds, Series A, 5-1/2%, which bonds have since been redeemed by Water Company, and which Mortgage provides that bonds of other series may be issued under and pursuant to an indenture supplemental thereto; and

WHEREAS, on May 14, 1935, Water Company executed and delivered to the Trustee a Supplemental Indenture to secure its First and Refunding Mortgage Bonds, Series B, 4-1/2%, which Supplemental Indenture, prior to the execution and delivery hereof, was satisfied and discharged of record, no bonds having been issued thereunder; and

WHEREAS, as of October 1, 1939, Water Company executed and delivered to the Trustee a Second Supplemental Indenture of Mortgage (herein called the "Second Supplemental Indenture") to secure its First and Refunding Mortgage 3-3/4% Bonds, Series C (herein called the "Series C Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the Mortgage; and

WHEREAS, as of April 1, 1946, Water Company executed and delivered to the Trustee a Third Supplemental Indenture of Mortgage (herein called the "Third Supplemental Indenture") to secure its First and Refunding Mortgage 3% Bonds, Series D (herein called the "Series D Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the Mortgage; and

WHEREAS, as of April 1, 1949, Water Company executed and delivered to the Trustee a Fourth Supplemental Indenture of Mortgage (herein called the "Fourth Supplemental Indenture") to secure its First Mortgage 3-1/2% Bonds, Series E (herein called the "Series E Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the Mortgage; and



WHEREAS, as of February 1, 1955, Water Company executed and delivered to the Trustee a Fifth Supplemental Indenture of Mortgage (herein called the "Fifth Supplemental Indenture") to secure its First Mortgage 3-5/8% Bonds, Series F (herein called the "Series F Bonds"), which bonds were paid at maturity by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1959, Water Company executed and delivered to the Trustee a Sixth Supplemental Indenture of Mortgage (herein called the "Sixth Supplemental Indenture") to secure its First Mortgage 5-3/4% Bonds, Series G (herein called the "Series G Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of January 15, 1963, Water Company executed and delivered to the Trustee a Seventh Supplemental Indenture of Mortgage (herein called the "Seventh Supplemental Indenture") to secure its First Mortgage 4-1/2% Bonds, Series H (herein called the "Series H Bonds"), which bonds were paid at maturity by Water Company and otherwise supplementing the Mortgage; and

WHEREAS, as of July 1, 1964, Water Company executed and delivered to the Trustee, an Eighth Supplemental Indenture of Mortgage (herein called the "Eighth Supplemental Indenture") to secure its First Mortgage 4 3/4% Bonds, Series I (herein called the "Series I Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of June 1, 1965, Water Company executed and delivered to the Trustee a Ninth Supplemental Indenture of Mortgage (herein called the "Ninth Supplemental Indenture") to secure its First Mortgage 4-3/4% Bonds, Series J (herein called the "Series J Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of February 1, 1968, Water Company executed and delivered to the Trustee a Tenth Supplemental Indenture of Mortgage (herein called the "Tenth Supplemental Indenture") to secure its First Mortgage 6-3/4% Bonds, Series K (herein called the "Series K Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1968, Water Company executed and delivered to the Trustee an Eleventh Supplemental Indenture of Mortgage (herein called the "Eleventh Supplemental Indenture") to secure its First Mortgage 6-7/8% Bonds, Series L (herein called the "Series L Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1970, Water Company executed and delivered to the Trustee a Twelfth Supplemental Indenture of

Mortgage (herein called the "Twelfth Supplemental Indenture") to secure its First Mortgage 10% Bonds, Series M (herein called the "Series M Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1972, Water Company executed and delivered to the Trustee a Thirteenth Supplemental Indenture of Mortgage (herein called the "Thirteenth Supplemental Indenture") to secure its First Mortgage 8-1/8% Bonds, Series N (herein called the "Series N Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of April 1, 1979, Water Company executed and delivered to the Trustee a Fourteenth Supplemental Indenture of Mortgage (herein called the "Fourteenth Supplemental Indenture") to secure its First Mortgage 7% Bonds, Series O (herein called the "Series O Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of April 1, 1983, Water Company executed and delivered to the Trustee a Fifteenth Supplemental Indenture of Mortgage (herein called the "Fifteenth Supplemental Indenture") to secure its First Mortgage 10-1/2% Bonds, Series P (herein called the "Series P Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of August 1, 1988, Water Company executed and delivered to the Trustee a Sixteenth Supplemental Indenture of Mortgage (herein called the "Sixteenth Supplemental Indenture") to secure its First Mortgage 8% Bonds, Series Q (herein called the "Series Q Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of June 15, 1991, Water Company executed and delivered to the Trustee a Seventeenth Supplemental Indenture of Mortgage (herein called the "Seventeenth Supplemental Indenture") to secure its First Mortgage 7.25% Bonds, Series R (herein called the "Series R Bonds") and otherwise supplementing the Mortgage; and

WHEREAS, as of March 1, 1993, Water Company executed and delivered to the Trustee a Supplementary Indenture of Mortgage to the Fifteenth Supplemental Indenture of Mortgage (herein called the "Supplementary Indenture to the Fifteenth Supplemental Indenture") to secure its First Mortgage 2 7/8%, Series P-1 (herein called the "Series P-1 Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage.

WHEREAS, as of September 1, 1993, Water Company executed and delivered to the Trustee an Eighteenth Supplemental Indenture of Mortgage (herein called the "Eighteenth Supplemental Indenture") to secure its First Mortgage 5.20% Bonds, Series S (herein called the "Series S Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of September 1, 1993, Water Company executed and delivered to the Trustee a Nineteenth Supplemental Indenture of Mortgage (herein called the "Nineteenth Supplemental Indenture") to secure its First Mortgage 5.25% Bonds, Series T (herein called the "Series T Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of January 1, 1994, Water Company executed and delivered to Trustee a Twentieth Supplemental Indenture of Mortgage (herein called the "Twentieth Supplemental Indenture") to secure its First Mortgage 6.4% Bonds, Series U (herein called the "Series U Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of January 1, 1994, Water Company executed and delivered to Trustee a Twenty-First Supplemental Indenture of Mortgage (herein called the "Twenty-First Supplemental Indenture") to secure its First Mortgage 5.25% Bonds, Series V (herein called the "Series V Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, Water Company deems it necessary to borrow money and to issue its bonds therefor, to be secured by the Mortgage, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture, the Fourteenth Supplemental Indenture, the Fifteenth Supplemental Indenture, the Sixteenth Supplemental Indenture, the Seventeenth Supplemental Indenture, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures, and by this Twenty-Second Supplemental Indenture;

WHEREAS, Water Company desires to authorize and create a series of bonds limited to an aggregate principal amount of \$23,000,000 designated Series W and to be known as its "First Mortgage 5.35% Bonds, Series W" (herein called the "Series W Bonds" or "Bonds"), it being the intention of the parties that the Series W Bonds shall, together with all other Bonds issued under the Mortgage and all indentures supplemental thereto, be entitled to priority over all other obligations of the Water Company and shall be secured by a prior first lien on all the mortgaged property, subject only to the prior liens specifically permitted under the Mortgage or under any indenture supplemental thereto; and

WHEREAS, Water Company desires that the Series W Bonds shall be issued to fund and/or support payment of principal of and

interest on the Water Facilities Revenue Bonds, Series 1998 (Middlesex Water Company Project) issued by the New Jersey Economic Development Authority (herein the "Authority Bonds") and to pay all other amounts due under the Loan Agreement ("Authority Loan Agreement") dated as of March 1, 1998, by and between the New Jersey Economic Development Authority and Water Company, the proceeds of which are to be used to fund the upgrade, expansion and addition of facilities at Water Company's Carl J. Olsen Treatment Plant in Edison, New Jersey, and related water intake station in New Brunswick, New Jersey (the "Project Facilities"), which facilities and related equipment are utilized by Water Company for the furnishing of water in its New Jersey service area; and

WHEREAS, Water Company represents that all acts and proceedings required by law and by the Charter and By-Laws of Water Company, and by the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures (to the extent applicable) necessary to make the Series W Bonds, when executed by Water Company, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal obligations of Water Company and to constitute this Twenty-Second Supplemental Indenture a valid and binding supplement to the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures, in accordance with its and their terms, for the security of all bonds issued and which may hereafter be issued pursuant to the Mortgage and all indentures supplemental thereto, have been done and performed; and the execution and delivery of this Twenty-Second Supplemental Indenture have been in all respects duly authorized;

NOW THEREFORE, THIS INDENTURE WITNESSETH, that for and in consideration of the premises, and of the sum of One Dollar (\$1.00), lawful money of the United States of America, by each of the parties paid to the other, at or before the delivery hereof, and for other valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, Water Company has executed and delivered this Twenty-Second Supplemental Indenture, and has granted, bargained, sold, aliened, enfeoffed, conveyed and confirmed, and by these presents does grant, bargain, sell, alien, enfeoff, convey and confirm, unto to the Trustee, its successors and assigns forever, all real property of Water Company, together with all appurtenances and contracts, rights, privileges, permits

and franchises used or useful in connection with the business of the Water Company as a water company or as a water utility or used directly for the purpose of supplying water, granted, bargained, sold, aliened, enfeoffed, conveyed and confirmed unto the Trustee by the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures, or intended to be (including without limitation all such property acquired by Water Company since January 1, 1994, and all such property which Water Company may hereafter acquire), subject, however, to Permissible Encumbrances, and excepting all Property heretofore released from the lien of the Mortgage and the indentures supplemental thereto, and excepting all property of Water Company which is not used or useful in connection with its business as a water company or as a water utility as well as all personal property (both tangible and intangible) as to which a security interest may not be perfected by a filing under the Uniform Commercial Code as in effect in the State of New Jersey;

TO HAVE AND TO HOLD all and singular the above granted property, unto the Trustee, its successors and assigns forever, IN TRUST, nevertheless, for the equal and proportionate use, benefit, security and protection of those who from time to time shall hold any bonds which have been or may be issued under the Mortgage or any indenture supplemental thereto, without any discrimination, preference or priority of any one bond over any other by reason of priority in the time of issue, sale or negotiation thereof or otherwise, except as otherwise in the Mortgage or in any indenture supplemental thereto provided; and in trust for enforcing the payment of the principal of and the interest on such bonds, according to the tenor, purport and effect of the bonds and of the Mortgage and all indentures supplemental thereto and for enforcing the terms, provisions, covenants and stipulations therein and in the bonds set forth; and upon the trust, uses and purposes and subject to the covenants, agreements and conditions set forth and declared in the Mortgage as modified, amended and supplemented by all indentures supplemental thereto;

AND the parties do hereby covenant and agree that the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures be and hereby are supplemented as hereinafter provided, and that the above granted property is to be held and applied subject to the covenants, conditions, uses and trusts set forth in the Mortgage, as modified, amended and

supplemented by such Supplemental Indentures and this Twenty-Second Supplemental Indenture; and Water Company for itself and its successors does hereby covenant and agree to and with the Trustee, and its successors in said trust, for the equal benefit of all present and future holders and registered owners of the bonds issued under the Mortgage and all indentures supplemental thereto, as follows:

ARTICLE I

First Mortgage 5.35% Bonds, Series W

Section 1. Water Company hereby creates a series of bonds to be issued under and secured by the Mortgage, the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures and by this Twenty-Second Supplemental Indenture, and to be designated as, and to be distinguished from the bonds of all other series by the title, "First Mortgage 5.35% Bonds, Series W". The Series W Bonds shall be issued only as registered bonds without coupons in denominations of \$5,000 and any integral multiple thereof; shall be dated March 1, 1998; and shall be issued in non-negotiable form to PNC BANK, NATIONAL ASSOCIATION, as trustee under a Trust Indenture dated as of March 1, 1998 (the "Trust Indenture") by and between the New Jersey Economic Development Authority (the "Authority") and PNC BANK, NATIONAL ASSOCIATION, as trustee (the "Loan Trustee") with respect to the Authority Bonds. The Series W Bonds shall bear interest from the date of issuance of the Series W Bonds, computed on the basis of a 360-day year composed of twelve 30-day months, until the obligations of Water Company with respect to the payment of principal shall be discharged, at the rate of five and thirty-five one-hundredths per cent (5.35%) per annum, payable semi-annually on the Business Day prior to February 1 and August 1, in each year, commencing the Business Day prior to August 1, 1998; shall state that, subject to certain limitations, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented as provided in the Mortgage as heretofore supplemented; shall mature on February 1, 2038 which payment shall be made on the business day prior to February 1, 2038, and shall be redeemable (i) at the option of the Water Company with, to the extent required by the January 23, 1998 Order (Docket No. WF97090693) of the Board of Public Utilities of the State of New Jersey ("BPU") and/or required by then applicable law and regulations, the prior approval of the BPU, at any time on and after February 1, 2008 upon prior written notice to the holder of the bonds given by the Trustee upon written request of the Water Company, at the applicable redemption price shown in the following table expressed as a percentage of the principal amount redeemed set opposite the period during which such redemption occurs, plus interest accrued to the redemption date:

Period (Both Dates Inclusive) -----	Redemption Price -----
Issue Date - January 31, 2008	Not Optionally Redeemable
February 1, 2008 - January 31, 2009	102%
February 1, 2009 - January 31, 2010	101%
February 1, 2010 and thereafter	100%

and (ii) at the principal amount thereof plus accrued interest to the date fixed for redemption pursuant to the provisions set forth hereinafter under the captions "Mandatory Redemption" and "Special Mandatory Redemption"; and at the principal amount thereof plus accrued interest to the date fixed for redemption, pursuant to the provisions set forth hereinafter under the captions "Extraordinary Mandatory Redemption" and "Extraordinary Optional Redemption"; and at the redemption price for the Authority Bonds plus accrued interest to the date fixed for redemption pursuant to the provision set forth hereinafter under the caption "Mandatory Redemption in the Event of Redemption of Authority Bonds" (as hereinafter defined) if redeemed pursuant to the provision set forth hereinafter under the caption "Mandatory Redemption in the Event of Redemption of Authority Bonds." The Series W Bonds shall not be transferrable and the Trustee shall not effect a transfer except as required to effect a transfer or an assignment to a successor trustee and except to effect an exchange in connection with a bankruptcy, reorganization, insolvency, or similar proceeding involving Water Company and except to effect an exchange in connection with prepayment by redemption or otherwise of the Series W Bonds.

In addition to any other default provided for under the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth, Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures, it shall be a default under this Twenty-Second Supplemental Indenture if (a) payment of principal of the Series W Bond shall not be made when the same shall become due and payable at maturity, upon redemption or otherwise; or (b) payment of an installment of interest on the Series W Bond shall not be made when the same shall become due and payable and shall continue unpaid for a period of ten (10) consecutive days thereafter.

#### Mandatory Redemption

The Series W Bonds are subject to mandatory redemption in whole or in part at any time prior to maturity pursuant to subsection B of Section 4 of Article VIII of the Second Supplemental Indenture.

## Special Mandatory Redemption

The Series W Bonds are subject to special mandatory redemption, in whole, or in part as described below, at any time prior to maturity at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date, if (i) funds remain in the Construction Fund established under the Trust Indenture after payment of all costs of the Project, in which case the Series W Bonds are redeemable in part from such funds or (ii) a final determination by the Internal Revenue Service or a final judgment is rendered by a court of competent jurisdiction in a proceeding, which determination or judgment is not being contested in an appropriate proceeding brought directly by Water Company or by a holder of Water Facilities Revenue Bonds, Series 1998 [Middlesex Water Company Project] [the "Authority Bonds"] issued by the New Jersey Economic Development Authority [the "Authority"] to the effect that, as a result of the failure of Water Company to perform and observe any covenant, warranty, representation or agreement contained in the Loan Agreement dated as of March 1, 1998 by and between Water Company and the Authority (the "Loan Agreement"), the interest payable on the Authority Bonds is includable for Federal income tax purposes in the gross income of any holder of Authority Bonds under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") (other than a holder who is a "substantial user" of the Project [as defined in the Trust Indenture hereinafter referred to] or a "related person" as provided for in Section 147(a) of the Code and the regulations applicable thereunder) ("Determination of Taxability"). A Determination of Taxability will result only from the inclusion of the interest paid or to be paid on any Authority Bond (except to a holder who is a "substantial user" or a "related person") in the gross income of such holder for Federal income tax purposes and not from any other federal tax consequences arising with respect to the Authority Bonds. Water Company shall promptly (1) notify the Trustee of such Determination of Taxability and the date, which date must be within one hundred eighty (180) days from the date of such determination of taxability but not less than sixty (60) days from the date the notice from Water Company to the Loan Trustee is mailed, on which the Authority Bonds shall be redeemed pursuant to the Trust Indenture, which date shall be the date for redemption of this Series W Bond; and (2) on or prior to the date set for redemption pay to the trustee appointed pursuant to the Trust Indenture dated as of March 1, 1998 by and between the Authority and PNC Bank, National Association, as trustee (the "Loan Trustee"), a sum sufficient, together with other funds deposited with the Loan Trustee and available for such purpose, to redeem all such Authority Bonds then outstanding under the Indenture equal to the principal amount thereof plus the accrued interest to the redemption date; provided, however, that if the Determination of Taxability shall include the determination that the interest on a principal amount which is less than all of the Authority Bonds then outstanding, is includable in the gross income of the holders

thereof and the loss of such exemption can be cured by a partial redemption of the Authority Bonds, then only such principal amount of the Series W Bonds shall be redeemed as shall be necessary to cure the loss of such exemption. No decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the holder of an Authority Bond involved in such proceeding or action (1) has given Water Company and the Loan Trustee prompt written notice of a written determination by the Internal Revenue Service (a 30-day or 90-day letter) that interest on the Authority Bonds is includable in the gross income of such holder under Section 103 of the Code, and (2) offers Water Company the opportunity to contest the determination relating to the inclusion of interest on the Authority Bonds in gross income; provided, however that Water Company shall be deemed to have waived its right to contest if it shall not agree to pay all expenses in connection with such contest and to indemnify such holder against any additional tax incurred as a result of such contest.

#### Extraordinary Mandatory Redemption

The Series W bonds are subject to extraordinary mandatory redemption in whole prior to maturity at a redemption price equal to the principal amount of such Bonds outstanding plus accrued interest to the redemption date within sixty (60) days of receipt by the Trustee of the Authority's written notice that any one of the following events has occurred:

(i) if Water Company ceases to operate the Project Facilities or causes the Project Facilities to cease to be operated as an authorized "project" under the New Jersey Economic Development Authority Act for twelve (12) consecutive months without first obtaining the prior written consent of the Authority; or

(ii) if any representation or warranty made by Water Company in the Authority Loan Agreement or in any report, certificate, financial statements or other instrument furnished in connection with the Loan Agreement shall prove to be false or misleading in any material respect when made.

Extraordinary Optional Redemption

The Series W Bonds may be redeemed at the option of Water Company at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date if any one of the following events has occurred:

(i) as a result of any change in the Constitution of the United States of America, the Constitution of the State of New Jersey, or of any final legislative or executive action of the United States of America or of the State of New Jersey or any political subdivision thereof, or by final decree or judgment of any court after the contest thereof by Water Company, the Authority Loan Agreement shall have become void or unenforceable or legally impossible of performance in accordance with the intent and purpose of the Authority or Water Company; or

(ii) unreasonable burdens or excessive liabilities shall have been imposed upon Water Company by reason of the operation of the Project Facilities, including, without limitation, Federal, State or other ad valorem, property, income or other taxes, not being imposed on the date of issuance and delivery of the Authority Bonds, other than ad valorem taxes currently levied upon privately owned property used for the same general purpose as the Project Facilities.

Mandatory Redemption in the Event of Redemption of Authority Bonds.

In the event the Authority Bonds are called for redemption in whole or in part in accordance with the terms thereof, the Series W Bonds shall be subject to mandatory redemption on the redemption date established for the Authority Bonds in an aggregate principal amount equal to the principal amount of Authority Bonds so called for redemption, and at a redemption price equal to the redemption price for the Authority Bonds.

Section 2. The Series W Bonds and the certificate of authentication of the Trustee to be executed thereon shall be substantially in the form prescribed for registered bonds without coupons in the Second Supplemental Indenture (except that there may be deleted therefrom all references to the issuance of coupon bonds in exchange therefor); shall be in the form attached to this Twenty-Second Supplemental Indenture as Exhibit A; and shall contain appropriate references to this Twenty-Second Supplemental Indenture in addition to the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental

Indentures and appropriate changes with respect to the aggregate principal amount, interest rate, interest payment dates, redemption dates and provisions, and maturity date of the Series W Bonds, and with appropriate reference to the provision of the Fourth Supplemental Indenture that, subject to certain limitations, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented only as provided in the Mortgage and except that the Series W Bonds shall not contain any references to a sinking fund.

Section 3. Subject to the provisions of the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures, forthwith upon the execution and delivery of this Twenty-Second Supplemental Indenture, or from time to time thereafter, Series W Bonds in an aggregate principal amount of \$23,000,000 may be executed by Water Company and delivered to the Trustee for authentication and shall thereupon be authenticated and delivered by the Trustee upon the written order of Water Company, signed by its President or a Vice President and its Treasurer or Assistant Treasurer, in such denominations and registered in such name or names as may be specified in such written order.

Section 4. Sections 4(A)(iii) and (iv) of Article VIII of the Second Supplemental Indenture shall not be available to the Water Company with respect to the Series W Bond. Water Company shall issue its written order under Section 4(a)(i) or (ii), as the case may be, reasonably promptly after receipt by the Trustee of proceeds of sale, eminent domain or insurance (not otherwise to be paid directly to the Company under the Mortgage as supplemented by the Supplemental Indentures including this Twenty-Second Supplemental Indenture), so as to avoid any risk that the Authority Bonds might be deemed "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended, or otherwise adversely affect the tax treatment of the Authority Bonds.

Section 5. The obligations of Water Company under the Series W Bonds include the payment of sufficient funds to permit the payment of reasonable compensation and expenses of the Loan Trustee under the Trust Indenture and all other amounts due under the Authority Loan Agreement and Section 10.04 of the Trust Indenture.

ARTICLE II

Amendment of Mortgage

Section 1. In order to correct an unintentional typographical error contained in Section 8 of Article II of the Eighteenth Supplemental Indenture, such section shall be deleted and is restated in its entirety as follows:

Effective as of the date that all of the Series Q Bonds are retired or defeased the requirements limiting the issuance of additional First Mortgage Bonds set forth in Subsection 4(b) of the first paragraph of Section 4 of Article I of the Sixteenth Supplemental Indenture shall be deleted.

ARTICLE III

Miscellaneous

Section 1. The provisions of the Mortgage as modified, amended and supplemented by the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures, and as modified and extended by this Twenty-Second Supplemental Indenture are hereby reaffirmed. Except insofar as they are inconsistent with the provisions hereof, the provisions of the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures with respect to the Series C, Series D, Series E, Series F, Series G, Series H, Series I, Series J, Series K, Series L, Series M, Series N, Series O, Series P, Series Q, Series R, Series P-1, Series S, Series T, Series U and Series V Bonds shall apply to the Series W Bonds to the same extent as if they were set forth herein in full. Unless there is something in the subject or context repugnant to such construction, each reference in the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures to the Mortgage or any of such Supplemental Indentures shall be construed as also referring to this Twenty-Second Supplemental Indenture. The Mortgage and all indentures supplemental thereto may be modified, amended or supplemented by Water Company with prior notice by the Water Company to but without the consent of any of the bondholders to accomplish any more of the following:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Mortgage or any indenture supplemental thereto;
- (2) to cure any ambiguity, supply any omission, or cure or correct any defect in any description of the Mortgaged Property, if such action is not adverse to the interests of the bondholder;
- (3) to insert such provisions clarifying matters or questions arising under the Mortgage or any indenture supplemental thereto as are necessary or

desirable and are not contrary to or inconsistent with the Mortgage or any indenture supplemental thereto as in effect; or

- (4) to restate the Mortgage as supplemented by the Supplemental Indentures as a single integrated document which may add headings, an index and other provisions aiding the convenience of use.

The terms and provisions of the Series W Bonds shall not be amended by, and the Series W Bond shall not be entitled to the benefit of any covenant, term or condition contained in any subsequent supplemental indenture without the express written concurrence of the Water Company.

Section 2. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity and sufficiency of this Twenty-Second Supplemental Indenture or the due execution hereof by Water Company or for the recitals contained herein, all of which recitals are made by Water Company solely.

Section 3. The Trustee hereby accepts the trusts hereby declared and provided and agrees to perform the same upon the terms and conditions in the Mortgage, the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, the Eighteenth, Nineteenth, Twentieth and Twenty-First Supplemental Indentures and this Twenty-Second Supplemental Indenture set forth.

Section 4. The Trustee hereby authorizes the Loan Trustee to accept payments made by Water Company of principal of, premium, if any, and interest on the Series W Bonds.

Section 5. This Twenty-Second Supplemental Indenture has been executed simultaneously in several counterparts and all of said counterparts executed and delivered, each as an original, shall constitute one and the same instrument.

Section 6. Although this Twenty-Second Supplemental Indenture, for convenience and for the purpose of reference, is dated as of March 1, 1998, the actual date of execution by Water Company and the Trustee is as shown by their respective acknowledgments hereto annexed, and the actual date of delivery hereof by Water Company and the Trustee is the date of the closing of the sale of the Series W Bonds by Water Company.

Section 7. In any case where the payment of interest on or principal of the Series W Bonds or the date fixed for

redemption of any Series W Bonds shall be a Saturday or Sunday or a legal holiday or a day on which banking institutions in the city of the principal corporate trust office of the Loan Trustee is located are authorized by law to close, then payment of interest or principal or redemption price need not be made on such date but may be made on the next proceeding business day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest on such payment shall accrue after such date.

THE MORTGAGOR HEREBY DECLARES AND ACKNOWLEDGES THAT IT HAS RECEIVED, WITHOUT CHARGE, A TRUE COPY OF THIS MORTGAGE.

IN WITNESS WHEREOF said MIDDLESEX WATER COMPANY has caused these presents to be signed by its President and its corporate seal to be hereunto affixed, and duly attested by its Secretary; and in testimony of its acceptance of the trusts created, FIRST UNION NATIONAL BANK, as successor to United Counties Trust Company, has caused these presents to be signed by its President or a Vice President and its corporate seal to be hereunto affixed and duly attested by its Secretary or an Assistant Secretary, as of the day and year first above written.

ATTEST: MIDDLESEX WATER COMPANY

\_\_\_\_\_  
Marion F. Reynolds  
Vice President, Secretary  
and Treasurer

By: \_\_\_\_\_  
J. Richard Tompkins  
Chairman of the Board and  
President

ATTEST: FIRST UNION NATIONAL BANK

\_\_\_\_\_  
Paul O'Brien  
Assistant Vice President

By: \_\_\_\_\_  
Thomas J. Brett  
Corporate Trust Officer

STATE OF NEW JERSEY:  
                          : ss:  
COUNTY OF ESSEX      :

BE IT REMEMBERED, that on this \_\_\_ day of \_\_\_\_\_, 1998, before me, the subscriber, personally appeared Marion F. Reynolds, who, being by me duly sworn according to law, on her oath deposes and says and makes proof to my satisfaction that she is the Vice President, Secretary and Treasurer of Middlesex Water Company, one of the corporations named in and which executed the foregoing Twenty-Second Supplemental Indenture; that she is the attesting witness to said Twenty-Second Supplemental Indenture; that she well knows the seal of said corporation and that the seal thereto affixed is the proper common or corporate seal of Middlesex Water Company; that J. Richard Tompkins is Chairman of the Board and President of said corporation; that this deponent saw the said J. Richard Tompkins as such Chairman of the Board and President sign said Twenty-Second Supplemental Indenture, and affix said seal thereto and heard him declare that he signed, sealed and delivered the same as the voluntary act and deed of the said corporation, for the uses and purposes therein expressed, he being duly authorized by resolution of the Board of Directors of the said corporation.

-----  
Marion F. Reynolds

Sworn and subscribed to  
before me the day and year  
aforesaid.

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STATE OF NEW JERSEY:  
                  : ss:  
COUNTY OF ESSEX  :

BE IT REMEMBERED, that on this \_\_\_ day of \_\_\_\_\_, 1998, before me, the subscriber, personally appeared Paul O'Brien, who, being by me duly sworn according to law, on his oath deposes and says and makes proof to my satisfaction that he is the Assistant Vice President of First Union National Bank, one of the corporations named in and which executed the foregoing Twenty-Second Supplemental Indenture; that he is the attesting witness to said Twenty-Second Supplemental Indenture; that he well knows the seal of First Union National Bank and that the seal thereto affixed is the proper common or corporate seal of First Union National Bank; that Thomas J. Brett is the Corporate Trust Officer of said corporation; that this deponent saw the said Thomas J. Brett, as Corporate Trust Officer sign said Twenty-Second Supplemental Indenture, and affix said seal thereto and heard him declare that he signed, sealed and delivered the same as the voluntary act and deed of the said corporation, for the uses and purposes therein expressed, he being duly authorized by resolution of the Board of Directors of the said corporation.

-----  
Paul O'Brien  
Assistant Vice President

Sworn and subscribed to  
before me the day and year  
aforesaid.

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TRUST INDENTURE

THIS INDENTURE, dated as of March 1, 1998, by and between the NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY (the "Authority"), a public body corporate and politic constituting an instrumentality of the State of New Jersey, and PNC BANK, NATIONAL ASSOCIATION, as Trustee (the "Trustee"), a national banking association organized and existing under the laws of the United States of America, having a corporate trust office and place of business in East Brunswick, New Jersey.

W I T N E S S E T H:

WHEREAS, the New Jersey Economic Development Authority Act, constituting Chapter 80 of the Pamphlet Laws of 1974 of the State of New Jersey, approved on August 7, 1974, as amended and supplemented (the "Act"), declares it to be in the public interest and to be the policy of the State of New Jersey (the "State") to foster and promote the economy of the State, increase opportunities for gainful employment and improve living conditions, assist in the economic development or redevelopment of political subdivisions within the State, and otherwise contribute to the prosperity, health and general welfare of the State and its inhabitants by inducing manufacturing, industrial, commercial, recreational, retail, service and other employment promoting enterprises by making available financial assistance, to locate, remain or expand within the State; and

WHEREAS, the Authority, to accomplish the purposes of the Act, is empowered to extend credit to such employment promoting enterprises in the name of the Authority, on such terms and conditions and such manner as it may deem proper for such consideration and upon such terms and conditions as the Authority may determine to be reasonable; and

WHEREAS, Middlesex Water Company (the "Company") has applied to the Authority for financial assistance in the aggregate principal amount of \$23,000,000, the proceeds to be used by the Company to finance upgrade, expansion and addition of facilities at the Company's Carl J. Olsen Treatment Plant in Edison, New Jersey, and related water intake station in New Brunswick, New Jersey (the "Project Facilities" or the "Project"); and

WHEREAS, the Authority has determined to loan the Company \$23,000,000 from the sale of its Water Facilities Revenue Bonds (Middlesex Water Company Project), Series 1998 in order to acquire and construct the Project pursuant to a Loan Agreement by and between the Authority and the Company dated as of March 1, 1998 (the "Agreement"); and

WHEREAS, the Authority at a meeting thereof duly convened and held on February 10, 1998, has duly authorized the execution and delivery of this Indenture and the issuance thereunder of the Bonds (as hereinafter defined) upon and subject to the terms and conditions hereinafter set forth; and

WHEREAS, all acts and things have been done and performed, which are necessary to make the Bonds when executed and issued by the Authority, authenticated by the Trustee and delivered, the valid and binding legal obligations of the Authority in accordance with their terms and to make this Indenture a valid and binding agreement for the security of the Bonds authenticated and delivered under this Indenture;

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That, to provide for the payment of principal or Redemption Price (as the case may be) and interest in respect to all Bonds issued and outstanding under this Indenture, the rights of the Bondholders (as hereinafter defined) and the performance of the covenants contained in said Bonds and herein, and the payment of all other amounts due under this Indenture, the Authority has caused the Company to deliver to the

Trustee, First Mortgage Bonds, 5.35% Series W in the principal amount of \$23,000,000 in order to secure the Series 1998 Bonds, and does hereby sell, assign, transfer, set over and pledge unto PNC Bank, National Association, as Trustee, its successors in trust and its assigns forever, all the right, title and interest of the Authority in and to, and remedies under, the First Mortgage Bonds and the Agreement (except for the Reserved Rights of the Authority as set forth in the Agreement) as the same relate to the Bonds issued under this Indenture, and all the right, title and interest of the Authority in and to the Revenues, the Bond Redemption Fund, the Construction Fund, the Debt Service Fund and the Revenue Fund (as such terms are hereinafter defined);

TO HAVE AND TO HOLD all and singular said right, title and interest of the Authority; granted, bargained, sold, assigned, transferred, enfeoffed, conveyed, mortgaged, pledged, aliened, remised, released, confirmed and set over by the Authority as aforesaid or intended so to be, unto the said Trustee, its successors and assigns, forever.

IN TRUST, NEVERTHELESS, under and subject to the terms and conditions hereinafter set forth, for the equal benefit, protection and security of the Holders of any and all of the Bonds, all of which regardless of the time or times of their issuance or maturity, shall be of equal rank, without preference, priority or distinction of any of the Bonds over any other thereof, except as otherwise provided in or pursuant to this Indenture and/or the Twenty-Second Supplemental Mortgage Indenture (the "Supplemental Mortgage Indenture"), and for securing the observance and performance of all the conditions, covenants, promises, stipulations, agreements and terms and provisions of this Indenture and the uses and purposes herein expressed and declared. It is hereby expressly declared that the Bond Insurer shall be deemed to be a third-party beneficiary of this Indenture, so long as the Bond Insurer is not in default of its obligations under the Bond Insurance Policy.

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01. Definitions. As used or referred to in this Indenture, unless a different meaning clearly appears from the context:

"Act" means the New Jersey Economic Development Authority Act, constituting Chapter 80 of the Pamphlet Laws of 1974 of the State of New Jersey, approved on August 7, 1974, as amended and supplemented;

"Agreement" means the Loan Agreement dated as of March 1, 1998 between the Authority and the Company;

"Articles" and "Sections" mentioned by number are the respective Articles and Sections of this Indenture so numbered;

"Authority" means the New Jersey Economic Development Authority, a public body corporate and politic constituting an instrumentality of the State of New Jersey, exercising public and essential governmental functions and its successors or assigns;

"Authority Officer" means the Chairman, Vice Chairman, Executive Director, Deputy Director, Secretary, Assistant Secretary or Chief Financial Officer and, when used with reference to an act or document, also means any other person authorized by resolution of the Authority to perform such act or sign such document;

"Bond" or "Bonds" means the \$23,000,000 aggregate principal amount of Water Facilities Revenue Bonds (Middlesex Water Company Project), Series 1998, authenticated and delivered under and pursuant to this Indenture;

"Bondholder" or the term "Holder" or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any Outstanding Bond or Bonds, respectively;

"Bond Counsel" means St. John & Wayne, L.L.C., or any other attorney or firm of attorneys of nationally recognized standing on the subject of municipal bonds appointed by the Authority or the Company and not unacceptable to the Trustee;

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring payment, when due, of the principal of and interest on the Series 1998, as provided therein;

"Bond Insurer" means MBIA Insurance Corporation, its successors or assigns;

"Bond Insurer Default" means the failure by the Bond Insurer to make a payment when due under the Bond Insurance Policy or if a bankruptcy or insolvency proceeding has been instituted by or against the Bond Insurer and the same has not been dismissed within sixty (60) days following the institution of such proceedings;

"Bond Redemption Fund" means the fund so designated and established pursuant to Section 5.05 hereof;

"Bond Year" when used in the context of the rebate requirement imposed under Section 148(f) of the Code means, with respect to the first Bond Year, the period beginning on the date of issuance of the Bonds, i.e., the date of

initial delivery of the Bonds in exchange for the issue price from the Purchaser, and ending one (1) year later or the close of business or such earlier date selected by the Authority at the direction of the Company which is the last day of a compounding interval used in computing the Yield on the Bonds. Each subsequent Bond Year begins on the day after the expiration of the preceding Bond Year;

"Business Day" means any day upon which either the Trustee or the Bond Insurer is not authorized or required by law or executive order to remain closed and on which the New York Stock Exchange remains open;

"Certified Resolution" means a copy of one or more resolutions or amending resolutions certified by the Secretary or Assistant Secretary of the Authority under its seal to have been duly adopted by the Authority and to be in effect on the date of such certification;

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder from time to time in effect;

"Company" means Middlesex Water Company, a corporation organized and in good standing under the laws of the State of New Jersey and its successors or assigns;

"Construction Fund" means the fund so designated and established pursuant to Section 4.01 hereof;

"Cost" or "Costs", as used herein, shall include those items set forth in Section 3(c) of the Act and all expenses as may be necessary or incident to acquiring, constructing or installing the Project Facilities;

"Counsel" means an attorney at law or law firm (who may be counsel for the Trustee, the Authority or the Company) designated by the party offering an opinion as its counsel and not unsatisfactory to the Trustee;

"Dated Date" shall mean March 1 1998;

"Debt Service Fund" means the fund so designated and established pursuant to Section 5.03 hereof;

"DTC" shall mean The Depository Trust Company, having a principal business office at 55 Water Street, New York, New York 10041;

"Event of Default" means any of the events specified in Section 9.01 hereof to be an Event of Default;

"Fiscal Year" means the twelve months ending December 31 or such other twelve month period as the Company should determine;

"Funds" shall mean the Revenue Fund, Bond Redemption Fund, Debt Service Fund, Rebate Fund and the Construction Fund;

"First Mortgage Bonds" means the First Mortgage 5.35% Bond, Series W in the principal amount of \$23,000,000 of the Company issued under and secured by the Mortgage Indenture and delivered to the Trustee;

"Government Obligations" shall mean (i) direct and general obligations of the United States of America; (ii) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGs"); (iii) direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (iv) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: (a) U.S.

Export-Import Bank (direct obligations or fully guaranteed certificates of beneficial ownership), (b) Farmers Home Administration (certificates of beneficial ownership), (c) Federal Financing Bank, (d) Federal Housing Administration Debentures, (e) General Services Administration (participation certificates), (f) U.S. Maritime Administration (guaranteed Title XI financing), (g) U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds, and (h) U.S. Department of Housing and Urban Development (Project Notes, Local Authority Bonds, New Communities Debentures U.S. government guaranteed debentures;

"Indenture" means this Trust Indenture, as amended or supplemented;

"Insurance Paying Agent" means State Street Bank and Trust Company, or its successor under the Bond Insurance Policy;

"Interest Payment Date" means August 1, 1998 and each February 1 and August 1 thereafter;

"Investment Obligations" means Government Obligations and the investments included below:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

B. Bonds, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities being only permitted if the Trustee shall have received written confirmation from the Underwriter that such securities have been stripped by the agency itself):

1. U.S. Export-Import Bank  
Direct obligations or fully guaranteed certificates
2. Farmers Home Administration  
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures  
(FHA)
5. General Services Administration  
Participation certificates
6. Government National Mortgage Association  
GNMA - guaranteed mortgage-backed bonds  
GNMA - guaranteed pass-through obligations
7. U.S. Maritime Administration  
Guaranteed Title XI financing
8. Department of Housing and Urban Development (HUD)  
Project Notes  
Local Authority Bonds  
New Communities Debentures - U.S. government guaranteed  
debentures

U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following U.S. government agencies (stripped securities are only permitted if such securities that such securities have been stripped by the agency itself):

1. Federal Home Loan Bank System  
Senior debt obligations
2. Federal Home Loan Mortgage Corporation  
(FHLMC or "Freddie Mac")  
Participation Certificates  
Senior debt obligations
3. Federal National Mortgage Association (FNMA or "Fannie Mae")  
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or "Sallie Mae")  
Senior debt obligations
5. Resolution Funding Corp. (REFCORP)
6. Farm Credit System  
Consolidated System Bonds and Notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating from Standard & Poor's Ratings Group of AAAM-G, AAAM or AAM.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Trustee must have a perfected security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including GIC's, acceptable to the Bond Insurer.

H. Commercial paper rated, at the time of purchase, A-1 or better by Standard and Poor's Ratings Group and "Prime - 1" or better by Moody's Investors Service, Inc.

I. Bonds or notes issued by any state or municipality which are rated by Moody's Investors Service, Inc. and Standard & Poor's Ratings Group in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's Investors Service, Inc. and "A-1" or "A" or better by Standard &

Poor's Ratings Group.

K. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm which will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements ("repos") must satisfy the following criteria or be approved by the Bond Insurer:

1. Repos must be between the Trustee and a dealer bank or securities firm
  - (a) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Ratings Group and Moody's Investors Service, Inc.
  - (b) Banks rated "A" or above by Moody's Investors Service, Inc. and Standard & Poor's Rating Services.
2. The written repo contract must include the following:
  - (a) Securities which are acceptable for transfer are:
    - (i) Direct U.S. governments
    - (ii) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC).
  - (b) The term of the repo may be up to 30 days
  - (c) The collateral must be delivered to the Trustee or a third party serving as custodian for the Trustee before/simultaneous with payment (perfection by possession of certificated securities).
  - (d) Valuation of Collateral

The securities must be valued weekly, marked-to-market at current market price plus accrued interest by the third party custodian. The value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the entity, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral as FNMA or FHLMC, then the value of the collateral must equal 105%.

3. Legal opinion which must be delivered to the Trustee:

Repo meets guidelines under state law, if applicable to the Company, for legal investment of public funds.

"Mortgage Indenture" means the Indenture of Mortgage dated as of April 1, 1927 by and between the Company and First Union National Bank, as successor trustee, as supplemented by the Supplemental Mortgage Indenture;

"Mortgage Trustee" means First Union National Bank, as successor trustee under the Mortgage Indenture, or any successor thereto;

"Outstanding", when used with reference to Bonds and as of any particular date, describes all Bonds theretofore and thereupon being authenticated and delivered except (a) any Bond cancelled by the Trustee at or before said date, (b) any Bond for the payment or redemption of which either (i) cash, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, except any Bond with respect to which the principal and/or interest thereon has been paid by the Bond Insurer pursuant to the Bond Insurance, or (ii) Government Obligations in the amounts, of the maturities and otherwise conforming with the provisions of Section 13.01, shall have theretofore been deposited with the Trustee in trust whether upon or prior to maturity or the redemption date of such Bonds and, except in the case of a Bond to be paid at maturity, of which notice of redemption shall have been given or provided for in accordance with Article VII, and (c) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the provisions of this Indenture;

"Paying Agent" means PNC Bank, National Association, and its successor or successors of any other corporation or association which may at any time be substituted in its place pursuant to this Indenture;

"Payment Date" means the (i) scheduled date for the payment of the principal of or interest on the Bonds and (ii) the date set by the Trustee for the payment of the principal or redemption premium, if any, of or interest on the Bonds upon redemption prior to the scheduled payment dates;

"Principal Installment Date" means any date on which the principal of any Bonds shall mature and with respect to the Bond Insurance Policy, the redemption date of Bonds as a result of a determination of taxability;

"Project" shall have the meaning set forth in the recitals hereto;

"Project Facilities" shall have the meaning set forth in the recitals hereto;

"Purchaser" shall mean Prudential Securities Inc., whose bid for the Series 1998 Bonds has been accepted by the Authority and approved by the Company;

"Rebate Fund" shall mean the fund so designated and established pursuant to Section 5.09 hereof;

"Redemption Price", when used with respect to a Bond, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with its terms pursuant to this Indenture;

"Requisition Form" shall mean the form of requisition required by Section 3.02(a) of the Loan Agreement as a condition precedent to the disbursement of moneys from the Construction Fund, in the form made part of the Record of Proceedings;

"Revenues" means (i) all amounts payable in respect of, or proceeds from

the First Mortgage Bonds, (ii) investment income in respect of any money held by the Trustee, and (iii) any other amounts paid by the Company to the Trustee pursuant to the Agreement (except for amounts payable under Sections 6.06, 7.12, 8.05 and 9.03 of the Agreement);

"Revenue Fund" means the fund so designated and established pursuant to Section 5.01 hereof;

"Supplemental Mortgage Indenture" means the Twenty-Second Supplemental Mortgage Indenture;

"Trustee" means PNC Bank, National Association, East Brunswick, New Jersey, with its payment office in Pittsburgh, Pennsylvania, and its successors in trust hereunder;

"Twenty-Second Supplemental Indenture" means the twenty-second supplement to the Mortgage Indenture, by and between the Company and First Union National Bank, as successor trustee, dated as of March 1, 1998;

"Yield" shall mean a yield as shall be determined under Section 1.148-4 of the Treasury Regulations; and

The words "hereof", "herein", "hereto", "hereby" and "hereunder" (except in the form of Bonds) refer to this entire Indenture.

Terms not otherwise defined herein shall have the meanings provided in the Agreement.

ARTICLE II

AUTHORIZATION, TERMS AND EXECUTION OF BONDS

Section 2.01. Issuance of Bonds. The Bonds issued under and secured by this Indenture shall be the only series of Bonds to be issued hereunder, any other provision hereof notwithstanding.

Section 2.02. Particular Terms of the Bonds. There shall be issued under and secured by this Indenture Bonds for the purpose of financing the Project to be designated "Water Facilities Revenue Bonds (Middlesex Water Company Project), Series 1998" in the aggregate principal amount of \$23,000,000, which shall contain substantially the terms recited in the form of the Bonds in Exhibit A hereto. The Bonds shall provide that principal or Redemption Price, and interest in respect thereof, shall be payable only out of Revenues.

Section 2.03. General Terms of Bonds. Every Bond shall be payable, with respect to principal or Redemption Price, and interest, in any coin or currency of the United States of America which, at the respective dates of payment thereof, is legal tender for payment of public and private debts. Every Bond shall be issued in the form of a fully registered Bond and payable to a named person or registered assigns and shall be substantially in the form as provided in this Indenture. Interest on the Bonds shall be payable from and after its date of initial issuance first on August 1, 1998 and on February 1 and August 1 each year thereafter to any Holder of Bonds as of the close of business on the January 15 or July 15 next preceding such interest payment date until the Authority's obligation with respect to the payment of the principal sum thereof shall be paid. Interest shall be computed on the basis of a 360-day year composed of twelve 30-day months. Upon written request received not later than the applicable record date, any holder of Bonds aggregating \$1,000,000 or more shall be entitled to receive interest payments from the Trustee by wire transfer. All Bonds shall each be of the denomination of \$5,000 or any integral multiple of \$5,000 and shall each be in substantially the form provided for in Exhibit A hereto. The Bonds shall be initially dated the Dated Date. The Bonds shall mature on February 1, 2038. Thereafter, each Bond shall be dated as of the date six months preceding the interest payment date next following the date of authentication thereof by the Trustee, except that (a) if such date of such authentication shall be an interest payment date thereof, said Bond shall be dated as of such date of authentication, or (b) if interest on such Bond shall not have been paid in full in accordance with its terms, then, notwithstanding any of the foregoing provisions of this Section, such Bond shall be dated as of the date to which interest has been paid in full on such Bond. Temporary bonds in authorized denominations specified by the Purchaser are authorized to be issued, authenticated and delivered to the Purchaser thereof in lieu of and until such time as bonds in definitive form are available for authentication and delivery.

Section 2.04. Execution of Bonds. The Bonds shall be executed in the name of the Authority by the manual or facsimile signature of its Chairman, Executive Director, or Managing Director of Investment Banking or any other authorized officer of the Authority and its corporate seal shall be thereunto affixed, imprinted or otherwise reproduced and attested by the manual or facsimile signature of the Secretary or Assistant Secretary. In case any officer who shall have signed, sealed or attested any of the Bonds shall cease to be such officer of the Authority before the Bonds so signed, sealed or attested shall have been authenticated and delivered by the Trustee, such Bonds may nevertheless be authenticated and delivered as herein provided as if the person who so signed, sealed or attested such Bonds had not ceased to be such officer. Any Bond may be signed, sealed or attested on behalf of the Authority

by any person who, at the date of such act, shall hold the proper office, notwithstanding that at the date of such Bond such person may not have held such office.

Section 2.05. Authentication of Bonds. The Bonds shall bear thereon a certificate of authentication, substantially in the form set forth hereinafter in this Indenture, duly executed by the Trustee. Only such Bonds shall be entitled to any right or benefit under this Indenture. No Bond shall be valid or obligatory for any purpose unless such certificate of authentication upon such Bond shall have been duly executed by the Trustee, and such certificate of authentication by the Trustee upon any Bond executed on behalf of the Authority shall be conclusive and the only evidence that the Bond so authenticated has been duly authenticated and delivered under this Indenture and that the holder thereof is entitled to the benefit of this Indenture.

Section 2.06. Transfer and Registry of Bonds and Agency Therefor. The Authority shall cause the Trustee to maintain and keep registry books for the registration and transfer of Bonds, and, upon presentation and surrender thereof for such purpose at the designated office of the Trustee, the Trustee shall register or cause to be registered therein, and permit to be transferred thereon or to be exchanged, under such reasonable regulations as the Authority or the Trustee may prescribe, any Bond entitled to registration, transfer or exchange. The Trustee is hereby appointed the agent of the Authority for such registration, transfer or exchange of Bonds. The Bond Insurer shall be permitted by the Authority and the Trustee to have access and to make copies of the books and records of the Trustee relating to the Bonds, upon reasonable notice, at any reasonable time.

Section 2.07. Transfer of Bonds. The Bonds shall be transferable only upon the books of the Authority at the designated office of the Trustee, by the registered owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or such duly authorized attorney. Upon the transfer of any such Bond, the Authority shall execute, and the Trustee shall authenticate and deliver, a new Bond or Bonds in authorized denominations registered in the name of the transferee of the same aggregate principal amount as the surrendered Bond.

Section 2.08. Ownership of Bonds and Effect of Registration. The Authority, the Trustee and any Paying Agent may treat and consider the person in whose name any registered Bond for the time being shall be registered as the Holder and absolute owner thereof, whether such Bond shall be overdue or not, for the purpose of receiving payment of the principal or Redemption Price thereof or interest thereon and for all other purposes whatsoever; and payment of, or on account of, the principal or Redemption Price of or interest on such Bond shall be made only to, or upon the order of, such registered owner thereof, but such registration may be changed or discharged as herein provided. All payments made as in this Section provided shall be valid and effectual to satisfy and discharge the liability upon the several Bonds to the extent of the sum or sums so paid.

Section 2.09. Reissuance of Mutilated, Destroyed, Stolen or Lost Bonds. In case any Outstanding Bond shall become mutilated or be destroyed, stolen, or lost, the Trustee shall authenticate and deliver a new bond of like tenor, number and amount as the Bond so mutilated, destroyed, stolen, or lost, in exchange and substitution for such mutilated Bond and upon surrender of such mutilated Bond or, in lieu of and substitution for the Bond, destroyed, stolen or lost, upon filing with the Trustee evidence satisfactory to the Authority and the Trustee that such Bond has been destroyed, stolen or lost, and upon furnishing the Authority and the Trustee with indemnity satisfactory to them and complying with such other reasonable regulations as the Authority and the

Trustee may incur in connection therewith. In lieu of reissuing a mutilated, destroyed, lost or stolen Bond which is due and payable, the Trustee may pay the amount due on such Bond to the owner thereof, provided all the other requirements of this Section have been met.

Section 2.10. Regulations with Respect to Registrations, Exchanges and Transfers. In all cases in which the privilege of transferring Bonds is exercised, the Authority shall execute and the Trustee shall authenticate Bonds in accordance with the provisions of this Indenture. For every transfer of Bonds, the Authority and the Trustee may charge a sum sufficient to reimburse them for any tax, fee or other governmental charge required to be paid and any mailing, delivery or insurance expense incurred with respect to such transfer, which sum shall be paid by the person requesting such transfer as a condition precedent to the exercise of the privilege of effecting such transfer. During the period from the record date (January 15 or July 15, as the case may be) next preceding any interest payment date of the Bonds or, in the case of any proposed redemption of Bonds, during the fifteen (15) days next preceding the date of the notice of such redemption, neither the Authority nor the Trustee shall be required to make any transfer of Bonds under the provisions of this Article.

Section 2.11. Cancellation and Destruction of Surrendered Bonds. Bonds surrendered for payment, redemption or transfer and Bonds purchased from any moneys held by the Trustee hereunder or surrendered to the Trustee by the Authority or by the Company shall be cancelled and destroyed by the Trustee. If surrendered to the Authority or any Paying Agent, such Bonds shall be cancelled by it and delivered to the Trustee for destruction. The Trustee shall deliver to the Authority and to the Company certificates of destruction in respect of all such Bonds. No such Bonds shall be deemed Outstanding under this Indenture and no Bonds shall be issued in lieu thereof (except for a Bond transferred pursuant to Section 2.07 hereof).

Section 2.12. Book-Entry Bonds. (i) Except as provided in subsection (iii) of this Section, the Bonds shall all be registered as to both principal and interest in the name of and held by Cede and Co., as nominee of DTC. Payment of both principal and interest for any Bond registered as of the applicable record date in the name of Cede and Co., as nominee of DTC, shall be made by the Trustee (subject to the provisions of Section 5.04 hereof) with same day funds to the account of Cede and Co., as nominee of DTC, on the interest or principal payment date for the Bonds, as the case may be, at the address indicated on the registry books of the Authority kept by the Trustee.

(ii) The Bonds shall be initially issued in the form of one authenticated fully registered Bond. Upon initial issuance, the ownership of such Bond shall be registered in the registry books of the Authority kept by the Trustee in the name of Cede and Co., as nominee of DTC. The Trustee, Paying Agent and the Authority may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal or redemption price of or interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Indenture, registering the transfer of the Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever; and neither the Trustee, Paying Agent nor the Authority shall be affected by any notice to the contrary. Neither the Trustee, the Paying Agent nor the Authority shall have any responsibility or obligation to any DTC participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any DTC participant, or any other person which is not shown on the registration books of the Trustee as being a Bondholder. The Authority, the Trustee and the Paying Agent shall have no responsibility with respect to the accuracy of any records maintained by DTC, Cede and Co., or any DTC participant with respect to

any ownership interest in the Bonds; the payment by DTC or any DTC participant to any beneficial owner of any amount in respect of the principal or Redemption Price of or interest on the Bonds; the delivery to any DTC participant or any beneficial owner of any notice which is permitted or required to be given to Bondholders under this Indenture; selection by DTC or any DTC participant of any person to receive payment in the event of a partial redemption of the Bonds; or any consent given or other action taken by DTC as Bondholder. The Trustee or Paying Agent, as the case may be (subject to the provisions of Section 5.04 hereof), shall pay all principal of and premium, if any, and interest on the Bonds only to or "upon the order of" (as that term is used in the Uniform Commercial Code as adopted in the State of New Jersey) Cede and Co., as nominee of DTC, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid without the requirement that DTC surrender the Bond so redeemed; provided that DTC shall deliver to the Trustee a written confirmation of such partial redemption and thereafter the records of the Trustee shall be conclusive as to the amount of Bonds which have been redeemed. Upon delivery by DTC to the Trustee of written notice to the effect that DTC had determined to substitute a new nominee in place of Cede and Co., and subject to the provisions herein with respect to record dates, the word "Cede and Co.", in this Indenture shall refer to such successor nominee.

(iii) In the event the Authority in its sole discretion and with the prior written consent of the Company determines to make available to the beneficial owners of the Bonds definitive Bonds, the Authority may notify DTC and the Trustee, in writing, whereupon DTC will notify DTC participants, of the availability through DTC of definitive Bonds. In such event, the Authority shall issue definitive Bonds as designated in writing by DTC and any other Bondholders in appropriate amounts. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law; and the Authority, in its sole discretion, may determine to discontinue the services of DTC with respect to the Bonds upon written notice to DTC. Under such circumstances, the Authority and Trustee shall be obligated to deliver definitive Bonds as described in this Indenture to the beneficial owners thereof. In the event definitive bonds are issued, the provisions of this Indenture shall apply to, among other things, the transfer and exchange of such definitive Bonds and the method of payment of principal of and interest on such definitive Bonds. Whenever DTC requests the Authority and the Trustee to do so, the Trustee and the Authority will cooperate with DTC in taking appropriate action after reasonable written notice (a) to make available one or more separate definitive Bonds evidencing the Bonds to any DTC participant having Bonds credited to its DTC account or (b) to arrange for another securities depository to maintain custody of definitive Bonds.

(iv) In connection with any notice or other communication to be provided to Bondholders pursuant to this Indenture with respect to any consent or other action to be taken by Bondholders, the Authority or the Trustee, as the case may be, the Trustee shall establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date to the extent possible.

(v) The expense of providing definitive Bonds shall be borne by the Company.

ARTICLE III

AUTHENTICATION AND DELIVERY OF BONDS

Section 3.01. Authorization of Bonds. The aggregate principal amount of Bonds which may be executed by the Authority and authenticated by the Trustee and delivered and secured by this Indenture is limited to the \$23,000,000 aggregate principal amount of Series 1998. This Indenture creates and shall be and constitute a continuing, irrevocable and exclusive lien upon, and pledge of, the Revenues, and the income earned by the investment of funds under this Indenture to the extent provided in this Indenture. All Bonds issued and to be issued hereunder are, and are to be, to the extent provided in this Indenture, equally and ratably secured by this Indenture without preference, priority or distinction on account of the actual time or times of the authentication or delivery or maturity of the Bonds or any of them, so that subject as aforesaid, all Bonds at any time outstanding hereunder shall have, except as otherwise provided herein, the same right, lien and preference under and by virtue of this Indenture and shall all be equally and ratably secured hereby with like effect as if they had all been executed, authenticated and delivered simultaneously on the date hereof, whether the same or any of them shall actually be disposed of at such date, or whether they, or any of them, shall be disposed of at some future date.

Section 3.02. Issuance of Bonds. Bonds in the aggregate principal amount of \$23,000,000 dated the Dated Date shall forthwith be executed by the Authority and delivered to the Trustee for authentication, together with a statement as to the amount and disposition of the proceeds of the sale of such principal amount of said Bonds, and thereupon the Bonds shall be authenticated by the Trustee and shall be delivered to or upon the written order of an Authority Officer. Prior to authentication and delivery of the Bonds by the Trustee, the Trustee shall also have received the following:

(a) A copy of the resolution or resolutions adopted by the Authority authorizing the execution and delivery of the Agreement and this Indenture and the issuance and delivery of the Bonds, duly certified by the Secretary or Assistant Secretary of the Authority, under its corporate seal, to have been duly adopted by the Authority and to be in full force and effect on the date of such certification;

(b) An original executed counterpart of the Agreement and this Indenture;

(c) A certificate of an Authority Officer to the effect that on the basis of the facts, estimates and circumstances (including the covenants of the Authority and the Company in the Agreement and this Indenture) in existence on the date of delivery of the Bonds it is not expected that the proceeds of the Bonds will be used in a manner that will cause the Bonds to be arbitrage bonds within the meaning of Section 148 of the Code, to the date of such certificate, and the regulations adopted or proposed thereunder, and such certificate shall set forth such facts, estimates and circumstances (including the covenants of the Authority and the Company in the Agreement and this Indenture), which may be in brief and summary terms, and shall state that to the best of the knowledge and belief of the officer signing such certificate there are no other facts, estimates or circumstances that would materially change such expectation, and such expectation is reasonable;

(d) The opinion of Counsel for the Company required by Section 6.01 of the Agreement, the opinion of Bond Counsel required by Section 6.02 of the Agreement and the opinion of counsel for the Bond Insurer

required under Section 6.03 of the Agreement;

(e) Certificate of the Company regarding the insurance required to be maintained as provided for in Section 7.02 of the Agreement;

(f) The First Mortgage 5.35% Bond, Series W in the aggregate principal sum of \$23,000,000 registered in the name of the Trustee;

(g) The Bond Insurance Policy;

(h) \$230,000 from the Company representing the proceeds of the security check from the Purchaser of the Bonds for deposit in the Construction Fund; and

(i) \$22,863,341.67 from the Purchaser, representing the par amount of the Bonds, less the Purchaser's discount of \$9,200 and the good faith deposit plus accrued interest.

ARTICLE IV

CONSTRUCTION FUND

Section 4.01. Establishment of Funds. The Authority hereby establishes and creates the Construction Fund, which shall be a special fund held by the Trustee.

Section 4.02. Payments into the Construction Fund; Disbursements. (A) Except for the deposit made pursuant to Section 5.03 hereof to the Debt Service Fund, the remainder of the proceeds from the issuance and sale of the Bonds shall be deposited in the Construction Fund.

(B) The Authority covenants and agrees to take all necessary and appropriate action promptly in authorizing disbursements from the Construction Fund in accordance with the provisions of the Agreement. The Trustee is hereby authorized and directed to make each disbursement required by the provisions of the Agreement and to issue its checks therefor. In connection therewith, the Trustee shall be entitled to rely entirely on the Requisition Form delivered to it pursuant to Section 3.02 of the Agreement and the Trustee shall have no liability to the Authority or the Bondholders with respect to any disbursement made from the Construction Fund supported by any such Requisition Form. The Trustee shall keep and maintain a record of such Requisition Forms and disbursements from the Construction Fund and all such payments therefrom, and after the Project has been completed and a certificate of payment of all costs is or has been filed as provided in Section 4.03 hereof, the Trustee shall file an accounting thereof with the Authority and the Company.

(C) Upon the occurrence of an Event of Default, any moneys held in the Construction Fund, shall be transferred to the Debt Service Fund for application to pay the principal of and interest on the Bonds in accordance with Section 9.10 hereof.

Section 4.03. Completion of the Project. The completion of the Project and payment or provision made for payment of all Costs of the Project shall be evidenced by the filing with the Trustee of the certificate required by the provisions of Section 3.04 of the Agreement. As soon as practicable and, in any event, not more than sixty (60) days from the date of receipt of the certificate referred to in the preceding sentence, any balance remaining in the Construction Fund (except amounts the Company shall have directed the Trustee in writing to retain for any costs of the Project not then due or payable or if due and payable, not then paid) shall without further authorization, be deposited in the Bond Redemption Fund by the Trustee to be used for the partial redemption of the Bonds in authorized denominations in accordance with the provisions of Sections 7.01 and 7.02 hereof.

ARTICLE V

REVENUES AND APPLICATIONS THEREOF

Section 5.01. Revenues and Applications Thereof. There is hereby created and established with the Trustee a Revenue Fund. The Authority hereby assigns, transfers and sets over to the Trustee all the Revenues and all the Authority's interest in and to the Agreement and directs payment to the Trustee of any and all amounts payable to the Authority under the Agreement, including payments to be received on the First Mortgage Bonds, except for payments to be received by the Authority pursuant to Sections 6.06, 7.12, 8.05 and 9.03 of the Agreement. Upon receipt of such payments and of such other moneys as may be paid to the Trustee by the Authority, or otherwise, for deposit in the Revenue Fund, the Trustee shall deposit the same in the Revenue Fund; provided, that any payments received by the Trustee which are required by the provisions of this Indenture or of the Agreement to be deposited in the Debt Service Fund or the Bond Redemption Fund and which are so designated in writing by the Authority or the Company, as the case may be, shall be so deposited in such Fund rather than in the Revenue Fund.

Section 5.02. Flow of Funds. The moneys deposited from time to time by the Trustee in the Revenue Fund shall be applied by it without further authorization from the Authority in the following order:

(a) to make payments into the Debt Service Fund as provided in Section 5.03 of this Indenture; and

(b) to make payments into the Bond Redemption Fund as provided in Section 5.05 of this Indenture.

Payments made by the Company under the First Mortgage 5.35% Bonds, Series W, shall be deposited in the Revenue Fund for the account of the Bonds.

Section 5.03. Debt Service Fund. There is hereby created and established with the Trustee a Debt Service Fund the moneys in which shall be held in trust and applied by the Trustee in accordance with this Section 5.03. On the date of issuance of the Bonds and upon receipt of the purchase price therefor from the Purchaser, the Trustee shall deposit the amount of \$102,541.67, representing accrued interest from the Dated Date to the date of delivery of the Bonds in the Debt Service Fund, which moneys shall be applied by the Trustee on the first date on which interest is due on the Bonds to pay interest on the Bonds. To the extent moneys are available in the Revenue Fund, the Trustee shall withdraw from the Revenue Fund and deposit to the credit of the Debt Service Fund:

(a) on or before each interest payment date for the Bonds, an amount which, together with other available moneys in the Debt Service Fund, will be sufficient to pay the interest on such Bonds which will become due on each such interest payment date;

(b) on or before the maturity date of the Bonds, an amount which, together with other available moneys in the Debt Service Fund, will be equal to the principal of Bonds maturing on such date.

The Trustee, without further authorization than is in this Section 5.03 contained, shall pay from the moneys in the Debt Service Fund (i) the interest on the Bonds as and when the same shall become due, and (ii) the principal of the Bonds as and when the same shall mature, provided that, subject to the provisions of Section 2.12(ii) hereof, such payment of principal shall be made only upon presentation and surrender of such Bonds as they severally mature.

Section 5.04. Concerning the Insurance Policy.

(a) In the event that, on the Business Day prior to the Interest Payment Date or Principal Installment Date, and again on the Interest Payment Date or Principal Installment Date, the Trustee has not received sufficient moneys to pay all of the principal of and interest on the Bonds due on the following Business Day or such payment dates, as the case may be, the Trustee shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on any such payment dates, the Trustee shall so notify the Bond Insurer or its designee.

(c) In addition, if the Trustee has notice that any Bondholder has been required to disgorge payments of the principal or interest on the Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes a voidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(d) The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Bondholders as follows:

1. If and to the extent there is a deficiency in amounts required to pay the interest on the Bonds, the Trustee shall (A) execute and deliver to the Insurance Paying Agent, in form satisfactory to the Insurance Paying Agent, an instrument appointing the Bond Insurer as agent for such Bondholders in any legal proceeding related to the payment of such interest and an assignment to the Bond Insurer of the claims for the interest to which such deficiency relates and which are paid by the Bond Insurer, (B) receive as designee of the respective Bondholders (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for the interest so assigned, and (C) disburse the same to such respective Bondholders; and

2. If and to the extent of a deficiency in amounts required to pay the principal of the Bonds, the Trustee shall (A) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Bond Insurer as agent for such Bondholders in any legal proceeding relating to the payment of such principal and an assignment to the Bond Insurer of any of the Bonds surrendered to the Insurance Paying Agent of so much of the principal thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (B) receive as designee of the respective Bondholders (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (C) disburse the same to such Bondholders.

(e) Payments with respect to claims for the interest on and the

principal of the Bonds disbursed by the Trustee from proceeds of the Bond Insurance Policy shall not be considered to discharge the obligation of the Borrower with respect to such Bonds, and the Bond Insurer shall become the Owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this Section or otherwise.

(f) Irrespective of whether any such assignment is executed and delivered, the Trustee and the Authority hereby agree for the benefit of the Bond Insurer that:

1. Notwithstanding any Bond Insurer Default, they recognize that to the extent the Bond Insurer makes non-recoverable payments, directly or indirectly (as by paying through the Trustee), on account of the principal of or the interest on the Bonds, the Bond Insurer will be subrogated to the rights of such Bondholders to receive the amount of such principal and interest from the Borrower, with interest thereon as provided and solely from the sources stated in this Trust Indenture, the Agreement, the First Mortgage Bonds and the Bonds; and

2. The Borrower will accordingly pay to the Bond Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this Trust Indenture, the Agreement, the First Mortgage Bonds and the Bonds but only from the sources and in the manner provided herein for the payment of the principal of and interest on the Bonds to the Bondholders, and will otherwise treat the Bond Insurer as the Holder of such rights to the amount of such principal of and interest on the Bonds.

(g) In connection with the issuance of Additional Bonds which are consented to by the Bond Insurer, the Trustee shall deliver to the Bond Insurer a copy of the disclosure document, if any, circulated with respect to such Additional Bonds.

(h) Copies of any amendments made to the documents executed in connection with the issuance of the Bonds which are consented to by the Bond Insurer shall be sent to S&P.

(i) The Bond Insurer shall receive notice of the resignation or removal of the Trustee and the appointment of a successor thereto.

(j) The Bond Insurer shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the Company's audited financial statements.

(k) Any notice that is required to be given to a holder of the Bonds or to the Trustee pursuant to this Trust Indenture or the Agreement shall also be provided to the Bond Insurer.

Section 5.05. Bond Redemption Fund. There is hereby created and established with the Trustee a Bond Redemption Fund for application of money, the moneys in which shall be held in trust and applied by the Trustee as described in this Indenture. On or before each interest payment date for the Bonds, after making the transfers to the Debt Service Fund provided for in Section 5.03 of this Indenture, the Trustee shall transfer any moneys remaining

in the Revenue Fund to the Bond Redemption Fund.

The Trustee, without further authorization than is in this Section 5.05 contained, shall withdraw from the Bond Redemption Fund and transfer first to the Debt Service Fund an amount sufficient to make up any deficiency in the Debt Service Fund. Thereafter, the Trustee shall hold the moneys in the Bond Redemption Fund as a reserve for and shall apply the same in the manner and subject to the conditions set forth in this Section 5.05.

Whenever there are moneys in the Bond Redemption Fund not committed to the redemption of Bonds after providing for the disposition thereof pursuant to any of the provisions of Sections 5.03 and 5.05 of this Indenture, the Trustee, as directed in writing by the Company, shall (1) deposit such moneys in the Debt Service Fund, or (2) purchase Bonds then Outstanding on the terms negotiated by the Company (provided that the price paid does not exceed the principal amount thereof), or (3) call for redemption on the next practicable redemption date, such amount of Bonds as the Company shall specify. Accrued interest on the Bonds so purchased, not paid from the Bond Redemption Fund, shall be paid from the Revenue Fund or the Debt Service Fund. Any such redemption shall be made subject to and in accordance with the provisions of Article VII of this Indenture.

Any amounts deposited in the Bond Redemption Fund from the Construction Fund shall be used to redeem the Bonds in accordance with the provisions of Sections 7.01 and 7.02 herein and Section 3.04 of the Agreement. Prior to the application of such amounts to redeem the Bonds, the Company shall not cause such funds to be invested at a Yield higher than the Yield on the Bonds.

Section 5.06. No Further Payments Needed. If at any time the aggregate of the amounts then on deposit in the Revenue Fund, the Debt Service Fund and the Bond Redemption Fund is sufficient to pay when due the principal of and interest and Redemption Price (if any) on the Bonds remaining Outstanding and all expenses of the Trustee and the Authority have been paid, the Trustee shall notify the Authority and the Company that no additional or further payments need be made under this Indenture, and the Trustee shall apply the moneys then in said funds to the payment of the principal of and interest and Redemption Price, if any, on the Bonds as they mature and to the payments of the amounts, if any, payable to itself as Trustee and to the Authority.

Section 5.07. Funds Held for Bonds. The amounts held or applied by the Trustee for the payment of interest, principal or Redemption Price, due on any date with respect to particular Bonds shall, pending such payment, be set aside and held in trust for the Holders of the Bonds entitled thereto, and for the purposes of this Indenture such principal, interest or Redemption Price, after the due date thereof, shall no longer be considered to be unpaid.

Section 5.08. Cancellation of Bonds. All Bonds purchased, redeemed or paid shall, if surrendered to the Authority or any Paying Agent, be cancelled by it and delivered to the Trustee, or if presented and surrendered to the Trustee, be cancelled by it. No such Bonds shall be deemed Outstanding under this Indenture and no Bonds shall be issued in lieu thereof. All such Bonds shall be cancelled and shall be destroyed and a certificate thereof delivered to the Authority.

Section 5.09. Rebate Fund. There is hereby established with the Trustee a Rebate Fund which shall be held separate and apart from all other funds established under this Indenture. The Company shall comply with the provisions of Section 7.05 of the Agreement and instruct the Trustee in writing to transfer from the Revenue Fund or the Construction Fund to the Rebate Fund, or shall otherwise pay to the Trustee for deposit into the Rebate Fund, such amounts as shall be necessary to cause the aggregate amount transferred to or

otherwise deposited in the Rebate Fund to equal the amount of rebatable arbitrage required to be paid to the United States as determined under Section 7.05 of the Agreement, plus earnings attributable to investment of such amount as of the end of each Bond Year; provided that, as set forth in such Section 7.05, no such transfers or deposits shall be necessary with respect to the Bonds if the proceeds of the Bonds, together with the investment earnings thereon, are fully expended within six months of the date of issue and the Trustee receives written notice from the Authority or the Company to that effect. Withdrawals from the Rebate Fund may be made only pursuant to written directions of the Company given in accordance with Section 7.05 of the Agreement. All amounts in the Rebate Fund, including income earned from investment of the Rebate Fund, shall be held by the Trustee free and clear of the lien of this Indenture, and the Trustee shall pay said amounts over to the United States from time to time as the Trustee shall be instructed in writing by the Company, as follows: (1) not less frequently than once each five years after the date of original delivery and payment for the Bonds, an amount sufficient to assure that at least 90% of the net aggregate amount transferred or deposited to or earned in the Rebate Fund prior to such date (and not theretofore transferred to the Construction Fund as provided in Section 7.05 of the Agreement) has been paid to the United States and (2) not later than sixty (60) days after the redemption, payment at maturity or other retirement of the last Bond, 100% of all moneys remaining in the Rebate Fund. The Trustee's only duties with respect to rebating the rebatable arbitrage to the United States shall be as expressly stated in this Section 5.09 and the Authority and the Company shall indemnify and hold the Trustee harmless from and against any losses or claims resulting from the failure of the Company or the Authority to comply with Section 148 of the Code and the Treasury Regulations 1.148-1 through 1.148-11, as supplemented and amended. Any amount remaining in the Rebate Fund immediately following any payment to the United States shall be returned to the Company upon receipt by the Trustee of a written request therefor from the Company.

ARTICLE VI

INVESTMENT AND DEPOSIT OF MONEYS

Section 6.01. Deposits. All moneys received by the Trustee under this Indenture shall, except as hereinafter provided, be deposited with the Trustee, until or unless invested as provided in Section 6.02 hereof. The Trustee may deposit such moneys with any other depository which is authorized to receive them and is subject to supervision by public banking authorities.

Section 6.02. Investments. The Trustee shall, at the request and oral direction (promptly confirmed in writing) of the Company (so long as no Event of Default shall have occurred and be continuing), invest any moneys held by it and not needed for immediate application in Investment Obligations; provided that the accrued interest received from the Purchaser of the Bonds held in the Debt Service Fund shall be invested only in Government Obligations; and provided further, that all Investment Obligations shall mature no later than the date when the amounts will foreseeably be needed for purposes of this Indenture; and further provided that it shall be solely the Company's duty to be certain that no portion of the proceeds derived from the sale of the Bonds shall be used, directly or indirectly, in such manner as to cause any Bond to be an "arbitrage bond" within the meaning of the Code. In the absence of investment instructions, the Trustee shall invest such moneys in Investment Obligations described in clause (D) thereof.

ARTICLE VII

REDEMPTION OF BONDS

Section 7.01. Bonds Subject to Redemption; Selection of Bonds to be Called for Redemption. The Bonds are subject to redemption prior to maturity as provided in the form of Bonds in Exhibit A hereto. If fewer than all the Bonds are to be redeemed, the Bonds shall be selected by the Trustee by lot for redemption. The Authority shall direct the Trustee to call Bonds for optional redemption when and only when and to the extent that (a) the Company has itself notified the Trustee of a corresponding prepayment made or proposed to be made by redemption or otherwise on the First Mortgage Bonds, or (b) the First Mortgage Bonds held by the Trustee have been surrendered to the Company pursuant to Article XIII hereof. The Authority shall furnish the Company with a copy of the direction to the Trustee. Upon receipt of money directly from the Company representing a prepayment, by redemption or otherwise, on the First Mortgage Bonds held by it, the Trustee shall forward notice of the details of such prepayment to the Mortgage Trustee.

Section 7.02. Procedure for Redemption. When the Trustee shall be required or authorized, or shall receive notice from the Authority given by the Company of its election, to redeem Bonds, the Trustee shall, in accordance with the terms and provisions of the Bonds and of this Indenture, at least thirty (30) days prior to the date fixed for redemption, mail by registered mail, postage prepaid, to the Bond Insurer and the registered owners of the Bonds to be redeemed, at their addresses as the same shall appear, if at all, upon the registry books of the Trustee, a notice to the effect that the Authority has elected to redeem all the Bonds or a part thereof, as the case may be, on a date therein designated, specifying, in the case of the redemption of fewer than all of the Outstanding Bonds, the distinctive numbers of the Bonds to be redeemed and the portion, if less than all, of any Bond to be redeemed, and in every case stating that on said date there will become and be due and payable upon each Bond so to be redeemed, at the principal office of the Trustee, the principal thereof, together with the accrued interest to such date, with such premium, if any, as is due and payable on such Bond upon such redemption, and that from and after such date interest thereon will cease to accrue. So long as the Bonds are held by DTC, the Trustee shall send any notice of redemption to DTC at 711 Stewart Avenue, Garden City, New York 11530, (Fax - (516) 227-4039 or (516) 227-4190) or at such other address as may be given by DTC in writing to the Trustee. The foregoing notice may be sent by legible facsimile or by other secure method which enables the Trustee to verify the submission of such notice.

In case the Authority shall have elected to redeem all or fewer than all of the Outstanding Bonds, it shall in each such instance, at least five (5) Business Days before the first date upon which the notice of redemption hereinbefore mentioned is required to be given, notify the Trustee in writing through notice given by the Company of such election and of the aggregate principal amount of Bonds to be redeemed, and thereupon the Trustee shall redeem the Bonds by lot. In case any Bond shall be redeemed in part only, such notice shall specify the principal amount thereof to be redeemed, which amount shall be in a multiple of \$5,000. Partial redemption of any Bond may be made without surrender of such Bond, and the Trustee shall keep a record of the amounts and dates of each such partial redemption. Except for Bonds held by DTC, such partially redeemed Bond shall be surrendered upon redemption in which case a new Bond or Bonds in Authorized Denominations and of an aggregate principal amount equal to the unredeemed portion of such Bond will be issued in lieu thereof, and the Authority shall execute and the Trustee shall authenticate and deliver such new Bond or Bonds to or upon the written order of the registered owner of such Bond, at the expense of the Company.

On or before the redemption date specified in the notice above provided for, the Authority shall, and it hereby covenants that it will, deposit with the Trustee an amount of cash sufficient to effect the redemption of the Bonds specified in such notice, except that such amount may be reduced to the extent that moneys then held by the Trustee under any of the provisions of this Indenture are available for such redemption. All moneys deposited by the Authority with the Trustee or set apart by the Trustee under the provisions of this Indenture for the redemption of Bonds shall be held in trust for the account of the respective registered owners of the Bonds to be redeemed and applied in accordance with the provisions of Section 14.03 hereof.

On the redemption date designated in such notice, the principal amount of each Bond so to be redeemed, together with the accrued interest thereon to such date, and such premium, if any, as is due and payable on such Bond upon such redemption, shall become due and payable; and from and after such date (such notice having been given in accordance with the provisions of this Section 7.02 and such deposit having been made or moneys set apart as aforesaid), then, notwithstanding that any Bonds so called for redemption shall not have been surrendered no further interest shall accrue on any such Bond (or on the portion thereof so to be redeemed). From and after such date of redemption (such notice having been given in accordance with the provisions of this Section 7.02 and such deposit having been made or moneys set apart as aforesaid), or from and after the date upon which such notice is mailed, if such notice shall state that moneys to effect such redemption have been deposited with or set apart by the Trustee, all such Bonds or such portions thereof, as the case may be, insofar as such deposit shall have been made or moneys set apart as aforesaid, shall be deemed to have been paid in full as between the Authority and the respective registered owners thereof and shall no longer be deemed to be Outstanding hereunder, and the Authority shall be under no further liability in respect thereof.

If, at the time of mailing of notice of any optional redemption, the Authority shall not have deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice shall state that it is conditional in that it is subject to the deposit of the redemption moneys with the Trustee not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Section 7.03. Payment of Redemption Price. If (a) notice of redemption has been given by mail and (b) the redemption moneys have been duly deposited with the Trustee on or prior to the date of the Authority's notice to the Trustee, then the Bonds called for redemption shall be payable on the redemption date at the applicable Redemption Price. Payment of the Redemption Price together with accrued interest shall be made by the Trustee, out of Revenues or other funds deposited for the purpose, to or upon the order of the Holders of the Bonds called for redemption either upon surrender of such Bonds if redeemed in full or in accordance with the provisions of Section 2.12 hereof if all Bonds are held by DTC and are not to be redeemed in full.

ARTICLE VIII

COVENANTS OF THE AUTHORITY

Section 8.01. Payment of Principal of and Interest on Bonds. The Authority shall promptly pay or cause to be paid the principal or Redemption Price of, and the interest on, every Bond issued hereunder according to the terms thereof, but shall be required to make such payment or cause such payment to be made only out of Revenues or any other moneys held by the Trustee under this Indenture. The Authority shall appoint one or more paying agents for such purpose, each such agent to be a national banking association, a bank and trust company or a trust company. The Authority hereby appoints PNC Bank, National Association, Paying Agent, and designates the principal corporate trust office of such agent as the place of payment, such appointment and designation to remain in effect until notice of change is filed with the Trustee.

Notwithstanding the foregoing, the Authority may enter into a written agreement with any Holder of any Bond providing for the payment of principal or Redemption Price of and interest on such Bond at a place other than the place specified in such Bond as the place for payment without the necessity of surrendering the Bond to the Trustee; provided, that (a) there shall be filed with the Trustee a duplicate original of such agreement and (b) such agreement will provide that in each case in which payment of principal is so made, the Holder will not sell, transfer or otherwise dispose of such Bond unless it shall have caused notation to be made thereon by the Trustee of the amount of principal paid thereon and the last date to which interest has been paid thereon.

Section 8.02. Corporate Existence; Compliance with Laws. The Authority shall maintain its corporate existence; shall use its best efforts to maintain and renew all its rights, powers, privileges and franchises; and shall comply with all valid and applicable laws, acts, rules, regulations, permits, orders, requirements and directions of any legislative, executive, administrative or judicial body.

Section 8.03. Enforcement of Agreement; Prohibition Against Amendments of Agreement; Notice of Default. The Authority may, and at the request of the Trustee, shall require the Company to perform its obligations under the Agreement. The Authority may exercise all its rights under the Agreement as amended or supplemented from time to time, including the right to amend the Agreement to cure any ambiguity or to correct or supplement any provision contained therein which may be defective or inconsistent with any other provision contained therein or herein and to make such other provision in regard to matters or questions arising under the Agreement or this Indenture; provided that it shall not amend the Agreement or make such other provisions in a manner which materially and adversely affect the interests of Bondholders without the consent of the Trustee pursuant to Section 12.03 hereof. Prior to making any amendment, the Authority shall file with the Trustee (i) a copy of the proposed amendment and (ii) an opinion of nationally recognized Bond Counsel to the effect that such amendment or supplemental will not have an adverse effect on the exemption of interest on the Bonds from Federal income tax, and, unless the Trustee shall have otherwise given its consent to such amendment or supplement, to the further effect that such amendment or supplement will not otherwise materially and adversely affect the interests of the Bondholders. The Authority shall give prompt written notice to the Trustee of any default known to the Authority under the Agreement or any amendment or supplement thereto.

Section 8.04. Further Assurances. Except to the extent otherwise provided in this Indenture, the Authority shall not enter into any contract or

take any action by which the rights of the Trustee or the Bondholders may be impaired and shall, from time to time, execute and deliver such further instruments and take such further action as may be required to carry out the purposes of this Indenture.

Section 8.05. Filing and Recording. The Authority has been advised by Bond Counsel in its opinion to the Authority and the Company, that no recording, rerecording, filing or refiling of the Indenture or any other instrument is required in order to protect the lien of the Indenture or to perfect the security interest thereby. Upon written request of the holders of a majority in aggregate principal amount of the Bonds or upon receipt of a written opinion of Bond Counsel requiring the same, the Authority shall cause the Company to cause this Indenture or a financing statement relating thereto to be filed, in such manner and at such places as may be required by law fully to protect the security of the Holders of the Bonds and the right, title and interest of the Trustee in and to the right, title and interest of the Authority in and to the Revenues and the various Funds created hereunder (except the Rebate Fund) or any part thereof. The Authority shall execute or cause to be executed any and all further instruments as may be required by law or as shall reasonably be requested by the Trustee for such protection of the interests of the Bondholders, and shall furnish satisfactory evidence to the Trustee of filing and refiling of such instruments and of every additional instrument which shall be necessary to preserve the lien of this Indenture upon the trust estate or any part thereof until the principal, Redemption Price, if any, and interest on the Bonds issued hereunder shall have been paid. The Trustee shall execute or join in the execution of any such further or additional instrument and file or join in the filing thereof at such time or times and in such place or places as it may be advised by an opinion of Counsel will preserve the lien of this Indenture upon the foregoing right, title and interest of the Authority assigned to the Trustee by this Indenture or any part thereof until the aforesaid principal, Redemption Price, if any, and interest shall have been paid.

Section 8.06. Indemnification. The Authority, pursuant to the Agreement, shall cause the Company to agree, at its expense, to pay and to indemnify and save the Indemnified Parties (as defined in the Agreement) harmless of, from and against, any and all claims, damages, demands, expenses (including attorneys' fees), liabilities and losses of every kind, character and nature (other than liability for taxes or related penalties imposed upon any Bondholder) asserted by or on behalf of any person, firm, corporation or governmental authority arising out of, resulting from, or in any way connected with, (i) the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation, financing or sale of the Project Facilities, or any part thereof, (ii) any untrue statements or alleged untrue statements of a material fact contained in the Preliminary Official Statement or the Official Statement (except as set forth in the section entitled, "The Authority") or any omission or alleged omission of any material fact necessary to make the statements contained in the Preliminary Official Statement or the Official Statement (except as set forth in the section entitled, "The Authority"), in the light in which they were made, not misleading, or (iii) the Indemnified Parties executing, and performing their respective duties under, the Indenture; except with respect to any such claim, damage or liability arising out of the negligence or wilful misconduct of the Indemnified Party seeking indemnification. The Agreement shall also provide that in the event that any action or proceeding is brought against the Authority, the Trustee or the Purchaser of the Bonds by reason of any such claim or demand, the Company shall, upon notice from the Authority, the Trustee or the Purchaser, as the case may be, resist and defend such action or proceeding on behalf of the Authority, the Trustee or the Purchaser. The Agreement, however, does limit the Company's indemnity of the holders of the Bonds upon a determination of taxability in accordance with the provisions of

the Bonds. The provisions contained in Section 7.12 of the Agreement shall control in the event of a conflict between this Section 8.06 and Section 7.12 of the Agreement. This indemnity provision shall survive the termination or defeasance of this Indenture for a period of two (2) years from the date of such termination or defeasance and shall survive until the conclusion or termination of any action or proceeding commenced during the term hereof or such two year period.

ARTICLE IX  
DEFAULTS AND REMEDIES

Section 9.01. Events of Default. Each of the following shall be considered an Event of Default with respect to the Bonds under this Indenture:

(a) payment of the principal or Redemption Price, if any, on any Bond shall not be made when the same shall become due and payable at maturity, upon redemption or otherwise; or

(b) payment of an installment of interest on any Bond shall not be made when the same shall become due and payable and shall continue unpaid for a period of ten (10) consecutive days thereafter; or

(c) the occurrence of an "event of default" under the Agreement; or

(d) the Authority shall default in the due and punctual performance of any covenant, condition, agreement or provision contained in the Bonds or in this Indenture on the part of the Authority to be performed, and such default shall continue for sixty (60) consecutive days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority and the Company by the Trustee, which notice may be given by the Trustee in its discretion and shall be given by the Trustee at the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of all Bonds then Outstanding or of the Bond Insurer (so long as no Bond Insurer Default exists).

If any of the foregoing shall occur or be continuing, with respect to the Bonds, the Trustee may, with the consent of the Bond Insurer, and shall, at the written direction of the Bond Insurer or the written request of the Holders of at least twenty-five percent (25%) of the aggregate principal amount of all Bonds then Outstanding with the consent of the Bond Insurer by written notice given to the Authority and the Company (provided that the default has not theretofore been cured), declare the principal of all Bonds then Outstanding to be due and payable immediately and upon such declaration, without further action, said principal together with interest accrued thereon, shall become due and payable immediately at the place of payment provided in the said notice, anything in this Indenture or in said Bonds to the contrary notwithstanding.

The above provisions, however, are subject to the condition that if, after the principal of all Bonds then Outstanding shall have been so declared to be due and payable and prior to the entry of a judgment or decree for the payment of any moneys due pursuant to the Bonds, this Indenture or the Agreement, all arrears of interest upon such Bonds, and interest on overdue installments of interest (to the extent permitted by law) at the applicable rate per annum borne by such Bonds and the principal on all Bonds then Outstanding which shall have become due and payable otherwise than by acceleration, and all other sums payable under this Indenture, except the principal of, and interest on, the Bonds which by such declaration shall have become due and payable, shall have been paid by or on behalf of the Authority, all other Events of Default hereunder shall have been cured, and the Authority also shall have performed all other things in respect of which it may have been in default under this Indenture, and shall have paid the reasonable fees and expenses of the Trustee and of the Holders of such Bonds, including reasonable attorneys' fees paid or incurred, then and in every such case, the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Trustee may rescind and annul such

declaration, with the consent of the Bond Insurer, whereupon the Trustee shall give written notice thereof to the Authority and the Company by registered mail. Any such rescission and annulment shall be binding upon all Bondholders, but no such rescission and annulment shall extend to or affect any subsequent default or impair any right or remedy consequent thereon. Immediately upon such annulment, the Trustee shall cancel, by notice to the Mortgage Trustee, any demand for redemption made by the Trustee pursuant to Section 9.03 of this Indenture.

In determining whether an Event of Default has occurred hereunder, the Trustee shall not give effect to the payments made by the Bond Insurer under the Bond Insurance Policy.

The Bond Insurer shall be treated as a party in interest hereunder and shall be entitled to notify the Trustee, and the Trustee shall accept (and be entitled to accept) notice from the Bond Insurer, of the existence of any Event of Default. The Bond Insurer shall have the same rights as the Trustee to pursue any legal remedy created hereunder, in the Agreement or as holder of the First Mortgage Bonds.

Section 9.02. Enforcement of Agreement. In any case under the provisions of Section 9.01 of this Indenture in which the Trustee has the right to declare the principal of all Bonds then Outstanding to be due and payable immediately, or when the Bonds by their terms mature (upon redemption or otherwise) and are not paid, the Trustee, as the assignee and pledgee of all the right, title and interest of the Authority in and to the Agreement, and the Bond Insurer may enforce each and every right granted to the Authority under the Agreement.

Section 9.03. Judicial Proceedings by Trustee. Upon the happening and continuance of any Event of Default, then and in every such case the Trustee, in its discretion may and upon the written request of the Holders of at least twenty-five percent (25%) of the aggregate principal amount of the Bonds then Outstanding or the Bond Insurer (so long as no Bond Insurer Default exists) and receipt of indemnity to its satisfaction shall, and upon written request of the Authority if an Event of Default occurs pursuant to Section 9.01(c) of this Indenture shall:

(a) exercise any and all rights or powers permitted to be taken or exercised by it or by the Authority under this Indenture, the Agreement, the Bonds, the First Mortgage Bonds, and any agreements related thereto;

(b) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders of the Bonds and require the Authority or the Company to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Act, the Bonds, the First Mortgage Bonds, the Agreement, this Indenture and the Mortgage Indenture;

(c) bring suit upon the Bonds;

(d) by action or suit in equity, require the Authority to account as if it were the trustee of an express trust for the Bondholders of the Bonds;

(e) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders of the Bonds;

(f) exercise such rights as it may have as holder of the First

Mortgage Bonds, including the right to demand redemption of the First Mortgage Bonds held by it; or

(g) exercise, with respect to the security interest granted hereunder, all of the rights and remedies of a secured party under the New Jersey Uniform Commercial Code, including the sale of the First Mortgage Bonds.

Section 9.04. Discontinuance or Abandonment of Proceedings. In case any proceeding taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the Bondholders of the Bonds shall be restored to their former positions and rights under this Indenture, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Section 9.05. Bondholders and Bond Insurer May Direct Proceedings. The Holders of a majority in principal amount of the Bonds Outstanding hereunder (which shall mean the Bond Insurer, so long as no Bond Insurer Default exists) shall have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee hereunder, provided that such direction shall not be in conflict with any rule of law or with this Indenture or unduly prejudice the rights of minority Bondholders.

Section 9.06. Limitations on Actions by Bondholders. No Bondholder shall have any right to pursue any remedy with respect to the Bonds hereunder unless:

(a) the Trustee shall have been given written notice of an Event of Default;

(b) the Holders of at least twenty-five percent (25%) in principal amount of all of the Bonds then Outstanding shall have requested the Trustee, in writing, to exercise the powers hereinabove granted or to pursue such remedy in its or their name or names;

(c) the Trustee shall have been offered indemnity satisfactory to it against costs, expenses and liabilities; and

(d) the Trustee shall have failed to comply with such request within a reasonable time.

Notwithstanding the foregoing provisions of this Section 9.06 or any other provision of this Indenture, the obligation of the Authority shall be absolute and unconditional to pay hereunder, but solely from the Revenues and other funds pledged under this Indenture, the principal or Redemption Price of, and interest on, the Bonds to the Holders thereof on the due dates thereof, and nothing herein shall affect or impair the right of action, which is absolute and unconditional, of such Holders to enforce such payment.

Section 9.07. Trustee May Enforce Rights Without Possession of Bonds. All rights under this Indenture and the Bonds may be enforced by the Trustee without the possession of any Bonds or the production thereof at the trial or other proceedings relative thereto, and any proceeding instituted by the Trustee shall be brought in its name for the ratable benefit of the Holders of the Bonds.

Section 9.08. Remedies Not Exclusive. No remedy herein conferred is intended to be exclusive of any other remedy or remedies, and each remedy is in

addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 9.09. Delays and Omissions Not to Impair Rights. No delays or omissions in respect of exercising any right or power accruing upon any default shall impair such right or power or be a waiver of such default, and every remedy given by this Article IX may be exercised from time to time and as often as may be deemed expedient.

Section 9.10. Application of Moneys in Event of Default. Any moneys received by the Trustee under this Article IX shall be applied:

First: to the payment of the costs of the Trustee, including reasonable Counsel fees, any disbursements of the Trustee with interest thereon at the legal rate; and

Second: to the payment of principal or Redemption Price (as the case may be) and interest then owing on the Bonds, and in case such moneys shall be insufficient to pay same in full, then to the payment of principal or Redemption Price and interest ratably without preference or priority of one over another or of any installment of interest over any other installment of interest; and

Third: to the payment of costs and expenses of the Authority, including reasonable Counsel fees, incurred in connection with the Event of Default; and

Fourth: to the payment of any other amounts due under this Indenture, the Agreement or the Mortgage Indenture.

The surplus, if any, shall be paid to the Company or the person lawfully entitled to receive the same as a court of competent jurisdiction may direct.

Section 9.11. Trustee's Right to Receiver; Compliance With Act. As provided by the Act, the Trustee shall be entitled as of right to the appointment of a receiver; and the Trustee, the Bondholders and any receiver so appointed shall have such rights and powers and be subject to such limitations and restrictions as are contained in the Act.

Section 9.12. Trustee and Bondholders Entitled to All Remedies Under Act. It is the purpose of this Article to provide such remedies to the Trustee and Bondholders as may be lawfully granted under the provisions of the Act; but should any remedy herein granted be held unlawful, the Trustee and the Bondholders shall nevertheless be entitled to every remedy provided by the Act. It is further intended that, insofar as lawfully possible, the provisions of this Article shall apply to and be binding upon any trustee or receiver appointed under the Act.

Section 9.13. Bond Insurer as Sole Holder. Notwithstanding anything contained in Article IX and Section 12.05 hereof to the contrary, for purposes of this Article, except with respect to the requirement that notices be given to the Holders, the Bond Insurer shall be deemed to be the sole holder of the Bonds that it has insured, so long as no Bond Insurer Default exists.

ARTICLE X

THE TRUSTEE

Section 10.01. Acceptance of Trust. The Trustee accepts and agrees to execute the trusts hereby created, but only upon the additional terms set forth in this Article, to all of which the parties hereto and the Bondholders agree.

Section 10.02. No Responsibility, etc. The recitals, statements and representations in this Indenture or in the Bonds, save only the Trustee's certificate of authentication upon the Bonds, have been made by the Authority and not by the Trustee; and the Trustee shall be under no responsibility for the correctness thereof.

Section 10.03. Trustee May Act Through Agents; Answerable Only for Willful Misconduct or Negligence. The Trustee may exercise any powers hereunder and perform any duties required or if through attorneys, agents, officers or employees, and shall be entitled to advice of Counsel concerning all questions hereunder and to rely on any such advice contained in a written opinion of such Counsel. The Trustee shall not be answerable for the default or misconduct of any attorney or agent selected by it with reasonable care. Except as otherwise provided herein, the Trustee shall not be answerable for the exercise of any discretion or power under this Indenture nor for anything whatever in connection with the trust hereunder, except only its own willful misconduct or negligence.

Section 10.04. Compensation. The Authority shall cause the Company to pay the Trustee reasonable compensation for its services hereunder, and also all its reasonable expenses and disbursements and as security therefor, the Trustee shall be secured under this Indenture by a lien prior to the Bonds upon monies held by the Trustee hereunder.

Section 10.05. Notice of Default; Right to Investigate. The Trustee shall, within thirty (30) days after notice thereof, give written notice by registered mail to Holders of Bonds and the Bond Insurer of all defaults known to the Trustee (the term "defaults" for purposes of this Section and Section 10.06 being defined to mean the events specified in clauses (a) through (d) of Section 9.01); provided that the Trustee shall give the Bond Insurer immediate notice of an event of default under Section 9.01(a) or (b). The Trustee shall not be deemed to have notice of any default other than defaults under clauses (a) and (b) of Section 9.01 (except an "event of default", as defined in the Mortgage Indenture as to which it has received actual notice from the Mortgage Trustee), unless notified in writing of such default by the Holders of at least twenty-five percent (25%) of the principal amount of all Bonds then Outstanding, the Bond Insurer or by the Authority. The Trustee may, however, at any time require of the Authority full information as to the performance of any covenant hereunder; and, if information satisfactory to it is not forthcoming, the Trustee may make or cause to be made, at the expense of the Company, an investigation into the affairs of the Authority related to this Indenture.

Section 10.06. Obligation to Act. In taking any action under this Indenture, the Trustee shall not take the Bond Insurance Policy into account in determining whether the rights of the Bondholders are adversely affected by its actions. If any Event of Default shall have occurred and be continuing, the Trustee shall exercise such of the rights and remedies vested in it by this Indenture and shall use the same degree of care in their exercise as a prudent man would exercise or use in the circumstances in the conduct of his own affairs; provided, that if in the opinion of the Trustee such action may tend to involve expense or liability, it shall not be obligated to take such action

unless it is furnished with indemnity satisfactory to it.

Section 10.07. Reliance on Requisition, etc. The Trustee may act on any requisition, resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, or other paper or document which it in good faith believes to be genuine and to have been passed or signed by the proper persons or to have been prepared and furnished pursuant to any of the provisions of this Indenture; and the Trustee shall be under no duty to make any investigation as to any statement contained in any such instrument, but may accept the same as conclusive evidence of the accuracy of such statement.

The Trustee agrees that it shall hold all documents, affidavits, certificates and opinions delivered to the Trustee pursuant to Section 3.02 of the Agreement for the term of the Bonds. During such period, the Authority shall have the right to inspect such documents, affidavits, certificates and opinions at the principal office of the Trustee at reasonable times and upon reasonable notice; and the Trustee shall provide copies of such documents, affidavits, certificates and opinions to the Authority at its request.

The Trustee shall furnish the Company monthly and at such other times as the Company or the Authority may reasonably request a statement of account of any moneys held in the Funds by the Trustee.

Section 10.08. Trustee May Deal in Bonds. The Trustee may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Bondholders may be entitled to take with like effect as if the Trustee were not a party to this Indenture. The Trustee may so engage in or be interested in any financial or other transaction with the Authority or the Company; provided that if the Trustee determines that any such relation is in conflict with its duties under this Indenture, it shall eliminate the conflict or resign as Trustee.

Section 10.09. No Duty to Renew Insurance. The Trustee shall be under no duty to effect or to renew any insurance policy required under Section 7.02 of the Loan Agreement nor shall it incur any liability for the failure of the Authority to require or effect or renew insurance or to report or file claims of loss thereunder.

Section 10.10. Construction of Ambiguous Provisions. The Trustee may construe any ambiguous or inconsistent provisions of this Indenture, and any construction by the Trustee shall be binding upon the Bondholders, the Authority and the Company.

Section 10.11. Resignation of Trustee. The Trustee may resign and be discharged of the trusts created by this Indenture by written resignation filed with the Secretary of the Authority and the Bond Insurer (and a copy to the Company) not less than sixty (60) days before the date when it is to take effect, provided notice of such resignation is mailed by first-class mail to the registered holders of the Bonds not less than fifty (50) days prior to the date when the resignation is to take effect. Such resignation shall take effect only upon the appointment of a successor trustee.

Section 10.12. Removal of Trustee. The Trustee hereunder may be removed at any time by the Bond Insurer or by an instrument appointing a successor to the Trustee so removed, executed by the Holders of a majority in principal amount of the Bonds then Outstanding and filed with the Trustee, the Bond Insurer and the Authority, provided that such removal shall not prevent the Trustee from suing the Company for all amounts due and owing the Trustee under the Indenture. Such removal shall only be effected with simultaneous appointment of a successor trustee.

Section 10.13. Appointment of Successor Trustee. If the Trustee or any successor trustee is dissolved or if its property or business is taken under the control of any state or Federal court or administrative body and a vacancy shall forthwith exist in the office of the Trustee, or if the Trustee of any successor trustee resigns or is removed, the Authority, at the direction of the Company, shall appoint a successor and the Company mail notice thereof immediately by first-class mail to the registered holders of the Bonds. If the Authority fails to make such appointment promptly, the Holders of a majority in principal amount of the Bonds then Outstanding may do so. In the event that a successor trustee is not appointed within sixty (60) days following the date of resignation or removal of the Trustee, the Trustee may apply to any court of competent jurisdiction for the appointment of a successor trustee. No successor trustee shall be appointed without prior written notice to the Bond Insurer, if and so long as the Bond Insurance Policy continues in effect.

Section 10.14. Qualification of Successor. A successor trustee shall be a national banking association with trust powers or a bank and trust company or a trust company having capital and surplus of at least \$75,000,000 and acceptable to the Bond Insurer, if there be one able and willing to accept the trust on reasonable and customary terms.

Section 10.15. Instruments of Succession. Any successor trustee shall execute, acknowledge and deliver to the Authority an instrument accepting such appointment hereunder; and thereupon such successor trustee, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor in the trust hereunder, with like effect as if originally named Trustee herein. The Trustee ceasing to act hereunder shall pay over to the successor trustee all moneys held by it hereunder; and, upon request of the successor trustee, the Trustee ceasing to act and the Authority shall execute and deliver an instrument transferring to the successor trustee all the estates, properties, rights, powers and trusts hereunder of the Trustee ceasing to act.

Section 10.16. Merger of Trustee. Any corporation into which any Trustee hereunder may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which any Trustee hereunder shall be a party, shall be the successor trustee under this Indenture, without the execution or filing of any paper or any further act on the part of the parties hereto, anything herein to the contrary notwithstanding.

Section 10.17. No Transfer of First Mortgage Bonds Held by the Trustee; Exception. Except as required to effect an assignment to a successor trustee, and except to effect an exchange in connection with bankruptcy, reorganization, insolvency or similar proceeding involving the Company or the enforcement of remedies against the Company under Article VII of the Mortgage Indenture or a sale as permitted under Section 9.04(g) hereof, the Trustee shall not sell, assign or transfer First Mortgage Bonds held by it, and the Trustee is authorized to enter into an agreement with the Company to such effect, including a consent to the issuance of stop transfer instructions to the Mortgage Trustee. No liability shall attach to the Mortgage Trustee for any action taken by it in good faith in reliance upon such instructions.

ARTICLE XI

EXECUTION OF INSTRUMENTS BY BONDHOLDERS  
AND PROOF OF OWNERSHIP OF BONDS

Section 11.01. Ownership of Bonds. Any request, direction, consent or other instrument in writing required or permitted by this Indenture to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Bondholders in person or by agent appointed by an instrument in writing. Proof of the execution by any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and any Paying Agent with regard to any action taken, suffered or omitted by any of them under such instrument if made in the following manner:

(a) The fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution.

(b) The ownership of Bonds shall be proved by the Bond register.

Nothing contained in this Article XI shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters in this Article XI stated which to it may seem sufficient. Any request or consent of the Holder of any Bond shall bind every future Holder of the same Bond and any Bond or Bonds issued in exchange or substitution therefor or upon the registration of transfer thereof in respect of anything done by the Trustee in pursuance of such request or consent.

ARTICLE XII

AMENDMENTS AND SUPPLEMENTS

Section 12.01. Amendments and Supplements Without Bondholders' Consent. This Indenture may not be amended without the consent of the Trustee. The Trustee shall not be required to give its consent to any amendment which shall increase its duties, responsibilities, obligations or standards of care or decrease the protections afforded by the Indenture. Any provision of this Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer. This Indenture may be amended or supplemented at any time and from time to time, without the consent of the Bondholders, by a supplemental indenture executed by the Authority, the Bond Insurer and the Trustee for one or more of the following purposes:

A. to add additional covenants of the Authority; or

B. for any purpose not inconsistent with the terms of this Indenture or to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture which shall not be inconsistent with the provisions of this Indenture and which shall not materially adversely affect the interest of the Holders of the Bonds.

In considering any amendment to the Indenture, the Trustee shall not take the Bond Insurance Policy into account in determining whether the rights or interests of the Holders are adversely affected by any proposed amendment.

Section 12.02. Amendments With Bondholders' Consent. This Indenture may be amended from time to time, except with respect to (1) the principal or Redemption Price, if any, or interest payable upon any Bonds, (2) the interest payment dates, the date of maturity or the redemption provisions of any Bonds, (3) this Article XII, and (4) the security interest and lien granted under this Indenture, by a Supplemental Indenture consented to by the Bond Insurer and the Company and approved by the Holders of at least fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding which would be affected by the action proposed to be taken.

Section 12.03. Amendment of Agreement. If the Authority and the Company propose to amend the Agreement in such a way as would materially adversely affect the interest of Bondholders and, therefore, would require the consent of the Trustee or Bond Insurer as provided in this Section 12.03, the Trustee shall notify Bondholders and the Bond Insurer of the proposed amendment and the Trustee may consent thereto with the consent of the Bond Insurer and the Holders of at least fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding which would be affected by the action proposed to be taken; and further provided, that the Trustee shall not, without the unanimous consent of the Holders of all Bonds then Outstanding and the Bond Insurer, consent to any amendment which would (1) decrease the amounts payable on the First Mortgage Bonds held by the Trustee, (2) change the date of payment of any installment of principal or interest under the First Mortgage Bonds held by the Trustee or change any of the redemption provisions of such First Mortgage Bonds, or (3) change Section 9.05 of the Agreement. In addition to Bondholder consent to the foregoing amendments, the Bond Insurer's consent shall be required for the following purposes: (i) execution and delivery of any

supplemental Agreement or any amendment, supplement or change to or modification of the Agreement; (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Bondholder consent.

In considering any amendment to the Agreement, the Trustee shall not take the Bond Insurance Policy into account in determining whether the rights or interests of the Holders are adversely affected by any proposed amendment.

Section 12.04. Trustee Authorized to Join in Amendments and Supplements; Reliance on Counsel. The Trustee is authorized to join with the Authority in the execution and delivery of any Supplemental Indenture or amendment permitted by this Article XII and in so doing shall be fully protected by an opinion of Counsel that such Supplemental Indenture or amendment is so permitted and has been duly authorized by the Authority and that all things necessary to make it a valid and binding agreement have been done.

Section 12.05. Voting of First Mortgage Bonds Held by the Trustee. The Trustee, as a holder of First Mortgage Bonds, may attend any meeting of bondholders under the Mortgage Indenture. Either at such meeting, or otherwise where consent of holders of First Mortgage Bonds of the Company is sought without a meeting, the Trustee may vote the First Mortgage Bonds held by it, or may consent with respect thereto, as the Trustee deems to be in the best interests of the Bondholders; provided, however, that so long as the Bond Insurance Policy is in full force and effect and no Bond Insurer Default exists, (i) the Trustee shall not consent to any proposed amendment, change, modification, direction, waiver, consent or any other course of action without the prior written consent of the Bond Insurer, and (ii) the Trustee shall promptly notify the Bond Insurer of any notice which the Trustee receives from the Mortgage Indenture Trustee and of any proposed amendment to the Mortgage Indenture or any other proposed change, modification, direction, waiver or consent or other course of action, and (iii) the Bond Insurer shall be entitled to exercise all rights (including voting rights) in respect of the First Mortgage Bonds, and the Trustee shall be required to accept notice from, and the direction of, the Bond Insurer in connection with any such exercise of rights.

Notwithstanding the foregoing, the Trustee shall not vote any of the First Mortgage Bonds held by it in favor of, or give its consent to, any action which, in the Trustee's opinion, would materially adversely affect the interest of the Bondholders, except upon notification by the Trustee to the Bond Insurer and the Bondholders of such proposal and consent thereto of the Bond Insurer and at least fifty-one percent (51%) in aggregate principal amount of all the Outstanding Bonds which would be affected by the proposed action and, if such proposal would so affect the rights of some but less than all the Outstanding Bonds, the consent thereto of the Bond Insurer and the Holders of at least fifty-one percent (51%) in aggregate principal amount of the Bonds so affected, and the Trustee shall not, without the consent of the Bond Insurer and the unanimous consent of the Holders of all Bonds then Outstanding, vote any of the First Mortgage Bonds held by it in favor, or give its consent to, any action which would (1) decrease the amounts payable on the First Mortgage Bonds held by the Trustee or (2) change the date of payment of any installment of principal or interest, or change the redemption provisions of, the First Mortgage Bonds held by the Trustee.

Section 12.06. Notice to Rating Agencies and the Bond Insurer. Any rating agency rating the Bonds must receive from the Trustee notice of any proposed amendment or supplement to be effected under this Article XII and a copy of such proposed amendment or supplement at least fifteen (15) days in advance of its execution or adoption. The Bond Insurer shall be provided with

a full transcript of all proceedings relating to the execution or adoption of any such amendment or supplement.

ARTICLE XIII

DEFEASANCE

Section 13.01. Defeasance. When principal or Redemption Price (as the case may be) of, and interest on, all Bonds issued hereunder have been paid, or provision has been made for payment of the same when due in the manner described in this Section 13.01, whether at maturity or upon redemption, acceleration, or otherwise, together with all other sums payable hereunder or under the Agreement, the right, title and interest of the Trustee shall thereupon cease (except with respect to moneys or securities held by the Trustee hereunder for the payment of the principal or Redemption Price (as the case may be) of, and interest on, the Bonds and other amounts) and the Trustee, on demand of the Authority, shall release the lien of this Indenture and shall execute documents to evidence such release as may be reasonably required by the Authority, shall surrender the First Mortgage Bonds to the Company and shall turn over to the Company or to such person, body or authority as may be entitled to receive the same all balances then held by it hereunder. Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance, the Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Authority to the registered Holders shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such registered owners.

Provision for the payment of Bonds shall be deemed to have been made upon the delivery to the Trustee of (i) cash in an amount which, when added to any other moneys held by the Trustee and available for such payment, would be sufficient to make all payments specified above with respect to such Bonds, or (ii) Government Obligations which are non-callable prior to the stated maturity thereof and having stated maturities arranged so that the principal of and interest becoming due and payable on such Government Obligations will, under any and all circumstances (and without further investment or reinvestment of either the principal amount thereof or the interest earned thereon), be sufficient (as confirmed by a nationally recognized firm of public accountants) to make all such payments with respect to such Bonds, or (iii) any combination of such cash and such Government Obligations the amounts of which and interest thereon, when due, are or will be, in the aggregate, sufficient (as confirmed by a nationally recognized firm of public accountants) to make all such payments with respect to such Bonds, and in each case, the delivery to the Trustee of an opinion of Bond Counsel to the effect that such defeasance is permitted under this Section 13.01 and will not result in a determination of taxability (as described in the Form of Bond attached hereto). Neither the obligations nor moneys deposited with the Trustee pursuant to this Section shall be withdrawn or used for any purpose other than, and shall be segregated and held in trust for the payment of the principal of, Redemption Price and interest on said Bonds. The Bond Insurer shall be given prior written notice of a proposed defeasance of any of the Bonds.

The release of the obligations of the Authority under this Section 13.01 shall not affect the obligations of the Company to make direct payments to the Authority, the Trustee or any Holder of the Bonds pursuant to the Agreement.

ARTICLE XIV  
MISCELLANEOUS

Section 14.01. Dissolution. In the event of the dissolution of the Authority, all the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of, or for the benefit of, the Authority, shall bind or inure to the benefit of the successors of the Authority from time to time and any officer, board, commission, agency or instrumentality to whom or to which any power or duty of the Authority shall be transferred.

Section 14.02. No Rights Conferred on Others. Except as in this Indenture otherwise specifically provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person other than the Company, the Authority, the Trustee and the Holders of the Bonds issued under this Indenture, any right, remedy or claim under or by reason of this Indenture, this Indenture being intended to be for the sole and exclusive benefit of the Company, the Authority, the Trustee and the Holders of the Bonds issued under this Indenture.

Section 14.03. Deposit of Funds for Payment of Bonds. If the Authority deposits with the Trustee funds sufficient to pay the principal or Redemption Price of any Bonds becoming due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, all interest on such Bond shall cease to accrue on the due date and all liability of the Authority with respect to such Bonds shall likewise cease, except as hereinafter provided. Thereafter the Holders of such Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Bonds, provided that such restriction shall not affect the obligations of the Company to make direct payments to the Holders of the Bonds pursuant to this Indenture or the Agreement, and the Trustee shall hold such funds in trust for such Holders.

Moneys so deposited with the Trustee which remain unclaimed one (1) year after the date payment thereof becomes due shall, at the written request of the Company and if the Authority is not at the time to the knowledge of the Trustee in default with respect to any covenant in this Indenture or the Bonds, be paid to the Authority, and, upon the written request of, and provision of adequate indemnification from the Company, the Authority shall pay such moneys to the Company; and the Holders of the Bonds for which the deposit was made shall thereafter be limited to a claim against the Company; provided, however, that the Trustee, before making payment to the Authority, may, at the expense of the Authority, cause a notice to be published once in an Authorized Newspaper, stating that the moneys remaining unclaimed will be returned to the Authority after a specified date.

Section 14.04. Severability of Invalid Provisions. In case any one or more of the provisions of this Indenture or of the Bonds issued under this Indenture shall, for any reason, be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Indenture or of said Bonds, and this Indenture and the Bonds shall be construed and enforced as if such illegal or invalid provisions had not been contained herein or therein.

Section 14.05. No Personal Recourse. No covenant or agreement contained in the Bonds or in this Indenture shall be deemed to be the covenant or agreement of any member, agent, or employee of the Authority in his individual capacity, and neither the members of the Authority nor any official executing the Bonds shall be liable personally on the Bonds or be subject to any personal likeability or accountability by reason of the issuance thereof.

Section 14.06. Notice. Any notices required to be given by any party should also be given to the Bond Insurer. Any notice, demand, direction, request or other instrument authorized or required by this Indenture to be given to or filed with the persons named below shall be deemed to have been sufficiently given or filed for all purposes of this Indenture if and when sent by registered mail return receipt requested:

(i) To the Authority at 200 South Warren Street, PO Box 990, Trenton, New Jersey 08625 or at such other address as may be designated in writing by the Authority to the Trustee;

(ii) To the Trustee at Two Tower Center Boulevard, 20th Floor, East Brunswick, New Jersey 08816, Attention: Corporate Trust Department;

(iii) To the Company at 1500 Ronson Road, Iselin, New Jersey 08830, Attn: A. Bruce O'Connor, Vice President and Chief Financial Officer;

(iv) To the Bond Insurer at 113 King Street, Armonk, New York 10504 Attn: Surveillance;

(vi) To the Bondholders by notification as provided in Section 7.02.

Section 14.07. Execution in Several Counterparts. This Indenture shall be simultaneously executed in several identical counterparts, and all of said counterparts executed and delivered, each as an original and complete in itself, shall constitute but one and the same instrument and any such counterpart may be introduced in evidence, proved, recorded or used for any purpose without the production of any other counterpart.

Section 14.08. Laws Governing Indenture. The effect and meaning of this Indenture and the rights of all parties hereunder shall be governed by, and construed according to, the laws of the State of New Jersey.

Section 14.09. Successors and Assigns. All the covenants, promises and agreements in this Indenture contained by or on behalf of the Authority, or by or on behalf of the Trustee, shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

Section 14.10. Headings for Convenience Only. The descriptive headings in this Indenture are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 14.11. Credits on First Mortgage Bonds. In addition to any credit, payment or satisfaction expressly provided for under the provisions of this Indenture in respect of the First Mortgage Bonds, the Trustee shall make credits against amounts otherwise payable in respect of the First Mortgage Bonds in an amount corresponding to (a) the principal amount of any Bond surrendered to the Trustee by the Company or the Authority, or purchased by the Trustee, for cancellation and (b) the amount of money held by the Trustee and available and designated for the payment of principal or Redemption Price of, and/or interest on, the Bonds, regardless of the source of payment to the Trustee of such moneys. The Trustee shall promptly notify the Company when such credits arise.

Section 14.12. Payments Due on Saturdays, Sundays and Holidays. In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall be a Saturday, Sunday or other

day that is not a Business Day, then payment of interest or principal or Redemption Price need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest on such payment shall accrue for the period after such date.

IN WITNESS WHEREOF, the Authority and the Trustee have caused their respective corporate seals to be hereunto affixed and attested and these presents to be signed by their respective officers thereunto duly authorized and this Indenture to be dated as of the day and year first above written.

[SEAL]

NEW JERSEY ECONOMIC DEVELOPMENT  
AUTHORITY

ATTEST:

\_\_\_\_\_  
Frank T. Mancini, Jr.  
Assistant Secretary

By: \_\_\_\_\_  
Caren S. Franzini  
Executive Director

[SEAL]

PNC BANK, NATIONAL ASSOCIATION,  
as Trustee

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_  
Julie Salovitch-Miller  
Vice President

EXHIBIT A  
Form of Bond

=====

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

TO

PNC BANK, NATIONAL ASSOCIATION,  
as Trustee

-----  
TRUST INDENTURE  
-----

Securing the issuance of \$23,000,000 in  
aggregate principal amount of  
New Jersey Economic Development Authority  
Water Facilities Revenue Bonds  
(Middlesex Water Company Project),  
Series 1998

Dated as of March 1, 1998

=====

TRUST INDENTURE  
Water Facilities Revenue Bonds  
(Middlesex Water Company Project), Series 1998

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Exhibit A Form of Bonds

THE STATE OF NEW JERSEY IS NOT OBLIGATED TO PAY, AND NEITHER THE FAITH AND CREDIT NOR TAXING POWER OF THE STATE OF NEW JERSEY IS PLEDGED TO THE PAYMENT OF, THE PRINCIPAL OR REDEMPTION PRICE, IF ANY, OF OR INTEREST ON THIS BOND. THIS BOND IS A SPECIAL, LIMITED OBLIGATION OF THE AUTHORITY, PAYABLE SOLELY OUT OF THE REVENUES OR OTHER RECEIPTS, FUNDS OR MONEYS OF THE AUTHORITY PLEDGED UNDER THE INDENTURE AND FROM ANY AMOUNTS OTHERWISE AVAILABLE UNDER THE INDENTURE FOR THE PAYMENT OF THE BOND. THE BOND DOES NOT NOW AND SHALL NEVER CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE AUTHORITY. THE AUTHORITY HAS NO TAXING POWER.

No. R-1

\$23,000,000

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

WATER FACILITIES REVENUE BOND

(Middlesex Water Company Project)  
Series 1998

Maturity Date	Dated Date	Authentication Date	CUSIP
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February 1, 2038	March 1, 1998	March 31, 1998	645780DL8

The NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY (the "Authority"), a public body corporate and politic constituting an instrumentality of the State of New Jersey (the "State"), for value received, hereby promises to pay (but only out of the sources hereinafter mentioned) to CEDE & CO., or registered assigns, on the Maturity Date shown above unless this Bond shall have been called for redemption in whole or in part and payment of the redemption price shall have been duly made or provided for, upon surrender hereof, the principal sum of Twenty-Three Million and 00/100 Dollars and to pay to the registered owner hereof (but only out of the sources hereinafter mentioned) interest thereon from the Dated Date shown above until payment of said principal sum has been made or provided for, at the rate of 5.35% per annum on February 1 and August 1 of each year, commencing on August 1, 1998, to the registered owner hereof as of the close of business on the January 15 or July 15 next preceding such interest payment date. Except as otherwise provided in the Trust Indenture dated as of March 1, 1998 (the "Indenture") between the Authority and PNC Bank, National Association, as Trustee (the "Trustee"), principal and interest shall be paid at the corporate trust operations of PNC Bank, National Association, Pittsburgh, Pennsylvania, or at the duly designated office of any duly appointed alternate or successor paying agent, in any coin or currency of the United States of America which, at the time of payment, is legal tender for the payment of public and private debts, provided that interest may be paid by check or draft drawn upon any such paying agent and mailed to the registered owner hereof at his address as it appears on the bond registry of the Authority.

The New Jersey Economic Development Authority Act, constituting Chapter 80 of the Pamphlet Laws of the State of New Jersey, approved on August 7, 1974, as amended and supplemented (the "Act") provides that no member of the Authority nor any person executing bonds for the Authority shall be liable personally on this Bond by reason of the issuance hereof.

The State of New Jersey is not obligated to pay, and neither the faith and credit nor taxing power of the State of New Jersey is pledged to the payment of, the principal or redemption price, if any, of or interest on this Bond. This Bond is a special, limited obligation of the Authority, payable solely out of the revenues or other receipts, funds or moneys of the Authority pledged under the Indenture and from any amounts otherwise available under the Indenture for the payment of the Bond. The Bond does not now and shall never constitute a charge against the general credit of the Authority. The Authority has no taxing power.

It is hereby certified and recited that all conditions, acts and things required by the Constitution or statutes of the State of New Jersey or the Indenture to exist, to have happened or to have been performed precedent to or in the issuance of this Bond, exist, have happened and have been performed and that said issue of Bonds, together with all other indebtedness of the Authority, is within every debt and other limit prescribed by said Constitution or statutes.

This Bond is not valid unless the Certificate of Authentication endorsed hereon is duly executed by the Trustee.

This Bond is one of a duly authorized series (the "Bonds") limited in aggregate principal amount to \$23,000,000 issued under the Indenture and pursuant to resolutions of the Authority dated December 13, 1994 and February 10, 1998 to accomplish the public purposes of the Act by aiding in financing the upgrade, expansion and addition of facilities at the Company's Carl J. Olsen Treatment Plant in Edison, New Jersey, and related water intake station in New Brunswick, New Jersey (the "Project Facilities" or the "Project").

The Bonds are special limited obligations of the Authority, payable solely from payments on the Company's First Mortgage Bonds, 5.35% Series W (the "First Mortgage Bonds") delivered by the Company evidencing a loan made by the Authority to the Company to finance the Project Facilities and from payments made by the Company pursuant to the Loan Agreement by and between the Authority and the Company dated as of March 1, 1998 (the "Agreement") and from any other moneys held by the Trustee under the Indenture for such purpose, and other than as provided in the Agreement and the Indenture, there shall be no other recourse against the Authority. Such First Mortgage Bonds are issued under and secured by the Company's Indenture dated as of April 1, 1927 to First Union National Bank, as successor trustee (the "Mortgage Trustee"), as heretofore or hereafter supplemented or amended (the "Mortgage Indenture"). Except as otherwise specified in the Indenture, this Bond is entitled to the benefits of the Indenture equally and ratably both as to principal (and redemption price) and interest with all other bonds issued under the Indenture, to which reference is made for a description of the rights of the holders of the Bonds, the rights and obligations of the Authority, the rights, duties and obligations of the Trustee, the provisions relating to amendments to and modifications of the Indenture. The holder of this Bond

may not enforce the provisions of the Company's First Mortgage Bonds or the Mortgage Indenture except in accordance with the provisions of the Indenture. Copies of the Indenture and the Agreement are on file at the principal corporate trust office of the Trustee.

The Bonds are each subject to redemption prior to maturity, at the option of the Authority, which option shall be exercised upon the giving of notice by the Company of its intention to prepay amounts due under the Loan Agreement pursuant to the terms thereof, on or after February 1, 2008 as a whole at any time or in part on any interest payment date, at the respective redemption price (expressed as a percentage of the principal amount to be redeemed) set forth for any of the periods in the following table, together with interest accrued to the date of redemption:

Period (Both Dates Inclusive) -----	Redemption Price -----
February 1, 2008 to January 31, 2009	102%
February 1, 2009 to January 31, 2010	101%
February 1, 2010 and thereafter	100%

The Bonds are subject to extraordinary mandatory redemption in whole prior to maturity at a redemption price equal to the principal amount thereof outstanding plus accrued interest to the redemption date within sixty (60) days of receipt by the Trustee of the Authority's written notice that any one of the following events has occurred:

- (i) if the Company ceases to operate the Project Facilities or causes the Project Facilities to cease to be operated as an authorized "project" under the Act for twelve (12) consecutive months without first obtaining the prior written consent of the Authority; or
- (ii) if any representation or warranty made by the Company in the Agreement or in any report, certificate, financial statements or other instrument furnished in connection with the Agreement shall prove to be false or misleading in any material respect when made.

The Bonds are subject to extraordinary redemption at the option of the Authority, upon the written notice of the Company, at any time prior to maturity, at a redemption price equal to the principal amount thereof to be redeemed, plus accrued interest to the redemption date if, as evidenced by a certificate of an Authorized Company Representative, (i) as a result of any change in the Constitution of the United States of America or of the State of New Jersey or of any final legislative or executive action of the United States of America or of the State of New Jersey or any political subdivision thereof or by final decree or judgment of any court after the contest thereof by the Company, the Agreement becomes void or unenforceable or legally impossible of performance in accordance with the intent and purpose of the Authority or the Company, in which case such redemption shall be in whole only at anytime and not in part, or (ii) unreasonable burdens or excessive liabilities are imposed upon the Company by reason of the operation of the Project Facilities, including, without limitation, Federal, state or other ad valorem, property, income or

other taxes, not being imposed on the date of issuance and delivery of the Bonds other than ad valorem taxes currently levied upon privately owned property used for the same general purpose as the Project Facilities, in which case such redemption shall be in whole at any time or in part on any interest payment date. The Authority shall provide written notice to the Trustee of its election to redeem the Bonds pursuant to this paragraph, the principal amount of such Bonds to be redeemed and the date, within one hundred eighty (180) days from the effective date of any such constitutional amendment, legislative or executive action, final decree, judgment or order but not less than sixty (60) days from the date such notice is mailed, on which the Bonds shall be redeemed pursuant to this paragraph. If less than all of the Bonds are to be redeemed, the Trustee shall select the Bonds for redemption by lot.

In the event the First Mortgage Bonds are called for redemption in whole or in part on any date in accordance with the terms thereof, the Bonds shall be subject to mandatory redemption on the redemption date established for the First Mortgage Bonds in the event of the release of all or substantially all of the Company's property used or useful in connection with its utility business from the lien of the Mortgage Indenture under the provisions of subsection B of Section 4 of Article VIII of the Second Supplemental Indenture to the Mortgage Indenture, in an aggregate principal amount equal to the amount of the First Mortgage Bonds so called for redemption from the award or consideration received by the Trustee for such property, and at a redemption price (expressed as a percentage of principal amount) equal to the redemption price for the First Mortgage Bonds, plus accrued interest to the redemption date.

The Bonds are subject to special mandatory redemption, in whole, or in part as described below, at any time prior to maturity at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date if (i) funds remain in the Construction Fund established under the Indenture after payment of all Costs of the Project, in which case the Bonds are redeemable in part from such funds or (ii) a final determination by the Internal Revenue Service or a final judgment is rendered by a court of competent jurisdiction in a proceeding, which determination or judgment is not being contested in an appropriate proceeding brought directly by the Company or by a holder of a Bond to the effect that, as a result of the failure by the Company to perform and observe any covenant, warranty, representation or agreement in the Agreement, the interest payable on the Bonds is includable for Federal income tax purposes in the gross income of any holder of the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") (other than a holder who is a "substantial user" of the Project or a "related person" as provided for in Section 147(a) of the Code and the regulations applicable thereunder) (a "determination of taxability"). A determination of taxability will result only from the inclusion of the interest paid or to be paid on any Bond (except to a holder who is a "substantial user" or a "related person") in the gross income of the holder for Federal income tax purposes under Section 103 of the Code and not from any other Federal tax consequences arising with respect to the Bonds. The Company shall promptly (i) notify the Trustee of such determination of taxability, and the date, which date must be within one hundred eighty (180) days from the date of such determination of taxability but not less than sixty (60) days from the date the notice from the Company to the Trustee is mailed, on which the Bonds shall be redeemed pursuant to the Indenture; and (ii) pay to the Trustee a sum sufficient, together with other funds deposited with the Trustee and available for

such purpose, to redeem all the Bonds at the principal amount thereof plus accrued interest to the redemption date; provided, however, that if the determination of taxability shall include the determination that the interest on a principal amount which is less than all of the Bonds then Outstanding, is includable in the gross income of the holders thereof and the loss of such exemption can be cured by a partial redemption of the Bonds, then only such principal amount of the Bonds as shall be necessary to cure the loss of such exemption shall be redeemed. The Company shall also pay or provide for reasonable or necessary fees and expenses of the Trustee and paying agent accrued and to accrue through final payment for the Bonds. In the event the Bonds are called for redemption pursuant to this paragraph, the Trustee shall cause notice thereof to be published and mailed to the holders as set forth below. For purposes of a determination of taxability no decree or judgment by a court or action by the Internal Revenue Service shall be considered final unless the holder of a Bond involved in such proceeding or action (i) has given the Company and the Trustee prompt written notice of a written determination by the Internal Revenue Service (a 30-day or 90-day letter) that interest on the Bonds is includable in gross income and (ii) offers the Company the opportunity to contest the determination relating to inclusion of interest on the Bonds in gross income; provided the Company shall be deemed to have waived its right to contest if it shall not agree to pay all expenses in connection with such contest and to indemnify such holder against any additional tax liability incurred as a result of such contest.

In the event any of the Bonds are to be called for redemption, the Trustee shall give notice thereof identifying, among other things, the number and amount of Bonds to be redeemed, by mailing a copy of such notice to the registered owner, by registered mail, not less than thirty (30) days nor more than forty-five (45) days prior to such redemption date.

The principal of this Bond may be declared or may become due prior to its maturity date, in the manner and with the effect and subject to the conditions provided in the Indenture, upon the happening of an Event of Default as provided in the Indenture; subject, however, to the right, under certain circumstances, of the registered owners of not less than sixty-six and two-thirds per cent (66 2/3%) in aggregate principal amount of the Bonds then outstanding under the Indenture to annul such declaration.

This Bond is transferable by the registered owner hereof or his duly authorized attorney at the principal corporate trust office of the Trustee, upon surrender of this Bond, accompanied by a duly executed instrument of transfer satisfactory to the Trustee, subject to such reasonable regulations as the Authority or the Trustee may prescribe, and upon payment of any tax, fee or other governmental charge and any mailing, delivery or insurance expense incurred with respect to such transfer. Upon any such transfer a new Bond or Bonds in the same aggregate principal amount will be issued, upon request, to the transferee. The person in whose name this Bond is registered shall be deemed the owner hereof for all purposes, and the Authority and the Trustee shall not be affected by a notice to the contrary. During the period from the record date (January 15 or July 15, as the case may be) next preceding an Interest Payment Date or, in the case of any proposed redemption of Bonds, during the fifteen (15) day period next preceding the date of notice of such redemption, neither the Authority nor the Trustee shall be required to make any transfer of this Bond.

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at PNC Bank, National Association, East Brunswick, New Jersey.

The Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Authority to PNC Bank, National Association or its successor (the "Trustee") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

New Jersey Economic Development Authority  
\$23,000,000 Water Facilities Revenue Bond  
(Middlesex Water Company Project) Series 1998

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Trustee or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an amount with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as repaid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the Insured Amounts due on such Obligations, less any amount held by the Trustee for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable

with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Trustee, the Authority, or any designee of the Authority for such purpose. The term owner shall not include the Authority or any party whose agreement with the Authority constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

It is further understood that this policy shall guarantee to the owner the full and complete payments required to be made by or on behalf of the Authority if there occurs pursuant to the terms of the Obligations an event which results in the loss of the tax-exempt status of the interest on the Obligations, including any principal, interest or premium payments payable thereon, if any, as and when thereby required.

MBIA INSURANCE CORPORATION

This policy has been endorsed.

IN WITNESS WHEREOF, the New Jersey Economic Development Authority has caused this Bond to be signed in its name and on its behalf by the manual or facsimile signature of its Executive Director and its corporate seal (or a facsimile thereof) to be affixed, impressed, imprinted or otherwise reproduced hereon and attested by its Assistant Secretary, all as of the Dated Date.

NEW JERSEY ECONOMIC  
DEVELOPMENT AUTHORITY

(SEAL)

ATTEST:

By: \_\_\_\_\_  
Caren S. Franzini  
Executive Director

\_\_\_\_\_  
Frank T. Mancini, Jr.  
Assistant Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Water Facilities Revenue Bonds (Middlesex Water Company Project) Series 1998 described in the within-mentioned Indenture.

PNC BANK, NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_  
Julie Salovitch-Miller  
Vice President

MIDDLESEX WATER COMPANY

NO. R-1

\$23,000,000

NON-NEGOTIABLE  
FIRST MORTGAGE 5.35% BOND, SERIES W, DUE February 1, 2038

MIDDLESEX WATER COMPANY, a corporation organized and existing under the laws of the State of New Jersey (hereinafter called the "Water Company"), for value received, hereby promises to pay to PNC BANK, NATIONAL ASSOCIATION, as Trustee to the New Jersey Economic Development Authority, or registered assigns on the first day of February 2038, at the office of FIRST UNION NATIONAL BANK in the City of Newark, State of New Jersey, or at the office of its successor, as successor to United Counties Trust Company, Trustee under the Mortgage and Supplemental Indentures hereinafter mentioned, or its successor as such Trustee, the sum of Twenty-Three Million Dollars (\$23,000,000) in coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, which payment shall be made on the business day prior to February 1, 2038, and to pay interest thereon from the date hereof at the rate of five and thirty-five one-hundredths per cent (5.35%) per annum, computed on the basis of a 360-day year composed of twelve 30-day months in like coin or currency, on the business day prior to February 1 and August 1 in each year, commencing on the business day prior to August 1, 1998, until Water Company's obligation with respect to the payment of such principal shall be discharged.

This Bond is one of a duly authorized issue of non-negotiable bonds of Water Company known as its First Mortgage 5.35% Bonds, Series W (hereinafter called the "Series W Bonds"), of an aggregate principal amount of \$23,000,000 all issued and all equally and ratably secured (together with all other bonds of the Water Company [hereinafter called "Bonds"] issued under the Mortgage and Supplemental Indentures [as hereinafter defined]), by an Indenture of Mortgage dated April 1, 1927 (hereinafter called the "Mortgage"), a Second Supplemental Indenture dated as of October 1, 1939, (hereinafter called the "Second Supplemental Indenture"), a Third Supplemental Indenture dated as of April 1, 1946, (hereinafter called the "Third Supplemental Indenture"), a Fourth Supplemental Indenture dated as of April 1, 1949, (hereinafter called the "Fourth Supplemental Indenture"), a Fifth Supplemental Indenture dated as of February 1, 1955 (hereinafter called the "Fifth Supplemental Indenture"), a Sixth Supplemental Indenture dated as of December 1, 1959, (hereinafter called the "Sixth Supplemental Indenture"), a Seventh Supplemental Indenture dated as of January 15, 1963, (hereinafter called the "Seventh Supplemental Indenture"), an Eighth Supplemental Indenture dated as of July 1, 1964, (hereinafter called the "Eighth Supplemental Indenture"), a Ninth Supplemental Indenture dated as of June 1, 1965, (hereinafter called the "Ninth Supplemental Indenture"), a Tenth Supplemental Indenture dated as of February 1, 1968, (hereinafter called the "Tenth Supplemental Indenture"), an Eleventh Supplemental Indenture dated as of December 1, 1968, (hereinafter called the "Eleventh Supplemental Indenture"), a Twelfth Supplemental Indenture dated as of December 1, 1970, (hereinafter called the "Twelfth Supplemental Indenture"), a Thirteenth Supplemental Indenture dated as of December 1, 1972, (hereinafter called the "Thirteenth Supplemental Indenture"), a Fourteenth Supplemental Indenture dated as of April 1, 1979, (hereinafter called the "Fourteenth Supplemental Indenture"), a Fifteenth Supplemental Indenture dated as of April 1, 1983, (hereinafter called the "Fifteenth Supplemental Indenture"), a Sixteenth Supplemental Indenture dated as of August 1, 1988, (hereinafter called the "Sixteenth Supplemental Indenture"), a Seventeenth Supplemental Indenture dated as of June 15, 1991, (hereinafter called the "Seventeenth Supplemental Indenture"), a Supplementary Indenture to the Fifteenth Supplemental Indenture dated as of March 1, 1993 (hereinafter called the "Supplementary Indenture"), an Eighteenth Supplemental Indenture dated as of September 1, 1993 (hereinafter called the "Eighteenth Supplemental Indenture"), a Nineteenth Supplemental Indenture dated as of September 1, 1993 (hereinafter called the "Nineteenth Supplemental Indenture"), a Twentieth Supplemental Indenture

dated as of January 1, 1994 (hereinafter called the "Twentieth Supplemental Indenture"), a Twenty-First Supplemental Indenture dated as of January 1, 1994 (hereinafter called the "Twenty-First Supplemental Indenture"), and a Twenty-Second Supplemental Indenture dated as of March 1, 1998 (hereinafter called the "Twenty-Second Supplemental Indenture"), all executed by Water Company to the First Union National Bank, or its predecessors, United Counties Trust Company and Union County Trust Company, as Trustee, which Second Supplemental Indenture, Third Supplemental Indenture, Fourth Supplemental Indenture, Fifth Supplemental Indenture, Sixth Supplemental Indenture, Seventh Supplemental Indenture, Eighth Supplemental Indenture, Ninth Supplemental Indenture, Tenth Supplemental Indenture, Eleventh Supplemental Indenture, Twelfth Supplemental Indenture, Thirteenth Supplemental Indenture, Fourteenth Supplemental Indenture, Fifteenth Supplemental Indenture, Sixteenth Supplemental Indenture, Seventeenth Supplemental Indenture, Supplementary Indenture, Eighteenth Supplemental Indenture, Nineteenth Supplemental Indenture, Twentieth Supplemental Indenture, Twenty-First Supplemental Indenture and Twenty-Second Supplemental Indenture are referred to herein sometimes as the "Supplemental Indentures", to which Mortgage and Supplemental Indentures reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the terms and conditions upon which the Bonds are issued and are to be secured and the rights of registered owners thereof and of the Trustee in respect of such security. As provided in the Mortgage and Supplemental Indentures, and subject to the conditions therein imposed, additional bonds of other series, with the same or different maturity dates, bearing the same or different rates of interest and varying in other respects, may be issued. This Series W Bond is one of the Series W Bonds described in the Twenty-Second Supplemental Indenture and designated therein as First Mortgage 5.35% Bonds, Series W.

As provided in the Twenty-Second Supplemental Indenture, this Series W Bond is subject to redemption in whole or in upon prior written notice given by the Trustee upon written direction of Water Company to the holder of this Bond, at the option of Water Company with, to the extent required by the January 23, 1998 Order (Docket No. WF97090693) of the Board of Public Utilities of the State of New Jersey ("BPU") and/or required by then applicable law and regulations, the prior approval of the BPU, on or after February 1, 2008, at the applicable redemption price shown in the following table expressed as a percentage of the principal amount redeemed set opposite the period during

which such redemption occurs, plus interest accrued to the redemption date:

Period (Both Dates Inclusive) -----	Redemption Price -----
Issue date - January 31, 2008	Not Optionally Redeemable
February 1, 2008 - January 31, 2009	102%
February 1, 2009 - January 31, 2010	101%
February 1, 2010 and thereafter	100%

and at the principal amount thereof and accrued interest to the date fixed for redemption, if redeemed pursuant to the provisions set forth hereinafter and in the Twenty-Second Supplemental Indenture under the captions "Mandatory Redemption" and "Special Mandatory Redemption"; and at the principal amount thereof and accrued interest to the date fixed for redemption if redeemed pursuant to the provisions set forth hereinafter and in the Twenty-Second Supplemental Indenture under the captions "Extraordinary Mandatory Redemption" and "Extraordinary Optional Redemption"; and at the redemption price for the Authority Bonds (as hereinafter defined) if redeemed pursuant to the provisions set forth hereinafter and in the Twenty-Second Supplemental Indenture under the caption "Mandatory Redemption in the Event of Redemption of Authority Bonds".

In addition to any other default provided for under the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, and Twenty-Second Supplemental Indentures, it shall be a default with respect to the Series W Bonds in accordance with the terms of the Twenty-Second Supplemental Indenture under which this Series W Bond is issued, if (a) payment of principal of any Series W Bond shall not be made when the same shall become due and payable at maturity, upon redemption or otherwise; or (b) payment of an installment of interest on any Series W Bond shall not be made when the same shall become due and payable and shall continue unpaid for a period of ten (10) consecutive days thereafter.

#### Mandatory Redemption

This Series W Bond is subject to mandatory redemption in whole or in part, at any time prior to maturity pursuant to subsection B of Section 4 of Article VIII of the Second Supplemental Indenture.

## Special Mandatory Redemption

This Series W Bond is subject to special mandatory redemption, in whole, or in part as described below, at any time prior to maturity at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date, if (i) funds remain in the Construction Fund established under the Trust Indenture [hereinafter defined] after payment of all costs of the Project, in which case this Series W Bond is redeemable in part from such funds or (ii) a final determination by the Internal Revenue Service or a final judgment is rendered by a court of competent jurisdiction in a proceeding, which determination or judgment is not being contested in an appropriate proceeding brought directly by Water Company or by a holder of Water Facilities Revenue Bonds, Series 1998 [Middlesex Water Company Project] [the "Authority Bonds"] issued by the New Jersey Economic Development Authority [the "Authority"] to the effect that, as a result of the failure of Water Company to perform and observe any covenant, warranty, representation or agreement contained in the Loan Agreement dated as of March 1, 1998 by and between Water Company and the Authority (the "Loan Agreement"), the interest payable on the Authority Bonds is includable for Federal income tax purposes in the gross income of any holder of Authority Bonds under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") (other than a holder who is a "substantial user" of the Project or the Project Facilities [as defined in the Trust Indenture hereinafter referred to] or a "related person" as provided for in Section 147(a) of the Code and the regulations applicable thereunder) ("Determination of Taxability"). A Determination of Taxability will result only from the inclusion of the interest paid or to be paid on any Authority Bond (except to a holder who is a "substantial user" or a "related person") in the gross income of such holder for Federal income tax purposes and not from any other federal tax consequences arising with respect to the Authority Bonds. Water Company shall promptly (1) notify the Trustee of such Determination of Taxability and the date, which date must be within one hundred eighty (180) days from the date of such determination of taxability but not less than sixty (60) days from the date the notice from Water Company to the Loan Trustee is mailed, on which the Authority Bonds shall be redeemed pursuant to the Trust Indenture, which date shall be the date for redemption of this Series W Bond; and (2) on or prior to the date set for redemption pay to the trustee appointed pursuant to the Trust Indenture dated as of March 1, 1998 by and between the Authority and PNC Bank, National Association, as trustee (the "Loan Trustee"), a sum sufficient, together with other funds deposited with the Loan Trustee and available for such purpose, to redeem all such Authority Bonds then outstanding

under the Indenture equal to the principal amount thereof plus the accrued interest to the redemption date; provided, however, that if the Determination of Taxability shall include the determination that the interest on a principal amount which is less than all of the Authority Bonds then outstanding, is includable in the gross income of the holders thereof and the loss of such exemption can be cured by a partial redemption of the Authority Bonds, then only such principal amount of the Series W Bonds shall be redeemed as shall be necessary to cure the loss of such exemption. No decree or judgment by any court or action by the Internal Revenue Service shall be considered final unless the holder of an Authority Bond involved in such proceeding or action (1) has given Water Company and the Loan Trustee prompt written notice of a written determination by the Internal Revenue Service (a 30-day or 90-day letter) that interest on the Authority Bonds is includable in the gross income of such holder under Section 103 of the Code, and (2) offers Water Company the opportunity to contest the determination relating to the inclusion of interest on the Authority Bonds in gross income; provided, however that Water Company shall be deemed to have waived its right to contest if it shall not agree to pay all expenses in connection with such contest and to indemnify such holder against any additional tax liability incurred as a result of such contest.

#### Extraordinary Mandatory Redemption

This Series W Bond is subject to extraordinary mandatory redemption in whole prior to maturity at a redemption price equal to the principal amount of such Bonds outstanding plus accrued interest to the redemption date within sixty (60) days of receipt by the Loan Trustee of the Authority's written notice that any one of the following events has occurred:

(i) if Water Company ceases to operate the Project Facilities or causes the Project Facilities to cease to be operated as an authorized "project" under the New Jersey Economic Development Authority Act for twelve (12) consecutive months without first obtaining the prior written consent of the Authority; or

(ii) if any representation or warranty made by Water Company in the Loan Agreement or in any report, certificate, financial statements or other instrument furnished in connection with the Loan Agreement shall prove to be false or misleading in any material respect when made.

#### Extraordinary Optional Redemption

This Series W Bond may be redeemed at the option of Water Company at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date if any one of the following events has occurred:

(i) as a result of any change in the Constitution of the United States of America, the Constitution of the State of New Jersey, or of any final legislative or executive action of the United States of America or of the State of New Jersey or any political subdivision thereof, or by final decree or judgment of any court after the contest thereof by Water Company, the Loan Agreement shall have become void or unenforceable or legally impossible of performance in accordance with the intent and purpose of the Authority or Water Company; or

(ii) unreasonable burdens or excessive liabilities shall have been imposed upon Water Company by reason of the operation of the Project Facilities, including, without limitation, Federal, State or other ad valorem, property, income or other taxes, not being imposed on the date of issuance and delivery of the Authority Bonds, other than ad valorem taxes currently levied upon privately owned property used for the same general purpose as the Project Facilities.

#### Mandatory Redemption in the Event of Redemption of Authority Bonds.

In the event the Authority Bonds are called for redemption in whole or in part in accordance with the terms thereof, the Series W Bonds shall be subject to mandatory redemption on the redemption date established for the Authority Bonds in an aggregate principal amount equal to the principal amount of Authority Bonds so called for redemption, and at a redemption price equal to the redemption price for the Authority Bonds.

If this Series W Bond is called for redemption and payment is duly provided therefor, as specified in the Mortgage and Supplemental Indentures, or if this Series W Bond is forthwith redeemed without payment in the case of the redemption of Authority Bonds due to having excess Bond Proceeds in the Construction Fund on the Completion Date, interest shall cease to accrue hereon from and after the date fixed for redemption.

If an event of default, as defined in the Mortgage or Supplemental Indentures, shall occur, the principal of all

the Series W Bonds may become or be declared due and payable, in the manner and with the effect provided in the Mortgage and Supplemental Indentures.

As provided in the Mortgage as modified, amended and supplemented by the Supplemental Indentures, and subject to the limitations therein contained, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented with the consent in writing of the holders of not less than 75% in principal amount of each series of Bonds outstanding at the time and effective upon the date all of the Series R Bonds are retired or defeased or the holders thereof consent thereto, with the consent in writing of the holders of not less than 51% in aggregate principal amount of all series of Bonds outstanding at any time; provided, however, that no such modification shall reduce the principal amount of a Bond or the premium, if any, payable on a redemption thereof, extend the maturity thereof, reduce the rate or extend time for payment of interest thereon, give a Bond any preference over another Bond, create or permit a lien on the property subject to the Mortgage (other than a Permitted Encumbrance as defined in the Eighth Supplemental Indenture) prior to or on a parity with the Mortgage, or reduce the percentage of the holders required for any action authorized to be taken by the holders of Bonds under the Mortgage, without the consent of the holders of all Bonds affected by such modification; provided, further, that no modification shall impose additional duties or responsibilities on the Trustee without the consent of the Trustee.

The Mortgage may be modified, amended or supplemented by Water Company without the consent of the holders of the Bonds for one or more of the following purposes: (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Mortgage; (2) to cure any ambiguity, supply any omission or cure or correct any defect in any description of the Mortgage Property, if such action is not adverse to the interests of the holders of the Bonds; (3) to insert such provisions clarifying matters or questions arising under the mortgage indenture as are necessary or desirable and are not contrary to or inconsistent with the Mortgage as in effect or (4) to restate the Mortgage as supplemented by the Supplemental Indentures as a single integrated document which may add headings, an index and other provisions aiding the convenience of use. The Company shall provide prior notice of such change to the holders.

This Series W Bond shall not be transferred except as required to effect an assignment to a successor trustee, and except to effect an exchange in connection with a bankruptcy, reorganization, insolvency, or similar proceeding involving Water Company and except to effect an exchange in connection with prepayment by redemption or otherwise of the Series W Bonds. This Series W Bond may be transferred at the principal corporate trust office of the Trustee by surrendering this Series W Bond for cancellation, accompanied by a written instrument of transfer in form approved by Water Company and the Trustee, duly executed by the registered owner hereof in person or by attorney duly authorized in writing, and upon payment of any taxes or other governmental charges incident to such transfer, and upon any such transfer new registered Bond or Bonds of the same series and of the same aggregate principal amount in authorized denominations, will be issued to the transferee in exchange herefor.

This Series W Bond, upon surrender hereof to the Trustee, accompanied by a written instrument of transfer as aforesaid, may be exchanged for one or more other registered Bonds of the same series and of the same aggregate principal amount but of a different authorized denomination or denominations, or may be exchanged in part for one or more other registered Bonds; all upon payment of charges and subject to the terms and conditions set forth in the Mortgage and Supplemental Indentures.

The person in whose name this Series W Bond shall be registered shall be deemed the owner hereof for all purposes, and payment of or on account of the principal hereof and interest hereon shall be made only to or upon the order in writing of the registered owner hereof; and all such payments shall be valid and effectual to satisfy and discharge the liability upon this Series W Bond to the extent of the sum or sums so paid.

No recourse shall be had for the payment of the principal of or interest on this Series W Bond or for any claim based hereon or otherwise in respect hereof or of the Mortgage or of any indenture supplemental thereto against any incorporator, or against any stockholder, director or officer, as such, past, present or future, of Water Company or of any predecessor or successor corporation, either directly or through Water Company or any such predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law or equity, or by the enforcement of any assessment or penalty, or otherwise howsoever, all such liability being, by the acceptance hereof and as part of the consideration for the issue

hereof, expressly waived and released by every holder or registered owner hereof as more fully provided in the Mortgage and Supplemental Indentures; it being expressly agreed and understood that the Mortgage and Supplemental Indentures and all Bonds thereby secured are solely corporate obligations.

The terms and provisions of the Series W Bonds shall not be amended by, and the Series W Bond shall not be entitled to the benefit of, any covenant, term or condition contained in any subsequent supplemental indenture without the express written concurrence of the Water Company.

This Series W Bond shall not be entitled to any benefit under the Mortgage or any indenture supplemental thereto, or be valid or become obligatory for any purpose, until First Union National Bank, as the Trustee under the Mortgage and Supplemental Indentures, or its successor thereunder, shall have signed the form of certificate endorsed hereon.

Notwithstanding the payments set forth above, each payment on this Series W Bond shall at all times be sufficient to pay the total amount payable on the Authority Bonds and all other obligations of Water Company under the Loan Agreement.

IN WITNESS WHEREOF, Middlesex Water Company has caused this Bond to be signed in its name by its President or a Vice President and its corporate seal to be hereto affixed by its Secretary or any Assistant Secretary.

Dated: March 1, 1998

ATTEST:  
[SEAL]

MIDDLESEX WATER COMPANY

\_\_\_\_\_  
Marion F. Reynolds  
Vice President, Secretary  
and Treasurer

By: \_\_\_\_\_  
J. Richard Tompkins  
Chairman of the Board and  
President

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the bonds described in the within mentioned Mortgage and Twenty-Second Supplemental Indenture.

FIRST UNION NATIONAL BANK,  
Trustee

By: \_\_\_\_\_  
Thomas J. Brett  
Corporate Trust Officer

This Bond has not been registered under the Securities Act of 1933, as amended, and may be offered or sold only in compliance with the provisions of said Act.

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TWENTY-THIRD SUPPLEMENTAL INDENTURE

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MIDDLESEX WATER COMPANY

TO

FIRST UNION NATIONAL BANK  
Trustee

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Dated as of October 15, 1998

=====

Record and Return to:

Peter D. Hutcheon, Esq.  
Norris, McLaughlin & Marcus  
721 Route 202/206  
P.O. Box 1018  
Somerville, NJ 08876  
(908) 722-0700

Prepared By: \_\_\_\_\_  
Peter D. Hutcheon, Esq.

THIS TWENTY-THIRD SUPPLEMENTAL INDENTURE, dated as of the 15th day of October, 1998, between MIDDLESEX WATER COMPANY, a corporation organized and existing under the laws of the State of New Jersey, having its principal office in the Township of Iselin, New Jersey (herein called the "Water Company"), and FIRST UNION NATIONAL BANK, (as successor to Meridian Bank, the successor to United Counties Trust Company in turn the successor to the Union County Trust Company), a corporation organized and existing under the laws of the United States, having its principal New Jersey corporate trust office in the City of Newark, New Jersey, as Trustee under the Indenture of Mortgage hereinafter mentioned (herein called the "Trustee"):

WHEREAS, on April 1, 1927, Water Company executed and delivered to the Trustee an Indenture of Mortgage (herein called the "Mortgage") to secure its First and Refunding Mortgage Gold Bonds, Series A, 5-1/2%, which bonds have since been redeemed by Water Company, and which Mortgage provides that bonds of other series may be issued under and pursuant to an indenture supplemental thereto; and

WHEREAS, on May 14, 1935, Water Company executed and delivered to the Trustee a Supplemental Indenture to secure its First and Refunding Mortgage Bonds, Series B, 4-1/2%, which Supplemental Indenture, prior to the execution and delivery

hereof, was satisfied and discharged of record, no bonds having been issued thereunder; and

WHEREAS, as of October 1, 1939, Water Company executed and delivered to the Trustee a Second Supplemental Indenture of Mortgage (herein called the "Second Supplemental Indenture") to secure its First and Refunding Mortgage 3-3/4% Bonds, Series C (herein called the "Series C Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the Mortgage; and

WHEREAS, as of April 1, 1946, Water Company executed and delivered to the Trustee a Third Supplemental Indenture of Mortgage (herein called the "Third Supplemental Indenture") to secure its First and Refunding Mortgage 3% Bonds, Series D (herein called the "Series D Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the Mortgage; and

WHEREAS, as of April 1, 1949, Water Company executed and delivered to the Trustee a Fourth Supplemental Indenture of Mortgage (herein called the "Fourth Supplemental Indenture") to secure its First Mortgage 3-1/2% Bonds, Series E (herein called the "Series E Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the

Mortgage; and

WHEREAS, as of February 1, 1955, Water Company executed and delivered to the Trustee a Fifth Supplemental Indenture of Mortgage (herein called the "Fifth Supplemental Indenture") to secure its First Mortgage 3-5/8% Bonds, Series F (herein called the "Series F Bonds"), which bonds were paid at maturity by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1959, Water Company executed and delivered to the Trustee a Sixth Supplemental Indenture of Mortgage (herein called the "Sixth Supplemental Indenture") to secure its First Mortgage 5-3/4% Bonds, Series G (herein called the "Series G Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of January 15, 1963, Water Company executed and delivered to the Trustee a Seventh Supplemental Indenture of Mortgage (herein called the "Seventh Supplemental Indenture") to secure its First Mortgage 4-1/2% Bonds, Series H (herein called the "Series H Bonds"), which bonds were paid at maturity by Water Company and otherwise supplementing the Mortgage; and

WHEREAS, as of July 1, 1964, Water Company executed and delivered to the Trustee, an Eighth Supplemental Indenture of Mortgage (herein called the "Eighth Supplemental Indenture") to

secure its First Mortgage 4 3/4% Bonds, Series I (herein called the "Series I Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of June 1, 1965, Water Company executed and delivered to the Trustee a Ninth Supplemental Indenture of Mortgage (herein called the "Ninth Supplemental Indenture") to secure its First Mortgage 4-3/4% Bonds, Series J (herein called the "Series J Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of February 1, 1968, Water Company executed and delivered to the Trustee a Tenth Supplemental Indenture of Mortgage (herein called the "Tenth Supplemental Indenture") to secure its First Mortgage 6-3/4% Bonds, Series K (herein called the "Series K Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1968, Water Company executed and delivered to the Trustee an Eleventh Supplemental Indenture of Mortgage (herein called the "Eleventh Supplemental Indenture") to secure its First Mortgage 6-7/8% Bonds, Series L (herein called the "Series L Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1970, Water Company executed and delivered to the Trustee a Twelfth Supplemental Indenture of Mortgage (herein called the "Twelfth Supplemental Indenture") to secure its First Mortgage 10% Bonds, Series M (herein called the "Series M Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1972, Water Company executed and delivered to the Trustee a Thirteenth Supplemental Indenture of Mortgage (herein called the "Thirteenth Supplemental Indenture") to secure its First Mortgage 8-1/8% Bonds, Series N (herein called the "Series N Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of April 1, 1979, Water Company executed and delivered to the Trustee a Fourteenth Supplemental Indenture of Mortgage (herein called the "Fourteenth Supplemental Indenture") to secure its First Mortgage 7% Bonds, Series O (herein called the "Series O Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of April 1, 1983, Water Company executed and delivered to the Trustee a Fifteenth Supplemental Indenture of

Mortgage (herein called the "Fifteenth Supplemental Indenture") to secure its First Mortgage 10-1/2% Bonds, Series P (herein called the "Series P Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of August 1, 1988, Water Company executed and delivered to the Trustee a Sixteenth Supplemental Indenture of Mortgage (herein called the "Sixteenth Supplemental Indenture") to secure its First Mortgage 8% Bonds, Series Q (herein called the "Series Q Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of June 15, 1991, Water Company executed and delivered to the Trustee a Seventeenth Supplemental Indenture of Mortgage (herein called the "Seventeenth Supplemental Indenture") to secure its First Mortgage 7.25% Bonds, Series R (herein called the "Series R Bonds") and otherwise supplementing the Mortgage; and

WHEREAS, as of March 1, 1993, Water Company executed and delivered to the Trustee a Supplementary Indenture of Mortgage to the Fifteenth Supplemental Indenture of Mortgage (herein called the "Supplementary Indenture to the Fifteenth Supplemental Indenture") to secure its First Mortgage 2 7/8%, Series P-1 (herein called the "Series P-1 Bonds"), which bonds have since

been redeemed by Water Company, and otherwise supplementing the Mortgage.

WHEREAS, as of September 1, 1993, Water Company executed and delivered to the Trustee an Eighteenth Supplemental Indenture of Mortgage (herein called the "Eighteenth Supplemental Indenture") to secure its First Mortgage 5.20% Bonds, Series S (herein called the "Series S Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of September 1, 1993, Water Company executed and delivered to the Trustee a Nineteenth Supplemental Indenture of Mortgage (herein called the "Nineteenth Supplemental Indenture") to secure its First Mortgage 5.25% Bonds, Series T (herein called the "Series T Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of January 1, 1994, Water Company executed and delivered to Trustee a Twentieth Supplemental Indenture of Mortgage (herein called the "Twentieth Supplemental Indenture") to secure its First Mortgage 6.4% Bonds, Series U (herein called the "Series U Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of January 1, 1994, Water Company executed and delivered to Trustee a Twenty-First Supplemental Indenture of

Mortgage (herein called the "Twenty-First Supplemental Indenture") to secure its First Mortgage 5.25% Bonds, Series V (herein called the "Series V Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of March 1, 1998, Water Company executed and delivered to Trustee a Twenty-Second Supplemental Indenture of Mortgage (herein called the "Twenty-Second Supplemental Indenture") to secure its First Mortgage 5.35% Bonds, Series W (herein called the "Series W Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, Water Company deems it necessary to borrow money and to issue its bonds therefor, to be secured by the Mortgage, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture, the Fourteenth Supplemental Indenture, the Fifteenth Supplemental Indenture, the Sixteenth Supplemental Indenture, the Seventeenth Supplemental Indenture, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the

Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures, and by this Twenty-Third Supplemental Indenture;

WHEREAS, Water Company desires to authorize and create a series of bonds under which a single bond shall be issued limited to an aggregate principal amount of \$1,050,000 designated Series X and to be known as its "First Mortgage 0% Bonds, Series X" (herein called the "Series X Bond"), it being the intention of the parties that the Series X Bond shall, together with all other Bonds issued under the Mortgage and all indentures supplemental thereto, be entitled to priority over all other obligations of the Water Company and shall be secured by a prior first lien on all the mortgaged property, subject only to the prior liens specifically permitted under the Mortgage or under any indenture supplemental thereto; and

WHEREAS, Water Company desires that the Series X Bond shall be issued to fund payment of the principal of \$1,050,000, the amount borrowed from the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection ("State") under the Loan Agreement dated as of November 1, 1998 (the "Loan Agreement") by and between the State and the Water Company, or such lesser amount as shall be determined in accordance with Section 3.01 of the Loan Agreement, plus any other

amounts due and owing under the Loan Agreement at the time and in the amounts as provided therein, which principal amount is to be applied for the cleaning and lining of certain pipes and mains which are utilized by Water Company for the furnishing of water in its New Jersey service area; and

WHEREAS, the State requires as a condition of making the loan documented by the Loan Agreement, that a single Series X Bond be issued to the State, that such Bond evidence the payment obligations of the Water Company under Section 3.03(a) of the Loan Agreement, that payments under the Series X Bond be made to the Loan Servicer (as defined in the Loan Agreement) for the account of the State, that the Series X Bond be subject to assignment or transfer in accordance with the terms of the Loan Agreement, that all of the terms, conditions and provisions of the Loan Agreement be expressly incorporated by reference into the Series X Bond, that the obligations of the Water Company under the Series X Bond shall be absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of default by the State under the Loan Agreement or under any other agreement between the Water Company and the State or out of any indebtedness or liability at any time owing to the Water Company or for any other reason, that the Series X Bond be subject to optional prepayment under the terms and conditions and in the amounts provided in Section 3.07 of the Loan Agreement, and that the

Series X Bond may be subject to acceleration under the terms and conditions and in the amounts, provided in Section 5.03 of the Loan Agreement; and

WHEREAS, Water Company represents that all acts and proceedings required by law and by the Charter and By-Laws of Water Company, and by the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and Twenty-Second Supplemental Indentures (to the extent applicable) necessary to make the Series X Bond, when executed by Water Company, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal obligations of Water Company and to constitute this Twenty-Third Supplemental Indenture a valid and binding supplement to the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and Twenty-Second Supplemental Indentures, in accordance with its and their terms, for the security of all bonds issued and which may hereafter be

issued pursuant to the Mortgage and all indentures supplemental thereto, have been done and performed; and the execution and delivery of this Twenty-Third Supplemental Indenture have been in all respects duly authorized;

NOW THEREFORE, THIS INDENTURE WITNESSETH, that for and in consideration of the premises, and of the sum of One Dollar (\$1.00), lawful money of the United States of America, by each of the parties paid to the other, at or before the delivery hereof, and for other valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, Water Company has executed and delivered this Twenty-Third Supplemental Indenture, and has granted, bargained, sold, aliened, enfeoffed, conveyed and confirmed, and by these presents does grant, bargain, sell, alien, enfeoff, convey and confirm, unto to the Trustee, its successors and assigns forever, all real property of Water Company, together with all appurtenances and contracts, rights, privileges, permits and franchises used or useful in connection with the business of the Water Company as a water company or as a water utility or used directly for the purpose of supplying water, granted, bargained, sold, aliened, enfeoffed, conveyed and confirmed unto the Trustee by the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, and the Supplementary Indenture to the Fifteenth

Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures, or intended to be (including without limitation all such property acquired by Water Company since March 1, 1998, and all such property which Water Company may hereafter acquire), subject, however, to Permissible Encumbrances, and excepting all Property heretofore released from the lien of the Mortgage and the indentures supplemental thereto, and excepting all property of Water Company which is not used or useful in connection with its business as a water company or as a water utility as well as all personal property (both tangible and intangible) as to which a security interest may not be perfected by a filing under the Uniform Commercial Code as in effect in the State of New Jersey;

TO HAVE AND TO HOLD all and singular the above granted property, unto the Trustee, its successors and assigns forever, IN TRUST, nevertheless, for the equal and proportionate use, benefit, security and protection of those who from time to time shall hold any bonds which have been or may be issued under the Mortgage or any indenture supplemental thereto, without any discrimination, preference or priority of any one bond over any other by reason of priority in the time of issue, sale or negotiation thereof or otherwise, except as otherwise in the Mortgage or in any indenture supplemental thereto provided; and in trust for enforcing the payment of the principal of and the interest on such bonds,

according to the tenor, purport and effect of the bonds and of the Mortgage and all indentures supplemental thereto and for enforcing the terms, provisions, covenants and stipulations therein and in the bonds set forth; and upon the trust, uses and purposes and subject to the covenants, agreements and conditions set forth and declared in the Mortgage as modified, amended and supplemented by all indentures supplemental thereto;

AND the parties do hereby covenant and agree that the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures be and hereby are supplemented as hereinafter provided, and that the above granted property is to be held and applied subject to the covenants, conditions, uses and trusts set forth in the Mortgage, as modified, amended and supplemented by such Supplemental Indentures and this Twenty-Third Supplemental Indenture; and Water Company for itself and its successors does hereby covenant and agree to and with the Trustee, and its successors in said trust, for the equal benefit of all present and future holders and registered owners of the bonds issued under the Mortgage and all indentures supplemental thereto, as follows:

ARTICLE I

First Mortgage 0% Bonds, Series X

Section 1. Water Company hereby creates a series of bonds to be issued under and secured by the Mortgage, the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and Twenty-Second Supplemental Indentures and by this Twenty-Third Supplemental Indenture, and to be designated as, and to be distinguished from the bonds of all other series by the title, "First Mortgage 0% Bond, Series X". The Series X Bond shall be issued only as a single registered bond without coupons in the principal amount of the Loan under the Loan Agreement; shall be dated as of October 15, 1998; and shall be issued in non-negotiable form to the State. The Series X Bond shall bear no interest, shall state that, subject to certain limitations, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented as provided in the Mortgage as heretofore supplemented; shall mature on September 1, 2018, and shall be earlier redeemable (i) under the terms and conditions and in the amounts provided in Section

3.07 of the Loan Agreement at the option of the Water Company with, to the extent required by the August 22, 1998 Order (Docket No. WP98060336) of the Board of Public Utilities of the State of New Jersey ("BPU") and/or required by then applicable law and regulations, the prior approval of the BPU, (ii) as, when and to the extent mandated pursuant to subsection B of Section 4 of Article VIII of the Second Supplemental Indenture; and shall be subject to, entitled to the benefit of, and expressly incorporate by reference, all of the terms, conditions and provisions of the Loan Agreement.

The Series X Bond shall evidence the obligation to pay to the order of the State the principal amount of the loan made by the State under the Loan Agreement which shall be \$1,050,000 or such lesser amount as determined in accordance with Section 3.01 of the Loan Agreement, at the times and in the amounts determined as provided in the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the times and in the amounts as provided therein. The obligations of the Water Company to make payments under the Series X Bond are absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of any default by the State under the Loan Agreement or under any other agreement between the Water Company and the State or out of any indebtedness or liability at any time owing to the Water Company by the State or for any other

reason. The Series X Bond is subject to assignment or transfer in accordance with the terms of the Loan Agreement. The Series X Bond is subject to acceleration under the terms and conditions, and in the amounts, provided in Section 5.03 of the Loan Agreement. Payments under the Series X Bond shall, except as otherwise provided in the Loan Agreement, be made directly to the Loan Servicer (as defined in the Loan Agreement), for the account of the State.

In addition to any other default provided for under the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth, Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures, it shall be a default under this Twenty-Third Supplemental Indenture if payment of principal is not made when the same shall become due and payable in installments, at maturity, upon redemption or otherwise.

Section 2. Disbursements of the proceeds of the loan from the State under the Loan Agreement evidenced by the Series X Bond shall be made by the State to the Water Company upon receipt by the State of requisitions from the Water Company executed and

delivered in accordance with the requirements set forth in Section 3.02 of the Loan Agreement.

Section 3. The Series X Bond and the certificate of authentication of the Trustee to be executed thereon shall be substantially in the form prescribed for registered bonds without coupons in the Second Supplemental Indenture (except that there may be deleted therefrom all references to the issuance of coupon bonds in exchange therefor); shall be in the form attached to this Twenty-Third Supplemental Indenture as Exhibit A; and shall contain appropriate references to this Twenty-Third Supplemental Indenture in addition to the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures and appropriate changes with respect to the aggregate principal amount, interest rate, redemption dates and provisions, and maturity date of the Series X Bond, and with appropriate reference to the provision of the Fourth Supplemental Indenture that, subject to certain limitations, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented only as provided in the Mortgage and except that the Series X Bond shall not contain any

references to a sinking fund.

Section 4. Subject to the provisions of the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures, forthwith upon the execution and delivery of this Twenty-Third Supplemental Indenture, or from time to time thereafter, Series X Bond in an aggregate principal amount of \$1,050,000 may be executed by Water Company and delivered to the Trustee for authentication and shall thereupon be authenticated and delivered by the Trustee upon the written order of Water Company, signed by its President or a Vice President and its Treasurer or Assistant Treasurer, in such denominations and registered in such name or names as may be specified in such written order.

Section 5. Sections 4(A)(iii) and (iv) of Article VIII of the Second Supplemental Indenture shall not be available to the Water Company with respect to the Series X Bond. The Water Company shall issue its written order under Section 4(a)(i) or (ii), as the case may be, reasonably promptly after receipt by the Trustee of proceeds of sale, eminent domain or insurance (not

otherwise to be paid directly to the Company under the Mortgage as supplemented by the Supplemental Indentures including this Twenty-Third Supplemental Indenture).

ARTICLE II

Miscellaneous

Section 1. The provisions of the Mortgage as modified, amended and supplemented by the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures, and as modified and extended by this Twenty-Third Supplemental Indenture are hereby reaffirmed. Except insofar as they are inconsistent with the provisions hereof, the provisions of the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures with respect to the Series C, Series D, Series E, Series F, Series G, Series H, Series I, Series J, Series K, Series L, Series M, Series N, Series O, Series P, Series Q, Series R, Series P-1, Series S, Series T, Series U, Series V and Series W Bonds shall apply to the Series X Bond to the same extent as if they were set forth herein in full. Unless there is something in the subject or context repugnant to such construction, each reference in the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth,

Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures to the Mortgage or any of such Supplemental Indentures shall be construed as also referring to this Twenty-Third Supplemental Indenture. The Mortgage and all indentures supplemental thereto may be modified, amended or supplemented by Water Company with prior notice by the Water Company to but without the consent of any of the bondholders to accomplish any more of the following:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Mortgage or any indenture supplemental thereto;
- (2) to cure any ambiguity, supply any omission, or cure or correct any defect in any description of the Mortgaged Property, if such action is not adverse to the interests of the bondholder;
- (3) to insert such provisions clarifying matters or questions arising under the Mortgage or any indenture supplemental thereto as are necessary or desirable and are not contrary to or inconsistent

with the Mortgage or any indenture supplemental thereto as in effect;  
or

- (4) to restate the Mortgage as supplemented by the Supplemental Indentures as a single integrated document which may add headings, an index and other provisions aiding the convenience of use.

The terms and provisions of the Series X Bond shall not be amended by, and the Series X Bond shall not be entitled to the benefit of any covenant, term or condition contained in any subsequent supplemental indenture without the express written concurrence of the Water Company.

Section 2. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity and sufficiency of this Twenty-Third Supplemental Indenture or the due execution hereof by Water Company or for the recitals contained herein, all of which recitals are made by Water Company solely.

Section 3. The Trustee hereby accepts the trusts hereby declared and provided and agrees to perform the same upon the terms and conditions in the Mortgage, the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and

Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, the Eighteenth, the Nineteenth, Twentieth, the Twenty-First and the Twenty-Second Supplemental Indentures and this Twenty-Third Supplemental Indenture set forth. The Trustee also hereby agrees to execute and deliver the Escrow Agreement (as defined in the Loan Agreement and to appoint the Escrow Agent named therein as agent as set out therein.

Section 4. The Trustee hereby authorizes the Loan Servicer to accept payments made by Water Company of principal of the Series X Bond for the account of the State.

Section 5. This Twenty-Third Supplemental Indenture has been executed simultaneously in several counterparts and all of said counterparts executed and delivered, each as an original, shall constitute one and the same instrument.

Section 6. Although this Twenty-Third Supplemental Indenture, for convenience and for the purpose of reference, is dated as of October 15, 1998, the actual date of execution by Water Company and the Trustee is as shown by their respective acknowledgments hereto annexed, and the actual date of delivery hereof by Water Company and the Trustee is the date of the closing of the sale of the Series X Bonds by Water Company.

Section 7. In any case where the payment of principal of the Series X Bond or the date fixed for redemption of any Series X Bond shall be a Saturday or Sunday or a legal holiday or a day on which banking institutions in the City of the principal corporate trust office of the Loan Service is located are authorized by law to close, then payment of interest or principal or redemption price need not be made on such date but may be made on the next proceeding business day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest on such payment shall accrue after such date.

THE MORTGAGOR HEREBY DECLARES AND ACKNOWLEDGES THAT IT HAS RECEIVED, WITHOUT CHARGE, A TRUE COPY OF THIS MORTGAGE.

IN WITNESS WHEREOF said MIDDLESEX WATER COMPANY has caused these presents to be signed by its President and its corporate seal to be hereunto affixed, and duly attested by its Secretary; and in testimony of its acceptance of the trusts created, FIRST UNION NATIONAL BANK, as successor to United Counties Trust Company, has caused these presents to be signed by an Officer or Corporate Trust Officer and its corporate seal to be hereunto

affixed and duly attested by an Officer or Corporate Trust Officer, as of the day and year first above written.

ATTEST:

MIDDLESEX WATER COMPANY

\_\_\_\_\_  
Marion F. Reynolds  
Vice President, Secretary  
and Treasurer

By: \_\_\_\_\_  
J. Richard Tompkins  
Chairman of the Board and  
President

ATTEST:

FIRST UNION NATIONAL BANK

\_\_\_\_\_  
Assistant Vice President

By: \_\_\_\_\_  
Corporate Trust Officer

STATE OF NEW JERSEY:  
                          :  ss:  
COUNTY OF ESSEX      :

BE IT REMEMBERED, that on this \_\_\_ day of \_\_\_\_\_, 1998, before me, the subscriber, personally appeared Marion F. Reynolds, who, being by me duly sworn according to law, on her oath deposes and says and makes proof to my satisfaction that she is the Vice President, Secretary and Treasurer of Middlesex Water Company, one of the corporations named in and which executed the foregoing Twenty-Third Supplemental Indenture; that she is the attesting witness to said Twenty-Third Supplemental Indenture; that she well knows the seal of said corporation and that the seal thereto affixed is the proper common or corporate seal of Middlesex Water Company; that J. Richard Tompkins is Chairman of the Board and President of said corporation; that this deponent saw the said J. Richard Tompkins as such Chairman of the Board and President sign said Twenty-Third Supplemental Indenture, and affix said seal thereto and heard him declare that he signed, sealed and delivered the same as the voluntary act and deed of the said corporation, for the uses and purposes therein expressed, he being duly authorized by resolution of the Board of Directors of the said corporation.

-----  
Marion F. Reynolds

Sworn and subscribed to  
before me the day and year  
aforesaid.

-----



LOAN AGREEMENT

NWK3: 352225.02

BY AND BETWEEN

NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

AND

MIDDLESEX WATER COMPANY

DATED AS OF NOVEMBER 1, 1998

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of this 1st day of November, 1998, by and between NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, a public body corporate and politic with corporate succession, and MIDDLESEX WATER COMPANY, a corporation duly created and validly existing under the laws of the State of New Jersey (the "State");

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 Section 23 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 cost of Environmental Infrastructure Facilities (as each of the foregoing terms is defined in Section 1.01 hereof; all capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings set forth in said Section 1.01);

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 Cost of the Project;

WHEREAS, the State Legislature, in accordance with Section 20 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 Cost 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 Cost of the Project;

WHEREAS, in accordance with the "Wastewater Treatment Bond Act of 1985", P.L. 1985, c. 329, as amended, and the Regulations, the Borrower has been awarded a Fund Loan for a portion of the Cost 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. 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 three-tenths of one percent (.30%) 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.

"Bond Resolution" means the "Environmental Infrastructure Bond Resolution, Series 1998B", as adopted by the Board of Directors of the Trust on or about September 21, 1998, authorizing the issuance of the Trust Bonds, and all further amendments and supplements thereto adopted in accordance with the provisions thereof.

"Borrower" means the corporation that is a party to and is described in the first paragraph of 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 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.

"Borrower Bond Resolution" means the indenture of the Borrower entitled "Indenture of Mortgage" dated as of April 1, 1927, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond dated as of November 1, 1998 and entitled "Twenty-Fourth Supplemental Indenture", pursuant to which the Borrower Bond has been issued.

"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 has been and may from time to time be amended and supplemented.

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

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

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

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

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

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

"Fund Loan" means the loan made to the Borrower by the State, acting by and through the New Jersey Department of Environmental Protection, pursuant to the loan agreement dated as of November 1, 1998 by and between the Borrower and the State, acting by and through the New Jersey Department of Environmental Protection, to finance or refinance a portion of the Cost of the Project.

"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 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 Cost of the Project.

"Loan Agreement" means this Loan Agreement, including the Exhibits attached hereto, as it may be supplemented, modified or amended from time to time in accordance with the terms hereof 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 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 Servicer" means, initially, First Union National Bank, the loan servicer for the Loan and the Fund Loan, duly appointed and designated as "Loan Servicer" pursuant to the Loan Servicing and Trust Bonds Security Agreement dated as of November 1, 1998 by and among the Trust, the State, acting by and through the Treasurer of the State on behalf of the New Jersey Department of Environmental Protection, and First Union National Bank, and any successors as "Loan Servicer" under such agreement, as the same may be modified, amended or supplemented from time to time in accordance with its terms.

"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 First Union National Bank), in several capacities thereunder, 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 Cost of which is financed or refinanced by the Trust through the making of the Loan under this Loan Agreement.

"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 Cost 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 and delivered pursuant to Section 2.04 of the Bond Resolution, in each case issued in order to finance (i) the portion of the Loan deposited in the Project Loan Account, (ii) the portion of the Loans deposited in the balance of the Project Fund, (iii) any capitalized interest related to such bonds, (iv) a portion of the costs of issuance related to such bonds, and (v) that portion of the Debt Service Reserve Fund, if any, allocable to the Loan or Loans, as the case may be, a portion of which includes the funding of reserve capacity 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, First Union National Bank, the Trustee appointed by the Trust and its successors as Trustee under the Bond Resolution, as provided in Article X of the Bond Resolution.

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 the laws of the State.

(ii) The acting officials 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 officials 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 official no longer the duly acting official of such Borrower, all such actions previously taken by such official 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 applicable State law 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 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 observance and performance by the Borrower of its duties, covenants, obligations and agreements hereunder and thereunder, (v) the consummation of the transactions provided for in this Loan Agreement, the Borrower Bond Resolution and the Borrower Bond, and (vi) the undertaking and completion of the Project will not (A) other than the lien, charge or encumbrance created hereby, by the Borrower Bond, by the Borrower Bond Resolution and by any other outstanding debt obligations of the Borrower that are at parity with the Borrower Bond as to lien on, and source and security for payment thereon from, the revenues of the Borrower's Environmental Infrastructure System, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (B) result in any breach of any of the terms, conditions or provisions of, or (C) constitute a default under, any existing resolution, outstanding debt or lease obligation, trust agreement, indenture, mortgage, deed of trust, loan agreement or other instrument to which the Borrower is a party or by which the Borrower, its Environmental Infrastructure System or any of its properties or assets may be bound, nor will such action result in any violation of the provisions of the charter or other document pursuant to which the Borrower was established or any laws, ordinances, injunctions, judgments, decrees, rules, regulations or existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. Since December 31, 1975 and as of the date of delivery of this Loan Agreement, the Borrower has not been, and is not now, in default in the payment of the principal of or interest on any of its bonds, notes, lease purchase agreements or other debt obligations. 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 principal and redemption premiums, if any, of and interest on the Borrower Bond 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, 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 or (B) 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 or (B) 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 Cost of the Borrower's Project; and (ii) where applicable, to reimburse the Borrower for a portion of the Cost of the Borrower's Project, which portion was paid or incurred in anticipation of reimbursement by the 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 were "deemed final" by the Borrower for the purposes and within the meaning of Rule 15c2-12.

SECTION 2.02. Particular Covenants of Borrower.

(a) Promise to Pay. The Borrower unconditionally promises, in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal 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.

(c) Borrower Bond; No Prior Liens. Except for (i) the Borrower Bond, (ii) any bonds at parity with the Borrower Bond and currently outstanding or issued on the date hereof, (iii) any future bonds 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) Disposition of Environmental Infrastructure System. The Borrower shall not sell, lease, abandon or otherwise dispose of all or substantially all of its Environmental Infrastructure System except on ninety (90) days' prior written notice to the Trust, and, in any event, shall not so sell, lease, abandon or otherwise dispose of the same 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.

(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 hereinafter 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 loaned to the Borrower 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 of the interest on the Trust Bonds for federal income tax purposes under Section 103 of the Code, 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 loaned to the Borrower to reimburse the Borrower for an expenditure with respect to a Cost 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 ss.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 ss.1.150-2.

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

(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 ss.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 ss.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 ss.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) at least 85 percent (85%) of the proceeds of the Loan used to finance the Project (other than amounts deposited into the Debt Service Reserve Fund allocable to that portion of the Loan used to finance reserve capacity, if any) and investment earnings thereon will be spent prior to the period ending three (3) years subsequent to the date of issuance of the Trust Bonds used to finance the Project. Accordingly, the proceeds of the Loan deposited in the Project Loan Account used to finance the Project will be eligible for the 3-year arbitrage temporary period since the expenditure test, time test and due diligence test, as set forth in Treasury Regulations ss.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 ss.1.148-1(c)(4).

For purposes of this subsection and subsection (h) of this Section 2.02, quoted terms shall have the meanings given thereto by Section 148 of the Code, including, particularly, Treasury Regulations ss.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; provided, that no provision of this subsection shall prevent the sale, lease, abandonment or other disposition of property that comprises a portion of the Borrower's Environmental Infrastructure System, so long as such sale, lease, abandonment or other disposition does not materially adversely affect the Borrower's Environmental Infrastructure System.

(h) Records and Accounts.

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

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

(iii) Within thirty (30) days of the last day of the fifth and each succeeding fifth "bond year" (which, unless otherwise advised by the Trust, shall be the five-year period ending on the date five years subsequent to the date immediately preceding the date of issuance of the Trust Bonds and each succeeding fifth "bond year") and within thirty (30) days of the date the last bond that is part of the Trust Bonds is discharged (or on any other periodic basis requested in writing by the Trust), the Borrower shall (A) calculate, or cause

to be calculated, the "rebate amount" as of the "computation date" or "final computation date" attributable to any "nonpurpose investment" made by the Borrower and (B) remit the following to the Trust: (1) an amount of money that when added to the "future value" as of the "computation date" of any previous payments made to the Trust on account of rebate equals the "rebate amount", (2) the calculations supporting the "rebate amount" attributable to any "nonpurpose investment" made by the Borrower allocated to "gross proceeds" of the Trust Bonds, and (3) any other information requested by the Trust relating to compliance with Section 148 of the Code (e.g., information related to any "nonpurpose investment" of the Borrower for purposes of application of the "universal cap").

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

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

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

(k) Cost of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the 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 twenty (20) years from the expected date of the Loan Closing.

(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 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 Cost 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, 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 of the interest on the Trust Bonds for federal income tax purposes under Section 103 of the Code; 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 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 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. 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 agrees to observe and comply with each such additional covenant and requirement, if any, included in Exhibit F hereto.

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(1) 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 Cost 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 certain costs of issuance and underwriter's discount for all Trust Bonds issued to finance the Loan shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and neither the Trust nor the Trustee shall have any obligation thereafter to loan any additional amounts to the Borrower.

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

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

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

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

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

(ii) in accordance with the "Wastewater Treatment Bond Act of 1985", P.L. 1985, c. 329, as amended, 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 covered 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 cost of the Project that is not eligible to be funded from the Fund Loan or the Loan, or (B) that portion of the total cost of the Project that exceeds the actual amounts of the loan commitments made by the State and the Trust, respectively, for the 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 Loan Servicer as follows:

(i) the principal of the Loan shall be repaid annually on August 1, commencing August 1, 2000, 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 February 1 and August 1, commencing August 1, 1999, 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 Loan Servicer 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 Loan Servicer 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 Loan Servicer 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 Loan Servicer semiannually on each February 1 and August 1, commencing February 1, 1999, during the term of the Loan.

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, the Loan Servicer or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights. The Borrower shall not be obligated to make any payments required to be made by any other Borrowers under separate Loan Agreements or the Bond Resolution.

The Borrower acknowledges that payment of the Trust Bonds by the Trust, including payment from moneys drawn by the Trustee from the Debt Service Reserve Fund, does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond. If at any time the amount in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Requirement as the result of any transfer of moneys from the Debt Service Reserve Fund to the Debt Service Fund (as all such terms are defined in the Bond Resolution) as the result of a failure by the Borrower to make any Trust Bond Loan Repayments required hereunder, the Borrower

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

The Borrower acknowledges that payment of the Trust Bonds from moneys that were originally received by the Loan Servicer from repayments by the Borrowers of loans made to the Borrowers by the State, acting by and through the New Jersey Department of Environmental Protection, pursuant to loan agreements dated as of November 1, 1998 by and between the Borrowers and the State, acting by and through the New Jersey Department of Environmental Protection, to finance or refinance a portion of the cost of the Environmental Infrastructure Facilities of the Borrowers, and which moneys were upon such receipt by the Loan Servicer 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 federal income tax purposes under Section 103 of the Code, 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) during the term of this Loan Agreement and 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 latter 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 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 Loan Servicer before any loan repayments on the Borrower's Fund Loan shall be satisfied by the Loan Servicer. The Borrower agrees not to interfere with any such action by the Loan Servicer.

(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 to the extent allowed by law 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 Loan Servicer during the time of any such Trust Bond Loan Repayment deficiency, shall first be applied by the Loan Servicer 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 (i) according to Section 3(c) of the Loan Servicing and Trust Bonds Security Agreement (as defined in the definition of Loan Servicer herein) and (ii) according to the provisions of the Master Program Trust 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 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;

(c) 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;

(d) a petition is filed by or against the Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or trustee) of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;

(e) the Borrower shall generally fail to pay its debts as such debts become due; and

(f) 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, the Trustee and the Loan Servicer at the following addresses:

(a) Trust:

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

(b) Trustee:

First Union National Bank  
765 Broad Street  
Newark, New Jersey 07102  
Attention: Corporate Trust Department

(c) Loan Servicer:

First Union National Bank  
765 Broad Street  
Newark, New Jersey 07102  
Attention: Corporate Trust Department

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

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

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

SECTION 6.04. Amendments, Supplements and Modifications. Except as otherwise provided in this Section 6.04, this Loan Agreement may not be amended, supplemented or modified without the prior written consent of the Trust and the Borrower and without the satisfaction of all conditions set forth in Section 11.12 of the Bond Resolution. Notwithstanding

the conditions set forth in Section 11.12 of the Bond Resolution, (i) Section 2.02(p) hereof may be amended, supplemented or modified upon the written consent of the Trust and the Borrower and without the consent of the Trustee, any Bond Insurer or any holders of the Trust Bonds, and (ii) Exhibit H hereto may be amended, supplemented or modified prior to the execution and delivery thereof as the Trust, in its sole discretion, shall determine to be necessary, desirable or convenient for the purpose of satisfying Rule 15c2-12 and the purpose and intent thereof as Rule 15c2-12, its purpose and intent may hereafter be interpreted from time to time by the SEC or any court of competent jurisdiction, and such amendment, supplement or modification shall not require the consent of the Borrower, the Trustee, any Bond Insurer or any holders of the Trust Bonds.

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

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

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

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

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

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

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

NEW JERSEY ENVIRONMENTAL  
INFRASTRUCTURE TRUST

[SEAL]

ATTEST:

By: \_\_\_\_\_  
Barton E. Harrison  
Vice-Chairman

\_\_\_\_\_  
Robert A. Briant, Sr.  
Secretary

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

By: \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_  
Authorized Officer

Approval of New Jersey State  
Treasurer required pursuant  
to Section 9a of the Act

By: \_\_\_\_\_  
James A. DiEleuterio, Jr.  
New Jersey State Treasurer

[Signature Page]

EXHIBIT A-1

Description of Project and Environmental Infrastructure System

A-1-1

EXHIBIT A-2

Description of Loan

A-2-1

EXHIBIT B

Basis for Determination of Allowable Project Costs

B-1

EXHIBIT C

Estimated Disbursement Schedule

C-1

EXHIBIT D

Specimen Borrower Bond

D-1

(Except for assignment page, to be supplied by Borrower's  
bond counsel in substantially the following form)

IMPORTANT NOTE: The next three pages set forth the form of the Borrower Bond prepared by the Trust's Bond Counsel for municipal/county Borrowers. Although the Trust recognizes that each corporate Borrower has its own bond form as required pursuant to its Borrower Bond Resolution, please incorporate in the bond form the pertinent information from this municipal/county bond form (e.g., amounts payable under the Borrower Bond set forth in the first paragraph, assignment in the second paragraph, disbursement language in the third paragraph, unconditional obligation in the fourth paragraph, optional prepayment provisions in the fifth paragraph and the date of the Borrower Bond).

FOR VALUE RECEIVED, Middlesex Water Company, a corporation duly created and validly existing under the Constitution and laws of the State of New Jersey (the "Borrower"), hereby promises to pay to the order of the New Jersey Environmental Infrastructure Trust (the "Trust") (i) the principal amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), or such lesser amount as shall be determined in accordance with Section 3.01 of the Loan Agreement (as hereinafter defined), at the times and in the amounts determined as provided in the Loan Agreement, together with (ii) Interest on the Loan constituting the Interest Portion, the Administrative Fee and any late charges incurred under the Loan Agreement (as such terms are defined in the Loan Agreement) in the amount calculated as provided in the Loan Agreement, payable on the days and in the amounts and as provided in the Loan Agreement, which principal amount and Interest Portion of the Interest on the Loan shall, unless otherwise provided in the Loan Agreement, be payable on the days and in the amounts as also set forth in Exhibit A attached hereto under the column headings respectively entitled "Principal" and "Interest", plus (iii) any other amounts due and owing under the Loan Agreement at the times and in the amounts as provided therein. The Borrower irrevocably pledges its full faith and credit for the punctual payment of the principal of and the Interest on this Borrower Bond (as defined in the Loan Agreement) and for the punctual payment of all other amounts due under this Borrower Bond and the Loan Agreement according to their respective terms.

This Borrower Bond is issued pursuant to the Loan Agreement dated as of November 1, 1998 by and between the Trust and the Borrower (the "Loan Agreement"), and is issued in consideration of the loan made thereunder (the "Loan") and to evidence the payment obligations of the Borrower set forth in the Loan Agreement. This Borrower Bond has been assigned to First Union National Bank, as trustee (the "Trustee") under the "Environmental Infrastructure Bond Resolution, Series 1998B", adopted by the Trust on September 21, 1998, as the same may be amended and supplemented in accordance with the terms thereof (the "Bond Resolution"), and payments hereunder shall, except as otherwise provided in the Loan Agreement, be made directly to the Loan Servicer (as defined in the Loan Agreement) for the account of the Trust pursuant to such assignment. Such assignment has been made as security for the payment of the Trust Bonds (as defined in the Loan Agreement) issued to finance or refinance the Loan and as otherwise described in the Loan Agreement. This Borrower Bond is subject to further assignment or endorsement in accordance with the terms of the Bond Resolution and the Loan Agreement. All of the terms, conditions and provisions of the Loan Agreement are, by this reference thereto, incorporated herein as part of this Borrower Bond.

Pursuant to the Loan Agreement, disbursements shall be made by the Trustee to the Borrower, in accordance with written instructions of the Trust, upon receipt by the Trust and the Trustee of requisitions from the Borrower executed and delivered in accordance with the requirements set forth in Section 3.02 of the Loan Agreement.

This Borrower Bond is entitled to the benefits and is subject to the conditions of the Loan Agreement. The obligations of the Borrower to make the payments required hereunder shall be absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of any default by the Trust under the Loan Agreement or under any other agreement between the Borrower and the Trust or out of any indebtedness or liability at any time owing to the Borrower by the Trust or for any other reason.

This Borrower Bond is subject to optional prepayment under the terms and conditions, and in the amounts, provided in Section 3.07 of the Loan Agreement. To the extent allowed by applicable law, this Borrower Bond may be subject to acceleration under the terms and conditions, and in the amounts, provided in Section 5.03 of the Loan Agreement.

IN WITNESS WHEREOF, the Borrower has caused this Borrower Bond to be duly executed, sealed and delivered as of this 15th day of October, 1998.

MIDDLESEX WATER COMPANY

[SEAL]

By: \_\_\_\_\_

ATTEST:

\_\_\_\_\_

By: \_\_\_\_\_

New Jersey Environmental Infrastructure Trust hereby assigns the foregoing Borrower Bond to First Union National Bank, as Trustee under the "Environmental Infrastructure Bond Resolution, Series 1998B", adopted on September 21, 1998, as amended and supplemented, all as of the date of this Borrower Bond, as security for the Trust Bonds issued or to be issued under the Bond Resolution to finance or refinance the Project Fund (as defined in the Bond Resolution).

NEW JERSEY ENVIRONMENTAL  
INFRASTRUCTURE TRUST

[SEAL]

ATTEST:

By: \_\_\_\_\_  
Barton E. Harrison  
Vice-Chairman

\_\_\_\_\_  
Robert A. Briant, Sr.  
Secretary

EXHIBIT E

Opinions of Borrower's Bond and General Counsels

E-1

November 5, 1998

New Jersey Environmental Infrastructure Trust  
P.O. Box 440  
Trenton, New Jersey 08625

First Union National Bank  
765 Broad Street  
Newark, New Jersey 07102

Ladies and Gentlemen:

We have acted as counsel to Middlesex Water Company, a corporation duly organized and validly existing under the laws of the State of New Jersey (the "Borrower"), which has entered into a Loan Agreement (as hereinafter defined) with the New Jersey Environmental Infrastructure Trust (the "Trust"), and have acted as such in connection with the authorization, execution, attestation and delivery by the Borrower of its Loan Agreement and Borrower Bond (as hereinafter defined) pursuant to the New Jersey Business Corporation Act, P.L. 1968, c. 263, as amended (the "Business Corporation Law"), and an indenture of the Borrower dated as of April 1, 1927 and entitled "Indenture of Mortgage", as amended and supplemented, including by a supplemental indenture dated as of November 1, 1998 and entitled "Twenty-Fourth Supplemental Indenture" (such indentures shall be collectively referred to herein as the "Resolution"). All capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

In so acting, we have examined the Constitution and laws of the State of New Jersey, including, without limitation, the Business Corporation Law, and the certificate of incorporation and by-laws of the Borrower. We have also examined originals, or copies certified or otherwise identified to our satisfaction, of the following:

(a) the Trust's "Environmental Infrastructure Bond Resolution, Series 1998B", adopted by the Board of Directors of the Trust on September 21, 1998;

(b) the Loan Agreement dated as of November 1, 1998 (the "Loan Agreement") by and between the Trust and the Borrower;

(c) the proceedings of the board of directors of the Borrower relating to the approval of the Loan Agreement and the execution, attestation and delivery thereof on behalf of the Borrower and the authorization of the undertaking and completion of the Project;

(d) the Borrower Bond dated as of October 15, 1998 (the "Borrower Bond") issued by the Borrower to the Trust to evidence the Loan; and

(e) the proceedings (together with the proceedings referred to in clause (c) above and

Section 5 below, the "Proceedings") of the board of directors of the Borrower, including, without limitation, the Resolution, relating to the authorization of the Borrower Bond and the sale, execution, attestation, authentication and delivery thereof to the Trust (the Loan Agreement and the Borrower Bond are referred to herein collectively as the "Loan Documents").

We have also examined and relied upon originals, or copies certified or otherwise authenticated to our satisfaction, of such other records, documents, certificates and other instruments, and have made such investigation of law as in our judgment we have deemed necessary or appropriate, to enable us to render the opinions expressed below.

We are of the opinion that:

1. 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, with the legal right to carry on the business of its Environmental Infrastructure System as currently being conducted and as proposed to be conducted.

2. The Borrower has full legal right and authority to execute, attest and deliver the Loan Documents, to sell the Borrower Bond to the Trust, to cause the authentication of the Borrower Bond, to observe and perform its duties, covenants, obligations and agreements under the Loan Documents and to undertake and complete the Project.

3. The acting officials of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in the Loan Agreement are, and at the time any such action was performed were, the duly appointed or elected officials of the Borrower empowered by applicable New Jersey law and authorized by resolution of the Borrower to perform such actions.

4. In accordance with the terms of the Resolution and to the extent provided therein, the Borrower has irrevocably pledged its full faith and credit for the punctual payment of the Loan Repayments and all other amounts due under the Loan Documents according to their respective terms.

5. The proceedings of the Borrower's board of directors (i) approving the Loan Documents, (ii) authorizing their execution, attestation and delivery on behalf of the Borrower, (iii) with respect to the Borrower Bond only, authorizing its sale by the Borrower to the Trust and authorizing its authentication on behalf of the Borrower, (iv) authorizing the Borrower to consummate the transactions contemplated by the Loan Documents, (v) authorizing the Borrower to undertake and complete the Project, and (vi) authorizing the execution and delivery of all other certificates, agreements, documents and instruments in connection with the execution, attestation and delivery of the Loan Documents, have each been duly and lawfully adopted and authorized in accordance with applicable law and applicable resolutions of the Borrower, including, without limitation, the Resolution, the other Proceedings and the Business Corporation Law, which Proceedings constitute all of the actions necessary to be taken by the Borrower to authorize its actions contemplated by clauses (i) through (vi) above and which Proceedings, including, without limitation, the Resolution, were duly adopted in accordance with applicable New Jersey law at a

meeting or meetings duly called and held in accordance with applicable New Jersey law and at which quorums were present and acting throughout.

6. The Loan Documents have been duly authorized, executed, attested and delivered by the Authorized Officers of the Borrower, the Borrower Bond has been duly sold by the Borrower to the Trust, and the Borrower Bond has been duly authenticated by the trustee or paying agent under the Resolution; and assuming in the case of the Loan Agreement that the Trust has the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, the Loan Agreement, the Loan Documents constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, subject, however, to the effect of, and to restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally. No opinion is rendered as to the availability of any particular remedy.

7. The authorization, execution, attestation and delivery of the Loan Documents by the Borrower and, in the case of the Borrower Bond only, the authentication thereof by the trustee or paying agent under the Resolution and the sale thereof to the Trust, the observation and performance by the Borrower of its duties, covenants, obligations and agreements thereunder, the consummation of the transactions contemplated therein, and the undertaking and completion of the Project do not and will not (i) other than the lien, charge or encumbrance created by the Loan Documents, by the 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, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (ii) result in any breach of any of the terms, conditions or provisions of, or (iii) 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.

8. All approvals, consents or authorizations of, or registrations of or filings with, any governmental or public agency, authority or person required to date on the part of the Borrower in connection with the authorization, execution, attestation, delivery and performance of the Loan Documents, the sale of the Borrower Bond and the undertaking and completion of the Project have been obtained or made.

9. There is no litigation or other proceeding pending or, to our knowledge, after due inquiry, threatened in any court or other tribunal of competent jurisdiction (either State or federal) (i) questioning the creation, organization or existence of the Borrower, (ii) questioning the validity, legality or enforceability of the Resolution, the Loan or the Loan Documents, (iii) questioning the undertaking or completion of the Project, (iv) otherwise challenging the Borrower's ability to

consummate the transactions contemplated by the Loan or the Loan Documents, or (v) that, if adversely decided, would have a materially adverse impact on the financial condition of the Borrower.

10. The Borrower has no bonds, notes or other debt obligations outstanding that are superior or senior to the Borrower Bond as to lien on, and source and security for payment thereof from, the revenues of the Borrower.

11. We have consulted with the Borrower and have advised the Borrower as to the obligations to which the Borrower has agreed in subsections (f) and (h) of Section 2.02 of the Loan Agreement. We have further advised the Borrower of the possible consequences that might follow, should the Borrower fail to comply with its obligations under those subsections of Section 2.02. To the best of our knowledge, upon due inquiry, (i) all representations made by the Borrower contained within subsections (f) and (h) of Section 2.02 and, if applicable, Exhibit F of the Loan Agreement are true, accurate and complete, (ii) we have no reason to believe that any of the expectations expressed by the Borrower therein is unreasonable, and (iii) we know of no reason why the Borrower would be unable to comply on a continuing basis with the covenants contained within subsections (f) and (h) of Section 2.02 and, if applicable, Exhibit F of the Loan Agreement.

12. Assuming that (i) the Borrower complies on a continuing basis with the covenants contained in subsections (f) and (h) of Section 2.02 and, if applicable, Exhibit F of the Loan Agreement, (ii) interest on the Trust Bonds is otherwise excluded from gross income of the holders thereof for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended, and (iii) the proceeds of the Trust Bonds loaned to the Borrower represent all of the proceeds of the Trust Bonds, the application of the proceeds of the Loan for their intended purposes will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Trust Bonds under Section 103 (a) of the Internal Revenue Code of 1986, as amended.

We hereby authorize McCarter & English, LLP, acting as bond counsel to the Trust, and the Attorney General of the State of New Jersey, acting as general counsel to the Trust, to rely on this opinion as if we had addressed this opinion to them in addition to you.

Very truly yours,

EXHIBIT F

Additional Covenants and Requirements

[None]

F-1

EXHIBIT G

General Administrative Requirements for the  
State Environmental Infrastructure Financing Program

EXHIBIT H

Form of Continuing Disclosure Agreement

H-1

MIDDLESEX WATER COMPANY

NO. R-1

\$1,135,000

NON-NEGOTIABLE

FIRST MORTGAGE SCHEDULED INTEREST RATES BOND, SERIES Y, DUE SEPTEMBER 1, 2018

MIDDLESEX WATER COMPANY, a corporation organized and existing under the laws of the State of New Jersey (hereinafter called the "Water Company"), for value received, hereby promises to pay to the New Jersey Environmental Infrastructure Trust (the "Trust") under the Loan Agreement dated as of November 1, 1998 ("Loan Agreement") by and between the Water Company and the Trust, or its registered assigns on the first day of September 2018, at the office of FIRST UNION NATIONAL BANK in the City of Newark, State of New Jersey, Trustee under the Mortgage and Supplemental Indentures hereinafter mentioned, or its successor as such Trustee, the amount of the Loan (as defined in the Loan Agreement) immediately after Loan Closing (as defined in the Loan Agreement) which is principal sum of One Million One Hundred Thirty Five Thousand Dollars (\$1,135,000) or such lesser amount as shall be determined in accordance with Section 3.01 of the Loan Agreement, together with Interest on the Loan constituting the Interest Portion, the Administrative Fee and any late charges incurred under the Loan Agreement (as such terms are

defined in the Loan Agreement) in the amounts calculated as provided in the Loan Agreement, which principal amount and Interest Portion of the Interest on the Loan shall, unless otherwise provided in the Loan Agreement, be payable on the days and in the amounts as also set forth in Exhibit A-2 to the Loan Agreement under the column headings respectively entitled "Principal" and "Interest" at the times and in the amounts determined as provided in Section 3.03(a) of the Loan Agreement (including without limitation payment of installments of principal together with the Interest Portion then due semi-annually on February 1 and August 1, commencing August 1, 1999, in accordance with the schedule set forth in Exhibit A-2 attached to the Loan Agreement), as the same may be amended or modified by the Trust as provided in the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the times and in the amounts provided therein in coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, until Water Company's obligation with respect to the payment of such principal shall be discharged.

This Bond is the sole Bond of a duly authorized issue of non-negotiable bonds of Water Company known as its First Mortgage Scheduled Interest Rates Bonds, Series Y (hereinafter called the "Series Y Bond"), of the principal amount of \$1,135,000 issued and secured (together with all other bonds of the Water Company [hereinafter called "Bonds"] issued under the Mortgage and Supplemental Indentures [as hereinafter defined]), by an Indenture of Mortgage dated April 1, 1927 (hereinafter called the "Mortgage"), a Second Supplemental Indenture dated as of October 1, 1939, (hereinafter called the "Second Supplemental Indenture"), a Third Supplemental Indenture dated as of April 1, 1946, (hereinafter called the "Third Supplemental Indenture"), a Fourth Supplemental Indenture dated as of April 1, 1949, (hereinafter called the "Fourth Supplemental Indenture"), a Fifth Supplemental Indenture dated as of February 1, 1955 (hereinafter called the "Fifth Supplemental Indenture"), a Sixth Supplemental Indenture dated as of December 1, 1959, (hereinafter called the "Sixth Supplemental Indenture"), a Seventh Supplemental Indenture dated as of January 15, 1963, (hereinafter called the "Seventh Supplemental Indenture"), an Eighth Supplemental Indenture dated as of July 1, 1964, (hereinafter called the "Eighth Supplemental Indenture"), a Ninth Supplemental Indenture dated as of June 1, 1965, (hereinafter called the "Ninth Supplemental Indenture"), a Tenth Supplemental

Indenture dated as of February 1, 1968, (hereinafter called the "Tenth Supplemental Indenture"), an Eleventh Supplemental Indenture dated as of December 1, 1968, (hereinafter called the "Eleventh Supplemental Indenture"), a Twelfth Supplemental Indenture dated as of December 1, 1970, (hereinafter called the "Twelfth Supplemental Indenture"), a Thirteenth Supplemental Indenture dated as of December 1, 1972, (hereinafter called the "Thirteenth Supplemental Indenture", a Fourteenth Supplemental Indenture dated as of April 1, 1979, (hereinafter called the "Fourteenth Supplemental Indenture"), a Fifteenth Supplemental Indenture dated as of April 1, 1983, (hereinafter called the "Fifteenth Supplemental Indenture"), a Sixteenth Supplemental Indenture dated as of August 1, 1988, (hereinafter called the "Sixteenth Supplemental Indenture"), a Seventeenth Supplemental Indenture dated as of June 15, 1991, (hereinafter called the "Seventeenth Supplemental Indenture"), a Supplementary Indenture to the Fifteenth Supplemental Indenture dated as of March 1, 1993 (hereinafter called the "Supplementary Indenture"), an Eighteenth Supplemental Indenture dated as of September 1, 1993 (hereinafter called the "Eighteenth Supplemental Indenture"), a Nineteenth Supplemental Indenture dated as of September 1, 1993 (hereinafter called the "Nineteenth Supplemental Indenture"), a Twentieth Supplemental Indenture dated as of January 1, 1994 (hereinafter called the

"Twentieth Supplemental Indenture"), a Twenty-First Supplemental Indenture dated as of January 1, 1994 (hereinafter called the "Twenty-First Supplemental Indenture"), and a Twenty-Second Supplemental Indenture dated as of March 1, 1998 (hereinafter called the "Twenty-Second Supplemental Indenture"), a Twenty-Third Supplemental Indenture dated as of October 15, 1998 (hereinafter called the "Twenty-Third Supplemental Indenture") and a Twenty-Fourth Supplemental Indenture dated as of October 15, 1998 (hereinafter called the "Twenty-Fourth Supplemental Indenture") all executed by Water Company to the First Union National Bank, or its predecessors, United Counties Trust Company and Union County Trust Company, as Trustee, which Second Supplemental Indenture, Third Supplemental Indenture, Fourth Supplemental Indenture, Fifth Supplemental Indenture, Sixth Supplemental Indenture, Seventh Supplemental Indenture, Eighth Supplemental Indenture, Ninth Supplemental Indenture, Tenth Supplemental Indenture, Eleventh Supplemental Indenture, Twelfth Supplemental Indenture, Thirteenth Supplemental Indenture, Fourteenth Supplemental Indenture, Fifteenth Supplemental Indenture, Sixteenth Supplemental Indenture, Seventeenth Supplemental Indenture, Supplementary Indenture, Eighteenth Supplemental Indenture, Nineteenth Supplemental Indenture, Twentieth Supplemental Indenture, Twenty-First Supplemental

Indenture, Twenty-Second Supplemental Indenture, Twenty-Third Supplemental Indenture and Twenty-Fourth Supplemental Indenture are referred to herein sometimes as the "Supplemental Indentures", to which Mortgage and Supplemental Indentures reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the terms and conditions upon which the Bonds are issued and are to be secured and the rights of registered owners thereof and of the Trustee in respect of such security. As provided in the Mortgage and Supplemental Indentures, and subject to the conditions therein imposed, additional bonds of other series, with the same or different maturity dates, bearing the same or different rates of interest and varying in other respects, may be issued. This Series Y Bond is the Series Y Bond described in the Fourth Supplemental Indenture and designated therein as First Mortgage Scheduled Interest Rates Bond, Series Y.

As provided in the Twenty-Fourth Supplemental Indenture, this Series Y Bond is subject to redemption (i) under the terms and conditions and in the amounts provided in Section 3.07 of the Loan Agreement at the option of Water Company with, to the extent required by the August 22, 1998 Order (Docket No. WF98060336) of the Board of Public Utilities of the State of New Jersey ("BPU") and/or required by then applicable law and regulations, the prior approval of the BPU, (ii) as, when and to the extent mandated

pursuant to subsection B of Section 4 of Article VIII of the Second Supplemental Indenture; and shall be subject to, entitled to the benefit of, and expressly incorporate by reference, all of the terms, conditions and provisions of the Loan Agreement.

The Series Y Bond shall evidence the obligation to pay to the order of the Trust the principal amount of the loan made by the Trust under the Loan Agreement which shall be \$1,135,000 or such lesser amount as determined in accordance with Section 3.01 of the Loan Agreement, at the times and in the amounts determined as provided in the Loan Agreement, together with Interest on the Loan constituting the Interest Portion, the Administrative Fee and any late charges incurred under the Loan Agreement (as such terms are defined in the Loan Agreement) in the amounts calculated as provided in the Loan Agreement, which principal amount and Interest Portion of the Interest on the Loan shall, unless otherwise provided in the Loan Agreement, be payable on the days and in the amounts as also set forth in Exhibit A-2 to the Loan Agreement under the column headings respectively entitled "Principal" and "Interest," plus any other amounts due and owing under the Loan Agreement at the times and in the amounts as provided therein. The obligations of the Water Company to make payments under the Series Y Bond are absolute and unconditional, without any defense or right of

set-off, counterclaim or recoupment by reason of any default by the Trust under the Loan Agreement or under any other agreement between the Water Company and the Trust or out of any indebtedness or liability at any time owing to the Water Company by the Trust or for any other reason. The Series Y Bond is subject to assignment or transfer in accordance with the terms of the Loan Agreement. The Series Y Bond is subject to acceleration under the terms and conditions, and in the amounts, provided in Section 5.03 of the Loan Agreement. Payments under the Series Y Bond shall, except as otherwise provided in the Loan Agreement, be made directly to the Loan Servicer (as defined in the Loan Agreement), for the account of the Trust.

If this Series Y Bond is called for redemption and payment is duly provided therefor, as specified in the Mortgage and Supplemental Indentures and in the Loan Agreement or if this Series Y Bond is forthwith redeemed without payment due to having excess proceeds in the Project Fund (as defined in the Loan Agreement) on the day on which the Project (as defined in the Loan Agreement) is completed, interest shall cease to accrue hereon from and after the date fixed for redemption.

Disbursements of the proceeds of the loan from the Trust under the Loan Agreement evidenced by the Series Y

Bond shall be made by the Trust to the Water Company upon receipt by the Trust of requisitions from the Water Company executed and delivered in accordance with the requirements set forth in Section 3.02 of the Loan Agreement.

If an event of default, as defined in the Mortgage or Supplemental Indentures or in the Loan Agreement, shall occur, the Series Y Bond may become or be declared due and payable, in the manner and with the effect provided in the Mortgage and Supplemental Indentures and the Loan Agreement.

As provided in the Mortgage as modified, amended and supplemented by the Supplemental Indentures, and subject to the limitations therein contained, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented with the consent in writing of the holders of not less than 75% in principal amount of each series of Bonds outstanding at the time and effective upon the date all of the Series R Bonds are retired or defeased or the holders thereof consent thereto, with the consent in writing of the holders of not less than 51% in aggregate principal amount of all series of Bonds outstanding at any time; provided, however, that no such modification shall reduce the principal amount of a Bond or the premium, if any, payable on a redemption thereof, extend the maturity thereof, reduce the rate or extend time for payment of interest thereon, give a Bond any preference over another Bond, create or permit a lien on the property subject to the Mortgage (other than a Permitted Encumbrance as defined in the Eighth Supplemental Indenture) prior to or on a parity with the Mortgage, or reduce the percentage of the holders required for any action authorized to be taken by the holders of Bonds under the Mortgage, without the consent of the holders of all Bonds affected by such modification; provided, further, that no modification shall impose additional duties or responsibilities on the Trustee without the consent of the Trustee.

The Mortgage may be modified, amended or supplemented by Water Company without the consent of the holders of the Bonds for one or more of the following purposes: (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Mortgage; (2) to cure any ambiguity, supply any omission or cure or correct any defect in any description of the Mortgage Property, if such action is not adverse to the interests of the holders of the Bonds; (3) to insert such provisions clarifying matters or questions arising under the mortgage indenture as are necessary or desirable and are not contrary to or inconsistent with the Mortgage as in effect or (4) to restate the Mortgage as supplemented by the Supplemental Indentures as a single integrated document which may add headings, an index and other provisions aiding the convenience of use. The Company shall provide prior notice of such change to the holders.

This Series Y Bond shall not be transferred except (i) as provided or required under and pursuant to the Loan Agreement, (ii) to effect an exchange in connection with a bankruptcy, reorganization, insolvency, or similar proceeding involving Water Company and (iii) to effect an exchange in connection with prepayment by redemption or otherwise of the Series Y Bond. This Series Y Bond may be transferred at the principal corporate trust office of the Trustee by surrendering this Series Y Bond for cancellation, accompanied by a written instrument of transfer in form designated by the holder and reasonably acceptable to the Water Company and the Trustee, duly executed by the registered owner hereof in person or by attorney duly authorized in writing, and upon payment of any taxes or other governmental charges incident to such transfer, and upon any such transfer new registered Bond or Bonds of the same series and of the same aggregate principal amount in authorized denominations, will be issued to the transferee in exchange herefor.

This Series Y Bond, upon surrender hereof to the Trustee, accompanied by a written instrument of transfer as aforesaid, may be exchanged for another registered Bond of the same series and of the same principal amount; to the extent permitted by the Loan Agreement and upon payment of any charges and subject to the terms and conditions set

forth in the Mortgage and Supplemental Indentures and the Loan Agreement.

The person in whose name this Series Y Bond shall be registered shall be deemed the owner hereof for all purposes, and payment of or on account of the principal hereof and interest hereon shall be made only to or upon the order in writing of the registered owner hereof; and all such payments shall be valid and effectual to satisfy and discharge the liability upon this Series Y Bond to the extent of the sum or sums so paid.

No recourse shall be had for the payment of the principal of or interest on this Series Y Bond or for any claim based hereon or otherwise in respect hereof or of the Mortgage or of any indenture supplemental thereto against any incorporator, or against any stockholder, director or officer, as such, past, present or future, of Water Company or of any predecessor or successor corporation, either directly or through Water Company or any such predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law or equity, or by the enforcement of any assessment or penalty, or otherwise howsoever, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or

registered owner hereof as more fully provided in the Mortgage and Supplemental Indentures; it being expressly agreed and understood that the Mortgage and Supplemental Indentures and all Bonds thereby secured are solely corporate obligations.

The terms and provisions of the Series Y Bond shall not be amended by, and the Series Y Bond shall not be entitled to the benefit of, any covenant, term or condition contained in any subsequent supplemental indenture without the express written concurrence of the Water Company.

This Series Y Bond shall not be entitled to any benefit under the Mortgage or any indenture supplemental thereto, or be valid or become obligatory for any purpose, until First Union National Bank, as the Trustee under the Mortgage and Supplemental Indentures, or its successor thereunder, shall have signed the form of certificate endorsed hereon.

IN WITNESS WHEREOF, Middlesex Water Company has caused this Bond to be signed in its name by its President or a Vice President and its corporate seal to be hereto affixed by its Secretary or any Assistant Secretary.

Dated: \_\_\_\_\_, 1998

ATTEST:  
[SEAL]

MIDDLESEX WATER COMPANY

\_\_\_\_\_  
Marion F. Reynolds  
Vice President, Secretary  
and Treasurer

By: \_\_\_\_\_  
J. Richard Tompkins  
Chairman of the Board and  
President

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is the bond described in the within mentioned Mortgage and Twenty-Fourth Supplemental Indenture.

FIRST UNION NATIONAL BANK,  
Trustee

By: \_\_\_\_\_

Corporate Trust Officer

This Bond has not been registered under the Securities Act of 1933, as amended, and may be offered or sold only in compliance with the provisions of said Act.

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TWENTY-FOURTH SUPPLEMENTAL INDENTURE

-----  
MIDDLESEX WATER COMPANY

TO

-----  
FIRST UNION NATIONAL BANK  
Trustee

Dated as of October 15, 1998

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-----  
Record and Return to:

Peter D. Hutcheon, Esq.  
Norris, McLaughlin & Marcus  
721 Route 202/206  
P.O. Box 1018  
Somerville, NJ 08876  
(908) 722-0700

Prepared By: \_\_\_\_\_  
Peter D. Hutcheon, Esq.

THIS TWENTY-FOURTH SUPPLEMENTAL INDENTURE, dated as of the 15th day of October, 1998, between MIDDLESEX WATER COMPANY, a corporation organized and existing under the laws of the State of New Jersey, having its principal office in the Township of Iselin, New Jersey (herein called the "Water Company"), and FIRST UNION NATIONAL BANK, (as successor to Meridian Bank, the successor to United Counties Trust Company in turn the successor to the Union County Trust Company), a corporation organized and existing under the laws of the United States, having its principal New Jersey corporate trust office in the City of Newark, New Jersey, as Trustee under the Indenture of Mortgage hereinafter mentioned (herein called the "Trustee"):

WHEREAS, on April 1, 1927, Water Company executed and delivered to the Trustee an Indenture of Mortgage (herein called the "Mortgage") to secure its First and Refunding Mortgage Gold Bonds, Series A, 5-1/2%, which bonds have since been redeemed by Water Company, and which Mortgage provides that bonds of other series may be issued under and pursuant to an indenture supplemental thereto; and

WHEREAS, on May 14, 1935, Water Company executed and delivered to the Trustee a Supplemental Indenture to secure its First and Refunding Mortgage Bonds, Series B, 4-1/2%, which Supplemental Indenture, prior to the execution and delivery

hereof, was satisfied and discharged of record, no bonds having been issued thereunder; and

WHEREAS, as of October 1, 1939, Water Company executed and delivered to the Trustee a Second Supplemental Indenture of Mortgage (herein called the "Second Supplemental Indenture") to secure its First and Refunding Mortgage 3-3/4% Bonds, Series C (herein called the "Series C Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the Mortgage; and

WHEREAS, as of April 1, 1946, Water Company executed and delivered to the Trustee a Third Supplemental Indenture of Mortgage (herein called the "Third Supplemental Indenture") to secure its First and Refunding Mortgage 3% Bonds, Series D (herein called the "Series D Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the Mortgage; and

WHEREAS, as of April 1, 1949, Water Company executed and delivered to the Trustee a Fourth Supplemental Indenture of Mortgage (herein called the "Fourth Supplemental Indenture") to secure its First Mortgage 3-1/2% Bonds, Series E (herein called the "Series E Bonds"), which bonds were paid at maturity by Water Company, and otherwise modifying, amending and supplementing the

Mortgage; and

WHEREAS, as of February 1, 1955, Water Company executed and delivered to the Trustee a Fifth Supplemental Indenture of Mortgage (herein called the "Fifth Supplemental Indenture") to secure its First Mortgage 3-5/8% Bonds, Series F (herein called the "Series F Bonds"), which bonds were paid at maturity by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1959, Water Company executed and delivered to the Trustee a Sixth Supplemental Indenture of Mortgage (herein called the "Sixth Supplemental Indenture") to secure its First Mortgage 5-3/4% Bonds, Series G (herein called the "Series G Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of January 15, 1963, Water Company executed and delivered to the Trustee a Seventh Supplemental Indenture of Mortgage (herein called the "Seventh Supplemental Indenture") to secure its First Mortgage 4-1/2% Bonds, Series H (herein called the "Series H Bonds"), which bonds were paid at maturity by Water Company and otherwise supplementing the Mortgage; and

WHEREAS, as of July 1, 1964, Water Company executed and delivered to the Trustee, an Eighth Supplemental Indenture of Mortgage (herein called the "Eighth Supplemental Indenture") to

secure its First Mortgage 4 3/4% Bonds, Series I (herein called the "Series I Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of June 1, 1965, Water Company executed and delivered to the Trustee a Ninth Supplemental Indenture of Mortgage (herein called the "Ninth Supplemental Indenture") to secure its First Mortgage 4-3/4% Bonds, Series J (herein called the "Series J Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of February 1, 1968, Water Company executed and delivered to the Trustee a Tenth Supplemental Indenture of Mortgage (herein called the "Tenth Supplemental Indenture") to secure its First Mortgage 6-3/4% Bonds, Series K (herein called the "Series K Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1968, Water Company executed and delivered to the Trustee an Eleventh Supplemental Indenture of Mortgage (herein called the "Eleventh Supplemental Indenture") to secure its First Mortgage 6-7/8% Bonds, Series L (herein called the "Series L Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1970, Water Company executed and delivered to the Trustee a Twelfth Supplemental Indenture of Mortgage (herein called the "Twelfth Supplemental Indenture") to secure its First Mortgage 10% Bonds, Series M (herein called the "Series M Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of December 1, 1972, Water Company executed and delivered to the Trustee a Thirteenth Supplemental Indenture of Mortgage (herein called the "Thirteenth Supplemental Indenture") to secure its First Mortgage 8-1/8% Bonds, Series N (herein called the "Series N Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of April 1, 1979, Water Company executed and delivered to the Trustee a Fourteenth Supplemental Indenture of Mortgage (herein called the "Fourteenth Supplemental Indenture") to secure its First Mortgage 7% Bonds, Series O (herein called the "Series O Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of April 1, 1983, Water Company executed and delivered to the Trustee a Fifteenth Supplemental Indenture of

Mortgage (herein called the "Fifteenth Supplemental Indenture") to secure its First Mortgage 10-1/2% Bonds, Series P (herein called the "Series P Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of August 1, 1988, Water Company executed and delivered to the Trustee a Sixteenth Supplemental Indenture of Mortgage (herein called the "Sixteenth Supplemental Indenture") to secure its First Mortgage 8% Bonds, Series Q (herein called the "Series Q Bonds"), which bonds have since been redeemed by Water Company, and otherwise supplementing the Mortgage; and

WHEREAS, as of June 15, 1991, Water Company executed and delivered to the Trustee a Seventeenth Supplemental Indenture of Mortgage (herein called the "Seventeenth Supplemental Indenture") to secure its First Mortgage 7.25% Bonds, Series R (herein called the "Series R Bonds") and otherwise supplementing the Mortgage; and

WHEREAS, as of March 1, 1993, Water Company executed and delivered to the Trustee a Supplementary Indenture of Mortgage to the Fifteenth Supplemental Indenture of Mortgage (herein called the "Supplementary Indenture to the Fifteenth Supplemental Indenture") to secure its First Mortgage 2 7/8%, Series P-1 (herein called the "Series P-1 Bonds"), which bonds have since

been redeemed by Water Company, and otherwise supplementing the Mortgage.

WHEREAS, as of September 1, 1993, Water Company executed and delivered to the Trustee an Eighteenth Supplemental Indenture of Mortgage (herein called the "Eighteenth Supplemental Indenture") to secure its First Mortgage 5.20% Bonds, Series S (herein called the "Series S Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of September 1, 1993, Water Company executed and delivered to the Trustee a Nineteenth Supplemental Indenture of Mortgage (herein called the "Nineteenth Supplemental Indenture") to secure its First Mortgage 5.25% Bonds, Series T (herein called the "Series T Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of January 1, 1994, Water Company executed and delivered to Trustee a Twentieth Supplemental Indenture of Mortgage (herein called the "Twentieth Supplemental Indenture") to secure its First Mortgage 6.4% Bonds, Series U (herein called the "Series U Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of January 1, 1994, Water Company executed and delivered to Trustee a Twenty-First Supplemental Indenture of

Mortgage (herein called the "Twenty-First Supplemental Indenture") to secure its First Mortgage 5.25% Bonds, Series V (herein called the "Series V Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of March 1, 1998, Water Company executed and delivered to Trustee a Twenty-Second Supplemental Indenture of Mortgage (herein called the "Twenty-Second Supplemental Indenture") to secure its First Mortgage 5.35% Bonds, Series W (herein called the "Series W Bonds"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 1998, Water Company executed and delivered to Trustee a Twenty-Third Supplemental Indenture of Mortgage (herein called the "Twenty-Third Supplemental Indenture") to secure its First Mortgage 0% Bond, Series X (herein called the "Series X Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, Water Company deems it necessary to borrow money and to issue its bonds therefor, to be secured by the Mortgage, the Second Supplemental Indenture, the Third Supplemental Indenture, the Fourth Supplemental Indenture, the Fifth Supplemental Indenture, the Sixth Supplemental Indenture, the Seventh Supplemental Indenture, the Eighth Supplemental Indenture, the Ninth Supplemental Indenture, the Tenth

Supplemental Indenture, the Eleventh Supplemental Indenture, the Twelfth Supplemental Indenture, the Thirteenth Supplemental Indenture, the Fourteenth Supplemental Indenture, the Fifteenth Supplemental Indenture, the Sixteenth Supplemental Indenture, the Seventeenth Supplemental Indenture, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and Twenty-Third Supplemental Indentures, and by this Twenty-Fourth Supplemental Indenture;

WHEREAS, Water Company desires to authorize and create a series of bonds under which a single bond shall be issued limited to an aggregate principal amount of \$1,135,000 designated Series Y and to be known as its "First Mortgage Scheduled Interest Rates Bonds, Series Y" (herein called the "Series Y Bond"), it being the intention of the parties that the Series Y Bond shall, together with all other Bonds issued under the Mortgage and all indentures supplemental thereto, be entitled to priority over all other obligations of the Water Company and shall be secured by a prior first lien on all the mortgaged property, subject only to the prior liens specifically permitted under the Mortgage or under any indenture supplemental thereto; and

WHEREAS, Water Company desires that the Series Y Bond shall be issued to fund payment of the principal of \$1,135,000,

the amount of the Loan borrowed from the New Jersey Environmental Infrastructure Trust (the "Trust") under the Loan Agreement dated as of November 1, 1998 (the "Loan Agreement") by and between the Trust and the Water Company, or such lesser amount as shall be determined in accordance with Section 3.01 of the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the time and in the amounts as provided therein, which principal amount is to be applied for the cleaning and lining of certain pipes and mains which are utilized by Water Company for the furnishing of water in its New Jersey service area; and

WHEREAS, the Trust requires as a condition of making the loan documented by the Loan Agreement, that a single Series Y Bond be issued to the Trust, that such Bond evidence the payment obligations of the Water Company under Section 3.03(a) of the Loan Agreement, that payments under the Series Y Bond be made to the Loan Servicer (as defined in the Loan Agreement) for the account of the Trust, that the Series Y Bond be subject to assignment or transfer in accordance with the terms of the Loan Agreement, that all of the terms, conditions and provisions of the Loan Agreement be expressly incorporated by reference into the Series Y Bond, that the obligations of the Water Company under the Series Y Bond shall be absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of default by the Trust under the Loan Agreement or under any other agreement

between the Water Company and the Trust or out of any indebtedness or liability at any time owing to the Water Company or for any other reason, that the Series Y Bond be subject to optional prepayment under the terms and conditions and in the amounts provided in Section 3.07 of the Loan Agreement, and that the Series Y Bond may be subject to acceleration under the terms and conditions and in the amounts, provided in Section 5.03 of the Loan Agreement; and

WHEREAS, Water Company represents that all acts and proceedings required by law and by the Charter and By-Laws of Water Company, and by the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, Twenty-Second and Twenty-Third Supplemental Indentures (to the extent applicable) necessary to make the Series Y Bond, when executed by Water Company, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal obligations of Water Company and to constitute this Twenty-Fourth Supplemental Indenture a valid and binding supplement to the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth,

Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, Twenty-Second and Twenty-Third Supplemental Indentures, in accordance with its and their terms, for the security of all bonds issued and which may hereafter be issued pursuant to the Mortgage and all indentures supplemental thereto, have been done and performed; and the execution and delivery of this Twenty-Fourth Supplemental Indenture have been in all respects duly authorized;

NOW THEREFORE, THIS INDENTURE WITNESSETH, that for and in consideration of the premises, and of the sum of One Dollar (\$1.00), lawful money of the United States of America, by each of the parties paid to the other, at or before the delivery hereof, and for other valuable consideration, the receipt and sufficiency whereof is hereby acknowledged, Water Company has executed and delivered this Twenty-Fourth Supplemental Indenture, and has granted, bargained, sold, aliened, enfeoffed, conveyed and confirmed, and by these presents does grant, bargain, sell, alien, enfeoff, convey and confirm, unto to the Trustee, its successors and assigns forever, all real property of Water Company, together with all appurtenances and contracts, rights, privileges, permits and franchises used or useful in connection with the business of the Water Company as a water company or as a water utility or used directly for the purpose of supplying water, granted, bargained,

sold, aliened, enfeoffed, conveyed and confirmed unto the Trustee by the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and Twenty-Third Supplemental Indentures, or intended to be (including without limitation all such property acquired by Water Company since October 15, 1998, and all such property which Water Company may hereafter acquire), subject, however, to Permissible Encumbrances, and excepting all Property heretofore released from the lien of the Mortgage and the indentures supplemental thereto, and excepting all property of Water Company which is not used or useful in connection with its business as a water company or as a water utility as well as all personal property (both tangible and intangible) as to which a security interest may not be perfected by a filing under the Uniform Commercial Code as in effect in the State of New Jersey;

TO HAVE AND TO HOLD all and singular the above granted property, unto the Trustee, its successors and assigns forever, IN TRUST, nevertheless, for the equal and proportionate use, benefit, security and protection of those who from time to time shall hold any bonds which have been or may be issued under the Mortgage or

any indenture supplemental thereto, without any discrimination, preference or priority of any one bond over any other by reason of priority in the time of issue, sale or negotiation thereof or otherwise, except as otherwise in the Mortgage or in any indenture supplemental thereto provided; and in trust for enforcing the payment of the principal of and the interest on such bonds, according to the tenor, purport and effect of the bonds and of the Mortgage and all indentures supplemental thereto and for enforcing the terms, provisions, covenants and stipulations therein and in the bonds set forth; and upon the trust, uses and purposes and subject to the covenants, agreements and conditions set forth and declared in the Mortgage as modified, amended and supplemented by all indentures supplemental thereto;

AND the parties do hereby covenant and agree that the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and Twenty-Third Supplemental Indentures be and hereby are supplemented as hereinafter provided, and that the above granted property is to be held and applied subject to the covenants, conditions, uses and trusts set forth in the Mortgage, as modified, amended and supplemented by such

Supplemental Indentures and this Twenty-Fourth Supplemental Indenture; and Water Company for itself and its successors does hereby covenant and agree to and with the Trustee, and its successors in said trust, for the equal benefit of all present and future holders and registered owners of the bonds issued under the Mortgage and all indentures supplemental thereto, as follows:

#### ARTICLE I

##### First Mortgage Scheduled Interest Rates Bond, Series Y

Section 1. Water Company hereby creates a series of bonds to be issued under and secured by the Mortgage, the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and the Twenty-Third Supplemental Indentures and by this Twenty-Fourth Supplemental Indenture, and to be designated as, and to be distinguished from the bonds of all other series by the title, "First Mortgage Scheduled Interest Rates Bond, Series Y". The Series Y Bond shall be issued only as a single registered bond without coupons in the principal amount of the Loan under the Loan Agreement; shall be dated as of November 1, 1998; and shall be

issued in non-negotiable form to the Trust. The Series Y Bond shall bear interest from the date of issuance of the Series Y Bond, computed on the basis of a 360-day year composed of twelve 30-day months until the obligations of the Water Company with respect to the payment of principal shall be discharged, in the dollar amount set forth for each respective payment period under the column heading "Interest" in Exhibit A-2 to the Loan Agreement, shall be payable as set forth below, shall state that, subject to certain limitations, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented as provided in the Mortgage as heretofore supplemented; shall mature on September 1, 2018, and shall be earlier redeemable (i) under the terms and conditions and in the amounts provided in Section 3.07 of the Loan Agreement at the option of the Water Company with, to the extent required by the August 22, 1998 Order (Docket No. WF98060336) of the Board of Public Utilities of the State of New Jersey ("BPU") and/or required by then applicable law and regulations, the prior approval of the BPU, (ii) as, when and to the extent mandated pursuant to subsection B of Section 4 of Article VIII of the Second Supplemental Indenture; and shall be subject to, entitled to the benefit of, and expressly incorporate by reference, all of the terms, conditions and provisions of the Loan Agreement.

The Series Y Bond shall evidence the obligation to pay to the

order of the Trust the principal amount of the Loan (as defined in the Loan Agreement) made by the Trust under the Loan Agreement which shall be \$1,135,000 or such lesser amount as determined in accordance with Section 3.01 of the Loan Agreement, at the times and in the amounts determined as provided in the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the times and in the amounts as provided therein. The obligations of the Water Company to make payments under the Series Y Bond are absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of any default by the Trust under the Loan Agreement or under any other agreement between the Water Company and the Trust or out of any indebtedness or liability at any time owing to the Water Company by the Trust or for any other reason. The Series Y Bond is subject to assignment or transfer in accordance with the terms of the Loan Agreement. The Series Y Bond is subject to acceleration under the terms and conditions, and in the amounts, provided in Section 5.03 of the Loan Agreement. Payments under the Series Y Bond shall, except as otherwise provided in the Loan Agreement, be made directly to the Loan Servicer (as defined in the Loan Agreement), for the account of the Trust.

In addition to any other default provided for under the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth,

Fifteenth, Sixteenth and Seventeenth, Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and the Twenty-Third Supplemental Indentures, it shall be a default under this Twenty-Fourth Supplemental Indenture if payment of any of the principal or of the Interest on the Loan constituting the Interest Portion, the Administrative Fee and any late charges incurred under the Loan Agreement (as such terms are defined in the Loan Agreement) is not made when the same shall become due and payable in installments, at maturity, upon redemption or otherwise.

Section 2. Disbursements of the proceeds of the loan from the Trust under the Loan Agreement evidenced by the Series Y Bond shall be made by the Trust to the Water Company upon receipt by the Trust of requisitions from the Water Company executed and delivered in accordance with the requirements set forth in Section 3.02 of the Loan Agreement.

Section 3. The Series Y Bond and the certificate of authentication of the Trustee to be executed thereon shall be substantially in the form prescribed for registered bonds without coupons in the Second Supplemental Indenture (except that there may be deleted therefrom all references to the issuance of coupon bonds in exchange therefor); shall be in the form attached to this

Twenty-Fourth Supplemental Indenture as Exhibit A; and shall contain appropriate references to this Twenty-Fourth Supplemental Indenture in addition to the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and the Twenty-Third Supplemental Indentures and appropriate changes with respect to the aggregate principal amount, interest rate, redemption dates and provisions, and maturity date of the Series Y Bond, and with appropriate reference to the provision of the Fourth Supplemental Indenture that, subject to certain limitations, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented only as provided in the Mortgage and except that the Series Y Bond shall not contain any references to a sinking fund.

Section 4. Subject to the provisions of the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and the Twenty-Third Supplemental

Indentures, forthwith upon the execution and delivery of this Twenty-Fourth Supplemental Indenture, or from time to time thereafter, Series Y Bond in an aggregate principal amount of \$1,135,000 may be executed by Water Company and delivered to the Trustee for authentication and shall thereupon be authenticated and delivered by the Trustee upon the written order of Water Company, signed by its President or a Vice President and its Treasurer or Assistant Treasurer, in such denominations and registered in such name or names as may be specified in such written order.

Section 5. Sections 4(A)(iii) and (iv) of Article VIII of the Second Supplemental Indenture shall not be available to the Water Company with respect to the Series Y Bond. The Water Company shall issue its written order under Section 4(a)(i) or (ii), as the case may be, reasonably promptly after receipt by the Trustee of proceeds of sale, eminent domain or insurance (not otherwise to be paid directly to the Company under the Mortgage as supplemented by the Supplemental Indentures including this Twenty-Fourth Supplemental Indenture).

ARTICLE II  
Miscellaneous

Section 1. The provisions of the Mortgage as modified, amended and supplemented by the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and the Twenty-Third Supplemental Indentures, and as modified and extended by this Twenty-Fourth Supplemental Indenture are hereby reaffirmed. Except insofar as they are inconsistent with the provisions hereof, the provisions of the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and Twenty-Third Supplemental Indentures with respect to the Series C, Series D, Series E, Series F, Series G, Series H, Series I, Series J, Series K, Series L, Series M, Series N, Series O, Series P, Series Q, Series R, Series P-1, Series S, Series T, Series U, Series V, Series W and Series X Bonds shall apply to the Series Y Bond to the same extent as if they were set forth herein in full. Unless there is something in the subject or context repugnant to such construction, each reference in the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh,

Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second and the Twenty-Third Supplemental Indentures to the Mortgage or any of such Supplemental Indentures shall be construed as also referring to this Twenty-Fourth Supplemental Indenture. The Mortgage and all indentures supplemental thereto may be modified, amended or supplemented by Water Company with prior notice by the Water Company to but without the consent of any of the bondholders to accomplish any more of the following:

- (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Mortgage or any indenture supplemental thereto;
- (2) to cure any ambiguity, supply any omission, or cure or correct any defect in any description of the Mortgaged Property, if such action is not adverse to the interests of the bondholder;
- (3) to insert such provisions clarifying matters or questions arising under the Mortgage or any indenture supplemental thereto as are necessary or

desirable and are not contrary to or inconsistent with the Mortgage or any indenture supplemental thereto as in effect; or

- (4) to restate the Mortgage as supplemented by the Supplemental Indentures as a single integrated document which may add headings, an index and other provisions aiding the convenience of use.

The terms and provisions of the Series Y Bond shall not be amended by, and the Series Y Bond shall not be entitled to the benefit of any covenant, term or condition contained in any subsequent supplemental indenture without the express written concurrence of the Water Company.

Section 2. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity and sufficiency of this Twenty-Fourth Supplemental Indenture or the due execution hereof by Water Company or for the recitals contained herein, all of which recitals are made by Water Company solely.

Section 3. The Trustee hereby accepts the trusts hereby declared and provided and agrees to perform the same upon the terms and conditions in the Mortgage, the Second, Third,

Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth Supplemental Indentures, the Supplementary Indenture to the Fifteenth Supplemental Indenture, the Eighteenth, the Nineteenth, Twentieth, the Twenty-First, the Twenty-Second and the Twenty-Third Supplemental Indentures and this Twenty-Fourth Supplemental Indenture set forth. The Trustee also hereby agrees to execute and deliver the Escrow Agreement (as defined in the Loan Agreement) and to appoint the Escrow Agent named therein as agent as set out therein.

Section 4. The Trustee hereby authorizes the Loan Servicer to accept payments made by Water Company of principal of the Series Y Bond for the account of the Trust.

Section 5. This Twenty-Fourth Supplemental Indenture has been executed simultaneously in several counterparts and all of said counterparts executed and delivered, each as an original, shall constitute one and the same instrument.

Section 6. Although this Twenty-Fourth Supplemental Indenture, for convenience and for the purpose of reference, is dated as of October 15, 1998, the actual date of execution by Water Company and the Trustee is as shown by their respective acknowledgments hereto annexed, and the actual date of delivery

hereof by Water Company and the Trustee is the date of the closing of the sale of the Series Y Bonds by Water Company.

Section 7. In any case where the payment of principal of the Series Y Bond or the date fixed for redemption of any Series Y Bond shall be a Saturday or Sunday or a legal holiday or a day on which banking institutions in the City of the principal corporate trust office of the Loan Service is located are authorized by law to close, then payment of interest or principal or redemption price need not be made on such date but may be made on the next proceeding business day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest on such payment shall accrue after such date.

THE MORTGAGOR HEREBY DECLARES AND ACKNOWLEDGES THAT IT HAS RECEIVED, WITHOUT CHARGE, A TRUE COPY OF THIS MORTGAGE.

IN WITNESS WHEREOF said MIDDLESEX WATER COMPANY has caused these presents to be signed by its President and its corporate seal to be hereunto affixed, and duly attested by its Secretary; and in testimony of its acceptance of the trusts created, FIRST UNION NATIONAL BANK, as successor to United Counties Trust Company, has caused these presents to be signed by its thereto duly authorized officer or corporate trust officer and

its corporate seal to be hereunto affixed and duly attested by its thereto duly authorized officer or corporate trust officer, as of the day and year first above written.

ATTEST:

MIDDLESEX WATER COMPANY

-----  
Marion F. Reynolds  
Vice President, Secretary  
and Treasurer

By: -----  
J. Richard Tompkins  
Chairman of the Board and  
President

ATTEST:

FIRST UNION NATIONAL BANK

-----  
Assistant Vice President

By: -----  
Corporate Trust Officer





LOAN AGREEMENT

BY AND BETWEEN

THE STATE OF NEW JERSEY,

ACTING BY AND THROUGH THE NEW JERSEY

DEPARTMENT OF ENVIRONMENTAL PROTECTION,

AND

MIDDLESEX WATER COMPANY

DATED AS OF NOVEMBER 1, 1998

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FUND LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of this 1st day of November, 1998, by and between THE STATE OF NEW JERSEY, acting by and through the New Jersey Department of Environmental Protection, and MIDDLESEX WATER COMPANY, a corporation duly created and validly existing under the laws of the State of New Jersey;

WITNESSETH THAT:

WHEREAS, the Borrower has, in accordance with the Regulations, made timely application to the State for a Loan to finance a portion of the Cost of the Project (as each of the foregoing terms is defined in Section 1.01 hereof; all capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings set forth in said Section 1.01);

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 an amount not to exceed One Million Fifty Thousand Dollars (\$1,050,000) to finance a portion of the Cost of the Project;

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

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

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

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

ARTICLE I

DEFINITIONS

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

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

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

"Borrower" means the corporation that is a party to and is described in the first paragraph of 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.

"Borrower Bond Resolution" means the indenture of the Borrower entitled "Indenture of Mortgage" dated as of April 1, 1927, as amended and supplemented from time to time, in particular by a supplemental indenture detailing the terms of the Borrower Bond dated as of November 1, 1998 and entitled "Twenty-Third Supplemental Indenture", pursuant to which the Borrower Bond has been issued.

"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 of New Jersey (codified at N.J.S.A. 14A:1-1 et seq.), as the same has been and may from time to time be amended and supplemented.

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

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

"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.

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

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

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

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

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

"Loan Repayments" means the repayments of the principal amount of the Loan payable by the Borrower pursuant to Section 3.03 of this Loan Agreement, including payments payable under the Borrower Bond, but excluding the Administrative Fee.

"Loan Servicer" means, initially, First Union National Bank, the loan servicer for the Loan and the Trust Loan, duly appointed and designated as "Loan Servicer" pursuant to the Loan Servicing and Trust Bonds Security Agreement dated as of November 1, 1998 by and among the Trust, the State of New Jersey, acting by and through the Treasurer of the State of New Jersey on behalf of the New Jersey Department of Environmental Protection, and First Union National Bank, and any successors as "Loan Servicer" under such agreement, as the same may be modified, amended or supplemented from time to time in accordance with its terms.

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

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

"Master Program Trust Agreement" means that certain Master Program Trust Agreement dated as of November 1, 1995 by and among the Trust, the State of New Jersey, 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 First Union National Bank), in several capacities thereunder, as the same may be amended and supplemented from time to time in accordance with its terms.

"Prime Rate" means the prevailing commercial interest rate announced by the Loan Servicer from time to time in the State of New Jersey as its prime lending rate.

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

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

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

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

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

"Trust Loan Agreement" means the loan agreement by and between the Borrower and the

Trust dated as of November 1, 1998 to finance or refinance a portion of the Cost of the Project.

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 the laws of the State of New Jersey.

(ii) The acting officials 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 officials 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 official no longer the duly acting official of such Borrower, all such actions previously taken by such official 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 applicable New Jersey law and at which quorums were present and acting throughout.

(v) By official action of the Borrower taken prior to or concurrent with the execution and delivery hereof, including, without limitation, the Proceedings, the Borrower has duly authorized, approved and consented to all necessary action to be taken by the Borrower for: (A) the execution, attestation, delivery and performance of this Loan Agreement and the transactions contemplated hereby; (B) the issuance of the Borrower Bond and the sale thereof to the State upon the terms set forth herein; and (C) the execution, delivery and due performance of any and all other certificates, agreements and instruments

that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement.

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

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

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

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the Borrower Bond Resolution, as the case may be, and the sale of the Borrower Bond to the State, (iii) the adoption of the Borrower Bond Resolution, (iv) the 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. Since December 31, 1975 and as of the date of delivery of this Loan Agreement, the Borrower has not been, and is not now, in default in the payment of the principal of or interest on any of its bonds, notes, lease purchase agreements or other debt obligations. 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 principal of the Borrower Bond 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, 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 or (B) 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 or (B) the condition (financial or otherwise) of the Borrower or its Environmental Infrastructure System.

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

SECTION 2.02. Particular Covenants of Borrower.

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

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable State of New Jersey 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.

(c) Borrower Bond; No Prior Liens. Except for (i) the Borrower Bond, (ii) any bonds at parity with the Borrower Bond and currently outstanding or issued on the date hereof, (iii) any future bonds 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 Trust Loan, required to complete the Project.

(e) Disposition of Environmental Infrastructure System. The Borrower shall not sell, lease, abandon or otherwise dispose of all or substantially all of its Environmental Infrastructure System except on ninety (90) days' prior written notice to the State, and, in any event, shall not so sell, lease, abandon or otherwise dispose of the same 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.

(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; provided, that no provision of this subsection shall prevent the sale, lease, abandonment or other disposition of property that comprises a portion of the Borrower's Environmental Infrastructure

System, so long as such sale, lease, abandonment or other disposition does not materially adversely affect the Borrower's Environmental Infrastructure System.

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

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

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

(k) Cost of Project. The Borrower certifies that the building cost of the Project, as listed in Exhibit B hereto and made a part hereof, is a reasonable and accurate estimation thereof, and it will supply to the State a certificate from a licensed professional engineer authorized to practice in the State of New Jersey stating that such building cost is a reasonable and accurate estimation and that the useful life of the Project exceeds twenty (20) years from the expected date of the Loan Closing.

(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, 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 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. 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.

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(1) hereof, or (b) an Event of Default has occurred and is continuing under this Loan Agreement. Although the State intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Cost of the Project, due to unforeseen circumstances there may not be sufficient Federal Funds on deposit on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the aggregate principal amount set forth in Exhibit A-2 hereto shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and the State shall have no obligation thereafter to loan any additional amounts to the Borrower.

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

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

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

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

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

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

(ii) there shall be Federal Funds available from time to time to fund the Loan, as

determined solely by the State;

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

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

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

SECTION 3.03. Amounts Payable. (a) The Borrower shall repay the Loan at zero-interest in principal installments payable to the Loan Servicer semiannually on February 1 and August 1, commencing August 1, 1999, 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 Loan Servicer 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 Loan Servicer shall fulfill the Borrower's obligation to pay such amount hereunder and under the Borrower Bond. Each payment made to the Loan Servicer 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 Loan Servicer 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 Loan Servicer semiannually on each February 1 and August 1, commencing February 1, 1999 or such later date as the State authorizes, during the term of the Loan.

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 of New Jersey 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 Loan Servicer 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) during the term of this Loan Agreement and 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 latter 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 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 acknowledges that, to the extent allowed by law, including, without limitation, the appropriations act of the New Jersey State Legislature authorizing the expenditure of Trust bond proceeds to finance a portion of the Cost of the Project, or the Borrower Bond Resolution, any loan repayments then due and payable on the Borrower's Trust Loan, including, without limitation, any administrative fees and any late payment charges then due and payable under the Trust Loan Agreement, shall be satisfied by the Loan Servicer before any Loan Repayments then due and payable hereunder on the Loan shall be satisfied by the Loan Servicer. The Borrower agrees not to interfere with any such action by the Loan Servicer.

(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 to the extent allowed by law any Loan Repayments paid by the Borrower on the Loan under this Loan

Agreement and received by the Loan Servicer during the time of any such loan repayment deficiency under the Trust Loan Agreement shall first be applied by the Loan Servicer to satisfy such Trust Loan Agreement loan repayment deficiency as a credit against the obligations of the Borrower to make loan repayments of that portion of interest under the Trust Loan Agreement that is allocable to the interest payable on the Trust Bonds (as defined in the Trust Loan Agreement) and to make payments of that portion of interest under the bond issued by the Borrower to the Trust that is allocable to the interest payable on the Trust Bonds, second, to the extent available, to make loan repayments of principal under the Trust Loan Agreement and payments of principal on the bond 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 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.

(c) The Borrower hereby further acknowledges that any Loan Repayments paid by the Borrower on the Loan under this Loan Agreement shall be applied (i) according to Section 3(c) of the Loan Servicing and Trust Bonds Security Agreement (as defined in the definition of Loan Servicer herein) and (ii) according to the provisions of the Master Program Trust 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 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;

(c) 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;

(d) a petition is filed by or against the Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including, without limitation, a receiver, liquidator or trustee) of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;

(e) the Borrower shall generally fail to pay its debts as such debts become due; and

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

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

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

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

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

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

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

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

ARTICLE VI

MISCELLANEOUS

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

First Union National Bank  
765 Broad Street  
Newark, New Jersey 07102  
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: -----  
Robert C. Shinn, Jr.  
Commissioner, Department of  
Environmental Protection

ATTEST:

-----  
Nicholas G. Binder, P.E., P.P.  
Assistant Director,  
Municipal Finance and Construction Element,  
Department of Environmental Protection

[SEAL]

MIDDLESEX WATER COMPANY

ATTEST:

By: -----  
Authorized Officer

-----  
Authorized Officer

Approval of New Jersey State  
Treasurer

By: -----  
James A. DiEleuterio, Jr.  
New Jersey State Treasurer

[Signature Page]

EXHIBIT A-1

Description of Project and Environmental Infrastructure System

A-1-1

EXHIBIT A-2

Description of Loan

A-2-1

EXHIBIT B

Basis for Determination of Allowable Project Costs

B-1

EXHIBIT C

Estimated Disbursement Schedule

C-1

EXHIBIT D

Specimen Borrower Bond

D-1

(To be supplied by Borrower's  
bond counsel in substantially the following form)

IMPORTANT NOTE: The next two pages set forth the form of the Borrower Bond prepared by the Trust's Bond Counsel for municipal/county Borrowers. Although the Trust recognizes that each corporate Borrower has its own bond form as required pursuant to its Borrower Bond Resolution, please incorporate in the bond form the pertinent information from this municipal/county bond form (e.g., include the concept of principal amount or lesser amount under Section 3.01, reference to payments to the Loan Servicer, disbursement process, unconditional nature, prepayment, security and date).

FOR VALUE RECEIVED, Middlesex Water Company, a corporation duly created and validly existing under the Constitution and laws of the State of New Jersey (the "Borrower"), hereby promises to pay to the order of the State of New Jersey (the "State") the principal amount of One Million Fifty Thousand Dollars (\$1,050,000), or such lesser amount as shall be determined in accordance with Section 3.01 of the Loan Agreement (as hereinafter defined), at the times and in the amounts determined as provided in the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the times and in the amounts as provided therein. The Borrower irrevocably pledges its full faith and credit for the punctual payment of the principal of, and all other amounts due under, this Borrower Bond and the Loan Agreement according to their respective terms.

This Borrower Bond is issued pursuant to the Loan Agreement dated as of November 1, 1998 by and between the State, acting by and through the New Jersey Department of Environmental Protection, and the Borrower (the "Loan Agreement"), and is issued in consideration of the loan made thereunder (the "Loan") and to evidence the payment obligations of the Borrower set forth in Section 3.03(a) thereof. Payments under this Borrower Bond shall, except as otherwise provided in the Loan Agreement, be made directly to the Loan Servicer (as defined in the Loan Agreement) for the account of the State. This Borrower Bond is subject to assignment or endorsement in accordance with the terms of the Loan Agreement. All of the terms, conditions and provisions of the Loan Agreement are, by this reference thereto, incorporated herein as part of this Borrower Bond.

Pursuant to the Loan Agreement, disbursements shall be made by the State to the Borrower upon receipt by the State of requisitions from the Borrower executed and delivered in accordance with the requirements set forth in Section 3.02 of the Loan Agreement.

This Borrower Bond is entitled to the benefits and is subject to the conditions of the Loan Agreement. The obligations of the Borrower to make the payments required hereunder shall be absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of any default by the State under the Loan Agreement or under any other agreement between the Borrower and the State or out of any indebtedness or liability at any time owing to the Borrower by the State or for any other reason.

This Borrower Bond is subject to optional prepayment under the terms and conditions, and in the amounts, provided in Section 3.07 of the Loan Agreement. To the extent allowed by applicable law, this Borrower Bond may be subject to acceleration under the terms and conditions, and in the amounts, provided in Section 5.03 of the Loan Agreement.

To the extent provided by law, this Borrower Bond is junior and subordinate in all respects to any bonds of the Borrower issued on even date herewith to the New Jersey Environmental Infrastructure Trust as to lien on, and source and security for payment from, the revenues of the Borrower.

IN WITNESS WHEREOF, the Borrower has caused this Borrower Bond to be duly executed, sealed and delivered as of this 15th day of October, 1998.

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

By: \_\_\_\_\_  
\_\_\_\_\_

-----  
-----

By: \_\_\_\_\_  
\_\_\_\_\_

EXHIBIT E

Opinions of Borrower's Bond and General Counsels

See Closing Item No. \_\_\_\_\_

E-1

November 5, 1998

State of New Jersey  
Department of Environmental Protection  
401 East State Street  
Trenton, New Jersey 08625

Ladies and Gentlemen:

We have acted as counsel to Middlesex Water Company, a corporation duly organized and validly existing under the laws of the State of New Jersey (the "Borrower"), which has entered into a Loan Agreement (as hereinafter defined) with the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection (the "State"), and have acted as such in connection with the authorization, execution, attestation and delivery by the Borrower of its Loan Agreement and Borrower Bond (as hereinafter defined) pursuant to the New Jersey Business Corporation Act, P.L. 1968, c. 263, as amended (the "Business Corporation Law"), and an indenture of the Borrower dated as of April 1, 1927 and entitled "Indenture of Mortgage", as amended and supplemented, including by a supplemental indenture dated as of November 1, 1998 and entitled "Twenty-Third Supplemental Indenture" (such indentures shall be collectively referred to herein as the "Resolution"). All capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

In so acting, we have examined the Constitution and laws of the State of New Jersey, including, without limitation, the Business Corporation Law, and the certificate of incorporation and by-laws of the Borrower. We have also examined originals, or copies certified or otherwise identified to our satisfaction, of the following:

(a) the Loan Agreement dated as of November 1, 1998 (the "Loan Agreement") by and between the State and the Borrower;

(b) the proceedings of the board of directors of the Borrower relating to the approval of the Loan Agreement and the execution, attestation and delivery thereof on behalf of the Borrower and the authorization of the undertaking and completion of the Project;

(c) the Borrower Bond dated as of October 15, 1998 (the "Borrower Bond") issued by the Borrower to the State to evidence the Loan; and

(d) the proceedings (together with the proceedings referred to in clause (b) above and Section 5 below, the "Proceedings") of the board of directors of the Borrower, including, without limitation, the Resolution, relating to the authorization of the Borrower Bond and the sale, execution, attestation, authentication and delivery thereof to the State (the Loan Agreement and the Borrower Bond are referred to herein collectively as the "Loan Documents").

We have also examined and relied upon originals, or copies certified or otherwise authenticated to our satisfaction, of such other records, documents, certificates and other instruments, and have made such investigation of law as in our judgment we have deemed necessary or appropriate, to enable us to render the opinions expressed below.

We are of the opinion that:

1. 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, with the legal right to carry on the business of its Environmental Infrastructure System as currently being conducted and as proposed to be conducted.

2. The Borrower has full legal right and authority to execute, attest and deliver the Loan Documents, to sell the Borrower Bond to the State, to cause the authentication of the Borrower Bond, to observe and perform its duties, covenants, obligations and agreements under the Loan Documents and to undertake and complete the Project.

3. The acting officials of the Borrower who are contemporaneously herewith performing or have previously performed any action contemplated in the Loan Agreement are, and at the time any such action was performed were, the duly appointed or elected officials of the Borrower empowered by applicable New Jersey law and authorized by resolution of the Borrower to perform such actions.

4. In accordance with the terms of the Resolution and to the extent provided therein, the Borrower has irrevocably pledged its full faith and credit for the punctual payment of the Loan Repayments and all other amounts due under the Loan Documents according to their respective terms.

5. The proceedings of the Borrower's board of directors (i) approving the Loan Documents, (ii) authorizing their execution, attestation and delivery on behalf of the Borrower, (iii) with respect to the Borrower Bond only, authorizing its sale by the Borrower to the State and authorizing its authentication on behalf of the Borrower, (iv) authorizing the Borrower to consummate the transactions contemplated by the Loan Documents, (v) authorizing the Borrower to undertake and complete the Project, and (vi) authorizing the execution and delivery of all other certificates, agreements, documents and instruments in connection with the execution, attestation and delivery of the Loan Documents, have each been duly and lawfully adopted and authorized in accordance with applicable law and applicable resolutions of the Borrower, including, without limitation, the Resolution, the other Proceedings and the Business Corporation Law, which Proceedings constitute all of the actions necessary to be taken by the Borrower to authorize its actions contemplated by clauses (i) through (vi) above and which Proceedings, including, without limitation, the Resolution, were duly adopted in accordance with applicable New Jersey law at a meeting or meetings duly called and held in accordance with applicable New Jersey law and at which quorums were present and acting throughout.

6. The Loan Documents have been duly authorized, executed, attested and delivered by the Authorized Officers of the Borrower, the Borrower Bond has been duly sold by the Borrower to the State, and the Borrower Bond has been duly authenticated by the trustee or paying agent under the Resolution; and assuming in the case of the Loan Agreement that the State has the requisite power and authority to authorize, execute, attest and deliver, and has duly authorized, executed, attested and delivered, the Loan Agreement, the Loan Documents constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, subject, however, to the effect of, and to restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally. No opinion is rendered as to the availability of any particular remedy.

7. The authorization, execution, attestation and delivery of the Loan Documents by the Borrower and, in the case of the Borrower Bond only, the authentication thereof by the trustee or paying agent under the Resolution and the sale thereof to the State, the observation and performance by the Borrower of its duties, covenants, obligations and agreements thereunder, the consummation of the transactions contemplated therein, and the undertaking and completion of the Project do not and will not (i) other than the lien, charge or encumbrance created by the Loan Documents, by the 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, result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Borrower pursuant to, (ii) result in any breach of any of the terms, conditions or provisions of, or (iii) 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.

8. All approvals, consents or authorizations of, or registrations of or filings with, any governmental or public agency, authority or person required to date on the part of the Borrower in connection with the authorization, execution, attestation, delivery and performance of the Loan Documents, the sale of the Borrower Bond and the undertaking and completion of the Project have been obtained or made.

9. There is no litigation or other proceeding pending or, to our knowledge, after due inquiry, threatened in any court or other tribunal of competent jurisdiction (either State or federal) (i) questioning the creation, organization or existence of the Borrower, (ii) questioning the validity, legality or enforceability of the Resolution, the Loan or the Loan Documents, (iii) questioning the undertaking or completion of the Project, (iv) otherwise challenging the Borrower's ability to consummate the transactions contemplated by the Loan or the Loan Documents, or (v) that, if adversely decided, would have a materially adverse impact on the financial condition of the Borrower.

10. Other than its bond dated as of October 15, 1998 issued to the New Jersey Environmental Infrastructure Trust, the Borrower has no bonds, notes or other debt obligations outstanding that are superior or senior to the Borrower Bond as to lien on, and source and security for payment thereof from, the revenues of the Borrower.

We hereby authorize McCarter & English, LLP, acting as bond counsel to the State in connection with the Loan, and the Attorney General of the State of New Jersey, acting as general counsel to the State in connection with the Loan, to rely on this opinion as if we had addressed this opinion to them in addition to you.

Very truly yours,

E-5

EXHIBIT F

Additional Covenants and Requirements

[None]

F-1

EXHIBIT G

General Administrative Requirements for the

State Environmental Infrastructure Financing Program

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MIDDLESEX WATER COMPANY

NO. R-1

\$1,050,000

NON-NEGOTIABLE  
FIRST MORTGAGE 0% BOND, SERIES X, DUE September 1, 2018

MIDDLESEX WATER COMPANY, a corporation organized and existing under the laws of the State of New Jersey (hereinafter called the "Water Company"), for value received, hereby promises to pay to The State of New Jersey, acting by and through the New Jersey Department of Environmental Protection ("State") under the Loan Agreement dated as of November 1, 1998 ("Loan Agreement") by and between the Water Company and the State, or its registered assigns on the first day of September 2018, at the office of FIRST UNION NATIONAL BANK in the City of Newark, State of New Jersey, Trustee under the Mortgage and Supplemental Indentures hereinafter mentioned, or its successor as such Trustee, the principal sum of One Million Fifty Thousand Dollars (\$1,050,000) or such lesser amount as shall be determined in accordance with Section 3.01 of the Loan Agreement, without interest, thereon at the times and in the amounts determined as provided in Section 3.03(a) of the Loan Agreement (including without limitation payment of installments of principal semi-annually on February 1 and August 1, commencing August 1, 1999, in accordance with the schedule set forth in Exhibit A-2 attached to the Loan

Agreement), as the same may be amended or modified by the State as provided in the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the times and in the amounts provided therein in coin or currency of the United States of America which at the time of payment is legal tender for public and private debts, until Water Company's obligation with respect to the payment of such principal shall be discharged.

This Bond is the sole Bond of a duly authorized issue of non-negotiable bonds of Water Company known as its First Mortgage 0% Bonds, Series X (hereinafter called the "Series X Bond"), of the principal amount of \$1,050,000 issued and secured (together with all other bonds of the Water Company [hereinafter called "Bonds"] issued under the Mortgage and Supplemental Indentures [as hereinafter defined]), by an Indenture of Mortgage dated April 1, 1927 (hereinafter called the "Mortgage"), a Second Supplemental Indenture dated as of October 1, 1939, (hereinafter called the "Second Supplemental Indenture"), a Third Supplemental Indenture dated as of April 1, 1946, (hereinafter called the "Third Supplemental Indenture"), a Fourth Supplemental Indenture dated as of April 1, 1949, (hereinafter called the "Fourth Supplemental Indenture"), a Fifth Supplemental Indenture dated as of February 1, 1955 (hereinafter called the "Fifth Supplemental Indenture"), a Sixth Supplemental Indenture dated as of December 1, 1959, (hereinafter called the "Sixth Supplemental Indenture"), a Seventh Supplemental Indenture dated as of January 15, 1963, (hereinafter called the "Seventh Supplemental Indenture"), an Eighth Supplemental Indenture dated as of July 1, 1964, (hereinafter called the "Eighth Supplemental Indenture"), a Ninth Supplemental Indenture dated as of June 1, 1965, (hereinafter called the "Ninth Supplemental Indenture"), a Tenth Supplemental Indenture dated as of February 1, 1968, (hereinafter called

the "Tenth Supplemental Indenture"), an Eleventh Supplemental Indenture dated as of December 1, 1968, (hereinafter called the "Eleventh Supplemental Indenture"), a Twelfth Supplemental Indenture dated as of December 1, 1970, (hereinafter called the "Twelfth Supplemental Indenture"), a Thirteenth Supplemental Indenture dated as of December 1, 1972, (hereinafter called the "Thirteenth Supplemental Indenture"), a Fourteenth Supplemental Indenture dated as of April 1, 1979, (hereinafter called the "Fourteenth Supplemental Indenture"), a Fifteenth Supplemental Indenture dated as of April 1, 1983, (hereinafter called the "Fifteenth Supplemental Indenture"), a Sixteenth Supplemental Indenture dated as of August 1, 1988, (hereinafter called the "Sixteenth Supplemental Indenture"), a Seventeenth Supplemental Indenture dated as of June 15, 1991, (hereinafter called the "Seventeenth Supplemental Indenture"), a Supplementary Indenture to the Fifteenth Supplemental Indenture dated as of March 1, 1993 (hereinafter called the "Supplementary Indenture"), an Eighteenth Supplemental Indenture dated as of September 1, 1993 (hereinafter called the "Eighteenth Supplemental Indenture"), a Nineteenth Supplemental Indenture dated as of September 1, 1993 (hereinafter called the "Nineteenth Supplemental Indenture"), a Twentieth Supplemental Indenture dated as of January 1, 1994 (hereinafter called the "Twentieth Supplemental Indenture"), a Twenty-First

Supplemental Indenture dated as of January 1, 1994 (hereinafter called the "Twenty-First Supplemental Indenture"), and a Twenty-Second Supplemental Indenture dated as of March 1, 1998 (hereinafter called the "Twenty-Second Supplemental Indenture"), and a Twenty-Third Supplemental Indenture dated as of October 15, 1998 (hereinafter called the "Twenty-Third Supplemental Indenture") all executed by Water Company to the First Union National Bank, or its predecessors, United Counties Trust Company and Union County Trust Company, as Trustee, which Second Supplemental Indenture, Third Supplemental Indenture, Fourth Supplemental Indenture, Fifth Supplemental Indenture, Sixth Supplemental Indenture, Seventh Supplemental Indenture, Eighth Supplemental Indenture, Ninth Supplemental Indenture, Tenth Supplemental Indenture, Eleventh Supplemental Indenture, Twelfth Supplemental Indenture, Thirteenth Supplemental Indenture, Fourteenth Supplemental Indenture, Fifteenth Supplemental Indenture, Sixteenth Supplemental Indenture, Seventeenth Supplemental Indenture, Supplementary Indenture, Eighteenth Supplemental Indenture, Nineteenth Supplemental Indenture, Twentieth Supplemental Indenture, Twenty-First Supplemental Indenture, Twenty-Second Supplemental Indenture and Twenty-Third Supplemental Indenture are referred to herein sometimes as the "Supplemental Indentures", to which Mortgage and Supplemental Indentures reference is hereby made for a

description of the property mortgaged and pledged, the nature and extent of the security, the terms and conditions upon which the Bonds are issued and are to be secured and the rights of registered owners thereof and of the Trustee in respect of such security. As provided in the Mortgage and Supplemental Indentures, and subject to the conditions therein imposed, additional bonds of other series, with the same or different maturity dates, bearing the same or different rates of interest and varying in other respects, may be issued. This Series X Bond is the Series X Bond described in the Twenty-Third Supplemental Indenture and designated therein as First Mortgage 0% Bond, Series X.

As provided in the Twenty-Third Supplemental Indenture, this Series X Bond is subject to redemption (i) under the terms and conditions and in the amounts provided in Section 3.07 of the Loan Agreement at the option of Water Company with, to the extent required by the Augsut 22, 1998 Order (Docket No. WP98060336) of the Board of Public Utilities of the State of New Jersey ("BPU") and/or required by then applicable law and regulations, the prior approval of the BPU, (ii) as, when and to the extent mandated pursuant to subsection B of Section 4 of Article VIII of the Second Supplemental Indenture; and shall be subject to, entitled to the benefit of, and expressly incorporate by reference, all of the terms, conditions and provisions of

the Loan Agreement.

The Series X Bond shall evidence the obligation to pay to the order of the State the principal amount of the loan made by the State under the Loan Agreement which shall be \$1,050,000 or such lesser amount as determined in accordance with Section 3.01 of the Loan Agreement, at the times and in the amounts determined as provided in the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the times and in the amounts as provided therein. The obligations of the Water Company to make payments under the Series X Bond are absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of any default by the State under the Loan Agreement or under any other agreement between the Water Company and the State or out of any indebtedness or liability at any time owing to the Water Company by the State or for any other reason. The Series X Bond is subject to assignment or transfer in accordance with the terms of the Loan Agreement. The Series X Bond is subject to acceleration under the terms and conditions, and in the amounts, provided in Section 5.03 of the Loan Agreement. Payments under the Series X Bond shall, except as otherwise provided in the Loan Agreement, be made directly to the Loan Servicer (as defined in the Loan Agreement), for the account of the State.

Disbursements of the proceeds of the loan from the State under the Loan Agreement evidenced by the Series X Bond shall be made by the State to the Water Company upon receipt by the State of requisitions from the Water Company executed and delivered in accordance with the requirements set forth in Section 3.02 of the Loan Agreement.

If an event of default, as defined in the Mortgage or Supplemental Indentures or in the Loan Agreement, shall occur, the principal of the Series X Bond may become or be declared due and payable, in the manner and with the effect provided in the Mortgage and Supplemental Indentures and the Loan Agreement.

As provided in the Mortgage as modified, amended and supplemented by the Supplemental Indentures, and subject to the limitations therein contained, the Mortgage and all indentures supplemental thereto may be modified, amended or supplemented with the consent in writing of the holders of not less than 75% in principal amount of each series of Bonds outstanding at the time and effective upon the date all of the Series R Bonds are retired or defeased or the holders thereof consent thereto, with the consent in writing of the holders of not less than 51% in aggregate principal amount of all series of Bonds outstanding at any time; provided, however, that no such modification shall reduce the principal amount of a Bond or the premium, if any, payable on a redemption thereof, extend the maturity thereof, reduce the rate or extend time for payment of interest thereon, give a Bond any preference over another Bond, create or permit a lien on the property subject to the Mortgage (other than a Permitted Encumbrance as defined in the Eighth Supplemental Indenture) prior to or on a parity with the Mortgage, or reduce the percentage of the holders required for any action authorized to be taken by the holders of Bonds under the Mortgage, without the consent of the holders of all Bonds affected by such modification; provided, further, that no modification shall impose additional duties or responsibilities on the Trustee without the consent of the Trustee.

The Mortgage may be modified, amended or supplemented by Water Company without the consent of the holders of the Bonds for one or more of the following purposes: (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Mortgage; (2) to cure any ambiguity, supply any omission or cure or correct any defect in any description of the Mortgage Property, if such action is not adverse to the interests of the holders of the Bonds; (3) to insert such provisions clarifying matters or questions arising under the mortgage indenture as are necessary or desirable and are not contrary to or inconsistent with the Mortgage as in effect or (4) to restate the Mortgage as supplemented by the Supplemental Indentures as a single integrated document which may add headings, an index and other provisions aiding the convenience of use. The Company shall provide prior notice of such change to the holders.

This Series X Bond shall not be transferred except (i) as provided or required under and pursuant to the Loan Agreement, (ii) to effect an exchange in connection with a bankruptcy, reorganization, insolvency, or similar proceeding involving Water Company and (iii) to effect an exchange in connection with prepayment by redemption or otherwise of the Series X Bond. This Series X Bond may be transferred at the principal corporate trust office of the Trustee by surrendering this Series X Bond for cancellation, accompanied by a written instrument of transfer in form designated by the holder and reasonably acceptable to the Water Company and the Trustee, duly executed by the registered owner hereof in person or by attorney duly authorized in writing, and upon payment of any taxes or other governmental charges incident to such transfer, and upon any such transfer new registered Bond or Bonds of the same series and of the same aggregate principal amount in authorized denominations, will be issued to the transferee in exchange herefor.

This Series X Bond, upon surrender hereof to the Trustee, accompanied by a written instrument of transfer as aforesaid, may be exchanged for another registered Bond of the same series and of the same principal amount; to the extent permitted by the Loan Agreement and upon payment of any charges and subject to the terms and conditions set

forth in the Mortgage and Supplemental Indentures and the Loan Agreement.

The person in whose name this Series X Bond shall be registered shall be deemed the owner hereof for all purposes, and payment of or on account of the principal hereof and interest hereon shall be made only to or upon the order in writing of the registered owner hereof; and all such payments shall be valid and effectual to satisfy and discharge the liability upon this Series X Bond to the extent of the sum or sums so paid.

No recourse shall be had for the payment of the principal of or interest on this Series X Bond or for any claim based hereon or otherwise in respect hereof or of the Mortgage or of any indenture supplemental thereto against any incorporator, or against any stockholder, director or officer, as such, past, present or future, of Water Company or of any predecessor or successor corporation, either directly or through Water Company or any such predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law or equity, or by the enforcement of any assessment or penalty, or otherwise howsoever, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or

registered owner hereof as more fully provided in the Mortgage and Supplemental Indentures; it being expressly agreed and understood that the Mortgage and Supplemental Indentures and all Bonds thereby secured are solely corporate obligations.

The terms and provisions of the Series X Bond shall not be amended by, and the Series X Bond shall not be entitled to the benefit of, any covenant, term or condition contained in any subsequent supplemental indenture without the express written concurrence of the Water Company.

This Series X Bond shall not be entitled to any benefit under the Mortgage or any indenture supplemental thereto, or be valid or become obligatory for any purpose, until First Union National Bank, as the Trustee under the Mortgage and Supplemental Indentures, or its successor thereunder, shall have signed the form of certificate endorsed hereon.

IN WITNESS WHEREOF, Middlesex Water Company has caused this Bond to be signed in its name by its President or a Vice President and its corporate seal to be hereto affixed by its Secretary or any Assistant Secretary.

Dated: \_\_\_\_\_, 1998

ATTEST:  
[SEAL]

MIDDLESEX WATER COMPANY

-----  
Marion F. Reynolds  
Vice President, Secretary  
and Treasurer

By: -----  
J. Richard Tompkins  
Chairman of the Board and  
President

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is the bond described in the within mentioned Mortgage and Twenty-Third Supplemental Indenture.

FIRST UNION NATIONAL BANK,  
Trustee

By: -----  
Corporate Trust Officer

This Bond has not been registered under the Securities Act of 1933, as amended, and may be offered or sold only in compliance with the provisions of said Act.

EXHIBIT 11  
MIDDLESEX WATER COMPANY  
STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS

	Three Months Ended September 30,				Nine Months Ended September 30,			
	1998		1997		1998		1997	
Basic:	Income	Shares	Income	Shares	Income	Shares	Income	Shares
	-----	-----	-----	-----	-----	-----	-----	-----
Income Before Preferred Stock								
Dividend Requirement	\$2,347,572	4,357,571	\$1,893,943	4,243,478	\$5,184,831	4,326,337	\$4,486,788	4,226,241
Less Preferred Stock								
Dividend Requirement	(79,697)	-----	(66,398)	-----	(239,090)	-----	(145,861)	-----
Earnings Applicable to Common Stock	\$2,267,875	4,357,571	\$1,827,545	4,243,478	\$4,945,741	4,326,337	\$4,340,927	4,226,241
Basic Earnings Per Share of Common Stock	\$ 0.52		\$ 0.43		\$ 1.14		\$ 1.03	
	-----		-----		-----		-----	
Diluted:								
Earnings Applicable to Common Stock	\$2,267,875	4,357,571	\$1,827,545	4,243,478	\$4,945,741	4,326,337	\$4,340,927	4,226,241
Convertible Preferred Stock								
\$7.00 Series Dividend	26,042	89,286	26,077	89,406	78,125	89,286	78,230	89,406
Convertible Preferred Stock								
\$8.00 Series Dividend	40,000	137,140	27,178	92,420	120,000	137,140	27,178	31,145
	-----	-----	-----	-----	-----	-----	-----	-----
Adjusted Earnings Applicable to Common Stock	\$2,333,917	4,583,997	\$1,880,800	4,425,304	\$5,143,866	4,552,763	\$4,446,335	4,346,792
Diluted Earnings Per Share of Common Stock	\$ 0.51		\$ 0.43		\$ 1.13		\$ 1.02	
	-----		-----		-----		-----	

9-MOS  
DEC-31-1998  
SEP-30-1998  
PER-BOOK

152,044,732		
3,730,571		
22,655,590		
12,983,607		
	0	
	191,414,500	
		32,994,426
	0	
21,335,315		
54,329,741		
	0	
		4,995,635
75,883,941		
4,500,000		
	0	
0		
45,341		
	0	
	0	
		0
51,659,842		
191,414,500		
32,434,440		
	2,422,447	
22,818,452		
25,240,899		
7,193,541		
	983,058	
8,176,599		
2,991,768		
		5,184,831
239,090		
4,945,741		
3,697,527		
4,115,750		
6,326,836		
		1.14
		1.13