

FORM 10-K

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

For the Fiscal Year ended December 31, 2001

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
(Address of principal executive offices) 08830-3020
(Zip Code)

(732) 634-1500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Name of each exchange
Title of each Class on which registered

None None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, No par Value

(Title of Class)

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

YES [X] . NO [] .

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant at March 15, 2002 was \$177,847,191 based on the closing market price of \$23.22 per share.

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 March 15, 2002 -----
Common Stock, No par Value	7,659,224

Documents Incorporated by Reference

Proxy Statement to be filed in connection with the Registrant's Annual Meeting of Shareholders to be held on May 22, 2002 as to Part III.

MIDDLESEX WATER COMPANY
FORM 10-K
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PART I

Item 1. Business

Overview

Middlesex Water Company (together with its subsidiaries, the "Company") has operated as a water utility in New Jersey since 1897, and in Delaware, through its wholly-owned subsidiary, Tidewater Utilities, Inc. (Tidewater), since 1992. The Company is in the business of collecting, treating and distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. The Company also operates a New Jersey municipal water and sewer system under contract. In addition, the Company provides wastewater services in New Jersey.

Prior to 1995, the Company provided water services to customers primarily located in eastern Middlesex County, New Jersey and New Castle, Kent and Sussex Counties in Delaware. In April 1995, the Company, through two wholly-owned New Jersey subsidiaries, Pinelands Water Company and Pinelands Wastewater Company (jointly "Pinelands") completed an asset purchase of a 2,300-customer water utility and a 2,300-customer wastewater utility in Burlington County, New Jersey. In December 1998, the Company and another of its wholly-owned New Jersey subsidiaries, Utility Service Affiliates (Perth Amboy) Inc. ("USA-PA"), jointly entered into a twenty-year contract with the City of Perth Amboy, New Jersey to operate and maintain the City's 9,300-customer water and 9,300-customer wastewater system. See Contract Services below. In April 2001, the Company, through another of its wholly-owned New Jersey subsidiaries, Bayview Water Company, completed an asset purchase of a 300-customer water utility in Cumberland County, New Jersey. Most recently, in August 2001, the Company, through Tidewater, completed the acquisition of Southern Shores Water Company, L.L.C. (which formerly known as Sea Colony Water Company L.L.C.), a 2,100-customer system in Southern Delaware.

The Company (including each of its subsidiaries with the exception of Utility Service Affiliates, Inc. and USA-PA) is regulated as to rates charged to customers for water and wastewater services, as to the quality of water provided and as to other matters. The operating results of the Company are materially affected by the timing and amount of rate increases approved by the regulatory authorities to offset the cost of capital and increasing costs of operation and construction.

The Company's principal executive offices are located at 1500 Ronson Road, Iselin, New Jersey 08830 (telephone (732) 634-1500).

Retail Sales

Retail sales produced approximately 72% of the Company's total revenue in 2001.

Middlesex System:

The Company's Middlesex System provides water services to retail customers primarily in eastern Middlesex County, New Jersey and, as described below, also provides water under contract, on a wholesale basis. See Contract Sales below. The Middlesex System, through its retail and contract sales operations, produced

approximately 75% of the Company's total revenue in 2001. Water services are currently furnished to approximately 57,000 retail customers located in an area of approximately 55 square miles of New Jersey in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of Edison Township and the Borough of South Plainfield in Middlesex County and, to a minor extent, a portion of the Township of Clark in Union County. The retail customers include a mix of residential customers, large industrial concerns and commercial and light industrial facilities. These retail customers are located in generally well-developed areas of central New Jersey.

Pinelands System:

The Company's Pinelands System, which produced approximately 2% of the Company's total revenue in 2001, currently provides water and wastewater services to approximately 2,300 retail customers in Burlington County, New Jersey.

Bayview System:

The Company's newly-acquired Bayview System, which produced less than 1% of the Company's total revenue in 2001, currently provides water services to approximately 300 retail customers in Cumberland County, New Jersey.

Tidewater System:

The Company's Tidewater System, which produced approximately 10% of the Company's total revenue in 2001, currently provides water services to approximately 19,000 (including Southern Shores) retail customers for domestic, commercial and fire protection purposes in over 150 community water systems located in Kent, Sussex and New Castle Counties in Delaware.

Contract Sales

Contract sales produced approximately 15% of the Company's total revenue in 2001.

As alluded to above, the Company's Middlesex System also provides water on a wholesale basis in New Jersey to the Township of Edison (Edison), the Borough of Highland Park (Highland Park), the Old Bridge Municipal Utilities Authority (Old Bridge), the Borough of Sayreville (Sayreville) and the Marlboro Township Municipal Utilities Authority (Marlboro). Under special contract, the Middlesex System also provides water treatment and pumping services to the Township of East Brunswick (East Brunswick). These municipal contract customers comprise an area of approximately 141 square miles and have a total population of approximately 267,000. The contract sales to Edison, Old Bridge, Sayreville and Marlboro are supplemental to the existing water systems of these customers. The State of New Jersey in the mid-1980's approved plans to increase available surface water supply to the South River Basin area of the State to permit a reduced use of ground water in this area. The Middlesex System provides treated surface water under long-term agreements to East Brunswick, Marlboro, Old Bridge and Sayreville consistent with the State approved plan.

Contract Services

Contract services produced approximately 12% of the Company's total revenue in 2001.

Since January 1, 1999, USA-PA, along with Middlesex Water Company, has operated and maintained the City of Perth Amboy's water system and wastewater system under a 20-year contract. Middlesex Water Company has guaranteed the performance of USA-PA under the contract. USA-PA is paid a fixed fee and a variable fee

based on increased system billings. Pursuant to the contract, fixed fee payments to USA-PA were \$7.1 million in 2001 and will increase to \$9.7 million by year 20. The agreement also requires USA-PA to lease from Perth Amboy all of Perth Amboy's employees who work on Perth Amboy's water system or wastewater system. In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued \$68.0 million in three series of bonds. One of those series of bonds, in the principal amount of \$26.3 million, was guaranteed by the Company. Perth Amboy guaranteed the two other series of bonds. USA-PA entered into a subcontract with a wastewater contracting firm for the operation and maintenance of Perth Amboy's wastewater system. USA-PA subleases to the subcontractor those Perth Amboy employees who work on Perth Amboy's wastewater system.

In May 1995, USA and Middlesex Water Company entered into two contracts with the City of South Amboy (South Amboy) to operate, manage and maintain the city's 2,600-customer water system and to provide water to city on a wholesale basis. In December 1999, the Company and South Amboy entered into a franchise agreement to provide water service and install water system facilities in South Amboy. Following the execution of the franchise agreement, all that survived of the original 1995 contracts was a management services contract, which was extended through 2045. However, in consideration for the franchise agreement, the Company forgave certain advances made by USA to South Amboy at the commencement of the management services contract and eliminated the fixed fee revenues that were to be recognized under such contract in lieu of revenues that were to be derived from providing water to South Amboy's 2,600 customers.

Financial Information

Consolidated operating revenues and operating income relating primarily to operating water utilities are as follows:

	(000's)		
	Years Ended December 31,		
	2001	2000	1999
Operating Revenues	\$59,638	\$54,477	\$53,497
	=====	=====	=====
Operating Income	\$11,493	\$ 9,938	\$10,665
	=====	=====	=====

Operating revenues were earned from the following sources:

	Years Ended December 31,		
	2001	2000	1999
Residential	38.4%	37.9%	36.9%
Commercial	10.2	10.4	10.2
Industrial	12.6	13.1	12.1
Fire Protection	10.4	10.7	10.2
Contract Sales	14.8	14.3	15.6
Contract Operations	12.2	12.6	14.0
Other	1.4	1.0	1.0
	-----	-----	-----
TOTAL	100.0%	100.0%	100.0%
	-----	-----	-----

Water Supplies and Contracts

The Company's water utility plant consists of source of supply, pumping, water treatment, transmission, distribution and general facilities located in New Jersey and Delaware. The Company's New Jersey and Delaware water supply systems

are physically separate and are not interconnected. In addition, the Pinelands System and Bayview System are not interconnected to the Middlesex System or each other. In the opinion of management, the Company has adequate sources of water supply to meet the current and anticipated future service requirements of its present customers in New Jersey and Delaware.

Middlesex System:

The Company's Middlesex System obtains water from both surface and groundwater sources. In 2001, surface sources of water provided approximately 72% of the Middlesex System's water supply, groundwater from wells provided approximately 21% and the balance of 7% was purchased from Elizabethtown Water Company (Elizabethtown), a nonaffiliated water utility. Middlesex System's distribution storage facilities are used to supply water to its customers at times of peak demand, outages and emergencies.

The principal source of surface supply for the Middlesex System is the Delaware and Raritan Canal (D&R Canal), owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority (NJWSA). The Company has contracts with the NJWSA to divert a maximum of 20 million gallons per day (mgd) of untreated water from the D&R Canal as augmented by the Round Valley/Spruce Run Reservoir System. In addition, the Company has a one-year agreement for an additional 5 mgd renewed through April 30, 2002. The Company also has an agreement with Elizabethtown, effective through December 31, 2005, which provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

The Company's Middlesex System also derives water from groundwater sources equipped with electric motor-driven deep-well turbine type pumps. The Middlesex System has 31 wells, which provide a pump capacity of approximately 27 mgd.

The Middlesex System's groundwater sources are:

Source	No. of Wells	2001 Maximum Use Per Day Pumpage (millions of gallons)	Pump Capacity (mgd)	Location
Park Avenue	15	8.8	15.2	South Plainfield
Tingley Lane North	4	1.9	2.8	Edison
Tingley Lane South	5	1.9	2.6	Edison
Spring Lake	4	0.8	2.8	South Plainfield
Sprague Avenue #1	1	1.1	1.1	South Plainfield
Sprague Avenue #2	1	1.3	1.3	South Plainfield
Maple Avenue	1	0.8	0.9	South Plainfield

Total	31			

Pinelands System:

The Pinelands System obtains its water supply from four (4) wells drilled into the Mt. Laurel aquifer. The wells are equipped with three electric motor driven, deep well turbine pumps and one is equipped with an electric motor driven submersible pump. Treatment (disinfection only) is done at individual well sites. Water production in 2001 amounted to 217 million gallons (mg)

The Pinelands System's groundwater sources are:

Source	No. of Wells	2001 Maximum Use Per Day Pumpage (millions of gallons)	Pump Capacity (mgd)	Location
Leisuretowne / Hampton Lakes	4	2.0	2.2	Southampton Township

The Pinelands wastewater system discharges into the south branch of the Rancocas Creek through a tertiary treatment plant. The total capacity of the plant is 0.5 mgd. Current average flow is 0.3 mgd. Pinelands has a current valid NJPDES permit issued by the New Jersey Department of Environmental Protection (DEP).

Bayview System:

Water Supply to Bayview customers is derived from two wells, which provided an overall system delivery of 10 mg in 2001. Each well has treatment facilities. Bayview is currently replacing its entire distribution system with approximately 16,000 feet of mains, valves and hydrants.

Tidewater System:

Water supply to Delaware customers is derived from Tidewater's 180 wells, which provided overall system delivery of 1,025 mg during 2001 (such figures include Southern Shores, which was acquired in late August 2001). The Tidewater System does not have a central treatment facility. Several of its water systems in Sussex County and New Castle County have interconnected transmission systems. Tidewater currently has applications before the Delaware regulatory authorities for the approval of additional wells. Treatment is by chlorination and, in some cases, pH correction and filtration.

Competition

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The business of the Company in its franchised service areas is substantially free from direct competition with other public utilities, municipalities and other entities; however, its ability to provide some contract water supply and wastewater services and operations and maintenance services is subject to competition from other public utilities, municipalities and other entities. Although Tidewater has been granted an exclusive franchise for each of its existing community water systems, its ability to expand service areas can be affected by the Delaware Public Service Commission's (PSC) awarding franchises to other regulated water purveyors.

Regulation

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The Company is subject to regulation as to its rates, services and other matters by the States of New Jersey and Delaware with respect to utility service within those states and with respect to environmental and water quality matters. The Company is also subject to regulation as to environmental and water quality matters by the United States Environmental Protection Agency ("EPA"). In addition, the issuance of securities by the Company, including the Bonds issued herewith, is subject to the prior approval of the New Jersey Board of Public Utilities (BPU).

Regulation of Rates and Services

The Company's New Jersey operations are subject to regulation by the BPU. Similarly, the Company's Delaware operations are subject to regulation by the PSC. These regulatory authorities have jurisdiction with respect to rates, service, accounting procedures, the issuance of securities and other matters of utility companies operating within the States of New Jersey and Delaware, respectively. The Company, for ratemaking purposes, accounts separately for each of its operations in New Jersey and in Delaware so as to facilitate independent ratemaking by the BPU for its New Jersey operations and the PSC for its Delaware operations.

In determining rates for the Company, the BPU and the PSC consider the income, expenses, rate base of property used and useful in providing service to the public and a fair rate of return on that property, each within its separate jurisdiction. Rate determinations by the BPU do not guarantee particular rates of return to the Company for its New Jersey operations nor do rate determinations by the PSC guarantee particular rates of return for Tidewater's Delaware operations. Thus, the Company may not achieve the rates of return permitted by the BPU or the PSC.

Water Quality and Environmental Regulations

Both the EPA and the DEP regulate the Company's operation in New Jersey with respect to water supply, treatment and distribution systems and the quality of the water, as do the EPA, the Delaware Department of Natural Resources and Environmental Control (DNREC), and the Delaware Department of Health with respect to operations in Delaware.

Federal, Delaware and New Jersey regulations adopted over the past five years relating to water quality require expanded types of testing by the Company to insure that its water meets State and Federal water quality requirements.

In addition, the environmental regulatory agencies are reviewing current regulations governing the limits of certain organic compounds found in the water as by-products of treatment. The Company, as do many other water companies, participates in industry-related research to identify the various types of technology that might reduce the level of organic, inorganic and synthetic compounds found in the water. The cost to water companies of complying with the proposed water quality standards depends in part on the limits set in the regulations and on the method selected to implement such reduction. The Company believes the CJO Plant capabilities puts the Company in a strong position to meet any such future standards with regard to its Middlesex System. The Company uses regular testing of the Company's water to determine compliance with existing Federal, New Jersey and Delaware primary water quality standards.

The DEP and the Delaware Department of Health monitor the activities of the Company and review the results of water quality tests performed by the Company for adherence to applicable regulations. Other regulations applicable to the Company include the Lead and Copper Rule, the maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule, and the Total Coliform Rule.

Employees

As of December 31, 2001, we had a total of 139 employees in New Jersey, and a total of 45 employees in Delaware. No employees are represented by a union. Management considers its relations with its employees to be satisfactory. Wages and benefits are reviewed annually and are considered competitive within the industry.

Executive Officers of Middlesex Water Company

Walter J. Brady - age 60; Senior Vice President-Administration; term expires May 2002. Mr. Brady, who joined the Company in 1962, was elected Assistant Secretary-Assistant Treasurer in 1979, Assistant Vice President in 1982, Vice President-Human Resources in 1987, Vice President-Administration in 1989 and Senior Vice President of Administration in 1998. He serves as Plan Administrator of the Pension Plan. He is a Director of Tidewater Utilities, Inc., White Marsh Environmental Systems, Inc., Pinelands Water Company, Pinelands Wastewater Company and Utility Service Affiliates, Inc., and Vice President Administration and Director of Utility Service Affiliates (Perth Amboy) Inc.

A. Bruce O'Connor - age 43; Vice President and Controller; term expires May 2002. Mr. O'Connor, a Certified Public Accountant, joined the Company in 1990 as Assistant Controller and was elected Controller in 1992 and Vice President in 1995. He assumed the designated title of Vice President and Controller and Chief Financial Officer in May 1996. He is responsible for financial reporting, customer service, rate cases, cash management and financings. He was formerly employed by Deloitte & Touche LLP, a certified public accounting firm from 1984 to 1990. He is Treasurer of White Marsh Environmental Systems, Inc., and Utility Service Affiliates, Inc., Vice President and Treasurer and Director of Tidewater Utilities, Inc., Pinelands Water Company and Pinelands Wastewater Company and Vice President Finance and Treasurer of Utility Service Affiliates (Perth Amboy) Inc.

Marion F. Reynolds - age 62; Vice President, Secretary and Treasurer; term expires May 2002. Ms. Reynolds, who had been Secretary-Treasurer since 1987 was elected Vice President, Secretary and Treasurer in 1993. Prior to her election she had been employed by Public Service Electric and Gas Company, Newark, New Jersey since 1958, and was elected Assistant Corporate Secretary in 1976. She is Secretary of Tidewater Utilities, Inc. White Marsh Environmental Systems, Inc. and Utility Service Affiliates (Perth Amboy) Inc., Pinelands Water Company and Pinelands Wastewater Company and Secretary and a Director of Utility Service Affiliates, Inc.

Dennis G. Sullivan - age 60; President and General Counsel; term expires May 2002. Mr. Sullivan has been a Director of Middlesex since October 1999. Mr. Sullivan was hired in 1984 as Corporate Attorney, responsible for general corporate internal legal matters. He was elected Assistant Secretary-Assistant Treasurer in 1988 and Vice President and General Counsel in 1990. He is Assistant Secretary and Assistant Treasurer and a Director of Tidewater Utilities, Inc., Director of White Marsh Environmental Systems, Inc., Chairman and Director of Pinelands Water Company and Pinelands Wastewater Company, and Director of Utility Service Affiliates, Inc., and of Utility Service Affiliates (Perth Amboy) Inc.

J. Richard Tompkins - age 63; Chairman of the Board; term expires May 2002. Mr. Tompkins was elected President of the Company in 1981 and was elected Chairman of the Board in 1990. In 1979 he was employed by Associated Utility Services, an independent utility consulting firm in New Jersey, as Vice President. From 1962 to 1979 he was employed by Buck, Seifert & Jost, Incorporated, consulting engineers in New Jersey and was appointed Vice President in 1973. He is Chairman and President and Director of Tidewater Utilities, Inc., Chairman and Director of White Marsh Environmental Systems, Inc., Pinelands Water Company and Pinelands Wastewater Company; and Director and President of Utility Service Affiliates, Inc. and Utility Service Affiliates (Perth Amboy) Inc. He is also a Director of New Jersey Utilities Association and Raritan Bay Healthcare Foundation.

Ronald F. Williams - age 53; Vice President-Operations; term expires May 2002. Mr. Williams was hired in March 1995 as Assistant Vice President-Operations, responsible for the Company's Engineering and Distribution Departments. He was elected Vice President-Operations in October 1995. He was formerly employed with the Garden State Water Company as President and Chief Executive Officer since 1991. He is Director and Vice President of Utility Service Affiliates, Inc., and Director and Vice President-Operations of Utility Service Affiliates (Perth Amboy) Inc.

Item 2. Properties

The water utility plant of the Company's systems consists of source of supply, pumping, water treatment, transmission and distribution and general facilities.

Middlesex System:

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

Water is withdrawn from the D&R Canal at New Brunswick, New Jersey through the Company's intake and pumping station located on State-owned land bordering the Canal. It is transported through a 54-inch supply main for treatment and distribution at the Company's Carl J. Olsen Water Treatment Plant ("CJO Plant") in Edison, New Jersey, which has been in service since 1969. Facilities at the CJO Plant consist of source of supply, pumping, water treatment, transmission, storage, laboratory and general facilities. The Company is completing the construction of the upgrade and expansion of the CJO Plant, begun in 1997, at project cost of \$37.0 million. The Company monitors water quality at the CJO Plant, at each well field and throughout the distribution system to determine that federal and state water quality standards are met. See "Water Quality and Environmental Regulations."

The design capacity of the intake and pumping station in New Brunswick, New Jersey, and the raw water supply main located there is 80 mgd. The four electric motor-driven vertical turbine pumps presently installed have an aggregate design capacity of 82 mgd. The design capacity of the Company's raw water supply main is 55 mgd. Associated facilities are the 4,900 feet of 54-inch reinforced concrete water main connecting the intake and pumping station with the CJO Plant, 23,200 feet of 48-inch reinforced concrete transmission main connecting the CJO Plant to the Company's distribution pipe network, and related storage pumping, control, laboratory and other facilities. The Company also has a 58,600 foot transmission main, a 38,800 foot transmission main, and a long term non-exclusive "wheeling agreement" with the East Brunswick system, all used to transport water to several of the Company's contract customers.

The CJO Plant includes chemical storage and chemical feed equipment, two dual rapid mixing basins, four upflow clarifiers, which are also called Superpulsators, four underground reinforced concrete chlorine contact tanks, twelve rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The Plant also includes a computerized Supervisory Control and Data Acquisition (SCADA) system to monitor and control the CJO Plant and the water supply and distribution system in the Middlesex System. The firm design capacity of the CJO Plant is now 45 mgd (60 mgd maximum capacity). The main pumping station at the CJO Plant has a design capacity of 90 mgd. The four electric motor driven vertical turbine pumps presently installed have an aggregate capacity of 72 mgd.

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

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

The Company owns the properties in New Jersey on which Middlesex System's 31 wells are located. The Company also owns its two-building headquarters complex at 1500 Ronson Road, Iselin, New Jersey, consisting of a 27,000 square foot, two-story office building and a 16,500 square foot maintenance facility.

Main Cleaning and Lining Program (RENEW)

The Company has a RENEW Program in the Middlesex System to rehabilitate sections of the distribution system which contain unlined mains. These sections are generally in the older areas of the system. The rehabilitation includes the cleaning and lining of unlined cast iron mains; the replacement and/or upgrading of some selected mains; and the replacement of valves and hydrants. In the Middlesex System, there are approximately 150 miles of unlined mains of the total 730 miles. Since the RENEW Program was initiated in 1995, 40.1 miles of mains have been rehabilitated.

Pinelands System:

Pinelands Water owns the well site properties, which are located in Southampton Township, New Jersey. Pinelands Wastewater owns a 12-acre site on which its 0.5 mgd capacity tertiary treatment plant is located. Pinelands Water storage facility is a 1.2 mg standpipe.

Bayview System:

Bayview owns two well site properties, which are located in Cumberland County, New Jersey.

Tidewater System:

Tidewater's storage facilities include 30 ground level storage tanks with the following capacities; 21 - 30,000 gallons, 2 - 25,000 gallons, 3 - 125,000 gallons, 1 - 132,000 gallons, 1 - 80,000 gallons, 1 - 35,000 gallons, 1 - 85,000 gallons. Tidewater also has two elevated storage tanks with capacities of 300,000 and 350,000 gallons.

The Company's Delaware operations are managed from Tidewater's leased offices in Odessa, Delaware and Millsboro, Delaware. Tidewater's Odessa office property, located on property owned by White Marsh Environmental Systems, Inc., a wholly-owned subsidiary of Tidewater, consists of a 2,400 square foot building situated on a one (1) acre lot. White Marsh owns two future office sites. A ten-acre site located in Dover is intended to be the future location of Tidewater's primary business office. The Company is exploring several options for the other future office site and the existing Odessa property.

Item 3. Legal Proceedings -----

A motel in the Company's Middlesex service area in 1994, and again in 1997, suffered outbreaks of Legionella. Claims resulting from the death of a motel guest from Legionella in 1997 and claims by two other patrons alleging illness as a result of their stay at the motel in 1997 have been brought against the motel and against the Company. The Company has substantial insurance coverage, which the Company believes will be sufficient for all claims in this matter other than for punitive damages. While the outcome of this case remains uncertain, the Company believes that the final resolution will not have a significant effect on its financial condition or results of operations.

The Company has been notified of a potential claim in excess of \$10.0 million involving the break of both a Company water line and an underground electric power cable in close proximity to it. The power cable contained both electric lines and petroleum based insulating fluid. The Company is insured for damages except for damages resulting from pollution discharge, which the Company is advised is approximately \$0.2 million. Causation and liability have not been established. Management is unable to determine the outcome of the litigation and its impact on the financial conditions or results of operations.

A claim is pending involving a construction subcontractor, the Company's general contractor and the Company concerning a major construction project. The dispute relates to work required to be performed under a construction contract and related subcontracts and includes payment issues and timing/delay issues. The matter was instituted in 2001 and is pending in Superior Court, Middlesex County, New Jersey. The full amount at issue is not fully known at this stage of the litigation. At this time, management is unable to determine the impact, if any, on the financial statements.

A claim has been made by multiple plaintiffs for damages resulting from personal injury, including death, and property damage alleged to have been caused by the delivery in Delaware of inadequate quality water and related claims. While the Company has little detail about the claim at this time, the Company has substantial insurance coverage, which it believes will be sufficient for all claims in this matter other than for punitive damages.

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

None.

PART II

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

Matters Price Range of Common Stock

The following table shows the range of closing prices for the Common Stock on the NASDAQ Stock Market for the calendar quarter indicated.

2001 ----	High ----	Low ---	Dividend -----
First Quarter	\$22.6667	\$19.5833	\$20.6667
Second Quarter	24.9667	20.0000	20.6667
Third Quarter	22.8267	20.6667	20.6667
Fourth Quarter	22.9667	20.9667	21.0000
2000 ----	High ----	Low ---	Dividend -----
First Quarter	\$21.3333	\$16.6667	\$20.0333
Second Quarter	19.8333	18.1667	20.0333
Third Quarter	20.0000	17.9583	20.0333
Fourth Quarter	22.6250	18.0000	20.6667

Title of Class -----	Number of Record Holders -----
Common Stock, No Par Value	2,051
Cumulative Preferred Stock, No Par Value:	
\$7.00 Series	15
\$4.75 Series	1
Cumulative Convertible Preferred Stock, No Par Value:	
\$7.00 Series	4
\$8.00 Series	3

Dividends

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

The Common Stock of the Company is traded on the NASDAQ Stock Market under the symbol MSEX.

Item 6. Selected Financial Data

Consolidated Selected Financial Data, page 20.

Item 7. Management's Discussion and Analysis of Financial

Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's policy is to maintain its books and records in accordance with accounting principles generally accepted in the United States of America. Companies in the Consolidated group that account for 88% of Operating Revenues and 99% of Total Assets are subject to regulation in the state in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in the Financial Accounting Standards Board (FASB) accounting pronouncement, Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting For the Effects of Certain Types of Regulation." The companies and accounting policies referred to herein are defined in Note 1 - Summary of Significant Accounting Policies, in Notes to the Consolidated Financial Statements.

Liquidity and Capital Resources

The Company's actual capital expenditures for 1999, 2000 and 2001 and projected requirements through 2004 are detailed as follows:

	(Millions of Dollars)					
	1999	2000	2001	2002	2003	2004
	-----	-----	-----	-----	-----	-----
CJO Plant	\$ 12.0	\$ 1.2	\$ 0.3	\$ 1.6	\$ 2.9	\$ 7.5
Delaware Systems	3.1	4.9	5.3	12.6	6.0	6.0
RENEW Program	2.1	3.1	-	2.5	2.5	2.5
Scheduled Upgrades to Existing Systems	7.3	4.3	4.0	6.5	4.1	6.1
Total	\$ 24.5	\$ 13.5	\$ 9.6	\$ 23.2	\$ 15.5	\$ 22.1
	=====	=====	=====	=====	=====	=====

The Company plans to finance its future capital program with a combination of internal funds from Middlesex, long-term debt financing and common equity. First, the Company expects that its cash flow from operations will be greater in 2002 than in 2001. As more fully described in the Regulatory section, Middlesex and the Pinelands Companies will have increased base rates for a full year. Rate relief has been filed for our Tidewater and Bayview systems with an increase expected as early as late March 2002.

There is \$2.2 million of funds remaining to be spent for the RENEW Program, which is our program to clean and cement line unlined mains in the Middlesex System. There is a total of approximately 150 miles of unlined mains in the 730-mile Middlesex System. These funds were borrowed in 1999 through the New Jersey State Revolving Fund (SRF). SRF financings are for a maximum period of twenty years with sinking fund requirements. Bayview borrowed \$1.6 million under the SRF Program in November 2001. Proceeds from this financing will be used to replace the existing 300 customer water distribution system in Fortescue, New Jersey in 2002. Tidewater closed on a Delaware SRF loan of \$0.8 million in August 2001. The Delaware SRF Program will allow, but does not obligate, Tidewater to draw down against a General Obligation Note for five specific capital projects. Tidewater expects to utilize the full amount in 2002.

The Board of Directors approved a 5% discount on shares of common stock sold to participants of its Dividend Reinvestment and Common Stock Purchase Plan (DRP). Purchases and dividends reinvested through the DRP between March 1 and August 1, 2002 inclusive will be at the discounted price. Previous discount periods have provided \$1.0 million in addition to the normal purchases and reinvestments of \$1.1 million received through the DRP.

Any remaining financing required for the 2002 capital program will probably be in the form of short-term borrowings against the \$28.0 million in total lines of credit available with three commercial banks. At December 31, 2001, we had \$13.2 million of loans outstanding against those lines of credit.

In November 2001, Middlesex issued \$4.8 million of First Mortgage Bonds through the SRF, which will fund the 2003 and 2004 RENEW Programs. On February 6, 2002, Middlesex issued its \$6.0 million, 5.10%, Series DD First Mortgage Bonds. The proceeds will be used to redeem and retire the \$6.0 million, 7.25%, Series R First Mortgage Bonds in early March 2002.

Bayview expects to file in 2002 for \$0.5 million of SRF loans to fund the construction of water storage and fire protection facilities, with construction scheduled for early 2003. Tidewater is evaluating its capital program for additional projects that may qualify for funding under the Delaware SRF. During 2002, Middlesex expects to file a new loan application with the New Jersey Economic Development Authority (EDA). The EDA's program allows the applicant to submit a five-year projected capital program. Unlike the SRF Program, the EDA allows for projects that are for system growth. In addition, the terms of borrowing through the EDA have been for up to forty years with no sinking fund requirements for water utility property.

The level of response from our shareholders to the DRP 5% discount will provide management with information on how to maintain its capitalization ratios so that debt represents on average 55% of the total capitalization ratio.

With the First Mortgage Bonds issued in November, the Company has twelve series of First Mortgage Bonds outstanding in the aggregate principal amount of \$83.6 million as of December 31, 2001. The First Mortgage Bonds have been issued under and secured by a mortgage indenture and supplements thereto, which constitute a direct first mortgage lien upon substantially all of the property of Middlesex. Tidewater borrowed funds under a \$3.5 million, 8.05%, Amortizing Secured Note due December 20, 2021.

Approximately \$3.3 million was outstanding under that note as of December 31, 2001. The Bayview bonds issued in November are unsecured, but guaranteed by Middlesex.

Results of Operations 2001 Compared to 2000

Operating revenues grew to \$59.6 million from \$54.5 million amounting to a 9.36% increase. Favorable weather patterns resulted in higher consumption in our New Jersey service areas and provided \$2.1 million of additional revenues. Delaware enjoyed both favorable weather patterns and customer growth of 24%, which accounted for its revenue increase of \$1.1 million. Rate increases, primarily in New Jersey, accounted for \$2.0 million.

Total operating expenses rose 8.1% or \$3.6 million over 2000. Under operations expenses, purchased water increased by \$0.2 million, due to higher sales in the Middlesex System. Employee labor and benefits rose \$0.4 million and rate case expenses were \$0.2 million higher than last year. Business insurances increased by \$0.2 million. Maintenance increased by almost \$0.2 million with almost 40% of the increase attributable to the two new systems, Southern Shores and Bayview, acquired in 2001.

Depreciation expense increased by almost 7.5% or less than \$0.4 million. In addition to the increase to Utility Plant of \$9.7 million during the year, an increase in the Delaware Public Service Commission (PSC) approved composite depreciation rate for Tidewater were the primary reasons for the increase of this expense category.

Increases in real estate taxes of almost \$0.2 million and gross receipts and franchise taxes on higher sales for Middlesex of \$0.4 million accounted for much of the variance in other taxes. Federal income taxes grew by \$1.1 million as net income rebounded by 31% compared to 2000. Other income jumped 38% as a result of a one-time land sale gain by a small investor-owned water utility in Southern Delaware. Middlesex is a 23% equity owner of that water utility.

Rate relief in New Jersey, customer growth in Delaware and the return of more typical spring and summer weather patterns to both regions, fueled higher revenues and the resulting increased net income.

Results of Operations 2000 Compared to 1999

Operating revenues were up \$1.0 million, which amounts to 1.8% over 1999. Unusually mild and wet summer weather in New Jersey and Delaware caused system-wide demand to be below average consumption. New Jersey revenue growth of \$1.9 million, due to rate increases, was offset by lower consumption revenues of \$1.4 million.

Our Delaware customer base grew to 15,700, which was the primary reason for the \$0.7 million increase in revenues in that system. A significant portion of the customer growth represents the acquisition of twelve mobile home park water systems. The small net 2.67% rate increase granted by the PSC was negated by the below average customer consumption. In an amended base rate filing, Tidewater had requested a 21.2% rate increase.

Revenues from operating the City of Perth Amboy's water and wastewater systems fell \$0.2 million, also due mostly to unusual weather patterns.

Total operating expenses rose almost 4.0% or \$1.7 million over 1999. Under operations expenses, the cost of water treatment grew by \$0.6 million, employee labor and benefits rose \$0.6 million, uncollectible accounts written off rose

\$0.1 million and legal and other outside services increased by \$0.2 million. In total, purchased water and power fell \$0.2 million due to lower production. The decline of less than \$0.1 million in maintenance expenses would have been greater except for a large number of unanticipated repairs to the recently acquired mobile home park water systems in Delaware.

Depreciation expense jumped 21.0% or \$0.8 million. In addition to the increase to Utility Plant of \$12.2 million during the year, also included is a full year of depreciation on the \$35.0 million upgrade to the Carl J. Olsen Water Treatment Plant (CJO Plant).

Other Income's decrease of \$1.5 million represents the net financing activities associated with the CJO Plant construction program reported in 1999. Allowance for Funds Used During Construction (AFUDC) dropped \$1.2 million, while interest income on excess cash fell by \$0.3 million.

The increase in total interest charges of \$0.3 million represents a full-year impact of the First Mortgage Bonds issued during 1999, plus an increase in short-term bank borrowings of \$4.0 million.

Net Income fell 32.7% to \$5.3 million. Although we expected that replicating 1999 results would be a challenge, clearly, three factors made that earnings level untenable in 2000. Unusually mild summer weather in New Jersey and Delaware caused system-wide production to drop by 2.7% or 0.5 billion gallons. Inadequate rate relief in Delaware reduced expected revenues by \$0.6 million. Also in Delaware, unanticipated higher operating costs for labor, purchased water, water treatment, customer service and maintenance reduced profitability.

Regulatory Matters

On January 25, 2002, Tidewater filed for a 24.0% or \$1.5 million phased-in rate increase. Although the financial information submitted in its petition supports a 30.8% increase, Tidewater has requested the lower amount and a three-phase increase in an attempt to reduce potential rate shock to its customers. The first phase increase of 8.0% would be implemented under the interim rate rules on or about March 29, 2002. Under the assumption the full rate increase request of 24.0% is approved by the PSC, the second phase of 7.41% would be implemented upon the issuance of the PSC Order and the final phase of 6.9% would be placed into effect by the end of March 2003.

The primary reasons driving the need for rate relief is an increase in the calculated rate base since the last rate case of \$11.3 million or 88.8% and higher operations and maintenance expenses, particularly for water treatment and production.

Bayview filed for a 123% or \$0.1 million base rate increase with the Board of Public Utilities (BPU) on December 13, 2001. This rate increase is needed to support the cost for replacement of the entire water distribution system in Fortescue, New Jersey. Middlesex had operated this 300-customer system as an interim custodial receiver from September 1997, until it was purchased on April 9, 2001.

The Bayview rate case has been assigned to the Office of Administrative Law, and a public hearing has been scheduled for early March 2002. Because of the limited number of issues in the case, the Company believes that a decision may be rendered in the second quarter of 2002.

Tidewater completed the PSC approved acquisition and assignment of all of the membership interest in Sea Colony Water Company, LLC, a 2,200 customer water system located in Sussex County, Delaware, for \$2.1 million on August 24, 2001. Included in the approval was authorization to maintain the existing rate tariff under which Sea Colony customers are billed for water service. The name of the entity was changed to Southern Shores Water Company.

Three base rate increase petitions were approved by the BPU.

	Middlesex -----	Pinelands Water -----	Pinelands Wastewater -----
Date Approved	June 6, 2001	August 1, 2001	August 1, 2001
Amount	\$3.3 million	\$0.1 million	\$0.1 million
% Increase	8.10%	26.92%	11.81%
Return on Equity	10.50%	10.50%	10.50%
Rate of Return	7.95%	9.10%	9.20%
Last Increase	May 13, 1999	January 23, 1999	January 23, 1999

The increases are necessary to cover higher operations and maintenance costs, depreciation and taxes. In addition, continued significant plant investment in the Middlesex System also contributed to the rate request. The last base rate increase for Middlesex was in May 1999, when the BPU approved an 11.5% or \$4.3 million increase. The last base rate increase for the Pinelands Companies was in January 1999 and represented the final stage of a three-phase implementation. The first increase was effective January 23, 1997.

Tidewater was granted a 2.67% rate increase in December 2000. Included in the PSC Order approving the increase was a 0.75% credit against the allowed return of equity of 10.0% due to quality of service issues. Upon receipt of satisfactory evidence that Tidewater had resolved the quality issues that arose during the course of that rate proceeding, the PSC removed the credit on August 23, 2001. This will result in additional annual revenues of less than \$0.1 million for Tidewater.

USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a 20-year contract. The final year of the contract is 2018.

Perth Amboy has a population of 40,000 and has approximately 9,300 customers, most of whom are served by both systems. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Fixed fee payments began at \$6.4 million in the first year and will increase over the term of the 20-year contract to \$9.7 million. The agreement also requires 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, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. The Company guaranteed one of those series of bonds in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds.

In addition to the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

In 1999, Middlesex implemented a franchise agreement with the City of South Amboy (South Amboy) to provide water service and install water system facilities in South Amboy. The agreement between Middlesex and South Amboy was approved by the BPU. The implementation of the franchise agreement had significantly impacted two existing agreements entered into by the parties.

The first agreement was for the sale of water to South Amboy on a wholesale basis. The second agreement, which included Middlesex's wholly-owned subsidiary USA, was a contract to provide management services for a fixed fee. In conjunction with the franchise agreement, the water sales contract was eliminated. In addition, the management services contract was extended through May 2045 and significantly modified to correspond with the terms and conditions of the franchise agreement. Certain advances made by USA to South Amboy at the commencement of the management services contract have been forgiven in consideration for the franchise agreement. Fixed fee revenues recognized under the original contract have been eliminated in lieu of revenues earned from providing water to South Amboy's 2,600 customers.

Accounting Standards

The FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. The adoption of this Statement on January 1, 2001, had no impact on the financial statements. In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which supersedes APB Opinion No. 16. SFAS No. 141 will require business combinations entered into after June 30, 2001, to be accounted for using the purchase method of accounting. Adoption of this Statement had no impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill is considered a nonamortizable asset and will be subject to an annual review for impairment and an interim review when events or circumstances occur. SFAS No. 142 is effective for all fiscal years beginning after December 15, 2001. Upon the adoption of SFAS No. 142 on January 1, 2002, the Company did not identify any impairment issues. Discontinuation of amortization of goodwill had an immaterial effect on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Upon adoption of SFAS No. 143, the fair value of a liability for an asset retirement obligation is required to be recorded. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Adoption of this Statement will have no impact on the Company's financial statements.

The FASB also issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company has adopted on January 1, 2002. The adoption of SFAS No. 144 did not have an effect on our results of operations or cash flows.

Qualitative and Quantitative Disclosures About Market Risk

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The

Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately \$0.4 million of the current portion of three existing long-term debt instruments will mature. Combining this amount with the \$13.2 million in short-term debt outstanding at December 31, 2001, and applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on earnings.

Outlook

Revenues are expected to continue to grow in 2002. The full impact of the Middlesex and Pinelands rate increases approved in 2001 and the phased-in rate relief in Delaware should provide additional revenues. Anticipated customer growth in Delaware should enhance earnings. The Company continues to explore viable plans to streamline operations and reduce costs, particularly in Delaware where customer growth continues to exceed industry averages. Part of the challenge is that our Delaware operations are a combination of over 70 stand-alone distribution systems, 115 water treatment plants and 180 wells serving more than 150 communities. Earnings from nonregulated operations are expected to remain constant.

The mid-Atlantic region of the country is experiencing below normal rainfall. For the second time in three years, the potential exists for drought-related water restrictions in our New Jersey service territories. The State of New Jersey has issued a state-wide drought emergency, which has put in place certain outdoor water use restrictions. The state is divided into six drought regions. The Central Drought Region, which is where Middlesex service territory is located, and the Northern Coastal Drought Region, which is where one of Middlesex large contract sales customer is located, is covered by less restrictive guidelines than the rest of the state. These restrictions will affect sales and earnings. Continued below normal levels of precipitation could cause the Department of Environmental Protection to increase water usage restrictions throughout the state, which could also affect sales and earnings.

Although no restrictions are in place in our Delaware service territories, the State of Delaware has issued a drought warning requesting that residents to voluntarily take steps to reduce their current levels of usage. Although it is a state-wide warning, the emphasis is for New Castle County residents. Less than ten percent of our Delaware customers are located in that County.

Our strategy is for continued growth through acquisitions, internal expansion, public/private partnerships and rate relief. Opportunities in both the regulated and nonregulated sectors that are financially sound, complement existing operations and increase shareholder value will be pursued. We are currently pursuing opportunities in New Jersey and Delaware, which could significantly increase our customer base.

Forward-Looking Statements

Certain matters discussed in this annual report are "forward-looking statements" intended to qualify for safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. Such statements address future plans, objectives, expectations and events concerning various matters such as capital expenditures, earnings, litigation, growth potential, rates, regulatory matters, liquidity, 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.

Item 7a. Qualitative and Quantitative Disclosure About Market Risk

This information is incorporated herein by reference to Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Page 16.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements and Supplementary Financial Data:

Consolidated Balance Sheet at December 31, 2001 and 2000, Pages 21-22.

Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999, Page 23.

Consolidated Statements of Capital Stock and Long-term Debt at December 31, 2001 and 2000, Page 24.

Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999, Page 25.

Consolidated Statements of Retained Earnings for the years ended December 31, 2001, 2000 and 1999, Page 26.

Notes to Consolidated Financial Statements, Pages 27-39.

Independent Auditors' Report, Page 40.

Item 9. Changes in and Disagreements with Accountants on Accounting

and Financial Disclosures

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information with respect to Directors of Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

Information regarding the Executive Officers of Middlesex Water Company is included under Item 1 in Part 1 of this Form 10-K.

Item 11. Executive Compensation

This Information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners

and Management

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2002 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. The following Financial Statements and supplementary data are included in Part II, Item 8:

Management's Discussion and Analysis, Pages 11-17.

Consolidated Balance Sheets at December 31, 2001 and 2000, Pages 21-22.

Consolidated Statements of Income for each of the three years in the period ended December 31, 2001, 2000 and 1999, Page 23.

Consolidated Statements of Capital Stock and Long-term Debt at December 31, 2001, and 2000, Page 24.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001, 2000 and 1999, Page 25.

Consolidated Statements of Retained Earnings for each of the three years in the period ended December 31, 2001, 2000 and 1999, Page 26.

Notes to Consolidated Financial Statements, Pages 27-39.

Independent Auditors' Report, Page 40.

(a) 2. Financial Statement Schedules

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

(a) 3. Exhibits

See Exhibit listing on Pages 42- 45.

(b) Reports on Form 8-K

Filed: December 27, 2001

CONSOLIDATED SELECTED FINANCIAL DATA
(Thousands of Dollars Except per Share Data)

	2001	2000	1999	1998	1997
Operating Revenues	\$ 59,638	\$ 54,477	\$ 53,497	\$ 43,058	\$ 40,294
Operating Expenses:					
Operations and Maintenance	31,740	30,269	28,887	21,523	19,513
Depreciation	5,051	4,701	3,885	3,285	3,071
Other Taxes	7,640	6,932	6,871	6,102	5,782
Income Taxes	3,714	2,637	3,189	2,999	3,135
Total Operating Expenses	48,145	44,539	42,832	33,909	31,501
Operating Income	11,493	9,938	10,665	9,149	8,793
Other Income	503	364	1,911	1,795	405
Income Before Interest Charges	11,996	10,302	12,576	10,944	9,198
Interest Charges	5,043	4,997	4,695	4,423	3,337
Net Income	6,953	5,305	7,881	6,521	5,861
Preferred Stock Dividend	255	255	301	319	226
Earnings Applicable to Common Stock	\$ 6,698	\$ 5,050	\$ 7,580	\$ 6,202	\$ 5,635
Earnings per Share:*					
Basic	\$ 0.88	\$ 0.67	\$ 1.03	\$ 0.95	\$ 0.89
Diluted	\$ 0.88	\$ 0.67	\$ 1.01	\$ 0.94	\$ 0.89
Average Shares Outstanding:*					
Basic	7,598,181	7,533,222	7,390,340	6,530,819	6,352,623
Diluted	7,855,536	7,790,577	7,722,229	6,870,458	6,573,518
Dividends Declared and Paid*	\$ 0.83	\$ 0.82	\$ 0.79	\$ 0.77	\$ 0.75
Total Assets	\$ 236,373	\$ 219,400	\$ 215,036	\$ 203,501	\$ 159,761
Convertible Preferred Stock	\$ 2,961	\$ 2,961	\$ 2,961	\$ 3,894	\$ 3,894
Long-term Debt	\$ 88,140	\$ 82,109	\$ 82,330	\$ 78,032	\$ 52,918

*All share and per share amounts reflect the three-for-two common stock split, effective January 2, 2002.

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS
ASSETS

		December 31,	
		2001	2000
<hr/>			
UTILITY PLANT:	Water Production	\$ 69,636,415	\$ 69,363,626
	Transmission and Distribution	145,409,761	136,545,596
	General	20,797,621	20,189,182
	Construction Work in Progress	3,890,406	1,036,498
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	TOTAL	239,734,203	227,134,902
	Less Accumulated Depreciation	43,670,744	38,856,591
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	UTILITY PLANT - NET	196,063,459	188,278,311
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	NONUTILITY ASSETS - NET	2,996,119	2,918,133
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CURRENT ASSETS:	Cash and Cash Equivalents	4,534,384	2,497,154
	Temporary Cash Investments - Restricted	9,210,283	2,819,661
	Accounts Receivable	6,665,720	5,282,796
	Unbilled Revenues	2,801,015	2,969,043
	Materials and Supplies (at average cost)	1,027,920	1,009,956
	Prepayments	869,693	694,111
<hr/>			
	TOTAL CURRENT ASSETS	25,109,015	15,272,721
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DEFERRED CHARGES:	Unamortized Debt Expense	2,873,976	2,950,276
	Preliminary Survey and Investigation Charges	943,622	573,128
	Regulatory Assets:		
	Income Taxes (Note 3)	6,038,474	6,012,748
	Postretirement Costs (Note 7)	955,468	1,041,676
	Other (Note 2)	1,393,540	2,352,966
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	TOTAL DEFERRED CHARGES	12,205,080	12,930,794
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	TOTAL	\$ 236,373,673	\$ 219,399,959
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See Notes to Consolidated Financial Statements.

CAPITALIZATION AND LIABILITIES

		December 31,	
		2001	2000

CAPITALIZATION	Common Stock	\$ 50,099,621	\$ 48,838,486
(See Accompanying	Retained Earnings	22,190,691	21,796,707
Statements and Note 6):	TOTAL COMMON EQUITY	72,290,312	70,635,193

	Cumulative Preferred Stock	4,063,062	4,063,062
	Long-term Debt	88,140,459	82,109,297

	TOTAL CAPITALIZATION	164,493,833	156,807,552

CURRENT	Current Portion of Long-term Debt	358,836	215,859
LIABILITIES:	Notes Payable	13,225,000	6,050,000
	Accounts Payable	2,396,335	2,438,664
	Taxes Accrued	6,330,877	6,050,322
	Interest Accrued	1,813,896	1,797,520
	Other	1,845,642	1,454,276

	TOTAL CURRENT LIABILITIES	25,970,586	18,006,641

COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			

DEFERRED CREDITS:	Customer Advances for Construction	10,789,513	11,364,818
	Accumulated Deferred Investment Tax Credits (Note 3)	1,932,416	2,011,033
	Accumulated Deferred Federal Income Taxes (Note 3)	12,716,171	12,371,473
	Employee Benefit Plans (Note 7)	5,262,676	4,658,364
	Other	1,084,590	1,203,051

	TOTAL DEFERRED CREDITS	31,785,366	31,608,739

	CONTRIBUTIONS IN AID OF CONSTRUCTION	14,123,888	12,977,027

	TOTAL	\$ 236,373,673	\$ 219,399,959

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2001	2000	1999
OPERATING REVENUES (Note 2)	\$59,638,145	\$54,476,543	\$53,497,153
OPERATING EXPENSES:			
Operations (Note 4)	29,020,790	27,713,224	26,268,347
Maintenance	2,718,589	2,555,237	2,618,679
Depreciation	5,051,399	4,700,934	3,884,650
Other Taxes	7,640,406	6,931,961	6,871,105
Federal Income Taxes (Note 3)	3,713,645	2,637,058	3,188,893
TOTAL OPERATING EXPENSES	48,144,829	44,538,414	42,831,674
OPERATING INCOME	11,493,316	9,938,129	10,665,479
OTHER INCOME:			
Allowance for Funds Used During Construction	139,609	135,161	1,350,016
Other - Net	362,351	228,792	560,991
TOTAL OTHER INCOME	501,960	363,953	1,911,007
INCOME BEFORE INTEREST CHARGES	11,995,276	10,302,082	12,576,486
INTEREST CHARGES:			
Interest on Long-term Debt	4,521,084	4,555,379	4,469,709
Amortization of Debt Expense	140,604	139,320	136,290
Other Interest Expense	380,604	302,323	89,446
TOTAL INTEREST CHARGES	5,042,292	4,997,022	4,695,445
NET INCOME	6,952,984	5,305,060	7,881,041
PREFERRED STOCK DIVIDEND REQUIREMENTS	254,786	254,786	300,786
EARNINGS APPLICABLE TO COMMON STOCK	\$6,698,198	\$5,050,274	\$7,580,255
EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK:*			
Earnings per Share (Note 6):			
Basic	\$ 0.88	\$ 0.67	\$ 1.03
Diluted	\$ 0.88	\$ 0.67	\$ 1.01
Average Number of Shares Outstanding (Note 6):			
Basic	7,598,181	7,533,222	7,390,340
Diluted	7,855,536	7,790,577	7,722,229
Dividends Paid per Share	\$ 0.83	\$ 0.82	\$ 0.79

*All share and per share amounts reflect the three-for-two common stock split, effective January 2, 2002.

See Notes to Consolidated Financial Statements.

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

	Years Ended December 31,	
	2001	2000

Common Stock, No Par Value (Note 6):		
Shares Authorized - 10,000,000		
Shares Outstanding* - 2001 - 7,626,002	\$ 50,663,701	
2000 - 7,572,801		\$ 49,484,640
Restricted Stock Plan (Note 7)	(564,080)	(646,154)

TOTAL COMMON STOCK	50,099,621	48,838,486

Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100,000		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value (Note 6):		
Shares Authorized - 140,497		
Convertible:		
Shares Outstanding, \$7.00 Series - 14,881	1,562,505	1,562,505
Shares Outstanding, \$8.00 Series - 12,000	1,398,857	1,398,857
Nonredeemable:		
Shares Outstanding, \$7.00 Series - 1,017	101,700	101,700
Shares Outstanding, \$4.75 Series - 10,000	1,000,000	1,000,000

TOTAL CUMULATIVE PREFERRED STOCK	4,063,062	4,063,062

Long-term Debt (Note 6):		
8.05%, Amortizing Secured Note, due December 20, 2021	3,264,536	3,320,428
4.00%, State Revolving Trust Bond, due September 1, 2021	850,000	-
0.00%, State Revolving Fund Bond, due September 1, 2021	750,000	-
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	23,000,000
0.00%, Series X, due September 1, 2018	917,363	970,667
4.25%, Series Y, due September 1, 2018	1,055,000	1,095,000
0.00%, Series Z, due September 1, 2019	2,022,396	2,089,061
5.25%, Series AA, due September 1, 2019	2,350,000	2,350,000
0.00%, Series BB, due September 1, 2021	2,350,000	-
4.00%, Series CC, due September 1, 2021	2,440,000	-

SUBTOTAL LONG-TERM DEBT	88,499,295	82,325,156

Less: Current Portion of Long-term Debt	(358,836)	(215,859)

TOTAL LONG-TERM DEBT	\$ 88,140,459	\$ 82,109,297

*Outstanding share amounts reflect the three-for-two common stock split, effective January 2, 2002.

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 6,952,984	\$ 5,305,060	\$ 7,881,041
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	5,303,536	4,944,701	4,303,192
Provision for Deferred Income Taxes	318,972	201,319	(124,315)
Allowance for Funds Used During Construction	(139,609)	(135,161)	(1,350,016)
Changes in Assets and Liabilities:			
Accounts Receivable	(1,382,924)	686,749	(1,083,479)
Accounts Payable	(42,327)	(953,770)	(459,227)
Accrued Taxes	280,555	691,584	138,068
Accrued Interest	16,376	37,050	59,140
Unbilled Revenues	168,028	(341,180)	(329,715)
Employee Benefit Plans	604,312	1,788	894,059
Other-Net	253,579	(442,577)	111,068
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,333,482	9,995,563	10,039,816
CASH FLOWS FROM INVESTING ACTIVITIES:			
Utility Plant Expenditures*	(12,747,032)	(13,639,291)	(23,281,735)
Notes Receivable	97,500	(40,500)	2,806,102
Preliminary Survey & Investigation Charges	(370,494)	(100,841)	(196,085)
Other-Net	503,003	(854,691)	(158,596)
NET CASH USED IN INVESTING ACTIVITIES	(12,517,023)	(14,635,323)	(20,830,314)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Redemption of Long-term Debt	(215,859)	(206,357)	(71,730)
Proceeds from Issuance of Long-term Debt	6,390,000	-	4,500,000
Short-term Bank Borrowings	7,175,000	4,050,000	1,000,000
Deferred Debt Issuance Expenses	(11,440)	(41,617)	(22,268)
Temporary Cash Investments-Restricted	(6,390,622)	2,912,166	4,044,245
Proceeds from Issuance of Common Stock-Net	1,261,135	1,244,972	1,104,469
Payment of Common Dividends	(6,304,214)	(6,149,411)	(5,857,405)
Payment of Preferred Dividends	(254,786)	(254,786)	(300,786)
Construction Advances and Contributions-Net	571,557	412,175	2,174,923
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,220,771	1,967,142	6,571,448
NET CHANGES IN CASH AND CASH EQUIVALENTS	2,037,230	(2,672,618)	(4,219,050)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,497,154	5,169,772	9,388,822
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 4,534,384	\$ 2,497,154	\$ 5,169,772
*Excludes Allowance for Funds Used During Construction.			
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:			
Cash Paid During the Year for:			
Interest (net of amounts capitalized)	\$ 4,780,209	\$ 4,643,135	\$ 3,137,411
Income Taxes	\$ 3,674,792	\$ 1,981,450	\$ 3,728,700

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	2001	Years Ended December 31, 2000	1999
BALANCE AT BEGINNING OF YEAR	\$ 21,796,707	\$ 22,895,844	\$ 21,222,294
NET INCOME	6,952,984	5,305,060	7,881,041
TOTAL	28,749,691	28,200,904	29,103,335
CASH DIVIDENDS:			
Cumulative Preferred Stock	254,786	254,786	300,786
Common Stock	6,304,214	6,149,411	5,857,405
COMMON STOCK EXPENSES	-	-	49,300
TOTAL DEDUCTIONS	6,559,000	6,404,197	6,207,491
BALANCE AT END OF YEAR	\$ 22,190,691	\$ 21,796,707	\$ 22,895,844

See Notes to Consolidated Financial Statements.

Note 1 - Summary of Significant Accounting Policies

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

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

(c) Utility Plant is stated at original cost as defined for regulatory purposes. Property accounts are charged with the cost of betterments and major replacements of property. Cost includes direct material, labor and indirect charges for pension benefits and payroll taxes. The cost of labor, materials, supervision and other expenses incurred in making repairs and minor replacements and in maintaining the properties is charged to the appropriate expense accounts. At December 31, 2001, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The Accumulated Provision for Depreciation is charged with the cost of property retired, together with removal costs, less salvage.

(e) Allowance for Funds Used During Construction (AFUDC) - Middlesex, Tidewater, Pinelands Water, Pinelands Wastewater and Bayview capitalize AFUDC, which represents the cost of financing projects during construction. AFUDC is added to the construction costs of individual projects exceeding specific cost thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. AFUDC is calculated using each company's weighted cost of debt and equity.

(f) Accounts Receivable - Provision for allowance for doubtful accounts at December 31, 2001, 2000 and 1999 was \$0.1 million. The corresponding expense and deduction for December 31, 2001, 2000 and 1999 was \$0.2 million, \$0.1 million and less than \$0.1 million, respectively.

(g) Revenues from regulated activities are recorded as service is rendered and include estimates for amounts unbilled at the end of the period for services provided subsequent to the last billing cycle. Fixed service charges are billed in advance by Tidewater and are recognized in revenue as the service is provided. Bayview and Southern Shores are unmetered systems. Service charges are billed in advance and are recognized in revenue as the service is provided. Management contract fees are recorded as earned.

(h) Deferred Charges - Unamortized Debt Expense is amortized over the lives of the related issues. As authorized by the BPU, acquisition adjustments, main cleaning and lining costs, tank painting, and regulatory expenses are deferred and amortized over 1.5 to 33-year periods. For expenses incurred in connection

with the 1999 rate case, Tidewater was authorized by the PSC to defer and amortize rate case expenses over six years.

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

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

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

(l) The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts. As the Company currently does not engage in derivative financial instruments, the adoption of this Statement on January 1, 2001, had no impact on the financial statements.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which supersedes APB Opinion No. 16. SFAS No. 141 will require business combinations entered into after June 30, 2001 to be accounted for using the purchase method of accounting. Adoption of this Statement had no impact on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill is considered a nonamortizable asset and will be subject to an annual review for impairment and an interim review when events or circumstances occur. SFAS No. 142 is effective for all fiscal years beginning after December 15, 2001. Upon the adoption of SFAS No. 142 at January 1, 2002, the Company did not identify any impairment issues. Discontinuation of amortization of goodwill had an immaterial effect on the Company's financial statements.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." Upon adoption of SFAS No. 143, the fair value of a liability for an asset retirement obligation is required to be recorded. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Adoption of this Statement will have no impact on the Company's financial statements.

The FASB also issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which the Company has adopted on January 1, 2002. The adoption of SFAS No. 144 did not have an effect on our results of operations or cash flows.

(m) Certain prior year amounts have been reclassified to conform to the current year reporting.

Note 2 - Rates and Revenues

On January 25, 2002, Tidewater filed for a 24.0% or \$1.5 million phased-in rate increase. Although the financial information submitted in its petition supports a 30.8% increase, Tidewater has requested the lower amount and a three-phase

increase in an attempt to reduce potential rate shock to its customers. The first phase increase of 8.0% would be implemented under the interim rate rules on or about March 29, 2002. Under the assumption the full rate increase request of 24.0% is approved by the PSC, the second phase of 7.41% would be implemented upon the issuance of the PSC Order. The final phase of 6.9% would be placed into effect by the end of March 2003.

The primary reasons driving the need for rate relief are increased utility plant investment and higher operations and maintenance expenses. Tidewater's proposed rate base has increased since its last rate case by \$11.3 million or 88.8%. Tidewater's program to address quality of service issues that arose in the last rate case have helped push water treatment and production expenses up along with the maintenance of its infrastructure.

Bayview filed for a 123% or \$0.1 million base rate increase on December 13, 2001. This rate increase is needed to support the cost for replacement of the entire water distribution system in Fortescue, New Jersey. Middlesex had operated this 300-customer system as an interim custodial receiver from September 1997, until it was purchased by Bayview on April 9, 2001.

The Bayview rate case has been assigned to the Office of Administrative Law, and a public hearing has been scheduled for early March 2002. Because of the limited number of issues in the case, the Company believes that a decision may be rendered by the BPU in the second quarter of 2002.

Three base rate increase petitions were approved by the BPU:

	Middlesex -----	Pinelands Water -----	Pinelands Wastewater -----
Date Approved	June 6, 2001	August 1, 2001	August 1, 2001
Amount	\$3.3 million	\$0.1 million	\$0.1 million
% Increase	8.10%	26.92%	11.81%
Return on Equity	10.50%	10.50%	10.50%
Rate of Return	7.95%	9.10%	9.20%
Last Increase	May 13, 1999	January 23, 1999	January 23, 1999

The increases are necessary to cover higher operations and maintenance costs, depreciation and taxes. In addition, continued significant plant investment in the Middlesex System also contributed to the rate request. The last base rate increase for Middlesex was in May 1999, when the BPU approved an 11.5% or \$4.3 million increase. The last base rate increase for the Pinelands Companies in January 1999 represented the final stage of a three-phase implementation. The first increase was effective January 23, 1997.

Tidewater was granted a 2.67% rate increase in December 2000. Included in the PSC Order approving the increase was a 0.75% credit against the allowed return of equity of 10.0% due to quality of service issues. Upon receipt of satisfactory evidence that Tidewater had resolved the quality issues that arose during the course of that rate proceeding, the PSC removed the credit on August 23, 2001. This will result in additional annual revenues of less than \$0.1 million for Tidewater.

Included in Other Deferred Charges are \$1.7 million of deferred costs at December 31, 2001, which Middlesex, Tidewater, Pinelands Water and Pinelands Wastewater are recovering through rates over periods of 1.5 to 10 years. These deferred costs have been excluded from their rate bases and, therefore, they are

not earning a return on the unamortized costs during the recovery periods. Pinelands Water and Pinelands Wastewater are recovering the acquisition premium of \$0.7 million over the remaining life of its Utility Plant. These deferred costs have been included in their rate bases and are earning a return on the unamortized costs during the recovery periods.

In 2001, Tidewater completed the PSC approved acquisition and assignment of all of the membership interest in Sea Colony Water Company, LLC, a 2,200 customer water system located in Sussex County, Delaware, for \$2.1 million on August 24, 2001. Included in the approval was authorization to maintain the existing rate tariff under which Sea Colony customers are billed for water service. The name of the entity was changed to Southern Shores Water Company.

Note 3 - Income Taxes

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

	Years Ended December 31, (Thousands of Dollars)		
	2001	2000	1999
Income Tax at Statutory Rate of 34%	\$ 3,627	\$ 2,700	\$ 3,764
Tax Effect of:			
AFUDC	(47)	(46)	(459)
Other	134	(17)	(116)
Total Federal Income Tax Expense	\$ 3,714	\$ 2,637	\$ 3,189

Federal income tax expense is comprised of the following:

Current	\$ 3,499	\$ 2,554	\$ 3,432
Deferred:			
Customer Advances	84	40	45
Accelerated Depreciation	550	519	234
Employee Benefit Plans	(359)	(355)	(304)
Investment Tax Credit	(79)	(79)	(76)
Other	19	(42)	(142)
Total Federal Income Tax Expense	\$ 3,714	\$ 2,637	\$ 3,189

The statutory review period for income tax returns for the years prior to 1998 has been closed.

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

	Years Ended December 31, (Thousands of Dollars)	
	2001	2000
Utility Plant Related	\$19,014	\$18,417
Customer Advances	(4,481)	(4,578)
Employee Benefits	(1,810)	(1,427)
Other	(7)	(41)
Total Deferred Tax Liability	\$12,716	\$12,371

The Company is required to set up deferred income taxes for all temporary differences regardless of the regulatory ratemaking treatment. Because management believes that it is probable that these additional taxes will be passed on to ratepayers, an offsetting regulatory asset of \$6.0 million has been recorded.

Note 4 - Commitments and Contingent Liabilities

Service Agreement - USA-PA operates the City of Perth Amboy's water and wastewater systems under a 20-year contract. The final year of the contract is 2018.

Perth Amboy has a population of 40,000 and has approximately 9,300 customers, most of whom are served by both systems. The agreement was effected under New Jersey's Water Supply Public-Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Fixed fee payments began at \$6.4 million in the first year and will increase over the term of the 20-year contract to \$9.7 million. The agreement also requires 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, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. The Company guaranteed one of those series of bonds in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds.

In addition to the agreement with Perth Amboy, USA-PA entered into a 20-year subcontract with a wastewater operating company for the operation and maintenance of the Perth Amboy wastewater system. The subcontract provides for the sharing of certain fixed and variable fees and operating expenses.

Franchise Agreement/Service Agreement - In 1999, Middlesex implemented a franchise agreement with the City of South Amboy (South Amboy) to provide water service and install water system facilities in South Amboy. The agreement between Middlesex and South Amboy was approved by the BPU. The implementation of the franchise agreement had significantly impacted two existing agreements entered into by the parties.

The first agreement was for the sale of water to South Amboy on a wholesale basis. The second agreement, which included Middlesex's wholly-owned subsidiary USA, was a contract to provide management services for a fixed fee. In conjunction with the franchise agreement, the water sales contract was eliminated. In addition, the management services contract was extended through May 2045 and significantly modified to correspond with the terms and conditions of the franchise agreement. Certain advances made by USA to South Amboy at the commencement of the management services contract have been forgiven in consideration for the franchise agreement. Fixed fee revenues recognized under the original contract have been eliminated in lieu of revenues earned from providing water to South Amboy's 2,600 customers.

Water Supply - Middlesex has an agreement with the Elizabethtown Water Company for the purchase of treated water. This agreement, which expires December 31, 2005, provides for the minimum purchase of 3 million gallons daily (mgd) of treated water with provisions for additional purchases. The 2001, 2000 and 1999 costs under this agreement were \$1.7 million, \$1.6 million and \$1.7 million, respectively. Middlesex also has an agreement with the New Jersey Water Supply Authority (NJWSA), which expires November 1, 2013, and provides for the minimum purchase of 20 mgd of untreated water from the Delaware and Raritan Canal and the Raritan River. In addition, the Company has a supplemental one-year agreement for an additional 5 mgd through April 30, 2002. This agreement is renewable on an annual basis. The total costs under this agreement in 2001, 2000 and 1999 were \$2.0 million, \$1.9 million and \$2.0 million, respectively.

Construction - The Company plans to spend approximately \$23.2 million in 2002, \$15.5 million in 2003 and \$22.1 million in 2004 on its construction program.

Litigation - A motel in the Company's Middlesex service area in 1994, and again in 1997, suffered outbreaks of Legionella. Claims resulting from the death of a motel guest from Legionella in 1997 and claims by two other patrons alleging illness as a result of their stay at the motel in 1997 have been brought against the motel and against the Company. The Company has substantial insurance coverage, which the Company believes will be sufficient for all claims in this matter other than for punitive damages. While the outcome of this case remains uncertain, the Company believes that the final resolution will not have a significant effect on its financial condition or results of operations.

The Company has been notified of a potential claim in excess of \$10.0 million involving the break of both a Company water line and an underground electric power cable in close proximity to it. The power cable contained both electric lines and petroleum based insulating fluid. The Company is insured for damages except for damages resulting from pollution discharge, which the Company is advised is approximately \$0.2 million. Causation and liability have not been established. Management is unable to determine the outcome of the litigation and its impact on the financial conditions or results of operations.

A claim is pending involving a construction subcontractor, the Company's general contractor and the Company concerning a major construction project. The dispute relates to work required to be performed under a construction contract and related subcontracts and includes payment issues and timing/delay issues. The matter was instituted in 2001 and is pending in Superior Court, Middlesex County, New Jersey. The full amount at issue is not fully known at this stage of the litigation. At this time, management is unable to determine the impact, if any, on the financial statements.

A claim has been made by multiple plaintiffs for damages resulting from personal injury, including death, and property damage alleged to have been caused by the delivery in Delaware of inadequate quality water and related claims. While the Company has little detail about the claim at this time, the Company has substantial insurance coverage, which it believes will be sufficient for all claims in this matter other than for punitive damages.

Note 5 - Lines of Credit, Notes Payable and Restricted Cash

	(Thousands of Dollars)		
	2001	2000	1999
Established Lines at Year-End	\$28,000	\$18,000	\$18,000
Maximum Amount Outstanding	13,225	6,050	3,000
Average Outstanding	8,800	3,900	1,100
Notes Payable at Year-End	13,225	6,050	2,000
Weighted Average Interest Rate	4.76%	6.82%	5.37%

The Board of Directors has authorized lines of credit for up to \$30.0 million. Short-term borrowings are below the prime rate with some requirements for compensating balances not exceeding 1% of the line.

Restricted temporary cash investments at December 31, 2001, include \$9.2 million balance of proceeds from the Series Z, AA, BB and CC First Mortgage Bonds and State Revolving Trust and Fund Bonds issuances. These funds are held in trusts and restricted for specific capital expenditures and debt service requirements. Series Z, AA, BB and CC proceeds can only be used for the 2002 through 2004 main cleaning and cement lining programs. The State Revolving Trust and Fund Bond proceeds can only be used to fund the construction of the replacement water system in Fortescue, New Jersey.

Note 6 - Capitalization

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

Common Stock

In October 2001, the Board of Directors approved a three-for-two common stock split effective January 2, 2002, for shareholders of record on December 14, 2001. All average number and per share amounts of no par common stock on the financial statements have been restated to reflect the effect of the stock split.

The number of shares authorized under the Dividend Reinvestment and Common Stock Purchase Plan (DRP) is 1,700,000 shares. The cumulative number of shares issued under the DRP at December 31, 2001, is 957,470. During 2001, 2000 and 1999, 37,917 shares (\$1.1 million), 47,945 shares (\$1.3 million) and 48,664 shares (\$1.3 million) of common stock were issued under DRP and the Restricted Stock Plan, respectively. Under the Company's Restricted Stock Plan, 2,450 common shares were returned and cancelled during 2001.

In January 2002, the Board of Directors approved a 5% discount on common stock sold to participants of the Company's DRP between the period of March 1, 2002 and August 1, 2002. The offer is limited to the first 100,000 shares sold during the discount period.

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. At December 31, 2001, no restrictions were placed on common dividends.

Preferred Stock

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. In 1999, the number of authorized preferred stock, without par value, was reduced from 149,980 shares to 140,497 shares to account for the conversion of 8,000 shares of the \$8.00 Series into 82,284 shares of the Company's common shares in 1999 and the cancellation of 1,483 shares of the nonredeemable \$7.00 Series previously redeemed. At December 31, 2001 and 2000, 37,898 shares of preferred stock presently authorized were outstanding. There were no dividends in arrears.

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

The conversion feature of the no par \$8.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for 10.2855 shares of the Company's common stock. The preferred shares are convertible at the election of the security holder until 2004. After that date Middlesex also has the right to elect the conversion feature.

Long-term Debt

On November 8, 2001, the Company issued \$2.350 million, designated as Series BB, and \$2.440 million, designated as Series CC, First Mortgage Bonds through the New Jersey State Revolving Fund (SRF). Series BB has a zero interest cost, while Series CC has a coupon rate that varies from 4.0% to 5.0%. The SRF Program, which is administered by the New Jersey Environmental Infrastructure Trust, evolved from the Federal Environmental Protection Agency's (EPA) regulations issued under the Safe Drinking Water Act. Under this program, investor-owned

public water utilities can apply for construction loans, which are funded by the participating state and the EPA through the State's environmental agency. In New Jersey, initial project approval must be granted by the New Jersey Department of Environmental Protection. Funds from the EPA, which can equal up to 50% of construction costs, are loaned at a zero interest cost; the interest rate on the state portion of the loan is based upon the prevailing market conditions at time of issuance. Interest paid to the bondholders is exempt from federal and New Jersey income taxes. However, the interest is subject to the Alternative Minimum Tax. The proceeds of the bonds are being used to fund the 2003 and 2004 capital project to clean and cement line previously unlined pipes and mains.

Bayview issued unsecured bonds guaranteed by Middlesex through the SRF Program on November 8, 2001. Bayview borrowed \$0.750 million of the zero interest cost funds and \$0.850 million with coupon rates from 4.0% to 5.0%. The proceeds from this financing will be used to replace the entire water distribution and storage facilities of the 300 customer system in Fortescue, New Jersey.

The aggregate annual maturities for the amortizing secured note and First Mortgage Bonds issued under SRF for each of the next five years are as follows: 2002 - \$0.4 million; 2003 and 2004 - \$0.6 million; and 2005 and 2006 - \$0.7 million. All other First Mortgage Bonds are term bonds with a single maturity date, which are listed in the Consolidated Statements of Capital Stock and Long-Term Debt.

The weighted average interest rate on all long-term debt at December 31, 2001 and 2000 was 5.63% and 5.83%, respectively. Except for the Amortizing Secured Note and Series U First Mortgage Bonds, all of the Company's outstanding debt has been issued through the New Jersey Economic Development Authority (\$57.5 million) and the SRF program (\$12.7 million).

Substantially all of the Utility Plant of the Company is subject to the lien of its mortgage, which also includes certain restrictions as to cash dividend payments and other distributions on common stock.

Earnings Per Share
- - - - -

The following table presents the calculation of basic and diluted earnings per share (EPS) for the three years ended December 31, 2001. Basic EPS are computed on the basis of the weighted average number of shares outstanding. Diluted EPS assumes the conversion of both the Convertible Preferred Stock \$7.00 Series and \$8.00 Series. All share and per share amounts reflect the three-for-two common stock split, effective January 2, 2002.

	(In Thousands Except per Share Amounts)					
	2001		2000		1999	
Basic:	Income	Shares	Income	Shares	Income	Shares
Net Income	\$6,953	7,598	\$5,305	7,533	\$7,881	7,390
Preferred Dividend	(255)		(255)		(301)	
Earnings Applicable to Common Stock	\$6,698	7,598	\$5,050	7,533	\$7,580	7,390
Basic EPS	\$ 0.88		\$ 0.67		\$ 1.03	
Diluted:						
Earnings Applicable to Common Stock	\$6,698	7,598	\$5,050	7,533	\$7,580	7,390
\$7.00 Series Dividend	104	134	104	134	104	134
\$8.00 Series Dividend	96	123	96	123	142	198
Adj. Earnings Applicable to Common Stock	\$6,898	7,855	\$5,250	7,790	\$7,826	7,722
Diluted EPS	\$ 0.88		\$ 0.67		\$ 1.01	

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments for which it is practicable to estimate that value. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, marketable securities, and trade receivables and payables approximate their respective fair values due to the short-term maturities of these instruments. The fair value of the Company's long-term debt relating to first mortgage bonds is based on quoted market prices for similar issues. At December 31, 2001 and 2000, the carrying amount and fair market value of the Company's bonds were as follows:

	(Thousands of Dollars)			
	Carrying Amount	2001 Fair Value	Carrying Amount	2000 Fair Value
-----	-----	-----	-----	-----
First Mortgage Bonds	\$85,395	\$85,603	\$79,005	\$77,300

For other long-term debt for which there was no quoted market price, it was not practicable to estimate their fair value. The carrying amount of these instruments at December 31, 2001 and 2000 was \$3.3 million. Customer advances for construction have a carrying amount of \$10.8 million and \$11.4 million at December 31, 2001 and 2000, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases.

Note 7 - Employee Benefit Plans

Pension

The Company has a noncontributory defined benefit pension plan, which covers substantially all employees with more than 1,000 hours of service. The Company makes contributions to the Plan consistent with the funding requirements of federal laws and regulations. Plan assets consist primarily of corporate equities, cash equivalents and stock and bond funds. In addition, the Company maintains an unfunded supplemental pension plan for its executives.

Postretirement Benefits Other Than Pensions

The Company has a postretirement benefit plan other than pensions for substantially all of its retired employees. Coverage includes healthcare and life insurance. Retiree contributions are dependent on credited years of service. Accrued retirement benefit costs are recorded each year.

The Company has recognized a deferred regulatory asset relating to the difference between the accrued retirement benefit costs and actual cash paid for plan premiums in years prior to 1998. Included in the regulatory asset is a transition obligation from adopting SFAS No.106 on January 1, 1993. In addition to the recognition of annual accrued retirement benefit costs in rates, Middlesex is also recovering the transition obligation over 15 years. The regulatory assets at December 31, 2001 and 2000 were \$1.0 million.

The following table sets forth information relating to the Company's Pension Plans and Other Postretirement Benefits.

	(Thousands of Dollars)			
	Pension Benefits		Other Benefits	
	2001	2000	2001	2000

Reconciliation of Benefit Obligation				
Beginning Balance	\$ 17,707	\$ 16,304	\$ 5,859	\$ 4,346
Service Cost	722	678	173	153
Interest Cost	1,282	1,249	426	417
Actuarial (Gain)/Loss	(395)	194	238	1,172
Benefits Paid	(845)	(718)	(281)	(229)

Ending Balance	\$ 18,471	\$ 17,707	\$ 6,415	\$ 5,859

Reconciliation of Plan Assets at Fair Value				
Beginning Balance	\$ 18,498	\$ 17,928	\$ --	\$ --
Actual Return on Plan Assets	98	1,242	45	--
Employer Contributions	46	46	1,678	229
Benefits Paid	(845)	(718)	(281)	(229)

Ending Balance	\$ 17,797	\$ 18,498	\$ 1,442	\$ --

Funded Status	\$ (674)	\$ 791	\$ (4,973)	\$ (5,859)
Unrecognized Net Transition Obligation	2	16	1,488	1,623
Unrecognized Net Actuarial (Gain)/Loss	(2,488)	(4,098)	1,769	1,561
Unrecognized Prior Service Cost	526	535	(4)	(4)

Accrued Benefit Cost	\$ (2,634)	\$ (2,756)	\$ (1,720)	\$ (2,679)

Benefits	(Thousands of Dollars)					
	Pension Benefits			Other		
	2001	2000	1999	2001	2000	1999

Components of Net Periodic Benefit Cost						
Service Cost	\$ 720	\$ 678	\$ 669	\$ 173	\$ 153	\$ 140
Interest Cost	1,324	1,249	1,136	426	417	310
Expected Return on Plan Assets	(1,448)	(1,406)	(1,336)	(90)	--	--
Amortization of Net Transition Obligation	14	14	14	135	135	135
Amortization of Net Actuarial (Gain)/Loss	(148)	(139)	(93)	76	69	29

Amortization of Prior Service Cost	111	111	111	(0)	(1)	(2)

Net Periodic Benefit Cost	\$ 573	\$ 507	\$ 501	\$ 720	\$ 773	\$ 612

	2001	Pension Benefits			Other Benefits		
		2000	1999	2001	2000	1999	
Weighted Average Assumptions							
Discount Rate	7.25%	7.75%	7.75%	7.25%	7.75%	7.75%	
Expected Return on Plan Assets	8.00%	8.00%	8.00%	7.50%	-	-	
Actual Return on Plan Assets	0.54%	7.07%	9.00%	3.73%	-	-	
Rate of Compensation Increase	4.25%	5.00%	5.00%	4.25%	5.00%	5.00%	

For measurement purposes, a 5.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2001 and all future years. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	(Thousands of Dollars)	
	Increase	Decrease
Effect on Current Year's Benefit Expense	\$ 108	\$ (84)
Effect on Benefit Obligation	895	(647)

401(k) Plan

The Company has a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1% but not more than 6%. The Company's matching contributions in 2001, 2000 and 1999 amounted to \$0.2 million for each year.

Stock Based Compensation

The Company maintains a Restricted Stock Plan, under which 57,000 shares of the Company's common stock are held in escrow by the Company for key employees. Such stock is subject to an agreement requiring forfeiture by the employee in the event of termination of employment within five years of the grant other than as a result of retirement, death or disability.

The maximum number of shares authorized for grant under this plan is 240,000 shares. Compensation expense is determined by the market value of the stock on the date of the award and is being amortized over a five-year period. Compensation expense for the years ended December 31, 2001, 2000 and 1999 was \$0.2 million, \$0.2 million and \$0.1 million, respectively.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) the Company elected to account for its stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation costs for the Company's restricted stock plan been determined based on methodology prescribed in SFAS No. 123, there would have been no effect on its results of operations or cash flows.

Note 8 - Business Segment Data

The Company has identified two reportable segments. One is the regulated business of collecting, treating and distributing water on a retail and wholesale basis to residential, commercial, industrial and fire protection customers in parts of New Jersey and Delaware. It also operates a regulated wastewater system in New Jersey. The Company is subject to regulations as to its rates, services and other matters by the states of New Jersey and Delaware with respect to utility service within these states. The other segment is nonregulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. On January 1, 1999, the Company began operating the water and wastewater systems of the City of Perth Amboy, New Jersey under a service contract. Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

	(Thousands of Dollars)		
	Twelve Months Ended December 31,		
Operations by Segments:	2001	2000	1999

Revenues:			
Regulated	\$ 52,295	\$ 47,634	\$ 46,008
Non - Regulated	7,379	6,879	7,527
Inter-segment Elimination	(36)	(36)	(38)

Consolidated Revenues	\$ 59,638	\$ 54,477	\$ 53,497

Operating Income:			
Regulated	\$ 11,090	\$ 9,525	\$ 9,718
Non - Regulated	403	413	947
Inter-segment Elimination	--	--	--

Consolidated Operating Income	\$ 11,493	\$ 9,938	\$ 10,665

Depreciation/Amortization:			
Regulated	\$ 4,995	\$ 4,646	\$ 3,854
Non - Regulated	56	55	31
Inter-segment Elimination	--	--	--

Consolidated Depreciation/Amortization	\$ 5,051	\$ 4,701	\$ 3,885

Other Income:			
Regulated	\$ 1,773	\$ 1,284	\$ 3,438
Non - Regulated	62	4	(21)
Inter-segment Elimination	(1,333)	(924)	(1,506)

Consolidated Other Income	\$ 502	\$ 364	\$ 1,911

Interest Expense:			
Regulated	\$ 5,906	\$ 5,646	\$ 5,071
Non - Regulated	56	56	226
Inter-segment Elimination	(920)	(705)	(602)

Consolidated Interest Expense	\$ 5,042	\$ 4,997	\$ 4,695

Net Income:			
Regulated	\$ 6,957	\$ 5,162	\$ 8,064
Non - Regulated	409	362	721
Inter-segment Elimination	(413)	(219)	(904)

Consolidated Net Income	\$ 6,953	\$ 5,305	\$ 7,881

Capital Expenditures:			
Regulated	\$ 12,649	\$ 13,065	\$ 23,117
Non - Regulated	98	574	165
Inter-segment Elimination	--	--	--

Total Capital Expenditures	\$ 12,747	\$ 13,639	\$ 23,282

	As of December 31, 2001	As of December 31, 2000

Assets:		
Regulated	\$264,601	\$237,904
Non - Regulated	3,858	3,034
Inter-segment Elimination	(32,085)	(21,538)

Consolidated Assets	\$236,374	\$219,400

Note 9 - Quarterly Operating Results - Unaudited

Quarterly operating results for 2001 and 2000 are as follows:

(Thousands of Dollars Except per Share Data)

2001	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year

Operating Revenues	\$13,144	\$14,754	\$16,065	\$15,675	\$59,638
Operating Income	2,072	2,807	3,532	3,082	11,493
Net Income	884	1,918	2,373	1,778	6,953
Basic Earnings per Share*	\$ 0.11	\$ 0.24	\$ 0.30	\$ 0.23	\$ 0.88
Diluted Earnings per Share*	0.11	0.24	0.30	0.23	0.88

2000					

Operating Revenues	\$12,981	\$14,058	\$14,387	\$13,051	\$54,477
Operating Income	2,051	2,528	2,695	2,664	9,938
Net Income	906	1,369	1,537	1,493	5,305
Basic Earnings per Share*	\$ 0.11	\$ 0.17	\$ 0.20	\$ 0.19	\$ 0.67
Diluted Earnings per Share*	0.11	0.17	0.20	0.19	0.67

*All per share amounts reflect the three-for-two common stock split, effective January 2, 2002.

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

Report of Management

The consolidated financial statements and other financial information included in this annual report have been prepared by and are the responsibility of management. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America considered appropriate under the circumstances and include amounts based on necessary judgment and estimates deemed appropriate.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are protected from improper use and loss and to provide reliable financial information.

The consolidated financial statements of the Company have been audited by its independent auditors, Deloitte & Touche LLP, and their report is included herein.

The Board of Directors, through its Audit Committee consisting solely of outside Directors, is responsible for overseeing and reviewing the Company's financial reporting and accounting practices. The Audit Committee meets periodically with the independent auditors to review the scope of their work and discuss any changes and developments that may impact the Company.

/s/ J. Richard Tompkins

J. Richard Tompkins
Chairman of the Board

February 22, 2002

/s/ A. Bruce O'Connor

A. Bruce O'Connor
Vice President and
Controller

INDEPENDENT AUDITORS' REPORT
MIDDLESEX WATER COMPANY

We have audited the accompanying consolidated balance sheets and consolidated statements of capital stock and long-term debt of Middlesex Water Company and its subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of income, retained earnings and of cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Middlesex Water Company and its subsidiaries at December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP
Parsippany, New Jersey
February 22, 2002

SIGNATURES

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

Chairman of the Board and Director	/s/J. Richard Tompkins/ ----- J. Richard Tompkins	3/28/02 ----- Date
President and General Counsel and Director	/s/Dennis G. Sullivan/ ----- Dennis G. Sullivan	3/28/02 ----- Date
Vice President and Controller Chief Financial Officer	/s/A. Bruce O'Connor/ ----- A. Bruce O'Connor	3/28/02 ----- Date
Director	/s/John C. Cutting/ ----- John C. Cutting	3/28/02 ----- Date
Director	/s/John R. Middleton/ ----- John R. Middleton	3/28/02 ----- Date
Director	/s/John P. Mulkerin/ ----- John P. Mulkerin	3/28/02 ----- Date
Director	/s/Stephen H. Mundy/ ----- Stephen H. Mundy	3/28/02 ----- Date
Director	/s/Jeffries Shein/ ----- Jeffries Shein	3/28/02 ----- Date

EXHIBIT INDEX

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

Exhibit No. ---	Document Description -----	Previous Filing's	
		Registration No. ---	Exhibit No. ---
3.1	Certificate of Incorporation of the Company, as amended, filed as Exhibit 3.1 of 1998 Form 10-K.		
3.2	Bylaws of the Company, as amended.	33-54922	3.2
4.1	Form of Common Stock Certificate.	2-55058	2(a)
4.2	Registration Statement, Form S-3, under Securities Act of 1933 filed February 3, 1987, relating to the Dividend Reinvestment and Common Stock Purchase Plan.	33-11717	
4.3	Revised Prospectus relating to the Dividend Reinvestment and Common Stock Purchase Plan, Submitted to the Securities and Exchange Commission, January 20, 2000.	33-11717	
4.4	Post Effective Amendments No. 7, Form S-3, under Securities Act of 1933 filed February 1, 2002, relating to the Dividend Reinvestment and Common Stock Purchase Plan.	33-11717	
10.1	Copy of Purchased Water Agreement between the Company and Elizabethtown Water Company, filed as Exhibit 10.1 of 1996 Form 10-K.		
10.2	Copy of Mortgage, dated April 1, 1927, between the Company and Union County Trust Company, as Trustee, as supplemented by Supplemental Indentures, dated as of October 1, 1939 and April 1, 1949.	2-15795	4(a)-4(f)
10.3	Copy of Supplemental Indentures, dated as of July 1, 1964 and June 15, 1991, between the Company and Union County Trust Company, as Trustee.	33-54922	10.4-10.9
10.4	Copy of Supply Agreement, dated as of November 17, 1986, between the Company and the Old Bridge Municipal Utilities Authority.	33-31476	10.12

Exhibit No. ---	Document Description -----	Previous Filing's	
		Registration No. ---	Exhibit No. ---
10.5	Copy of Supply Agreement, dated as of July 14, 1987, between the Company and the Marlboro Township Municipal Utilities Authority, as amended.	33-31476	10.13
10.6	Copy of Supply Agreement, dated as of February 11, 1988, with modifications dated February 25, 1992, and April 20, 1994, between the Company and the Borough of Sayreville filed as Exhibit No. 10.11 of 1994 First Quarter Form 10-Q.		
10.7	Copy of Water Purchase Contract and Supplemental Agreement, dated as of May 12, 1993, between the Company and the New Jersey Water Supply Authority filed as Exhibit No. 10.12 of 1993 Form 10-K.		
10.8	Copy of Treating and Pumping Agreement, dated April 9, 1984, between the Company and the Township of East Brunswick.	33-31476	10.17
10.9	Copy of Supply Agreement, dated June 4, 1990, between the Company and Edison Township.	33-54922	10.24
10.10	Copy of Supply Agreement, between the Company and the Borough of Highland Park, filed as Exhibit No. 10.15 of 1996 Form 10-K.		
10.11	Copy of Supplemental Executive Retirement Plan, filed as Exhibit 10.13 of 1999 Third Quarter Form 10-Q.	33-31476	10.21
10.12	Copy of 1989 Restricted Stock Plan, filed as Appendix B to the Company's Definitive Proxy Statement, dated and filed April 25, 1997.	33-31476	10.22
10.13(a)	Employment Agreement between Middlesex Water Company and J. Richard Tompkins, filed as Exhibit 10.15(a) of 1999 Third Quarter Form 10-Q.		
10.13(b)	Employment Agreement between Middlesex Water Company and Walter J. Brady, filed as Exhibit 10.15(b) of 1999 Third Quarter Form 10-Q.		

Exhibit No. ---	Document Description -----	Previous Filing's	
		Registration No. ---	Exhibit No. ---
10.13(c)	Employment Agreement between Middlesex Water Company and A. Bruce O'Connor, filed as Exhibit 10.15(c) of 1999 Third Quarter Form 10-Q.		
10.13(d)	Employment Agreement between Middlesex Water Company and Marion F. Reynolds, Filed as Exhibit 10.15(d) of 1999 Third Quarter Form 10-Q.		
10.13(e)	Employment Agreement between Middlesex Water Company and Dennis G. Sullivan, filed as Exhibit 10.15(f) of 1999 Third Quarter Form 10-Q.		
10.13(f)	Employment Agreement between Middlesex Water Company and Ronald F. Williams, filed as Exhibit 10.15(g) of 1999 Third Quarter Form 10-Q.		
10.14	Copy of Transmission Agreement, dated October 16, 1992, between the Company and the Township of East Brunswick.	33-54922	10.23
10.15	Copy of Supplemental Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series U & V), between the Company and United Counties Trust Company, as Trustee, filed as Exhibit No. 10.22 of 1993 Form 10-K.		
10.16	Copy of Trust Indentures, dated September 1, 1993, (Series S & T) and January 1, 1994, (Series V), between the New Jersey Economic Development Authority and First Fidelity Bank (Series S & T), as Trustee, and Midlantic National Bank (Series V), as Trustee, filed as Exhibit No. 10.23 of 1993 Form 10-K.		
10.17	Copy of Supplemental Indenture dated October 15, 1998 Between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement Dated November 1, 1998 between the New Jersey and Middlesex Water Company (Series X), filed as Exhibit No. 10.22 of the 1998 Third Quarter Form 10-Q.		

Exhibit No. ---	Document Description -----	Previous Filing's	
		Registration No. ---	Exhibit No. ---
10.18	Copy of Supplemental Indenture dated October 15, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Loan Agreement dated November 1, 1998 between the State of New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series Y), filed as Exhibit No. 10.23 of the 1998 Third Quarter Form 10-Q.		
10.19	Copy of Operation, Maintenance and Management Services Agreement dated January 1, 1999 between the Company, City Of Perth Amboy, Middlesex County Improvement Authority And Utility Service Affiliates, Inc.	333-66727	10.24
10.20	Copy of Supplemental Indenture dated October 15, 1999 Between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement Dated November 1, 1999 between the State of New Jersey and Middlesex Water Company (Series Z), filed as Exhibit No. 10.25 of the 1999 Form 10-K.		
10.21	Copy of Supplemental Indenture dated October 15, 1999 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 1999 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series AA), Filed as Exhibit No. 10.26 of the 1999 Form 10-K.		
*10.22	Copy of Supplemental Indenture dated October 15, 2001 Between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement Dated November 1, 2001 between the State of New Jersey and Middlesex Water Company (Series BB).		
*10.23	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series CC)		
*10.24	Copy of Supplemental Indenture dated January 15, 2002 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated January 1, 2002 between the New Jersey Economic Development Authority and Middlesex Water Company (Series DD)		
*23	Independent Auditors' Consent.		

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 (

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, 2001

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FUND LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of November 1, 2001, 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 Two Million Three Hundred Fifty Thousand Dollars and No Cents (\$2,350,000.00) 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 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 October 15, 2001 and entitled "TWENTY-SEVENTH 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 may from time to time be amended and supplemented.

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

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

"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 Clean Water Act (33 U.S.C.ss.1251 et seq.) or 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.

"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 Fund Loan Agreement dated as of November 1, 2001 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.

"Fund Loan Agreement" means the loan agreement dated as of November 1, 2001 by and between the Borrower and the State, acting by and through the New Jersey Department of Environmental Protection, regarding the terms and conditions of the Fund Loan.

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

"Loan Servicer" means, initially, Commerce Bank, National Association, 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, 2001 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 Commerce Bank, National Association, 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 and which may be identified under either the Drinking Water or Clean Water Project Lists as Project #12250001-006/7.

"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, 2001 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 and pursuant to the laws of the State of New Jersey, including the Business Corporation Law.

(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 other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

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

(g) Compliance with Law. The Borrower:

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

(ii) has obtained all licenses, permits, franchises or other

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

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

SECTION 2.02. Particular Covenants of Borrower.

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

(b) Performance Under Loan Agreement; Rates. The Borrower covenants and agrees (i) to comply with all applicable State 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, including without limitation rents, rates and other charges, together with other available moneys, sufficient to pay the principal of and Interest on the Borrower Bond, plus all other amounts due hereunder.

(c) Revenue Obligation; No Prior Pledges. The Borrower shall not be required to make payments under this Loan Agreement except from the revenues of

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

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

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

(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(l) hereof, or (b) an Event of Default has occurred and is continuing under this Loan Agreement. Although the State intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Cost of the Project, due to unforeseen circumstances there may not be sufficient Federal Funds on deposit on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the aggregate principal amount set forth in Exhibit A-2 hereto shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and the State shall have no obligation thereafter to loan any additional amounts to the Borrower.

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

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

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

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

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

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

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

(iii) in accordance with the "New Jersey Environmental Infrastructure Trust Act", P.L. 1985, c. 334, as amended (N.J.S.A. 58:11B-1 et seq.), and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Trust Loan for a portion of the Allowable Costs (as defined in such regulations) of the Project in an amount not in excess of the amount of Allowable Costs of the Project 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, 2002, 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, 2002 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 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 be applied by the Loan Servicer first to satisfy such Trust Loan Agreement loan repayment deficiency as a credit against the obligations of the Borrower to make loan repayments of that portion of interest under the Trust Loan Agreement that is allocable to the interest payable on the Trust Bonds (as defined in the Trust Loan Agreement) and to make payments of that portion of interest under the bond 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 make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

(c) failure by the Borrower to pay, or cause to be paid, any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d)(ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the State, unless the State shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the State may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;

(d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;

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

its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;

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

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

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

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

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

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

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

the Loan, (c) third, to the extent available, to pay any other amounts due and payable hereunder, and (d) fourth, to the extent available, to pay principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

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

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

ARTICLE VI

MISCELLANEOUS

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

Commerce Bank, National Association
1701 Route 70 East
Cherry Hill, New Jersey 08034
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]

ATTEST:

By: _____
Robert C. Shinn, Jr.
Commissioner, Department of
Environmental Protection

Nicholas G. Binder, P.E., P.P.
Assistant Director,
Municipal Finance and Construction Element,
Department of Environmental Protection

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

By: _____s/DGS
Authorized Officer

s/MFR
Authorized Officer

Approval of New Jersey State
Treasurer

By: _____
Peter Lawrance
Acting State Treasurer

[SIGNATURE PAGE]

M O R T G A G E

TWENTY-EIGHTH SUPPLEMENTAL INDENTURE

MIDDLESEX WATER COMPANY

TO

FIRST UNION NATIONAL BANK
Trustee

Dated as of October 15, 2001

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-EIGHTH SUPPLEMENTAL INDENTURE, dated as of the Fifteenth day of October 2001, 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 Town of Morristown, 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 $\frac{3}{8}$ Bond, Series X (herein called the "Series X Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 1998, Water Company executed and delivered to Trustee a Twenty-Fourth Supplemental Indenture of Mortgage (herein called the "Twenty-Fourth Supplemental Indenture") to secure its First Mortgage Scheduled Interest Rate Bond, Series Y (herein called the "Series Y Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 1999, Water Company executed and delivered to Trustee a Twenty-Fifth Supplemental Indenture of Mortgage (herein called the "Twenty-Fifth Supplemental Indenture") to secure its First Mortgage 0 $\frac{3}{8}$ Bond, Series Z (herein called the "Series Z Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 1999, Water Company executed and delivered to Trustee a Twenty-Sixth Supplemental Indenture of Mortgage (herein called the "Twenty-Sixth Supplemental Indenture") to secure its First Mortgage Scheduled Interest Rate Bond, Series AA (herein called the "Series AA Bond"), and

otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 2001, Water Company executed and delivered to Trustee a Twenty-Seventh Supplemental Indenture of Mortgage (herein called the "Twenty-Seventh Supplemental Indenture") to secure its First Mortgage 0% Bond, Series BB (herein called the "Series BB 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh Supplemental Indentures and

by this Twenty-Eighth 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 \$2,440,000.00 designated Series CC and to be known as its "First Mortgage Scheduled Interest Rates Bonds, Series CC" (herein called the "Series CC Bond"), it being the intention of the parties that the Series CC 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 CC Bond shall be issued to fund payment of the principal of \$2,440,000.00, the amount of the Loan borrowed from the New Jersey Environmental Infrastructure Trust (the "Trust") under the Loan Agreement dated as of November 1, 2001 (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 and the spot replacement of water mains,

hydrants, service lines and valves 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 CC Bond be issued to the Trust, that such Bond evidence the payment obligations of the Water Company under Section 2.02(m) of the Loan Agreement, that payments under the Series CC Bond be made to the Loan Servicer (as defined in the Loan Agreement) for the account of the Trust, that the Series CC 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 CC Bond, that the obligations of the Water Company under the Series CC 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 CC 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 CC 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, the Twenty-Second, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh Supplemental Indentures (to the extent applicable) necessary to make the Series CC 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-Eighth 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, the Twenty-Second, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh 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-Eighth 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-Eighth 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the

Twenty-Sixth and the Twenty-Seventh Supplemental Indentures, or intended to be (including without limitation all such property acquired by Water Company since October 15, 2001, 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh 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-Eighth 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 CC

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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh Supplemental Indentures and by this Twenty-Eighth 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 CC". The Series CC 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, 2001; and shall be issued in non-negotiable form to the Trust. The Series CC Bond shall bear interest from the date of issuance of the Series CC 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 15, 2021, 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 1, 2001 Order (Docket No. WF01050336) 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 CC 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 \$2,440,000.00 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 CC 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 CC Bond is subject to assignment or transfer in accordance with the terms of the Loan Agreement. The Series CC 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 CC 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, the Twenty-Third, Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh Supplemental Indentures, it shall be a default under this Twenty-Eighth 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 CC 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 CC 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-Eighth Supplemental Indenture as Exhibit A; and shall contain appropriate references to this Twenty-Eighth 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and Twenty-Seventh Supplemental Indentures and appropriate changes with respect to the aggregate principal amount, interest rate, redemption dates and provisions, and maturity date of the Series CC 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 CC 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh Supplemental Indentures, forthwith upon the execution and delivery of this Twenty-Eighth Supplemental Indenture, or from time to time thereafter, Series CC Bond in an aggregate principal amount of \$2,440,000.00 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 CC 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-Eighth 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh Supplemental Indentures, and as modified and extended by this Twenty-Eighth 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh 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, Series X, Series Y, Series Z, Series AA and Series BB Bonds shall apply to the Series CC 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth and the Twenty-Seventh Supplemental Indentures to the Mortgage or any of such Supplemental Indentures shall be construed as also referring to this Twenty-Eighth 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 CC Bond shall not be amended by, and the Series CC 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-Eighth 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and this Twenty-Eighth Supplemental Indenture set forth. The Trustee also hereby agrees to execute and deliver the Escrow Agreement (as defined in the Loan Agreement).

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

Section 5. This Twenty-Eighth 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-Eighth Supplemental Indenture, for convenience and for the purpose of reference, is dated as of October 15, 2001, 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 CC Bonds by Water Company.

Section 7. In any case where the payment of principal of the Series CC Bond or the date fixed for redemption of any Series CC 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 Servicer 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, 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

____s/MFR_____
Marion F. Reynolds
Vice President, Secretary
and Treasurer

By: ____s/DGS_____
Dennis G. Sullivan
President

ATTEST: FIRST UNION NATIONAL BANK

- -----
Rick Barnes
Assistant Vice President

By: ____s/TJB_____
Thomas J. Brett
Corporate Trust Officer

STATE OF NEW JERSEY:

: ss:

COUNTY OF ESSEX :

BE IT REMEMBERED, that on this _____ day of _____, 2001, 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-Eighth Supplemental Indenture; that she is the attesting witness to said Twenty-Eighth 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 Dennis G. Sullivan is President of said corporation; that this deponent saw the said Dennis G. Sullivan as such President sign said Twenty-Eighth 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.

_____/s/MFR_____
Marion F. Reynolds

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

_____/s/PJH_____
Peter D. Hutcheon, Esq.
Attorney-At-Law, State of New Jersey

STATE OF NEW JERSEY:

: ss:

COUNTY OF ESSEX :

BE IT REMEMBERED, that on this day of ,
2001, before me, the subscriber, personally appeared Rick Barnes, 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-Eighth Supplemental Indenture; that he is the attesting witness to said
Twenty-Eighth 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-Eighth 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 said corporation.

Rick Barnes
Assistant Vice President

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

LOAN AGREEMENT

BY AND BETWEEN

NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

AND

MIDDLESEX WATER COMPANY

DATED AS OF NOVEMBER 1, 2001

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of this November 1, 2001, 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 Sections 22 and 22.1 of the Act, will issue its Trust Bonds on or prior to the Loan Closing for the purpose of making the Loan to the Borrower and the Loans to the Borrowers from the proceeds of the Trust Bonds to finance a portion of the 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 Sections 20 and 20.1 of the Act, has in the form of an appropriations act approved a project priority list that includes the Project and that authorizes an expenditure of proceeds of the Trust Bonds to finance a portion of the 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 applicable Bond Act (as defined in the Fund Loan Agreement), and the Regulations, the Borrower has been awarded a Fund Loan for a portion of the 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 2001B", as adopted by the Board of Directors of the Trust on or about September 17, 2001, 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 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 October 15, 2001 and entitled "TWENTY-EIGHTH 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 may from time to time be amended and supplemented.

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

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

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

"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 Fund Loan Agreement dated as of November 1, 2001 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.

"Fund Loan Agreement" means the loan agreement dated as of November 1, 2001 by and between the Borrower and the State, acting by and through the New Jersey Department of Environmental Protection, regarding the terms and conditions of the Fund Loan.

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

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

"Loan" means the loan made by the Trust to the Borrower to finance or refinance a portion of the 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, Commerce Bank, National Association, 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, 2001 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 Commerce Bank, National Association, 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 and which may be identified under

either the Drinking Water or Clean Water Project Lists as Project #12250001-006/7.

"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, The Bank of New York, 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 and pursuant to the laws of the State, including the Business Corporation Law.

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

existing orders of any court or governmental or administrative agency, authority or person to which the Borrower, its Environmental Infrastructure System or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon the authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond, the issuance of the Borrower Bond and the sale thereof to the Trust, the adoption of the Borrower Bond Resolution or the receipt of the amount of the Loan, would constitute an Event of Default hereunder. 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 other amounts due hereunder or otherwise to observe and perform its duties, covenants, obligations and agreements under this Loan Agreement and the Borrower Bond.

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

(g) Compliance with Law. The Borrower:

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

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

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the Trust as described in Exhibit B attached hereto and made a part hereof (i) to finance or refinance a portion of the 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 and irrevocably promises, in accordance with the terms of and to the extent provided in the Borrower Bond Resolution, to make punctual payment of the principal and redemption premium, if any, of the Loan and the Borrower Bond, the Interest on the Loan, the Interest on the Borrower Bond and all other amounts due under this Loan Agreement and the Borrower Bond according to their respective terms.

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

(c) Borrower Bond; No Prior Liens. Except for (i) the Borrower Bond, (ii) any bonds 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 permit the disposition of all or substantially all of its Environmental Infrastructure System, directly or indirectly, including, without limitation, by means of sale, lease, abandonment, sale of stock, statutory merger or otherwise (collectively, a "Disposition"), except on ninety (90) days' prior written notice to the Trust, and, in any event, shall not permit a Disposition unless the following conditions are met: (i) the Borrower shall, in accordance with Section 4.02 hereof, assign this Loan Agreement and the Borrower Bond and its rights and interests hereunder and thereunder to the purchaser or lessee of the Environmental Infrastructure System, and such purchaser or lessee shall assume all duties, covenants, obligations and agreements of the Borrower under this Loan Agreement and the Borrower Bond; and (ii) the Trust shall by appropriate action determine, in its sole discretion, that such sale, lease, abandonment or other disposition will not adversely affect (A) the Trust's ability to meet its duties, covenants, obligations and agreements under the Bond Resolution, (B) the value of this Loan Agreement or the Borrower Bond as security for the payment of Trust Bonds and the interest thereon, or (C) the excludability from gross income for federal income tax purposes of the interest on Trust Bonds then outstanding or that could be issued in the future.

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

(1) 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(l) hereof, or (b) an Event of Default has occurred and is continuing under the Bond Resolution or this Loan Agreement. Although the Trust intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the 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 Bond Act, and the Regulations, the Borrower shall have timely applied for, shall have been awarded and, prior to or simultaneously with the Loan Closing, shall have closed a Fund Loan for a portion of the Allowable Costs (as defined in such regulations) of the Project in an amount not in excess of the amount of Allowable Costs of the Project 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, 2003, 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, 2002, 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, 2002, during the term of the Loan.

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

SECTION 3.04. 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, 2001 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, 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 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 be applied by the Loan Servicer first to satisfy such Trust Bond Loan Repayment deficiency as a credit against the obligations of the Borrower to make payments of the Interest Portion under the Loan and the Borrower Bond, second, to the extent available, to make Trust Bond Loan Repayments of principal hereunder and payments of principal under the Borrower Bond, third, to the extent available, to pay the Administrative Fee, fourth, to the extent available, to pay any late charges hereunder, fifth, to the extent available, to satisfy the repayment of the Borrower's Fund Loan under its related loan agreement therefor, and finally, to the extent available, to satisfy the repayment of the administrative fee under any such related loan agreement.

(c) The Borrower hereby further acknowledges that any loan repayments paid by the Borrower on its Fund Loan under the related loan agreement therefor shall be applied (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 make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

(c) failure by the Borrower to pay, or cause to be paid, the Administrative Fee or any late charges incurred hereunder or any portion thereof when due or to observe and perform any duty, covenant, obligation or agreement on its part to be observed or performed under this Loan Agreement, other than as referred to in subsection (a) of this Section 5.01 or other than the obligations of the Borrower contained in Section 2.02(d) (ii) hereof and in Exhibit F hereto, which failure shall continue for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the Trustee may not unreasonably withhold its consent to an extension of such time up to 120 days from the delivery of the written notice referred to above if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Event of Default is corrected;

(d) any representation made by or on behalf of the Borrower contained in this Loan Agreement, or in any instrument furnished in compliance with or with reference to this Loan Agreement or the Loan, is false or misleading in any material respect;

(e) a petition is filed by or against the Borrower under any federal or state bankruptcy or insolvency law or other similar law in effect on the date of this Loan Agreement or thereafter enacted, unless in the case of any such petition filed against the Borrower such petition shall be dismissed within thirty (30) days after such filing and such dismissal shall be final and not subject to appeal; or the Borrower shall become insolvent or bankrupt or shall make an assignment for the benefit of its creditors; or a custodian (including,

without limitation, a receiver, liquidator or trustee) of the Borrower or any of its property shall be appointed by court order or take possession of the Borrower or its property or assets if such order remains in effect or such possession continues for more than thirty (30) days;

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

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

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

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

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

SECTION 5.04. Attorneys' Fees and Other Expenses. The Borrower shall on demand pay to the Trust or the Trustee the reasonable fees and expenses of attorneys and other reasonable expenses (including, without limitation, the reasonably allocated costs of in-house counsel and legal staff) incurred by either of them in the collection of Trust Bond Loan Repayments or any other sum

due hereunder or in the enforcement of the observation or performance of any other duties, covenants, obligations or agreements of the Borrower upon an Event of Default.

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

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

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

ARTICLE VI

MISCELLANEOUS

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

The Bank of New York
385 Rifle Camp Road
West Paterson, New Jersey 07424
Attention: Corporate Trust Department

(c) Loan Servicer:

Commerce Bank, National Association
1701 Route 70 East
Cherry Hill, New Jersey 08034
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
Secretary

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

By: /DGS _____
Authorized Officer

 /MFR _____
Authorized Officer

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

By: _____
Peter Lawrance
Acting State Treasurer

[Signature Page]

M O R T G A G E

TWENTY-NINTH SUPPLEMENTAL INDENTURE

MIDDLESEX WATER COMPANY

TO

FIRST UNION NATIONAL BANK
Trustee

Dated as of January 15, 2002

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-NINTH SUPPLEMENTAL INDENTURE, dated as of the Fifteenth day of January 2002, 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 Town of Morristown, 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, as of October 15, 1998, Water Company executed and delivered to Trustee a Twenty-Fourth Supplemental Indenture of Mortgage (herein called the "Twenty-Fourth Supplemental Indenture") to secure its First Mortgage Scheduled Interest Rate Bond, Series Y (herein called the "Series Y Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 1999, Water Company executed and delivered to Trustee a Twenty-Fifth Supplemental Indenture of Mortgage (herein called the "Twenty-Fifth Supplemental Indenture") to secure its First Mortgage 0% Bond, Series Z (herein called the "Series Z Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 1999, Water Company executed and delivered to Trustee a Twenty-Sixth Supplemental Indenture of Mortgage (herein called the "Twenty-Sixth Supplemental Indenture") to secure its First Mortgage Scheduled Interest Rate Bond, Series AA (herein called the "Series AA Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 2001, Water Company executed and delivered to Trustee a Twenty-Seventh Supplemental Indenture of Mortgage (herein called the "Twenty-Seventh Supplemental Indenture") to secure its First Mortgage 0% Bond, Series BB (herein called the "Series BB Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 2001, Water Company executed and delivered to Trustee a Twenty-Eighth Supplemental Indenture of Mortgage (herein called the "Twenty-Eighth Supplemental Indenture") to secure its First Mortgage Scheduled Interest Rates Bond, Series CC (herein called the "Series CC 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh, the Twenty-Eighth Supplemental Indentures and by this Twenty-Ninth 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 \$6,000,000.00 designated Series DD and to be known as its "First Mortgage 5.10% Bonds, Series DD" (herein called the "Series DD Bond"), it being the intention of the parties that the Series DD 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 DD Bonds shall be issued to refund the Company's Series R Bonds, the proceeds of which were used to finance the construction and installation of water and functionally related equipment, distribution, storage facilities and transmission main facilities and the expansion of existing water treatment facilities, all of which was for the purpose of supplying water to the Project Municipalities (as such term is defined in the below defined Authority Loan Agreement) located within the County of Middlesex, New Jersey (the "Project Facilities" or the "Project"), and to support payment of principal of and interest on the Water Facilities Revenue Refunding Bonds, Series 2002 (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 January 15, 2002, by and between the New Jersey Economic Development Authority and Water Company; 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, the Twenty-Second, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth Supplemental Indentures (to the extent applicable) necessary to make the Series DD 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-Ninth 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, the Twenty-Second, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth 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-Ninth 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-Ninth 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth Supplemental Indentures, or intended to be (including without limitation all such property acquired by Water Company since October 15, 2001, 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth 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-Ninth 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 5.10% Bonds, Series DD

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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth Supplemental Indentures and by this Twenty-Ninth Supplemental Indenture, and to be designated as, and to be distinguished from the bonds of all other series by the title, "First Mortgage 5.10% Bonds, Series DD". The Series DD Bonds shall be issued only as registered bonds without coupons in denominations of \$5,000 and any integral multiple thereof; shall be dated January 15, 2002; and shall be issued in non-negotiable form to THE BANK OF NEW YORK, as trustee under a Trust Indenture dated as of January 15, 2002 (the "Trust Indenture") by and between the New Jersey Economic Development Authority (the "Authority") and THE BANK OF NEW YORK, as trustee (the "Loan Trustee") with respect to the Authority Bonds. The Series DD Bonds shall bear interest from the date of issuance of the Series DD 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 ten one-hundredths per cent (5_.10%) per

annum, payable semi-annually on the Business Day prior to January 1 and July 1, in each year, commencing the Business Day prior to July 1, 2002; 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 January 1, 2032, which payment shall be made on the business day prior to January 1, 2032, and shall be redeemable (i) at the option of the Water Company with, to the extent required by the November 20, 2001 Order 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 January 1, 2012 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 - December 31, 2011	Not Optionally Redeemable
January 1, 2012 to December 31, 2012	101%
January 1, 2013 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 DD 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 DD 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, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh and Twenty-Eighth Supplemental Indentures, it shall be a default under this Twenty-Ninth Supplemental Indenture if (a) payment of principal of the Series DD 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 DD 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 DD 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 DD 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 Project Fund established under the Trust Indenture [hereinafter defined] after payment of all costs of the Project, in which case the Series DD 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 Refunding Bonds, Series 2002 [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 January 15, 2002 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 under Section 103 of the Code and not from any other federal tax consequences arising with respect to the Authority Bonds. Water Company shall promptly (1) notify the Loan 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 the Series DD 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 January 15, 2002 by and between the Authority and The Bank of New York, 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 DD 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

The Series DD Bond is 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 Water 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 Water Company in the Authority Loan Agreement or in any document furnished in connection with the Authority Loan Agreement shall prove to be false or misleading in any material respect when made.

Extraordinary Optional Redemption

The Series DD 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 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 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, in which case such redemption shall be in whole only at anytime and not in part, 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, in which case such redemption shall be in whole at any time or in part on any interest payment date.

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 DD 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 DD 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-Ninth Supplemental Indenture as Exhibit A; and shall contain appropriate references to this Twenty-Ninth 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and Twenty-Eighth Supplemental Indentures and appropriate changes with respect to the aggregate principal amount, interest rate, redemption dates and provisions, and maturity date of the Series DD 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 DD Bond 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, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth Supplemental Indentures, forthwith upon the execution and delivery of this Twenty-Ninth Supplemental Indenture, or from time to time thereafter, Series DD Bond in an aggregate principal amount of \$6,000,000.00 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 DD 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-Ninth 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 DD 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
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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth Supplemental Indentures, and as modified and extended by this Twenty-Ninth 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth

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, Series X, Series Y, Series Z, Series AA, Series BB and Series CC Bonds shall apply to the Series DD 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, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh and the Twenty-Eighth Supplemental Indentures to the Mortgage or any of such Supplemental Indentures shall be construed as also referring to this Twenty-Ninth 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 DD Bond shall not be amended by, and the Series DD 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-Ninth 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, the Twenty-Third, the Twenty-Fourth, the

Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh, the Twenty-Eighth and this Twenty-Ninth 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 DD Bonds.

Section 5. This Twenty-Ninth 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-Ninth Supplemental Indenture, for convenience and for the purpose of reference, is dated as of January 15, 2002, 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 DD Bonds by Water Company.

Section 7. In any case where the payment of principal of the Series DD Bond or the date fixed for redemption of any Series DD 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 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, 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: _____
Dennis G. Sullivan
President

ATTEST: FIRST UNION NATIONAL BANK

- -----
Rick Barnes
Assistant Vice President

By: _____
Thomas J. Brett
Corporate Trust Officer

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

BE IT REMEMBERED, that on this 6th day of February, 2002, 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-Ninth Supplemental Indenture; that she is the attesting witness to said Twenty-Ninth 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 Dennis G. Sullivan is President of said corporation; that this deponent saw the said Dennis G. Sullivan as such President sign said Twenty-Ninth 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.

Peter D. Hutcheon, Esq.
Attorney-At-Law, 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 to locate, remain or expand within the State by making available financial assistance; 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 in 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, the Company has applied to the Authority for financial assistance in the aggregate principal amount of \$6,000,000, the proceeds to be used to refund the Authority's Water Facilities Revenue Bonds (Middlesex Water Company Project), Series 1991 (the "Prior Bonds"), the proceeds of which were used to finance the construction and installation of water and functionally related equipment, distribution facilities, storage facilities and transmission main facilities and the expansion of existing water treatment facilities, all for the purpose of supplying water to the Project Municipalities (as defined herein) located within the County of Middlesex, New Jersey (the "Project Facilities" or the "Project"); and

WHEREAS, the Authority has by resolution, duly adopted in accordance with the Act on December 11, 2001, (the "Resolution") authorized the issuance of \$6,000,000 aggregate principal amount of its Water Facilities Revenue Refunding Bonds (Middlesex Water Company Project), Series 2002 for the purpose of making a loan to the Company to refinance the costs of the Project; and

WHEREAS, the Authority contemporaneously with the execution and delivery of this Loan Agreement shall enter into a Trust Indenture dated as of January 15, 2002 (the "Indenture") wherein the Authority has assigned certain of its rights under this Loan Agreement to the Trustee under the Indenture for the benefit of the Holders from time to time of the Bonds; and

WHEREAS, the execution and delivery of this Loan Agreement have been duly authorized by the parties hereto and all conditions, acts and things necessary and required by the Constitution or statutes of the State of New Jersey or otherwise to exist, to have happened, or to have been performed precedent to or in the execution and delivery of this Loan Agreement do exist, have happened and have been performed.

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

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. As used herein, the following terms shall have the following meanings unless a different meaning clearly appears from the context and terms not otherwise defined herein shall have the meaning provided in the Indenture:

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

"AMT" shall mean the alternative minimum tax imposed on individuals and corporations by the Code;

"Application" shall mean the Company's Application for Refunding NJEDA Bonds to the Authority, dated August 29, 2001, seeking financial assistance for the Project, and all attachments, exhibits, correspondence and modifications submitted in writing to the Authority in connection with said application;

"Article" shall mean a specified article hereof, unless otherwise indicated;

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

"Authorized Authority Representative" shall mean any officer or officers duly authorized by the Authority to act on its behalf as set forth in the definition of Authority Officer in the Indenture;

"Authorized Company Representative" shall mean any officer duly authorized by the Company in writing to act on its behalf, including the President, any Vice President, the Secretary, the Treasurer, and any Assistant Treasurer of the Company;

"Bond" or "Bonds" means the Authority's \$6,000,000 aggregate principal amount of Water Facilities Revenue Refunding Bonds (Middlesex Water Company Project), Series 2002 authenticated and delivered pursuant to the Indenture;

"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;

"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 Bond or Bonds, respectively;

"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 Bonds, as provided therein;

"Bond Insurer" means AMBAC Indemnity Corporation, a Wisconsin domiciled stock insurance company, or any successor thereto;

"Bond Proceeds" shall mean the amount paid to the Authority by the Underwriter as the purchase price of the Bonds, and accrued interest;

"Bond Purchase Agreement" shall mean the bond purchase agreement dated January 16, 2002 between the Underwriter, the Authority and the Company;

"Bond Redemption Fund" shall mean the bond redemption fund established under Section 5.05 of the Indenture;

"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 Underwriter, and ending on the date one (1) year later or the close of business of 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;

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

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

"Counsel for the Company" shall mean the law firm of Norris, McLaughlin & Marcus, P.A., Somerville, New Jersey;

"Debt Service" shall mean the scheduled amount of interest and amortization of principal payable for any Bond Year with respect to the Bonds as defined in Section 148(d)(3)(D) of the Code;

"Event of Default" shall mean any event of default as defined in Section 8.01;

"First Mortgage Bonds" shall mean any of the bonds of the Company issued under the Mortgage Indenture and designated First Mortgage 5.10% Bonds, Series DD in the aggregate principal amount of \$6,000,000, attached as Exhibit A hereto;

"Fiscal Year" shall mean (12) months ending December 31st 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 Project Fund;

"General Certificate of the Authority" shall mean the General Certificate of the Authority which is made a part of the Record of Proceedings;

"Gross Proceeds" shall have the meaning given it in Section 148(f)(6)(B) of the Code, presently including, without limitation, the original proceeds of the Bonds, investment proceeds, amounts held in a sinking fund, amounts invested in a Reasonably Required Reserve or Replacement Fund (as defined in Section 148(d) of the Code), any amounts used to pay Debt Service on the Bonds and any amounts received as a result of investing any of the foregoing. Gross proceeds shall not include Gross Proceeds held in a bona fide debt service fund to the extent that the earnings on such fund do not exceed \$100,000 in any one Bond Year;

The terms "herein", "hereunder", "hereby", "hereto", "hereof", and any similar terms, refer to this Loan Agreement; the term "heretofore" means before the date of execution of this Loan Agreement; and the term "hereafter" means after the date of execution of this Loan Agreement;

"Indemnified Parties" shall mean the State, the Authority, the Underwriter, the Trustee, the Paying Agent, any Person who "controls" the State, the Authority, the Paying Agent, the Underwriter or the Trustee within the meaning of Section 15 of the Securities Act of 1933, as amended, and any member, officer, official, employee, agent or attorney of the Authority, the Underwriter, the State, the Paying Agent or the Trustee;

"Indenture" shall mean the trust indenture dated as of January 15, 2002 by and between the Authority and the Trustee with respect to the Bonds;

"Investment Obligations" shall have the meaning given in the Indenture;

"Issue Date" shall mean February 6, 2002;

"Loan" or "Loans" shall mean the loan from the Authority to the Company in the aggregate principal amount of \$6,000,000, under the terms and conditions provided for herein;

"Loan Agreement" or "Agreement" shall mean this Loan Agreement;

"Loan Documents" shall mean any or all of this Loan Agreement, the Indenture, the Twenty Ninth Supplemental Indenture, the First Mortgage Bonds, the Bond Purchase Agreement and all documents and instruments executed in connection therewith;

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

"Net Proceeds" shall mean the Bond Proceeds less any amounts placed in a Reasonably Required Reserve or Replacement Fund (as defined in Section 148(d) of the Code);

"Non-Purpose Obligations" shall mean any "investment property" (within the meaning of Section 148(b)(2) of the Code) which is (i) acquired with the Gross Proceeds of the Bonds and (ii) not acquired in order to carry out the governmental purpose of the Bonds;

"Obligations" shall mean the obligations of the Company created pursuant to the Loan Documents and secured by the Loan Documents;

"Official Statement" shall collectively mean the Preliminary Official Statement of the Authority relating to the Bonds dated January 9, 2002 and the final Official Statement of the Authority relating to the Bonds dated January 16, 2002;

"Paragraph" shall mean a specified paragraph of a Section, unless otherwise indicated;

"Person" or "Persons" shall mean any individual, corporation, partnership, joint venture, trust, or unincorporated organization, or a governmental agency or any political subdivision thereof;

"Principal User" shall mean any principal user within the meaning of the proposed amendments to Treas. Reg. Sec. 1.103-10 published by the Internal Revenue Service in the Federal Register on February 21, 1986 or any Related Person to a Principal User within the meaning of Section 144(a) of the Code;

"Prior Bonds" shall mean the Bonds referenced in the recitals hereto;

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

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

"Project Fund" shall mean the fund so designated and established pursuant to Section 4.01 of the Indenture;

"Project Municipality" shall collectively mean Borough of Carteret, Township of Edison, Borough of Highland Park, Borough of Metuchen, City of New Brunswick, Township of Old Bridge, Borough of Sayreville, Borough of South Plainfield, Township of Woodbridge, Middlesex County, New Jersey;

"Qualified Administrative Costs" means all reasonable, direct administrative costs (other than carrying costs) such as separately stated brokerage or selling commissions, but not legal and accounting fees, record keeping, custody and similar costs. General overhead costs and similar indirect costs of the Company such as employee salaries and office expenses and costs associated with computing the Rebate Amount are not Qualified Administrative Costs. In general, administrative costs are not reasonable unless they are comparable to administrative costs that would be charged for the same Investment or a reasonably comparable Investment if acquired with a source of funds other than gross proceeds of Tax-Exempt bonds;

"Rebate Expert" means any of the following chosen by the Company: (a) Bond Counsel, (b) any nationally recognized firm of certified public accountants, (c) any reputable firm which offers to the tax-exempt bond industry rebate calculation services and holds itself out as having expertise in that area, or (d) such other person as is approved by Bond Counsel;

"Rebate Fund" shall mean the special fund maintained by the Trustee at its offices and established for the deposit of the amounts to be paid to the United States on behalf of the Authority pursuant to Section 3.06 hereof and described in Section 5.09 of the Indenture;

"Record of Proceedings" shall mean the Loan Documents, certificates, affidavits, opinions and other documentation executed in connection with the sale of the Bonds and the making of the Loan;

"Regulations" shall mean the regulations (whether permanent or temporary) promulgated by the Internal Revenue Service and Department of the Treasury pursuant to the Code;

"Related Bonds" shall have the meaning given in Section 2.02 hereof;

"Related Person" shall mean a related person within the meaning of Section 144(a)(3) or Section 147(a) of the Code, as is applicable;

"Reserved Rights" means the rights of the Authority to receive payments and notices under this Loan Agreement or any other Loan Document, to consent to any amendments, modifications or supplements to this Loan Agreement or any other Loan Document, to enforce pursuant to Article VIII hereof the Defaults and Remedies herein and the covenants or other provisions in this Loan Agreement under the following Sections of this Loan Agreement: 5.06 (Important

Inducement), 5.07 (No Untrue Statements), 6.01 (Access to the Project and Inspection), 6.02 (Further Assurance and Corrective Instruments), 6.03 (Recording and Filing; Other Instruments), 6.04 (Compliance with Code, Arbitrage and Rebate Regulations), 6.05 (Administrative Expenses), 6.06 (Indemnity Against Claims), 6.07 (Indemnification of Authority and Trustee), 6.08 (Additional Information), 6.09 (Maintain Existence), 6.10 (Use of Project), Section 6.11 (Change in Location), 6.12 (Additional Reporting Requirements), 6.13 (Observe Laws), 6.14 (Number of Employees), 6.15 (Authority Consent to Sale of Assets), 6.16 (Approval of Tenants), 6.18 (Continuing Disclosure), 7.02 (Insurance Required), 7.03 (General Requirements Applicable to Insurance), 7.04 (Payment of Taxes), 7.05 (Compliance with Applicable Laws), 7.09 (Assignment of Loan Agreement), 7.10 (Transfer of Project Facilities), 8.01 (Events of Default), 8.02 (Remedies), 8.05 (Agreement to Pay Attorney's Fees and Expenses), 8.08 (Authority May File Claim in Bankruptcy), 9.01 (Notices), 9.03 (Expenses and Fees), 9.07 (Assignment of Loan Documents), 9.08 (Further Assurances and Corrective Instruments). These Reserved Rights have been assigned to the Trustee but are also held and retained by the Authority concurrently with the Trustee and may be exercised and enforced whether or not the Trustee shall have exercised or shall have purported to exercise such rights and remedies, without limiting the obligation of the Trustee to do so;

"Resolution" shall collectively mean the resolution of the Authority dated December 11, 2001, authorizing the issuance and sale of the Bonds and determining other matters in connection therewith;

"Revenue Fund" shall mean the fund so designated and established pursuant to Section 5.01 of the Indenture;

"Section" shall mean a specified section hereof, unless otherwise indicated;

"State" shall mean the State of New Jersey;

"Substantial User" shall mean a substantial user of the Project or any Related Person to a Substantial User within the meaning of Section 147(a) of the Code;

"Supplemental Mortgage Indenture" means the Twenty Ninth Supplemental Mortgage Indenture;

"Tax Certificate" shall mean the certificate executed by the Company in form and substance acceptable to the Authority, wherein the Company certifies as to such matters as the Authority shall require;

"Trustee" shall mean The Bank of New York, in West Paterson, New Jersey, or any successor thereto appointed under the terms of the Indenture;

"Twenty Ninth Supplemental Indenture" means the twenty ninth supplement to the Mortgage Indenture, dated as of April 1, 1927, by and between the Company and First Union National Bank, as successor trustee, dated as of January 15, 2002;

"Underwriter" shall mean Commerce Capital Markets, Inc.;

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

"Yield Reduction Payments" means payments made to the United States with respect to any Nonpurpose Investment allocated to the Bonds that (i) are paid at the same time and the same manner as Rebate Amounts are required to be paid and (ii) are paid with respect to Investments that are allocable to Gross Proceeds that previously qualified for a temporary investment period that has since expired.

Capitalized terms used herein and not defined herein shall have the same meanings ascribed to them in the Indenture.

ARTICLE II

THE LOAN

Section 2.01. The Loan. The Authority agrees, upon the terms and subject to the conditions hereinafter set forth, to make the Loan to the Company for the purposes set forth in the recitals hereinabove:

(i) Opinion of Counsel for the Company. The Authority, the Underwriter and the Bond Insurer shall have received the opinion of Counsel for the Company, substantially in the form required by the Bond Purchase Agreement, dated the date of issuance and delivery of the Bonds, addressed to the Authority, the Bond Insurer and the Underwriter, and satisfactory in form and substance to Bond Counsel.

(ii) Opinion of Bond Counsel. The Authority, the Underwriter, the Company and the Bond Insurer shall have received the opinion of Bond Counsel, substantially in the form required by the Bond Purchase Agreement that interest income on the Bonds is exempt from inclusion as gross income under the Code (except that interest on the Bonds is subject to AMT); that the offering of the Bonds and the First Mortgage Bonds are not required to be registered under the Securities Act of 1933, as amended, or under the rules and regulations promulgated thereunder; and that the Bonds have been duly authorized and issued under the provisions of the Act.

(iii) Opinion of Bond Insurer. The Authority shall have received the opinion of counsel to the Bond Insurer substantially in the form required by the Bond Purchase Agreement.

(iv) Loan and Other Documents. The Authority shall have received:

(a) the Loan Documents duly executed by all parties thereto;

(b) an order of the New Jersey Board of Public Utilities evidencing approval of the financing;

(c) certificates, in form and substance acceptable to the Authority, the Bond Insurer and the Underwriter, evidencing the insurance required to be maintained by this Loan Agreement;

(d) the Tax Certificate, in form and substance satisfactory to Bond Counsel;

(e) \$474,066.19 from the Company for deposit in the Project Fund for payment of the redemption price of the Prior Bonds; and

(f) \$89,075.65 from the Company for deposit in the Project Fund for the payment of the costs of issuance of the Bonds; and

(g) all other documents required by Section 3.02 of the Indenture.

(v) Legal Matters. Legal matters in connection with the making of the Loan shall be satisfactory to the Authority, the Trustee, the Underwriter, the Company and their respective counsel.

(vi) Bond Issuance Fee. The Authority shall have received from the Company the bond issuance fee of \$15,000.

Section 2.02. First Mortgage Bonds. To evidence the Loan to the Company, the Company shall execute and deliver to the Trustee Non-Negotiable First Mortgage 5.10% Bonds, Series DD in the principal amount of \$6,000,000 in order to secure the repayment of the Bonds. The form and nature of the First Mortgage Bonds to be delivered by the Company is set forth and described in Exhibit A attached hereto and the First Mortgage Bonds shall be in substantially such form, with such variations in principal amounts, interest rates, interest payment and maturity dates and prepayment or redemption provisions as may be necessary to correspond to such provisions of the Bonds issued by the Authority.

Each First Mortgage Bond shall:

(a) be payable to the Trustee, registered in the name of the Trustee and be non-transferable except to a successor Trustee;

(b) be issued in the principal amount equal to the aggregate principal amount of the Bonds;

(c) provide for payments of interest equal to the payments of interest on the Bonds except that the Company shall receive a cash credit against its interest obligations equal to (i) accrued interest on the Bonds deposited with the Trustee at the time of issuance of the Bonds, if any, and (ii) such other moneys held at the time of such interest payment date by the Trustee in the Debt Service Fund and available for the payment of interest on such Bonds;

(d) require payments of principal, or principal plus a premium, equal to the stated maturities on the Bonds and the payment of all other amounts due under the Agreement;

(e) contain redemption provisions, or provisions in respect of the acceleration or prepayment of principal and premium, if any, equivalent to the redemption provisions of the Bonds; and

(f) require all payments on such First Mortgage Bonds to be made one Business Day prior to the due date for the corresponding payment to be made on the Bonds.

Section 2.03. Prepayment of Redeemed Bonds. An optional or extraordinary redemption of the Bonds shall only be effected upon written notice given by the Company to the Authority and the Trustee at least fifteen (15) days before the date upon which the Trustee is required to give notice to the Bondholders under the Indenture. The notice given by the Company shall specify the type of redemption, redemption price and date of redemption for the Bonds. On or before the date set for redemption in the Company's notice of redemption, the Company shall pay to the Trustee an amount equal to the then applicable redemption price for the First Mortgage Bonds relating to such Bonds or as a prepayment of the First Mortgage Bonds relating to such Bonds, plus interest accrued to the redemption date. Otherwise, the Authority will redeem any or all Bonds upon the occurrence of an event which gives rise to any mandatory redemption thereof upon notice given to the Trustee at least fifteen (15) days before the date upon which the Trustee is required to give notice to the Bondholders under the Indenture. In such event, the Company will pay to the Trustee, on or before the redemption date, an amount equal to the then applicable redemption price for the First Mortgage Bonds relating to such Bonds, or as a prepayment of the First Mortgage Bonds relating to such Bonds, an equal amount of principal and redemption premium, if any, of the First Mortgage Bonds relating to such Bonds, plus interest accrued to the redemption date.

Section 2.04. No Defense or Set-Off. The obligation of the Company to make the payments required under the First Mortgage Bonds and this Loan Agreement shall be absolute and unconditional without defense or set-off by reason of any default by the Authority under this Loan Agreement, or under any other agreement between the Company and the Authority, or for any other reason, it being the intention of the parties that the payments required by the First Mortgage Bonds and this Loan Agreement will be paid in full when due without any delay or diminution whatsoever.

Section 2.05. Deficiencies in Revenues. If, for any reason, amounts paid to the Trustee on the First Mortgage Bonds, together with other moneys held by the Trustee and then available, would not be sufficient to make payments of principal or redemption price of, and interest on, the Bonds and all other amounts due and owing under the Indenture when such payments are due, the Company will, immediately upon notice thereof, pay the amounts required to make up any such deficiency.

Section 2.06. Manner of Payment. The payments provided for herein shall be paid in immediately available funds, free of deductions and without any abatement, recoupment, diminution or set-off whatsoever, on the date on which such payment is due, directly to the Trustee for the account of the Authority and shall be deposited in the Revenue Fund, except that payments made pursuant to Sections 6.05, 6.06, 6.07, 8.05 and 9.03 hereof and Section 5.04(f) of the Indenture shall be made directly to the party to whom such payment is due and owing.

Section 2.07. Repayment of Loan. The Company will repay the Loan as provided for by the First Mortgage Bonds, as provided herein below. Before 3:00 p.m. (local time at the principal corporate trust office of the Trustee) one Business Day prior to each day on which any payment of either principal or redemption price of and interest on the Bonds, or both, shall become due (whether at maturity, or upon redemption or acceleration or otherwise), the Company will pay, in immediately available funds, an amount which, together with

other moneys held by the Trustee and available therefor, will enable the Trustee to make such payment of debt service on the Bonds in full in a timely manner. It is intended that payments made with respect to First Mortgage Bonds shall be made at such time and in such amounts as shall be sufficient to enable the Trustee to make timely payment of principal or redemption price and interest on the Bonds. In order to effect the repayment of the Loan with payments made on the First Mortgage Bonds the Company will cause payments of principal, redemption price, premium (if any) and interest to be made directly to the Trustee without surrender or presentation of such First Mortgage Bonds to the Mortgage Trustee under the Supplemental Mortgage Indenture. Such payments shall be made by bank wire transfer of federal or other immediately available funds to the following address or in such other manner or to such other accounts as the Trustee may from time to time direct in writing:

The Bank of New York
ABA 021000018
GLA #111-565
A/C #247047
Ref: Middlesex Water Company 2002 Series DD Mortgage Bond
Attn: Sharon Jaffe-Goser
Phone: (973) 357-7833
Fax: (973) 357-7840

ARTICLE III

PROJECT FUND

Section 3.01. Application of Bond Proceeds. In order to provide funds to make the Loan, the Authority concurrently with the execution and delivery of this Loan Agreement, will sell, issue and deliver the Bonds to the Underwriter and transfer the proceeds of the Bonds to the Trustee for deposit in the Project Fund, as provided in Article IV of the Indenture, to be disbursed as hereinafter provided and as provided in the Indenture. The Authority reserves the right to request a record of all disbursements from and/or investments of the Project Fund.

Section 3.02. Disbursement from the Project Fund. The Authority authorizes and directs the Trustee to make disbursement of the \$5,722,058.81 of net proceeds of the Bonds and \$474,066.19 of the funds deposited by the Company in the Project Fund to JPMorgan Chase Bank, the Trustee for the holders of the Prior Bonds. The remainder of the funds deposited by the Company in the Project Fund shall be used to pay the costs of issuance of the Bonds in accordance with the written directions given by the Company to the Trustee.

The Authority is hereby granted a security interest in the amounts on deposit in the Project Fund as security for the payment of the Bonds. Upon an Event of Default and the acceleration of the obligations of the Company hereunder, the Trustee shall apply any amounts on deposit in the Project Fund to the prepayment of the principal of and interest on the Loan, and, hence, to the payment of the Bonds, in accordance with Section 9.10 of the Indenture.

Section 3.03. Company Required to Pay if Project Fund Insufficient. In the event the moneys in the Project Fund available for payment of the costs of refunding the Prior Bonds and the costs related to the issuance of the Bonds are not sufficient to pay all such costs in full, the Company agrees to pay that portion of the cost in excess of the moneys available therefor in the Project Fund. The Authority and the Trustee make no warranty, either express or implied, that the moneys paid into the Project Fund and available for payment of the costs of the Project will be sufficient to pay all of such costs. The Company agrees that if, after disbursement of all the money in the Project Fund available for payment of costs of the refunding of the Prior bonds, the Company should pay any portion of such costs pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the Authority or the Trustee.

Section 3.04. Rebate Fund. The Indenture requires the Trustee to deposit all moneys paid by the Company pursuant to Section 6.04 hereof in the Rebate Fund. Investment earnings on all amounts so deposited in the Rebate Fund shall also be deposited in the Rebate Fund immediately upon receipt.

The Indenture provides that the Trustee shall make payments from the Rebate Fund to the United States on behalf of the Authority upon the written

direction of the Company in accordance with Section 6.04. The Company hereby confirms its covenant in Section 6.04 hereof to give the Trustee all such required written directions.

Section 3.05. Investment of the Funds. Any moneys held as a part of the Funds shall be invested and reinvested by the Trustee, only as directed in writing by the Company, in Investment Obligations; provided that in the absence of investment instructions to the contrary, the Trustee is hereby directed to invest such moneys in Goldman Sachs Treasury Obligations Portfolio, an Investment Obligation described in clause (v) of the definition of Investment Obligations.. The Trustee may make any and all such investments through its own investment department.

The Company shall direct investments of amounts in the Funds as provided in Section 6.02 of the Indenture so that such Investment Obligations shall mature in such amounts and at such times or shall be redeemable by the Trustee at such times as may be necessary to provide funds when, at the time of the investment, it is anticipated the same will be needed to make payments from the Funds in accordance with the provisions of Section 4.02 of the Indenture or to make payments from the Rebate Fund in accordance with the provisions of Section 3.04 hereof and Section 5.09 of the Indenture. To the extent required for payments from the Funds, the Trustee may, at any time, sell any of such Investment Obligations. The proceeds of any such sale, all payments at maturity and all payments upon redemption of such Investment Obligations shall be held in the respective Funds in which such investments income was derived and, as to the Project Fund, accounted for separate and apart from the proceeds from the sale of the Bonds.

Interest and other income received on Investment Obligations in the Project Fund shall, within the later of (i) three (3) years from the date of issuance of the Bonds or (ii) one (1) year after receipt of such investment income, be used to pay interest accruing on the Bonds or otherwise spent on other costs of refunding the Prior Bonds by the Company. In the event the moneys in the Project Fund are not spent within three (3) years from the date of issuance of the Bonds, the Company shall cause the Trustee to transfer such moneys to the Bond Redemption Fund and to invest such moneys at a Yield not materially higher than the Yield on the Bonds.

In making such investments as described in this Section, the Trustee may rely upon (i) the written direction of the Company as to the investment purchased and (ii) the direction contained herein that in the absence of investment instructions to the contrary, the Trustee shall invest such moneys in Investment Obligations described in clause (v) of the definition of Investment Obligations; and the Trustee shall be and hereby is relieved of all liability with respect to making, redeeming and selling such investments, so long as the Trustee has acted in accordance with the foregoing directions. In the absence of investment instructions, the Trustee shall invest such moneys in Investment Obligations described in clause (vii) thereof.

The Company shall be entitled to receive from the Trustee monthly and at such other times as the Company may reasonably request, a statement of account of any moneys held in the Funds by the Trustee.

Section 3.06. The Trustee. The Trustee shall act on behalf of the Bondholders under the Indenture and this Loan Agreement as specifically provided for herein and in the Indenture only insofar as its duties are expressly set forth and shall not have any implied duties but may exercise such additional powers as are reasonably incidental thereto. Neither the Trustee nor any of its officers, directors or employees shall be liable for any action taken or omitted to be taken by it hereunder or in connection herewith except for its or their own gross negligence or willful misconduct. The Trustee shall not be under a duty to examine or pass upon the validity, effectiveness or genuineness of any Loan Document or any direction, report, affidavit, certificate, opinion or other instrument, document or agreement related thereto, and shall be entitled to assume that the same are valid, effective, genuine and what they purport to be. The Trustee may consult with legal counsel selected by it, and any action taken or suffered by it in accordance with the opinion of such counsel shall be full justification and protection to it. The Trustee shall have the same rights and powers as any other bank or lender and may exercise the same as though it were not the Trustee; and it may accept deposits from, lend money to and generally engage in any kind of business with the Company as though it were not the Trustee.

ARTICLE IV

REPRESENTATIONS OF THE AUTHORITY

Section 4.01. Representations. The Authority hereby represents and agrees that:

(a) The Authority is a duly constituted public body corporate and politic, duly created and existing as an instrumentality of the State with the power and authority set forth in the Act, including the power and authority to authorize the issuance of the Bonds under the Act.

(b) Under the provisions of the Act, the Authority is duly authorized to enter into, execute and deliver the Loan Documents to which it is a party, to undertake the transactions contemplated by the Loan Documents to which it is a party and to carry out its obligations hereunder and thereunder.

(c) The Authority proposes to issue the Bonds in the total aggregate principal amount of \$6,000,000 to finance all or a portion of the Project.

(d) By duly adopted resolution, the Authority has duly authorized the execution, delivery and sale of the Loan Documents to which it is a party, including the borrowing under, issuance and sale of the Bonds and (as security for the Bonds) the pledge of the First Mortgage Bonds, to the Trustee. The Authority also has duly authorized the execution, delivery and performance of the Placement Agreement and has approved the section entitled the "Authority" and the Section entitled "Litigation" (as it pertains to the Authority) in the Official Statement.

(e) The Bonds will be issued under and pursuant to the Indenture and will mature, bear interest and have the other terms and provisions set forth or provided for in the Indenture.

(f) To the best knowledge of the Authority, the execution and delivery of and performance by the Authority of the Loan Documents to which the Authority is a party, including the Bond Purchase Agreement, under the circumstances contemplated thereby and hereby, do not and will not conflict with, or constitute a breach of or default under any indenture, deed of trust, mortgage, agreement or other instrument to which the Authority is a party, or conflict with, violate or result in a breach of, any existing law or public administrative rule or regulation, judgment, court order or consent decree presently applicable to the Authority (except for such consents and approvals as have heretofore been obtained).

(g) To the best knowledge of the Authority, no legislation, ordinance, rule or regulation has been enacted or introduced or formally reported by any governmental body, department or agency of the State, nor any decision rendered by any court of competent jurisdiction of the State which would adversely affect the excludability of the interest on tax-exempt bonds and obligations issued by the Authority from the gross income of any holder thereof for Federal income tax purposes.

(h) When duly executed and delivered on behalf of the Authority, and assuming the due authorization, execution and delivery by the Company of this Loan Agreement, and assuming the due authorization, execution and delivery by the Trustee of the Indenture, and assuming the due authorization, execution and delivery by the Company and the Underwriter of the Bond Purchase Agreement, each of the Loan Documents to which the Authority is a party and the Bond Purchase Agreement shall constitute a valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms, provided that the enforceability of the Loan Documents and the Bond Purchase Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or limiting creditors' rights generally and the application of general principles of equity.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents, covenants and warrants to the Authority that:

Section 5.01. Organization, Powers, etc. It is a corporation duly organized validly existing and in good standing under the laws of the State, has the power and authority to own its properties and assets and to carry on its business as now being conducted (and as now contemplated by the Company) and has the power to perform all the undertakings of the Loan Documents, to borrow hereunder and to execute and deliver the Loan Documents.

Section 5.02. Execution of Loan Documents. The execution, delivery and performance by the Company of the Loan Documents and other instruments required by this Loan Agreement:

(a) have been duly authorized by all requisite corporate action;

(b) do not and will not conflict with or violate any provision of law, rule or regulation, any order of any court or other agency of government;

(c) do not and will not conflict with or violate any provision of any charter document or by-laws of the Company;

(d) do not and will not violate or result in a default under any provision of the Mortgage Indenture or, result in any material default under any other indenture, agreement or other instrument;

(e) do not and will not result in the creation or imposition of any lien, charge or encumbrance of any nature on the assets of the Company, other than the liens created by the Loan Documents;

(f) have been duly executed and delivered by the Company and are enforceable against the Company in accordance with their terms, subject to the limitation that the enforceability of such documents may be limited by bankruptcy or other laws relating to or limiting creditors' rights generally and the application of general principles of equity.

Section 5.03. Litigation. Except as disclosed by the Company in the Official Statement, there is no action, suit or proceeding at law or in equity or by or before any governmental instrumentality or other agency now pending or, to the knowledge of the Company, threatened against or affecting it or any of its properties or rights which, if adversely determined, would (i) materially affect the transactions contemplated by the Loan Documents, (ii) affect the validity or enforceability of the Loan Documents, (iii) affect the ability of the Company to perform its obligations under the Loan Documents, (iv) materially impair the value of the Project Facilities or the First Mortgage Bonds, (v)

materially impair the Company's right to carry on its business substantially as now conducted (and as now contemplated by the Company) or (vi) have a material adverse effect on the Company's financial condition.

Section 5.04. No Defaults. The Company, to the best of its knowledge, is not in default in any material respect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any material agreement or instrument to which it is a party or by which it is bound.

Section 5.05. No Material Adverse Change. There has been no material adverse change in the financial condition of the Company since the date of the Company's audited financial statements for the year ended December 31, 2000 contained in the Official Statement.

Section 5.06. Important Inducement. The availability of the financial assistance by the Authority as provided herein has been an important inducement to the Company to engage in the Project and to locate the Project in the State.

Section 5.07. No Untrue Statements. The Loan Documents, the Application, or any other document, certificate or statement furnished to the Trustee or the Authority by or on behalf of the Company are true, correct and complete and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements, when made, contained herein and therein not misleading or incomplete. It is specifically represented that the Company is not a party to any litigation nor, to the best of its knowledge, is the subject of any investigation or administrative proceeding except as disclosed in the Application and the Official Statement. It is specifically understood by the Company that all such statements, representations and warranties shall be deemed to have been relied upon by the Authority as an inducement to make the Loan and that if any such statements, representations and warranties were false at the time they were made, the Authority may, in its sole discretion, consider any such misrepresentation or breach of warranty an Event of Default as defined in Section 8.01(a) and exercise the remedies provided for in this Loan Agreement.

Section 5.08. No Action. The Company has not taken and will not take any action and knows of no action that any other Person has taken or intends to take, which would cause interest income on the Bonds to be includable in the gross income of the recipients thereof under the Code.

Section 5.09. Design of the Project Facilities. The operation of the Project Facilities in the manner presently contemplated and as described in the Application will not conflict in any material respect with any current zoning, water, air pollution or other ordinances, orders, laws or regulations applicable thereto. The Company has caused the Project Facilities to be designed substantially in compliance with all Federal, State and local laws or ordinances (including rules and regulations) relating to zoning, building, safety and environmental quality. The Company will complete the Project in accordance with this Loan Agreement.

Section 5.10. Commencement of Project. Except as otherwise disclosed in the Application, the constituent parts of the Project as described in the Application were not commenced prior to December 1, 1987.

Section 5.11. Substantial Users. No Person (or any Related Person within the meaning of Section 144(a)(3) of the Code) who was a substantial user of the respective Project Facilities, within the meaning of Treas. Reg. Sec. 1.142-4(c), at any time during the five (5) year period immediately preceding the date of issue of the Bonds, as the case may be, and who will receive, directly or indirectly, Bond Proceeds in an amount equal to five per centum (5%) or more of the face amount of the Bonds in payment for his interest in the Projects, will be a Substantial User of the Project Facilities or a Related Person at any time during the five (5) year period beginning on the date of issuance of the Bonds.

Section 5.12. Placement in Service. The Project Facilities were not acquired or placed in service by the Company (determined in accordance with the provisions of Sections 103 and 142 of the Code and applicable regulations thereunder) more than one (1) year prior to the date of issuance of the Prior Bonds.

Section 5.13. No Common Plan of Financing. Except as disclosed in the Tax Certificate subsequent to the date fifteen (15) days prior to the date hereof, the Company or any Related Person (or group of Related Persons which includes the Company) has not borrowed the proceeds of, or leased facilities financed by obligations issued under Section 103 of the Code by any state or local governmental unit or any constituted authority empowered to issue obligations by or on behalf of any state or local governmental unit, other than the Authority, pursuant to a common plan of financing and which will be paid out of substantially the same source of funds (or which will have substantially the same claim to be paid out of the same source of funds) as the Bonds or will be paid directly or indirectly from the proceeds of the Bonds. During the period commencing on the date of issuance of the Bonds and ending fifteen (15) days thereafter, there will be no obligations issued under Section 103 of the Code which are payable or guaranteed by the Company or any Related Person (or group of Related Persons which includes the Company) and which are issued pursuant to a common plan of financing and will be paid out of substantially the same source of funds (or which will have substantially the same claim to be paid out of the same source of funds) as the Bonds or will be paid directly or indirectly from the proceeds of the Bonds without the written opinion of St. John & Wayne, L.L.C., Esqs. or other Bond Counsel acceptable to St. John & Wayne, L.L.C., Esqs., to the effect that the issuance of such obligation will not adversely affect the exemption from present Federal income taxes of interest on the Bonds.

Section 5.14. Use of Proceeds. (a) At least ninety-five per centum (95%) of the Net Proceeds of the Prior Bonds were used to provide "facilities for the furnishing of water" within the meaning of Section 142(a)(4) of the Code.

(b) No portion of the Prior Bond Proceeds were used to provide any airplane, skybox or other private luxury box, health club facility, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(c) Less than twenty-five per centum (25%) of the Net Proceeds of the Prior Bonds were used (directly or indirectly) for the acquisition of land (or an interest therein).

(d) No portion of the Prior Bond Proceeds was or is to be used (directly or indirectly) for the acquisition of land (or an interest therein) to be used for farming purposes.

(e) With respect to any used property acquired or refinanced with the Bond Proceeds, if any, the Company will comply with the rehabilitation requirements contained in Section 147(d) of the Code.

Section 5.15. Economic Life. The information contained in the Tax Certificate, setting forth the respective cost, economic life, ADR midpoint life, if any, under Rev. Proc. 87-56, Rev. Proc. 72-10, 1972-1 C.B. 721, as supplemented and amended from time to time, and guideline life, if any, under Rev. Proc. 62-21, 1962-2 C.B. 118, as supplemented and amended from time to time, of each asset constituting the Project Facilities financed with the Prior Bond Proceeds is true, accurate and complete.

ARTICLE VI
SPECIAL COVENANTS

Section 6.01. Access to the Project and Inspection. The Trustee, the Bond Insurer and the Authority and its duly authorized agents shall have the right, at all reasonable times upon the furnishing of reasonable notice to the Company under the circumstances, to enter upon the Project Facilities and to examine and inspect the Project Facilities. The Trustee, the Bond Insurer and the Authority and their duly authorized agents shall also have such right of access to the Project Facilities as may be reasonably necessary for the proper maintenance of the Project Facilities, in the event of failure by the Company to perform its obligations relating to maintenance under this Loan Agreement, provided that the foregoing rights shall not be deemed to create an obligation on the Trustee, the Bond Insurer or the Authority to maintain the Project Facilities. The Company hereby covenants to execute, acknowledge and deliver all such further documents, and do all such other acts and things as may be necessary to grant to the Authority Representative, the Bond Insurer and the Trustee such right of entry. Until payment of the Bonds shall have occurred, the Company shall promptly, from time to time, deliver to the Authority such information and materials relating to the Project and information and materials required under the Continuing Disclosure Agreement relating to the Company as the Authority may reasonably request. An authorized representative of the Authority, the Bond Insurer and the Trustee shall also be permitted, at all reasonable times, to examine the books and records of the Company with respect to the Project Facilities and the obligations of the Company hereunder, but none of them shall be entitled to access to trade secrets or other proprietary information (other than financial information) of the Company.

Section 6.02. Further Assurances and Corrective Instruments. Subject to the provisions of the Indenture, the Authority and the Company each agrees that it will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements and amendments hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Loan Agreement. All such supplements, amendments and further instruments shall require the approval of the Authority.

Section 6.03. Recording and Filing; Other Instruments.

(a) The Company covenants that it will, at its expense, take all steps as are reasonably necessary to provide that all financing statements, continuation statements, notices and other instruments required by applicable law shall be recorded or filed or re-recorded or re-filed in such manner and in such places required by law in order fully to preserve and protect the rights of

the Trustee in the granting by the Authority of certain rights of the Authority, pursuant to the Indenture, under this Loan Agreement and the Note.

(b) The Company and the Authority shall execute and deliver all instruments and shall furnish all information and evidence deemed necessary by the Company or advisable by its counsel and the Company shall file and re-file and record and re-record or cause to be filed and re-filed and recorded and re-recorded all instruments required to be filed and re-filed and recorded or re-recorded pursuant to the opinion of its Counsel or Counsel employed by the Authority or the Trustee to perfect all security interests created pursuant to the terms of this Loan Agreement and the Indenture and shall continue or cause to be continued the liens of such instruments for so long as the Bonds shall be outstanding, except as otherwise required by this Agreement. The Authority shall have no responsibility for such filings or refilings whatsoever, other than executing and delivering the documents requested by the Company.

Section 6.04. Compliance with Code, Arbitrage and Rebate Regulations.

(a) The Company shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on the Bonds shall, for the purposes of Federal income taxation (except that the interest on the Bonds is subject to AMT), be excludable from the gross income of the recipients thereof and exempt from such taxation, except in the event that such recipient is a Substantial User or Related Person to a Substantial User. The Company shall direct all investments of the Gross Proceeds of the Bonds. The Company shall direct the Trustee to make investments of amounts in the Project Fund only at market prices within the meaning of Treasury Regulations Section 1.148-1. For purposes of this Section, any and all actions of any Principal User of the Project or any Related Person to any such Principal User shall be deemed to be actions of the Company. In addition, any and all actions to be undertaken by the Company or by any other Person as to which the Authority or the Trustee must, pursuant to the terms hereof, consent or approve in advance, shall be deemed to be the actions of the Company or such other Person (and not the actions of the Authority or the Trustee).

(b) The Company shall not permit at any time or times any of the Gross Proceeds from the sale of the Bonds or other of its funds to be used, directly or indirectly, to acquire any Investment Property (within the meaning of Section 148(b)(2) of the Code) the acquisition of which would cause the Bonds to be "arbitrage bonds" for the purposes of Section 148 of the Code. The Company shall utilize the Bond Proceeds from the sale of the Bonds so as to satisfy the reasonable expectations of the Company set forth in the Tax Certificate of the Company furnished to Bond Counsel and the Authority.

(c) The Company shall use the Net Proceeds of the Bonds to refund the Prior Bonds in the manner and as specifically set forth in the Tax Certificate furnished to Bond Counsel and the Authority. The Company shall not expend the Bond Proceeds on assets other than those listed in the Tax Certificate without the express written consent of Bond Counsel.

(d) The Company will provide a written certification to the Authority and the Trustee indicating whether the Company complied with the six-month or eighteen month exceptions to the arbitrage rebate requirement set forth in Section 148(f)(4)(B) of the Code as are set forth in paragraph (c) below.

(e) Unless the Company has complied with the six-month rebate exception or the eighteen month exception to the rebate requirement in Section 148(f)(4)(B) of the Code, as are set forth in paragraph (c) below, the Company will retain (i) Bond Counsel, (ii) any nationally recognized firm of certified public accountants, (iii) any reputable firm which offers to the tax-exempt bond industry rebate calculation services and holds itself out as having expertise in that area, or (iv) a Person or firm approved by Bond Counsel, in order to calculate the amount of rebate, if any, due to the United States pursuant to Section 148(f) of the Code, as set forth in paragraph (f) below (the "Rebate Expert"), on or no later than 30 days before the Initial Rebate Computation Date (as defined below) and on each rebate Computation Date thereafter, (A) to compute the Rebate Amount with respect to the Bonds for the period ending on such rebate Computation Date, (B) to deliver an opinion to the Authority and Trustee concerning its conclusions with respect to the amount (if any) of such Rebate Amount together with a written report providing a summary of the calculations relating thereto and (C) to deliver an opinion to the Authority and Trustee that all of the Gross Proceeds of the Bonds (within the meaning of Section 148(f) of the Code), other than Gross Proceeds of the Bonds on deposit in a Bona Fide Debt Service Fund (within the meaning of Section 148(F)(4) of the Code), have been expended on or prior to the initial rebate Computation Date. The Computation Date shall include (i) maturity of the Bonds, (ii) if the Bonds are redeemed prior to maturity, the date on which the Bonds are redeemed, (iii) on the first day of the fifth anniversary date of the Bond Year (the "Initial Rebate Computation Date") and each fifth anniversary thereafter, and (iv) any other date that may be required by the Code.

(f) The Company shall direct the Trustee in writing to rebate the Rebate Amount to the United States on behalf of the Authority. The Rebate Amount as of any Computation Date is the excess of the Future Value of all receipts on Nonpurpose Investments ("Nonpurpose Receipts") over the Future Value of all payments on Nonpurpose Investments ("Nonpurpose Payments"). To the extent amounts received from Nonpurpose Investments are reinvested, these amounts may be netted against each other and not taken into account in the computation of the Rebate Amount. Nonpurpose Receipts and Nonpurpose Payments shall be determined as described below.

- (1) Nonpurpose Payments. Nonpurpose Payments include actual payments (amounts of Gross Proceeds actually or constructively paid to acquire a Nonpurpose Investment including Qualified Administrative Costs); "allocation" payments (for a Nonpurpose Investment that is allocated to the Bonds after already having been acquired by the Company (e.g., sinking fund proceeds), an amount equal to the Value of the Investment on the allocation date); Computation Date payments (for a Nonpurpose Investment allocated to the Bonds at the end of the preceding Computation

Period, the Value of the Investment at the beginning of the Computation Period); Yield Reduction Payments, if any; and the Computation Date credit equal to \$1,000.

- (2) Nonpurpose Receipts. Nonpurpose Receipts include actual receipts (amounts actually or constructively received with respect to a Nonpurpose Investment, such as earnings and return of principal, reduced by Qualified Administrative Costs); "deallocation" receipts (for a Nonpurpose Investment that ceases to be allocated to the Bonds or subject to rebate, the Value of the Investment on the "deallocation" date); Computation Date receipts (the Value of any Nonpurpose Investment held at the end of any Computation Period); and rebate receipts (any recovery of an overpayment of rebate).

Investments of amounts held in a Bona Fide Debt Service Fund for the Bonds will be excepted from the rebate requirement but only if the gross earnings on such fund for such Bond Year do not exceed \$100,000.

(g) For each investment of Gross Proceeds in a Non-Purpose Investment, the Company shall direct the Trustee to record, without limitation, the following information: purchase date, purchase price, face amount, stated interest rate, any accrued interest due on its purchase date, disposition date, disposition price and any accrued interest due on the disposition date. The Yield to maturity for an investment presently means that discount rate, based on a compounding frequency the same as the Bonds (or such other compounding permitted by the Code), which when used to determine the present worth, on the purchase date of such investment or the date on which the investment becomes a Non-Purpose Investment, whichever is later, of all payments of principal and interest on such investment gives an amount equal to the fair market value of such investment including accrued interest due on such date.

(h) On each Computation Date, if such Rebate Amount payable exceeds the amount then on deposit in the Rebate Account, the Company shall within ten (10) days of the receipt of the report furnished by the Rebate Expert pursuant to paragraph (e) of this Section, pay to the Trustee, the amount necessary to make up such deficiency and direct the Trustee to pay the same to the United States within sixty (60) days of the Computation Date. The Company shall, in a timely fashion, give all written notices and directions to the Trustee as are called for under Section 5.09 of the Indenture for the payment of the Rebate Amount. Any sums remaining in the Rebate Account following such payments shall be returned to the Company. When due, the Authority shall have the right, but shall not be required, to make such payment to the Trustee on behalf of the Company. Any amount advanced by the Authority pursuant to this paragraph (h) shall be added to the moneys owing by the Company under this Loan Agreement and shall be payable on demand with interest at the rate of twelve percent (12%) per annum.

(i) The rebate shall be paid in installments which shall be made at least once every fifth Bond Year. The first such installment shall be due to the United States on behalf of the Authority not later than sixty (60) days after the end of the fifth (5th) Rebate Year and shall be in an amount which ensures

that at least one hundred percent (100%) of the Rebate Amount described above with respect to the Bonds is paid. Each subsequent payment shall be made not later than five (5) years after the date the preceding payment was due. Within sixty (60) days after the retirement of the Bonds at maturity or upon earlier redemption, the Company shall direct the Trustee to pay to the United States on behalf of the Authority one hundred percent (100%) of the aggregate Rebate Amount due with respect to the Bonds not theretofore paid.

(j) Each payment of the Rebate Amount to be paid to the United States shall be filed with the Internal Revenue Service Center, Ogden, Utah 84201, or such other address that may be specified by the Internal Revenue Service. Each payment shall be accompanied by Form 8038-T (or such other form required by the Internal Revenue Service) and a statement identifying the Authority, the date of the issue, the CUSIP number for the Bond with the longest maturity and a copy of the applicable Form 8038-G.

(k) The Company acknowledges that the Authority shall have the right at any time and in the sole and absolute discretion of the Authority to obtain from the Company and the Trustee the information necessary to determine the Rebate Amount required to be paid to the United States pursuant to Section 148(f) of the Code. Additionally, the Authority may, with reasonable cause, (i) review or cause to be reviewed any determination of the amount to be paid to the United States made by or on behalf of the Company and (ii) make or retain a Rebate Expert to make the determination of the amount to be paid to the United States. The Company hereby agrees to be bound by any such review or determination, absent manifest error, to pay the costs of such review, including without limitation the reasonable fees and expenses of counsel or a Rebate Expert retained by the Authority, and to pay to the Trustee any additional amounts for deposit in the Rebate Account required as the result of any such review or determination.

(l) Except as may be permitted pursuant to Section 148(c) of the Code (relating to certain temporary periods for investment), at no time during the term of the Bonds shall the amount invested by the Company in Non-Purpose Investments with a Yield higher than the Yield on the Bonds exceed 10% of the then outstanding principal amount of the Bonds. The aggregate amount invested in Non-Purpose Investments shall be promptly and appropriately reduced as the outstanding principal of the Bonds is reduced.

(m) Notwithstanding any provision of this Section to the contrary, the Company shall be liable, and shall indemnify and hold the Authority and the Trustee harmless against any liability, for payments due to the United States pursuant to Section 148(f) of the Code. Further, the Company specifically agrees that neither the Authority nor the Trustee shall be held liable, or in any way responsible, and the Company shall indemnify and hold harmless the Trustee and the Authority against any liability, for any mistake or error in the filing of the payment or the determination of the Rebate Amount due to the United States or for any consequences resulting from any such mistake or error. The provisions of this paragraph shall survive termination of this Agreement.

(n) The Authority, the Trustee and the Company acknowledge that the provisions of this Section 6.04 are intended to comply with Section 148(f) of the Code and the regulations promulgated thereunder and if as a result of a change in such Section of the Code or the promulgated regulations thereunder or

in the interpretation thereof, a change in this Section 6.04 shall be permitted or necessary to assure continued compliance with Section 148(f) of the Code and the promulgated regulations thereunder, then with written notice to the Trustee, the Authority and the Company shall be empowered to amend this Section 6.04 and the Authority may require, by written notice to the Company and the Trustee, the Company to amend this Section 6.04 to the extent necessary or desirable to assure compliance with the provisions of Section 148 of the Code and the regulations promulgated thereunder; provided that either the Authority or the Trustee shall require, prior to any such amendment becoming effective, at the sole cost and expense of the Company, an opinion of Bond Counsel satisfactory to the Authority to the effect that either (i) such amendment is required to maintain the exclusion from gross income under Section 103 of the Code of interest paid and payable on the Bonds or (ii) such amendment shall not adversely affect the exclusion from gross income under Section 103 of the Code of the interest paid or payable on the Bonds.

(o) (i) The obligation to pay any Rebate Amount with respect to the Bonds shall be treated as satisfied if the following requirements are met (the "six month exception"):

(A) Gross Proceeds of the Bonds (as modified below) are expended by no later than the date which is six (6) months after the Issue Date; and

(B) the rebate requirement is met for amounts not required to be spent within the six (6) month period (excluding earnings on a bona fide debt service fund).

The requirement described above will be treated as satisfied if no more than the lesser of 5% of the Issue Price of the Bonds or \$100,000 are unexpended at the end of the six (6) month period after the Issue Date and such amount is expended no later than the date which is one year after the Issue Date.

(ii) The obligation to pay any Rebate Amount with respect to the Bonds shall be treated as satisfied if all of the following requirements are satisfied (the "eighteen month exception"):

(A) Gross Proceeds of the Bonds (as modified below) are expended in accordance with the following schedule:

(1) At least 15% within six (6) months of the Issue Date,

(2) At least 60% within twelve (12) months of the Issue Date, and

(3) 100% within eighteen (18) months of the Issue Date; provided, however, the Bonds will not fail to satisfy this requirement as a result of unspent proceeds for reasonable retainage (as defined below), if the reasonable retainage is spent within thirty (30) months of the Issue Date;

(B) The rebate requirement is met with respect to all amounts not required to be spent in accordance with the foregoing schedule (other than earnings in a bona fide debt service fund); and

(C) The Gross Proceeds of the Bonds qualify for an initial three (3) year (or five (5) year) temporary period.

(iii) For purposes of subsections (i) and (ii), Gross Proceeds do not include (A) amounts held in a bona fide debt service fund, (B) amounts held in a reasonably required reserve or replacement fund, (C) amounts that, as of the Issue Date, are not reasonably expected to be Gross Proceeds but that become Gross Proceeds after the end of the applicable (i.e., 6 month or 18 month) spending period, (D) sales or investment proceeds derived from payments under any purpose investment of the Issue and (E) amounts representing repayments of grants.

(p) The Company shall give immediate telephonic notice, promptly confirmed in writing, to the Authority and the Trustee of any Determination of Taxability (as defined in the Bond) whether the Company is on Notice of such Event of Taxability by its own filing of any statement, tax schedule, return or document with the Internal Revenue Service which discloses that an Event of Taxability shall have occurred, by its receipt of any oral or written advice from the Internal Revenue Service that an Event of Taxability shall have occurred, or otherwise.

Section 6.05. Administrative Expenses. The Company shall pay to or for the account of the Authority and the Trustee within 30 days after notice thereof all reasonable costs and expenses incurred by the Authority and the Trustee in connection with the financing and administration of the Project, including, without limitation, any fees associated with the calculation of rebate, except such as may be paid out of the proceeds of the Bonds, including, without limitation, the costs of administering this Loan Agreement and the fees and expenses of attorneys, consultants and others.

Section 6.06. Indemnity Against Claims. The Company will pay and discharge and will indemnify and hold harmless the Authority and the Trustee from (a) any lien or charge upon amounts payable hereunder by the Company to the Authority or the Trustee, as the case may be, (other than the lien of the Indenture), and (b) any taxes, assessments, impositions and other charges in respect of the Project Facilities, other than Permitted Liens. If any claim of any such lien or charge upon payments, or any such taxes, assessments, impositions or other charges, are sought to be imposed, the Authority or the Trustee, as the case may be, will give prompt notice to the Company, and the Company shall have the sole right and duty to assume, and shall assume, the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion.

Section 6.07. Indemnification of the Authority and the Trustee. The Company agrees, whether or not the transactions contemplated by this Agreement, the Indenture and the Credit Facility Agreement shall be consummated:

(a) to pay, and save the Authority and the Trustee harmless against liability for the payment of all out-of-pocket expenses arising in connection with said contemplated transactions, including the reasonable fees and expenses of the Authority's Counsel and the Trustee's Counsel; and

(b) to protect, indemnify and save the Authority, any person who "controls" the Authority (within the meaning of Section 15 of the Securities Act of 1933, as amended) and members, officers, directors, officials, employees and attorneys of the Authority, the State, the Trustee and their respective members, officers, directors, officials, attorneys and employees (collectively, the "Indemnified Parties") harmless from and against all liabilities, losses, damages, costs, expenses, (including reasonable attorneys' fees), taxes, causes of action, suits, claims, demands and judgments of any nature or form, (including all costs, expenses and reasonable counsel fees incurred in investigating or defending such claim) by or on behalf of any person, arising in any manner from the transactions of which this Agreement is a part or arising in any manner in connection with the Project or the financing of the Project including, without limiting the generality of the foregoing, caused by, relating to, arising out of, resulting from, or in any way connected with (1) the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation, financing or sale of the project or any part thereof, including the obligation to pay rebate to the Federal government; or (2) any untrue statement of a material fact contained in information submitted or to be submitted by the Company with respect to the transactions contemplated hereby; or (3) any omission of a material fact necessary to be stated therein in order to make such statement not misleading or incomplete; or (4) any breach or default by the Company of or in any of its obligations hereunder, under the Indenture or any other Loan Document; or (5) the acceptance, administration or performance of any of the duties of any said Indemnified Party under the Indenture, this Agreement or any related document; or (6) any accident, injury or damage whatsoever to any person occurring in or about the Project. In case any action shall be brought against one or more of the Indemnified Parties based upon any of the above and in respect to which indemnity may be sought against the Company, such Indemnified Parties shall promptly notify the Company in writing, and the Company shall assume the defense thereof, including the employment of counsel satisfactory to the Indemnified Parties, the payment of all costs and expenses and the right to negotiate and consent to settlement. Any one or more of the Indemnified Parties shall have the right to employ separate counsel at the Company's expense in any such action and to participate in the defense thereof if, in the opinion of the Indemnified Party, a conflict of interest could arise out of the representation of the separate parties by one counsel. The Company shall not be liable for any settlement of any such action effected without Company's consent, but if settled with the consent of the Company, or if there is a final judgment for the claimant on any such action, the Company agrees to indemnify and hold harmless the Indemnified Parties from and against any loss or liability by reason of such settlement or judgment.

The Company agrees to and does hereby indemnify and hold harmless the Indemnified Parties against any and all losses, claims, damages or liabilities (including all costs, expenses, and reasonable counsel fees incurred in investigating or defending such claim) suffered by any of the Indemnified Parties and caused by relating to, arising out of, resulting from, or in any way connected to an examination, investigation or audit of the Bonds by the Internal Revenue Service (IRS). In the event of such examination, investigation or audit, the Indemnified Parties shall have the right to employ counsel at the Company's

expense. In such event, the Company shall assume the primary role in responding to and negotiating with the IRS, but shall inform the Indemnified Parties of the status of the investigation. In the event Company fails to respond adequately and promptly to the IRS, the Authority shall have the right to assume the primary role in responding to and negotiating with the IRS and, upon prior written notice to the Company, shall have the right to enter into a closing agreement, for which the Company shall be liable.

(c) Notwithstanding anything in this Agreement to the contrary which may limit recourse to the Company or may otherwise purport to limit the Company's liability, the provisions of this Section shall control the Company's obligations and shall survive the termination of this Agreement and the repayment of the Bonds.

The provisions of this Section 6.07 shall not apply to any liabilities, losses, damages, costs, expenses, taxes, causes of action, suits, claims, demands or judgments resulting from the Authority's or the Trustee's own gross negligence, willful misconduct or fraudulent actions.

Notwithstanding the fact that it is the intention of the parties that the Authority shall not incur pecuniary liability by reason of the terms of this Agreement, or the undertakings required of the Authority hereunder, by reason of the issuance of the Bonds, by reason of the execution of the Indenture, by reason of the performance of any act requested of it by the Company, or by reason of the operation of the Project by the Company, including all claims, liabilities or losses arising in connection with the violation of any statutes or regulations pertaining to the foregoing, nevertheless, if the Authority should incur any such pecuniary liability (except liability resulting from the Authority's gross negligence, willful misconduct or fraudulent actions) then in such event the Company shall indemnify and hold harmless the Authority against all claims by or on behalf of any person, firm or corporation, arising out of the same, and all costs and expenses incurred in connection with any such claim or in connection with any action or proceeding brought thereon, and upon notice from the Authority, the Company shall defend the Authority in any such action or proceeding.

Section 6.08. Additional Information. Until payment of the Bonds in full shall have occurred the Company shall promptly, from time to time, deliver to the Trustee and upon the request of the Authority, to the Authority, such information regarding the operations, business affairs and financial condition of the Company as the Trustee (or the Authority) may reasonably request. The Trustee is hereby authorized to deliver a copy of any such financial information delivered hereunder, or otherwise obtained by the Trustee, to any Bondholder or prospective Bondholder, to any regulatory authority having jurisdiction over the Trustee and to any other Person as may be required by law. The Authority and the Trustee are authorized to provide information concerning the outstanding principal amount and payment history of, and other information pertaining to, the Bonds or the First Mortgage Bonds to any agency or regulatory authority of the State requesting such information.

Section 6.09. Maintain Existence. The Company covenants that it will maintain its existence and the location of the Project within the State of New Jersey, will preserve and maintain its existence as a corporation under the laws

of the State, and preserve and maintain its authority to operate and will operate the Project Facilities as an authorized project within the meaning of the Act and as local facilities for the furnishing of water. The Company will at all times preserve and protect the Project in good repair, working order and safe condition, and from time to time will make, or will cause to be made, all needed and proper repairs, renewals, replacements, betterments and improvements thereto including those required after a casualty loss. The Company shall pay all operating costs, utility charges and other costs and expenses arising out of ownership, possession, use or operation of the Project. The Authority shall have no obligation and makes no warranties respecting the condition or operation of the Project.

The Company will not use the financing under this Agreement or the issuance of the Bonds by the Authority as a basis for contesting any assessment or levy of any tax and, if any administrative body or court of competent jurisdiction shall hold for any reason that the Project Facilities are exempt from taxation by reason of the financing under this Agreement or the issuance of the Bonds by the Authority or other Authority action in respect thereto, the Company covenants to make payments in lieu of all such taxes in an amount equal to such taxes, and, if applicable, interest and penalties.

Section 6.10. Use of Project. The Company shall use or cause the Project to be used as an authorized project for a purpose and use as provided for under the Act and for the use set forth in the Application to the Authority until Payment of the Bonds. The Company shall not relocate the Project or any part thereof within the State or out of the State. The Project is of a character included within the definition of "project" in the Act, and its estimated cost was at least \$6,000,000. The Company will operate the Project substantially in the form represented in the Application and will neither (a) materially alter the operation of the Project without the prior written consent of the Authority, nor (b) cause a change in the use of the Project such that the Bonds would cease to be a qualified small issue bond (within the meaning of Section 144(a) of the Code).

Section 6.11. Change in Location. The Company shall not relocate the Project or any part thereof out of the State. The Company shall not relocate the project within the State without the prior written consent of an authorized Authority Representative and an opinion of Bond Counsel that the relocation will not affect the tax-exempt status of interest on the Bonds (except that the interest on the Bonds is subject to AMT).

Section 6.12. Additional Reporting Requirements. (i) On each anniversary hereof, the Company shall furnish to the Authority the following:

- (a) a certification indicating whether or not the Company is aware of any condition, event or act which constitutes an Event of Default, or which would constitute an Event of Default with the giving of notice or passage of time, or both, under any of the Loan Documents;

(b) a written description of the present use of the Project and a description of any anticipated material change in the use of the Project or in the number of employees employed at the Project, and

(c) a report from every entity that leases or occupies space at the Project location indicating the number of persons the entity employs at the Project location.

(ii) Upon the request of the Authority, the Company shall furnish to the Authority such financial information as the Authority may reasonably request.

Section 6.13. Observe Laws. The Company shall observe all applicable laws, regulations and other valid requirements of any regulatory authority with respect to its operations at the Project Facilities and the Project Site.

Section 6.14. Number of Employees. The Company shall maintain or increase the number of employees employed by the Company as set forth in the Application to the Authority.

Section 6.15. Authority Consent to Sale of Assets. The Company shall maintain its existence as a legal entity and shall not sell, assign, transfer or otherwise dispose of the Project or substantially all of its assets without the consent of the Authority; provided however that the Company may merge with or into or consolidate with another entity, and the Project or this Agreement may be transferred pursuant to such merger or consolidation without violating this Section 6.15 provided: (1) the Company causes the proposed surviving, resulting or transferee company to furnish the Authority with a Change of Ownership Information Form then in use by the Authority; (2) the net worth of the surviving, resulting or transferee company following the merger, consolidation or transfer is equal to or greater than the net worth of the Company immediately preceding the merger, consolidation or transfer as verified by the independent auditors of the Company; (3) any litigation or investigations in which the surviving, resulting or transferee company or its principals, officers and directors are involved at the time of such merger, and any court, administrative or other orders to which the surviving resulting or transferee company or its officers and directors are subject, relate to matters arising in the ordinary course of business; (4) the surviving, resulting or transferee company assumes in writing the obligations of the Company under this Loan Agreement and the other Loan Documents; (5) after the merger, consolidation or transfer, the Project shall continue to be operated as an authorized project under the Act; and (6) the merger, consolidation or transfer shall not impair the excludability of interest paid on the Bonds from gross income of the Owners thereof for federal income taxation (except that the interest on the Bonds is subject to AMT) or cause a reissuance pursuant to an opinion of Bond Counsel. The Company shall, prior to the taking of any of the foregoing proposed actions, deliver to the Authority and the Trustee an opinion of Bond Counsel to the effect that the proposed action will not cause the interest on the Bonds to become includable in the gross income of the registered owners of the Bonds for Federal income tax purposes (except that the interest on the Bonds is subject to AMT), except in the event such Holder is a Substantial User or a Related Person thereto.

Section 6.16. Approval of Tenants by the Authority. Prior to leasing, subleasing or consenting to the subleasing or assigning of any lease of all or any part of the Project, the Company shall cause to be furnished to the Authority, a Project Occupant Information Form then in use by the Authority at such time, completed and executed by the proposed tenant and a copy of the proposed lease. In any event, the Company shall not permit any such leasing, subleasing or assigning of leases that would impair the excludability of interest paid on any tax-exempt Bonds from the gross income of the holders thereof for purposes of federal income taxation (except that the interest on the Bonds is subject to AMT), or that would impair ability of the Company to operate the Project or cause the Project not to be operated as an authorized project under the Act.

Section 6.17. Continuing Disclosure. The Bonds are subject to the continuing disclosure requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended and supplemented. To that end, the Company is entering into a continuing disclosure agreement with the Trustee. The Company hereby covenants and agrees with the Bondholders that it will comply with and carry out all of the provisions of such continuing disclosure agreement, as amended from time to time, applicable to it. Notwithstanding any other provision of this Loan Agreement, failure of the Company to comply with such continuing disclosure agreement shall not be considered a default or an event of default under this Loan Agreement and the rights and remedies provided by this Loan Agreement upon the occurrence of an Event of Default shall not apply to any such failure, but the continuing disclosure agreement may be enforced only as provided therein.

Section 6.18. Brokerage Fee. The Authority shall not be liable to the Company for any brokerage fee, finders fee, or loan servicing fee and the Company shall hold the Authority harmless from any such fees or claims.

ARTICLE VII

COVENANTS OF THE COMPANY

The Company covenants and agrees, so long as this Loan Agreement shall remain in effect or the Bonds shall be Outstanding, as follows:

Section 7.01. Preservation of Corporate Existence, Business and Property. The Company will at all times preserve and maintain its corporate existence, rights, privileges and franchises, necessary to conduct its existing line of business as a water utility and will preserve and protect its property used or useful in the conduct of its business and will keep such property in good repair, working order and condition, and from time to time will make, or will cause to be made, all needed and proper repairs, renewals, replacements, betterments and improvements thereto.

Section 7.02. Insurance Required. Until payment of the Bonds shall be made in full, the Company will keep the Project Facilities continuously insured against such risks as are required by the Authority and including, without limiting the generality of the foregoing:

(a) casualty insurance on the Project Facilities in an amount not less than the full insurable value of all property located at, and all improvements to, the Project Facilities, against loss or damage by fire and lightning and other hazards ordinarily included under uniform broad form extended coverage policies, limited only as may be provided in the uniform broad form of extended coverage endorsement, at the time in use in the State, which shall name the Trustee as mortgagee, loss payee and additional insured;

(b) general comprehensive liability insurance against claims for bodily injury, death or property damage occurring on, in or about the Project Facilities (such coverage to include provisions waiving subrogation against the Authority and the Trustee) in amounts not less than \$1,000,000 with respect to bodily injury to any one person, \$1,000,000 with respect to bodily injury to two or more persons in any one accident and \$1,000,000, with respect to property damage resulting from any one occurrence naming the Authority and the Trustee as additional insureds;

(c) liability insurance with respect to the Project Facilities under the workers' compensation laws of the State; provided, however, that the insurance so required may be provided by blanket policies now or hereafter maintained by the Company; and

(d) if at any time any portion of the Project Site is in an area that has been identified by the Secretary of Housing and Urban Development as having special flood and mud slide hazards, a policy of flood insurance covering improvements located on such portion of the Project Site with amounts and coverage satisfactory to the Authority.

Section 7.03. General Requirements Applicable to Insurance.

(a) Each insurance policy obtained in satisfaction of the requirements of Section 7.02 hereof:

(i) shall be by such insurer (or insurers) as shall be financially responsible, qualified to do business in the State and of recognized standing;

(ii) shall be in such form and have such provisions (including, without limitation, the lenders long-form loss payable clause, the waiver of subrogation clause, the deductible amount, if any, and the standard mortgagee endorsement clause), as are generally considered standard provisions for the type of insurance involved and have been accepted in all respects by the Authority;

(iii) shall prohibit cancellation or substantial modification, termination or lapse in coverage by the insurer without at least 30 days' prior written notice to the Authority and the Trustee;

(iv) shall provide that losses thereunder shall be adjusted with the insurer by the Company, with the consent of the Authority, at the Company's expense on behalf of the insured parties and the decision of the Company as to any adjustment shall be final and conclusive; and

(v) without limiting the generality of the foregoing, all insurance policies carried on the Project Facilities shall name the Company, the Authority and the Trustee as parties insured thereunder as the respective interests of each may appear, and any loss thereunder shall be made payable and shall be applied as provided in the Mortgage Indenture and all liability insurance shall name the Authority and the Trustee as additional insureds.

(b) Prior to expiration of any such policy, the Company shall furnish the Authority and the Trustee with evidence satisfactory to the Authority and the Trustee that the policy or certificate has been renewed or replaced in compliance with this Loan Agreement or is no longer required by this Loan Agreement.

(c) In addition to the provisions of Section 7.03(a) and (b) above, the Company shall also comply with any insurance requirements set forth in the Mortgage Indenture.

(d) Upon request therefor, the Company shall furnish the Authority and the Trustee with copies of any policy requested and proof of the coverages required under Section 7.02 above.

(e) In the event the Company shall fail to maintain the insurance coverage required by this Loan Agreement, the Authority or the Trustee may (but

shall be under no obligation to), after ten (10) days written notice to the Company unless cured within such ten (10) days, contract for the required policies of insurance and pay the premiums on the same and the Company agrees to reimburse the Authority or the Trustee to the extent of the amounts so advanced with interest thereon at the maximum rate permitted by law.

Section 7.04. Payment of Taxes, etc. The Company will promptly pay and discharge or cause to be promptly paid and discharged all taxes, assessments and governmental charges or levies imposed upon it or in respect of any of its property and assets as provided in, and except as permitted under, the Mortgage Indenture.

The Company agrees to cause any order, writ or warrant of attachment, garnishment, execution, replevin or similar process filed against any part of the funds or accounts held by the Trustee under the Indenture to be discharged, vacated, bonded or stayed within ninety (90) days after such filing (or such longer period if the Company is contesting such process in good faith), but in any event not later than five (5) days prior to any proposed execution or enforcement with respect to such filing or any transfer of moneys or investments pursuant to such filing.

Section 7.05. Compliance with Applicable Laws. The Company agrees to construct, operate and maintain the Project in accordance with all applicable Federal, State, county and municipal laws, ordinances, rules and regulations now in force or that may be enacted hereafter including, but not limited to such environmental protection, workers' compensation, sanitary, safety, non-discrimination and zoning laws, ordinances, rules and regulations as shall be binding upon the Company, except where the failure to so comply will not have a material adverse effect upon the Company's operations or the Company's financial condition.

Section 7.06. Covenant with Respect to the Bond Insurer. The Company agrees that, so long as any of the Bonds remain Outstanding, it will deliver to the Bond Insurer, as soon as practicable, and in any event within one hundred twenty (120) days after the end of each fiscal year, its annual audited financial statements, prepared in accordance with generally accepted accounting principles, consistently applied. In addition, from time to time (a) official statement or other disclosure material, if any, prepared in connection with the issuance of additional First Mortgage Bonds or debt, whether or not such debt is on parity with the Bonds, in case within 30 days after the sale thereof; (b) notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof; and (c) any additional information the Bond Insurer may reasonably request from time to time.

Section 7.07. Financial Statements. The Company agrees that, so long as any of the Bonds remain Outstanding, it will deliver, as soon as practicable, and in any event within one hundred twenty (120) days after the end of each fiscal year, (a) to the Trustee and, upon the request of the Authority, to the

Authority a copy of its balance sheet as at the end of such year and its income and retained earnings statement and statement of cash flows for such year, in reasonable detail, certified by independent accountants of recognized national standing selected by the Company as having been prepared in accordance with generally accepted accounting principles, and the New Jersey Uniform System of Accounts to the extent not inconsistent therewith, consistently applied except as otherwise stated; and (b) to the Trustee and to the Authority a certificate signed by the President or any Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer or a principal accounting officer of the Company which shall state whether or not, to the best of the knowledge of the signers, any condition has occurred and is continuing which constitutes an "event of default" as defined in this Loan Agreement or which, after notice or lapse of time, or both, would constitute such an event of default, and, if any such condition or event exists, specifying the nature and period of existence thereof, and what action the Company is taking and proposes to take with respect thereto.

Section 7.08. Mergers, etc. The Company shall maintain its existence as a legal entity and its qualification to do business in the State and shall not sell, assign, transfer or otherwise dispose of substantially all of the Project Facilities or substantially all of its assets, except for any disposition as may be required by a condemnation by a proper authority and as may be permitted by the Mortgage Indenture.

Section 7.09. Assignment of Loan Agreement. Subject to the provisions of Section 6.15, the Company may not assign or transfer the whole or any part of this Loan Agreement without the prior express written consent of the Authority. Any assignment of this Loan Agreement by the Company without the prior express written consent of the Authority shall be null and void.

Section 7.10. Transfer of Project Facilities. The Company shall not sell or otherwise dispose of any possessory interest in whole or part of the Project Facilities without complying with the provisions of Section 6.15, except in the ordinary course of its business.

Section 7.11. Cost Recovery. To the extent that any property is financed by the Bond Proceeds, the cost recovery deduction allowed for such property shall be determined by using the alternative depreciation system determined in accordance with Section 168(g) of the Code.

Section 7.12. Covenant by Company as to Compliance with Indenture. The Company covenants and agrees that it will not interfere with the exercise of the power and authority granted to the Trustee in the Indenture. The Company further agrees to aid in furnishing to the Authority or the Trustee any documents, certificates or opinions that may be required under the Indenture and to comply with the provisions thereof to the extent applicable to the Company, including without limitation any payments due to the Bond Insurer pursuant to Section 5.04 of the Indenture.

ARTICLE VIII

DEFAULTS AND REMEDIES

Section 8.01. Events of Default. Any one or more of the following events shall constitute an Event of Default with respect to the Bonds hereunder:

(a) if any representation or warranty made herein or in any other Loan Document or in any report, certificate, financial statement or other instrument furnished in connection with this Loan Agreement shall prove to be false or misleading in any material respect when made;

(b) default in the payment of any installment of the principal or interest on the First Mortgage Bonds on the date when due after giving effect to any applicable grace period;

(c) default in the payment of any installment of the principal of or interest due upon the Extraordinary Mandatory Redemption of the First Mortgage Bonds or the Bonds;

(d) default in the due observance or performance of any covenant, condition or agreement on the part of the Company to be observed or performed pursuant to the terms of the Loan Documents, other than the payment of principal and interest which shall be governed by (b) and (c) above, and such default shall continue unremedied for sixty (60) days after written notice thereof given by the Authority or the Trustee, provided that in the event such default cannot be reasonably cured within such sixty (60) day period, the Company shall be permitted, with the consent of the Bond Insurer, such additional period approved by the Bond Insurer as may be necessary to cure such default provided the Company is diligently pursuing a cure of such default;

(e) default in the performance or breach of any covenant or warranty of the Company in this Loan Agreement relating to the discharge, vacation, bonding or stay of any order, writ or warrant of attachment, garnishment, execution, replevin or similar process filed against any part of the funds or accounts held by the Trustee under the Indenture; or

(f) the Company shall have applied for or consented to the appointment of a custodian, receiver, trustee or liquidator of all or a substantial part of its assets; or shall generally not be paying its debts as they become due; or shall have made a general assignment for the benefit of creditors; or shall have submitted a petition or an answer seeking reorganization or an arrangement with creditors; or shall have taken advantage of any insolvency law, or submitted an answer admitting the material allegations of a petition in bankruptcy, reorganization or insolvency proceeding; or an order, judgment or decree shall have been entered, without the application, approval or consent of the Company, by any court of competent jurisdiction approving a petition seeking reorganization of the Company, or appointing a custodian, receiver, trustee or liquidator of the Company or of a substantial part of any of its assets and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) consecutive days; or the Company shall have filed a voluntary

petition in bankruptcy; or if any order for relief has been entered against the Company under the Federal Bankruptcy Code; (g) the occurrence of an "event of default" under the Mortgage Indenture other than an event of default resulting from a default in the payment of any installment of the principal or interest on the First Mortgage Bonds on the date when due (pursuant to Section 8.01(b) hereof), and the acceleration of the First Mortgage Bonds as a result of such "event of default."

Section 8.02. Remedies. (i) Whenever any Event of Default referred to in Section 8.01 hereof shall have occurred and be subsisting, provided that written notice of the default, when required, has been given to the Company by the Authority and the Event of Default has not theretofore been cured, and provided, further, that no remedial steps shall be taken by the Authority the effect of which would be to entitle the Authority to funds necessary for the payment of principal and interest on the Bonds which have not yet matured unless such principal and interest shall have been declared due and payable in accordance with the Indenture and such declaration shall not have been rescinded, any one or more of the following remedial steps may be taken, subject in the following instances to the consent and direction of the Bond Insurer (so long as no default exists under the Bond Insurance Policy):

(a) The First Mortgage Bonds may be redeemed, together with interest then due thereon, by delivery of written notice of the Authority's or the Trustee's exercise of such option to the Trustee and the Company, such payments to be immediately due and payable, subject to the terms and conditions of the Mortgage Indenture, or the First Mortgage Bonds may be sold in conformity with the provisions of the New Jersey Uniform Commercial Code (provided the same is in compliance with all securities laws); and

(b) The Authority may take any action at law or in equity to collect the payments then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Loan Agreement or the Mortgage Indenture.

(ii) Without the necessity of obtaining the consent of the Bond Insurer or the holders of the bonds: (a) if the Company commits a breach, or threatens to commit a breach of the Authority's Reserved Rights, the Authority shall have the right and remedy, without posting bond or other security, to have the applicable provisions of this Loan Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause immediate and irreparable injury to the Authority and that money damages will not provide an adequate remedy therefor; or (b) if a payment default occurs under Section 8.01(c) hereof, the Authority may cause the Borrower's payment obligations under this Loan Agreement and under the First Mortgage Bonds to be accelerated, together with interest then due thereon, by delivery of written notice of the Authority's exercise of such option to the Trustee and the Company, such payments to be immediately due and payable.

Any amounts collected pursuant to action taken under this Section 8.02 shall be applied in accordance with the Indenture.

Section 8.03. No Remedy Exclusive. No remedy herein conferred or reserved to the Authority is intended to be exclusive of any other available remedy or remedies, but each 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 or by statute. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article, it shall not be necessary to give notice, other than such notice as may be required in this Article.

Section 8.04. Additional Remedies. In addition to the above remedies, if the Company commits a breach or threatens to commit a breach of this Loan Agreement, the Trustee shall have the right and remedy, without posting bond or other security, to have the provisions of this Loan Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Trustee and that money damages will not provide an adequate remedy therefor.

Section 8.05. Agreement to Pay Attorneys' Fees and Expenses. In the event the Company should default under any of the provisions of this Loan Agreement or other Loan Documents and either the Authority or the Trustee shall require and employ attorneys or incur other expenses for the collection of payments due or to become due or for the enforcement or performance or observance of any obligation or agreement on the part of the Company or enforcement of the Bonds under any Loan Document, the Company agrees that it will, on demand therefor, pay to the Authority or the Trustee, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred by the Authority or the Trustee.

Section 8.06. No Additional Waiver Implied by One Waiver. In the event any agreement contained in any Loan Document should be breached by any party and thereafter such breach should be waived by any party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 8.07. Rights of the Bond Insurer. The Bond Insurer shall have the same rights as the Authority and the Trustee to pursue any remedy created herein, in the Indenture or the Twenty-Ninth Supplemental Indenture.

The Company shall furnish the Bond Insurer with at least two Business Days' notice prior to any Interest Payment Date or Principal Payment Date, if the Company does not intend or will be unable to make the scheduled payment on such date to the Trustee.

Any reorganization or liquidation plan with respect to the Company must be acceptable to the Bond Insurer. In the event of any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Holders, absent a Bond Insurer Default.

Section 8.08. Authority May File Claim in Bankruptcy. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar judicial proceeding relative to the Company or any other obligor upon the Loan Agreement or the Bonds or to property of the Company, or such other obligor or the creditors of any of them, the Authority (irrespective of whether the principal of the Note shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether demand shall have made on the Company for the payment on the First Mortgage Bonds of an amount equal to overdue principal or interest or additional interest) shall be entitled and empowered, by intervention in such proceeding or otherwise to:

(i) file and prove a claim for the reasonable compensation, expenses, disbursements and advances of the Authority, its agents and counsel allowed in such judicial proceeding; and

(ii) file and prove a claim arising out of a claim for indemnification by or on behalf of the Authority, any person who "controls" the Authority (within the meaning of Section 15 of the Securities Act of 1933, as amended) and members, officers, directors, officials, employees and attorneys of the Authority, the State and their respective members, officers, directors, officials, attorneys and employees its agents and counsel allowed in such judicial proceeding; and

(iii) file and prove a claim for funds held in, or which should have been held in, the Rebate Account or the payment of the Rebate Amount due under Section 6.04 hereof; and

(iv) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Notice. Any notice required to be given by any party shall also be given to the Bond Insurer. Any notice to the parties to this Loan Agreement shall be conclusively deemed to have been received by, and to be effective on the date on which sent by facsimile transmission or delivered to it, at the address listed below or, if sent by certified mail, postage prepaid, on the third business day after the day on which mailed, addressed to the party at said address:

Authority: New Jersey Economic Development Authority
36 West State Street
PO Box 990
Trenton, New Jersey 08625
Attn: Managing Director of Investment Banking

Company: Middlesex Water Company
1500 Ronson Road
P.O. Box 1500
Iselin, New Jersey 08830
Attn: A. Bruce O'Connor, C.P.A.
Vice President, Controller &
Chief Financial Officer

Trustee: The Bank of New York
385 Rifle Camp Road
West Paterson, New Jersey 07424
Attn: Corporate Trust Department

Bond Insurer: AMBAC Indemnity Corporation
One State Street Plaza
New York, New York 10004
Attn: General Counsel

The addresses set forth hereinabove may be changed pursuant to notice given in accordance with this Section 9.01.

Section 9.02. Concerning Successors and Assigns. All covenants, agreements, representations and warranties made herein, in the other Loan Documents and in the certificates delivered pursuant hereto and thereto shall survive the making of the Loan herein contemplated and the execution and delivery of the First Mortgage Bonds and shall continue in full force and effect so long as the Obligations are outstanding and unpaid. Whenever in this Loan Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Company which are contained in

this Loan Agreement shall bind its successors and assigns and inure to the benefit of the successors and assigns of the Authority.

Section 9.03. Expenses and Fees. All expenses in connection with the preparation, execution, delivery, recording and filing of this Loan Agreement, and the other Loan Documents and in connection with the preparation, issuance and delivery of the Bonds, the Authority's fees, the fees and expenses of St. John & Wayne, L.L.C., the fees and expenses of the Trustee, the fees and expenses of Trustee's counsel and the fees and expenses of counsel to the Underwriter shall be paid directly by the Company. The Company shall also pay throughout the term of the Bonds the Authority's fees and expenses and the Trustee's annual and special fees and expenses under the Indenture, the Loan Agreement and the other Loan Documents, including, but not limited to, reasonable attorney's fees and all costs of issuing, collecting payment on and redeeming the Bonds thereunder, and any costs and expenses of any Bondholder (or beneficial owner) in connection with any approval, consent or waiver under, or modification of, any such document.

Section 9.04. New Jersey Law Governs. This Loan Agreement and the other Loan Documents shall be construed in accordance with and governed by the laws of the State.

Section 9.05. Modification in Writing. The waiver of any provision of this Loan Agreement or any other Loan Document, or consent to any departure by the Company therefrom shall, in no event, be effective unless the same shall be in writing and signed by the Authority and approved by the Bond Insurer. Any such waiver shall be effective only in the specific instance and for the purpose for which given. No notice to or demand upon the Company in any case shall entitle it to any other further notice or demand in the same circumstances. Any amendment of this Loan Agreement shall be effected only in the manner provided in Article XII of the Indenture.

Section 9.06. Failure to Exercise Rights. Neither any failure nor any delay on the part of the Authority in exercising any right, power or privilege hereunder or under any other Loan Document shall operate as a waiver hereof or thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege.

Section 9.07. Assignment of Loan Documents. The Company acknowledges that the Loan Documents including the First Mortgage Bonds, shall be assigned by the Authority to the Trustee as security for the Bonds pursuant to the terms of the Indenture. The Authority retains the right, jointly and severally with the Trustee, to specifically enforce the provisions contained in the Loan Documents.

The Company assents to such assignment and hereby agrees that, as to the Trustee, its obligation to make payments under the Loan Documents and the First Mortgage Bonds shall be absolute, and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach by the Authority of any duty or obligation to the Company, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the Company by the Authority.

Section 9.08. Further Assurances and Corrective Instruments. The Authority and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project or for carrying out the intention of or facilitating the performance of this Loan Agreement in the manner provided in Article XII of the Indenture.

Section 9.09. Captions. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Loan Agreement.

Section 9.10. Severability. In the event any provision of this Loan Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render any other provision hereof unenforceable.

Section 9.11. Counterparts. This Loan Agreement may be signed in any number of counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 9.12. Effective Date and Term. This Loan Agreement shall become effective upon its execution and delivery by the parties hereto, and all representations and warranties shall be deemed to have been made as of such date of execution and delivery and shall remain in full force and effect from the date hereof and, subject to the provisions hereof, shall expire on such date as the Bonds and the interest thereon, the First Mortgage Bonds and the interest thereon and all other expenses, penalties, fees, additions to tax or sums to which the Authority and the Trustee are entitled, have been fully paid and retired.

Section 9.13. Incorporation of Terms. The other Loan Documents shall be made subject to all the terms and conditions contained in this Loan Agreement to the same extent and effect as if this Loan Agreement were fully set forth in and made a part of the other Loan Documents. This Loan Agreement is made subject to all the conditions, stipulations, agreements and covenants contained in the other Loan Documents to the same extent and effect as if the other Loan Documents were fully set forth herein and made a part hereof. Notwithstanding any of the foregoing, if any provisions in the other Loan Documents (other than the Indenture and the Bonds) are inconsistent with the public purpose covenants contained within this Loan Agreement, to that extent this Loan Agreement shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Loan Agreement and, where applicable, caused their corporate seals to be affixed hereto and to be attested, as of the day first written above.

[SEAL]

NEW JERSEY ECONOMIC DEVELOPMENT
AUTHORITY

ATTEST:

Frank T. Mancini, Jr.
Assistant Secretary

By: _____
Caren S. Franzini
Executive Director

[SEAL]

MIDDLESEX WATER COMPANY

ATTEST:

Marion F. Reynolds
Vice President, Secretary
and Treasurer

By: _____
Dennis G. Sullivan
President

EXHIBIT A

Form of First Mortgage Bonds

A-1

LOAN AGREEMENT

By and Between

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

and

MIDDLESEX WATER COMPANY

Dated as of January 15, 2002

LOAN AGREEMENT

Water Facilities Revenue Refunding Bonds
(Middlesex Water Company Project), Series 2002

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Independent Auditors' Consent

We consent to the incorporation by reference in Registration Statement No. 33-11717 of Middlesex Water Company on Form S-3 of our report dated February 22, 2002, appearing in this Annual Report on Form 10-K of Middlesex Water Company for the year ended December 31, 2001.

/s/DELOITTE & TOUCHE LLP/

DELOITTE & TOUCHE LLP
Parsippany, New Jersey
March 26, 2002