

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

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-422

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

New Jersey

22-1114430

(State of Incorporation)

(IRS employer identification no.)

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

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

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

Title of Each Class:	Name of each exchange on which registered:
None	None

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

Common Stock, No par Value  
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(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  No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2004 was \$212,760,366 based on the closing market price of \$19.41 per share.

The number of shares outstanding for each of the registrant's classes of common stock, as of March 1, 2005:

Common Stock, No par Value: 11,377,403 shares outstanding

Documents Incorporated by Reference  
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Proxy Statement to be filed in connection with the Registrant's Annual Meeting of Shareholders to be held on May 25, 2005, which will be filed with the Securities and Exchange Commission within 120 days, is incorporated as to Part III.

Explanatory Note

This amendment on Form 10-K/A reflects the restatement of Middlesex Water Company's (the Company) consolidated balance sheets as of December 31, 2004 and 2003 and consolidated statements of cash flows for the years ended December 31, 2004, 2003, and 2002 to correct the accounting and disclosure of non-cash contributions of utility plant from developers, as discussed in Note 10 of the Notes to the Consolidated Financial Statements, included in Item 8. In addition, the Company has amended Item 9A and Management's Report on Internal Control Over Financial Reporting to update the disclosure regarding disclosure controls and procedures and internal control over financial reporting.

The restatement affects only Items 6, 7, 8 and 15 of this report. Except for the foregoing amended items, the information in this Form 10-K/A is as of March 16, 2005, the filing date of the original Form 10-K for the year ended December 31,

2004, and has not been updated for the events subsequent to that date other than for the matter discussed above.

MIDDLESEX WATER COMPANY  
FORM 10-K/A

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## Forward-Looking Statements

Certain statements contained in this annual report are "forward-looking statements" within the meaning of federal securities laws. The Company intends that these statements be covered by the safe harbors created under those laws. These statements include, but are not limited to:

- statements as to expected financial condition, performance, prospects and earnings of the Company;
- statements regarding strategic plans for growth;
- statements regarding the amount and timing of rate increases and other regulatory matters;
- statements regarding expectations and events concerning capital expenditures;
- statements as to the Company's expected liquidity needs during fiscal 2005 and beyond and statements as to the sources and availability of funds to meet its liquidity needs;
- statements as to expected rates, consumption volumes, service fees, revenues, margins, expenses and operating results;
- statements as to the Company's compliance with environmental laws and regulations and estimations of the materiality of any related costs;
- statements as to the safety and reliability of the Company's equipment, facilities and operations;
- statements as to financial projections;
- statements as to the ability of the Company to pay dividends;
- statements as to the Company's plans to renew municipal franchises and consents in the territories it serves;
- expectations as to the cost of cash contributions to fund the Company's pension plan, including statements as to anticipated discount rates and rates of return on plan assets;
- statements as to trends; and
- statements regarding the availability and quality of our water supply.

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

- the effects of general economic conditions;
- increases in competition in the markets served by the Company;
- the ability of the Company to control operating expenses and to achieve efficiencies in its operations;
- the availability of adequate supplies of water;
- actions taken by government regulators, including decisions on base rate increase requests;
- new or additional water quality standards;
- weather variations and other natural phenomena;
- acts of war or terrorism; and
- other factors discussed elsewhere in this annual report.

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

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

## PART I

### Item 1. Business.

#### Overview

Middlesex Water Company was incorporated as a water utility company in 1897 and owns and operates regulated water utility systems in central and southern New Jersey and in Delaware as well as a regulated wastewater utility in southern New Jersey. We also operate water and wastewater systems on behalf of others in New Jersey and Delaware.

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

We recently created a new wholly-owned Delaware corporation named Tidewater Environmental Services, Inc. (TESI), which will be used to own and operate regulated wastewater systems in Delaware (see Regulation for further discussion).

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

#### Middlesex System

The Middlesex System provides water services to approximately 58,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under contract to the Township of Edison, the Boroughs of Highland Park and Sayreville, and both the Old Bridge and the Marlboro Township Municipal Utilities Authorities. The Middlesex System treats, stores and distributes water for residential, commercial, industrial and fire prevention purposes. Under a special contract, the Middlesex System also provides water treatment and pumping services to the Township of East Brunswick. The Middlesex System, through its retail and contract sales, produced approximately 67% of our 2004 revenue.

The Middlesex System's retail customers are located in an area of approximately 55 square miles in Woodbridge Township, the City of South Amboy, the Boroughs of Metuchen and Carteret, portions of 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. The contract customers of the Middlesex System comprise an area of approximately 141 square miles with a population of approximately 267,000. Contract sales to Edison, Sayreville, Old Bridge and Marlboro are supplemental to the existing water systems of these customers. The State of New Jersey in the mid-1980's approved plans to increase available surface water supply to 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.

#### Tidewater System

Tidewater, together with its wholly-owned subsidiary, Southern Shores Water Company, LLC, provides water services to approximately 26,000 retail customers for domestic, commercial and fire protection purposes in over 250 separate community water systems in New Castle, Kent and Sussex Counties, Delaware. Tidewater has another wholly-owned subsidiary, White Marsh Environmental Systems, Inc., which operates water and wastewater systems under contract for approximately 4,500 customers and also owns the office building that Tidewater uses as its business office. White Marsh's rates for water and wastewater operations are not regulated by the Delaware Public Service Commission (PSC). The Tidewater System produced approximately 17% of our total revenue in 2004.

#### Utility Service Affiliates (Perth Amboy)

USA-PA operates the City of Perth Amboy's water and wastewater systems under a 20-year agreement, which expires in 2018. Perth Amboy has a population of 40,000 and has approximately 9,600 customers, most of whom are served by both systems. The agreement was effected under New Jersey's Water Supply Public-Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act and requires USA-PA to lease from Perth Amboy all of its employees who currently work on the Perth Amboy water and wastewater systems. Under the agreement, USA-PA receives both fixed and variable fees based on increased system billing. Fixed fee payments began at \$6.4 million in the first year and are to increase over the term of the 20-year contract to \$10.2 million. USA-PA produced approximately 11% of our total revenue in 2004.

In connection with the agreement, we guaranteed a series of bonds in the principal amount of approximately \$26.3 million, of which approximately \$23.9 million remains outstanding. 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.

#### Pinelands System

Pinelands Water provides water services to approximately 2,400 residential customers in Burlington County, New Jersey. Pinelands Water produced less than 1% of our total revenue in 2004.

Pinelands Wastewater provides wastewater services to approximately 2,400 primarily residential retail customers. Under contract, it also services one municipal wastewater system in Burlington County, New Jersey with about 200 residential customers. Pinelands Wastewater produced approximately 1% of our total revenue in 2004.

#### Utility Service Affiliates, Inc.

In 1999, we 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 South Amboy franchise was approved by the Board of Public Utilities (BPU) and its implementation 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 was for the provision of management services for a fixed fee.

USA provides customers within the Middlesex System a service line maintenance program called LineCare(SM). LineCare(SM) is an affordable maintenance program that covers all parts, material and labor required to repair or replace specific elements of the customer's water service line and customer shut-off value.

Middlesex and USA have entered into a venture with an entity that provides meter installation and related services. This venture seeks to obtain competitively bid service contracts with municipalities in the Mid-Atlantic and New England regions. The contract work may include any or all of the following: meter purchases, replacement meter program, new meter program and meter testing. These businesses contributed approximately 3% of our total revenue in 2004.

#### Bayview System

Bayview provides water service to approximately 300 customers in Cumberland County, New Jersey. Bayview produced less than 1% of our total revenue in 2004.

#### Financial Information

Consolidated operating revenues and operating income are as follows:

	(Thousands of Dollars)		
	Years Ended December 31,		
	2004	2003	2002
	-----	-----	-----
Operating Revenues	\$70,991	\$64,111	\$61,933
Operating Income	\$13,119	\$11,500	\$12,467

Operating revenues were earned from the following sources:

	Years Ended December 31,		
	2004	2003	2002
	-----	-----	-----
Residential	39.9%	39.4%	40.0%
Commercial	9.5	9.8	9.7
Industrial	10.9	11.1	11.9
Fire Protection	10.2	10.7	10.5
Contract Sales	12.8	13.2	14.1
Contract Operations	11.2	12.6	12.1
Other	5.5	3.2	1.7
	-----	-----	-----
TOTAL	100.0%	100.0%	100.0%
	-----	-----	-----

#### Water Supplies and Contracts

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

#### Middlesex System

Our Middlesex System, which produced 16,623 million gallons in 2004, obtains water from surface sources and wells, which we call groundwater sources. In 2004, surface sources of water provided approximately 70% of the

Middlesex System's water supply, groundwater from wells provided approximately 23% and the balance of 7% was purchased from 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 water supply for the Middlesex System is the Delaware & Raritan Canal, which is owned by the State of New Jersey and operated as a water resource by the New Jersey Water Supply Authority. Middlesex renewed and modified its agreement with the New Jersey Water Supply Authority, which was effective January 1, 2004 and expires November 30, 2023, and provides for an average purchase of 27 million gallons per day of untreated water from the Delaware & Raritan Canal, augmented by the Round Valley/Spruce Run Reservoir System. Surface water is pumped to and treated at the Carl J. Olsen (CJO) Plant. Middlesex also has an agreement with a nonaffiliated water utility for the purchase of treated water. This agreement, which expires December 31, 2005, provides for the minimum purchase of 3 million gallons per day of treated water with provisions for additional purchases. Purchased water costs are shown below:

	(Millions of Dollars)		
	Years Ended December 31,		
	2004	2003	2002
Purchased Water			
-----	----	----	----
Untreated	\$2.2	\$2.0	\$1.9
Treated	2.0	1.8	1.8
	----	----	----
Total Costs	\$4.2	\$3.8	\$3.7
	====	====	====

Our Middlesex System also derives water from groundwater sources equipped with electric motor-driven, deepwell turbine-type pumps. The Middlesex System has 31 wells, which provide an aggregate pump capacity of approximately 27 million gallons per day.

The Middlesex System's groundwater sources are:

Source	No. of Wells	2004 Maximum Use Per Day Pumpage (millions of gallons)	Pump Capacity (mgd)	Location
-----	-----	-----	-----	-----
Park Avenue	15	8.3	15.2	South Plainfield
Tingley Lane North	4	2.8	2.8	Edison
Tingley Lane South	5	2.1	2.6	Edison
Spring Lake	4	0.0	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	0.0	0.9	South Plainfield
	--	----	----	
Totals	31	15.6	26.7	

#### Tidewater System

Our Tidewater System, which produced 1,517 million gallons in 2004, obtains 100% of its water from 202 wells. In 2004, we placed 11 new wells in service and also deactivated, sealed and abandoned 18 wells. Tidewater continues to submit applications to Delaware regulatory authorities for the approval of additional wells as growth, demand and water quality warrants. The Tidewater System does not have a central treatment facility but has several regional filter plants. Several of its water systems in New Castle, Kent and Sussex Counties, Delaware have interconnected transmission systems.



#### Pinelands System

Water supply to our Pinelands System is derived from four wells drilled into the Mt. Laurel aquifer which provided overall system delivery of 179 million gallons in 2004. The pump capacity for the four wells is 2.2 million gallons per day.

#### Bayview System

Water supply to Bayview customers is derived from two wells, which provided an overall system delivery of 11 million gallons in 2004. Each well has treatment facilities.

#### Pinelands Wastewater System

The Pinelands Wastewater System discharges into the South Branch of the Rancocas Creek through a tertiary treatment plant that provides clarification, sedimentation, filtration and disinfection. The total capacity of the plant is 0.5 million gallons per day. Current average flow is 0.3 million gallons per day. Pinelands has a current valid discharge permit issued by the New Jersey Department of Environmental Protection (DEP).

#### Employees

As of December 31, 2004, we had a total of 149 employees in New Jersey, and a total of 71 employees in Delaware. In addition, we lease 22 employees under the USA-PA contract with the City of Perth Amboy, New Jersey. No employees are represented by a union except the leased employees. We believe our employee relations are good. Wages and benefits, other than for leased employees, are reviewed annually and are considered competitive within the industry.

#### Competition

Our business in our franchised service area is substantially free from direct competition with other public utilities, municipalities and other entities. However, our ability to provide 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 PSC awarding franchises to other regulated water utilities.

#### Regulation

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

During 2004, the PSC assumed regulatory authority over wastewater services in Delaware and issued proposed rules and regulations similar to the water systems it regulates.

## Regulation of Rates and Services

New Jersey water and wastewater service operations (excluding the operations of USA-PA) are subject to regulation by the BPU. Similarly, our Delaware water service operations, and beginning in 2005, wastewater services to be offered by TESI, 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. For ratemaking purposes, we account separately for operations in New Jersey and Delaware to facilitate independent ratemaking by the BPU for New Jersey operations and the PSC for Delaware operations.

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

Effective May 27, 2004, Middlesex Water Company received approval from the BPU for a 9.5%, or \$4.3 million increase in its water rates. This increase represents a portion of the Company's November 2003 request for a total rate increase of 17.8% to cover the costs of its increased capital investment, as well as maintenance and operating expenses.

Effective June 24, 2004, Pinelands Water and Pinelands Wastewater received approval from the BPU for increases of 9.2% and 9.9%, respectively, or approximately \$131,000 in the aggregate. This increase represents a portion of Pinelands' December 2003 request for a total base rate increase of approximately \$250,000 to help offset the increased costs associated with capital improvements, and the operation and maintenance of their systems.

Effective June 25, 2004, Tidewater received approval from the PSC for an interim increase of 15%, or \$1.5 million in its water rates, which includes 4.89% of previously Distribution System Improvement Charges (DSIC). On October 19, 2004, the PSC approved a settlement between Tidewater and the interveners in the matter. The settlement allowed the interim rates to become permanent. This increase represents a portion of Tidewater's April 2004 request for a 24% rate increase to accommodate the growth of Tidewater's customer base, improvements to water treatment, fire protection and to interconnect systems for service reliability and back-up. As part of the settlement, Tidewater will be eligible to apply for a second phase rate increase of \$0.5 million, provided it completes a number of capital projects within a specified time schedule. Tidewater must file an application for this increase no earlier than March 2005 or later than May 2005. Upon verification of project completion, new rates will become effective 30 days after the filing date. Tidewater also agreed to waive its right to file DSIC applications over the next three six-month cycles (January and July 2005, and January 2006) and to defer making an application for a general rate increase until after April 1, 2006.

In accordance with the tariff established for Southern Shores, a rate increase of 2.8% based on the Consumer Price Index was implemented on January 1, 2004.

Other than rates for the Southern Shores system, there can be no assurance that any future rate increases will be granted or, if granted, that they will be in the amounts we requested.

## Water Quality and Environmental Regulations

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

Federal, New Jersey and Delaware regulations adopted relating to water quality require us to perform expanded types of testing to ensure that our water meets state and federal water quality requirements. In addition, environmental regulatory agencies are reviewing current regulations governing the limits of certain organic compounds found in the water as byproducts of treatment. We participate in industry-related research to identify the various types of technology that might reduce the level of organic, inorganic and synthetic compounds found in the water. The cost to water companies of complying with the proposed water quality standards depends in part on the limits set in the regulations and on the method selected to implement such reduction. We believe the CJO Plant capabilities put us in a strong position to meet any such future standards with regard to our Middlesex System. We use regular testing of our water to determine compliance with existing federal, New Jersey and Delaware primary water quality standards.

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

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

The DEP and the DPH monitor our activities and review the results of water quality tests that are performed for adherence to applicable regulations. Other regulations applicable to us include the Lead and Copper Rule, the maximum contaminant levels established for various volatile organic compounds, the Federal Surface Water Treatment Rule and the Total Coliform Rule.

#### Management

This table lists information concerning our senior management team:

Name	Age	Principal Position(s)
Dennis G. Sullivan	63	President and Chief Executive Officer
Dennis W. Doll	46	Executive Vice President
A. Bruce O'Connor	46	Vice President and Chief Financial Officer
Ronald F. Williams	55	Vice President-Operations and Chief Operating Officer
Kenneth J. Quinn	57	Vice President, General Counsel, Secretary and Treasurer
James P. Garrett	59	Vice President-Human Resources
Richard M. Risoldi	48	Vice President- Subsidiary Operations
Gerard L. Esposito	53	President, Tidewater Utilities, Inc.

Dennis G. Sullivan - Mr. Sullivan has been a Director of Middlesex since 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 was elected President and General Counsel in 2001 and became President and Chief Executive Officer in January 2003. He is Chairman of the Board and a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., White Marsh Environmental Systems, Inc., Pinelands Water Company, Pinelands Wastewater Company, Utility Service Affiliates, Inc., Utility Service Affiliates (Perth Amboy) Inc. and Bayview Water Company. He is also a Director of the New Jersey Utilities Association and the National Association of Water Companies.

Dennis W. Doll - Mr. Doll, a Certified Public Accountant, joined the Company in November 2004 as Executive Vice President. Prior to joining the Company Mr. Doll was employed by Elizabethtown Water Company since 1985, serving most recently as a member of the senior leadership team of the Northeast Region of American Water, which was comprised of Elizabethtown Water Company, New Jersey-American Water Company and

Long Island Water Corporation and included other regulated and non-regulated subsidiaries. In this capacity, Mr. Doll served as Vice President - Finance & Controller and served previously, as Vice President - Merger Integration. Prior to 2001, Mr. Doll served as Vice President & Controller of Elizabethtown, Elizabethtown's parent company, E'town Corporation, and various other regulated and non-regulated subsidiaries, primarily engaged in the water and wastewater fields.

A. Bruce O'Connor - Mr. O'Connor, a Certified Public Accountant, joined the Company in 1990 as Assistant Controller and was elected Controller in 1992 and Vice President in 1995. He was elected Vice President and Controller and Chief Financial Officer in 1996. In July 2004, his Controller responsibilities were assigned to the newly created Corporate Controller position. He is responsible for financial reporting, customer service, rate cases, cash management and financings. He is Treasurer and a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., Bayview Water Company, Utility Service Affiliates, Inc., and White Marsh Environmental Systems, Inc. He is Vice President, Treasurer and a Director of Utility Service Affiliates (Perth Amboy) Inc., Pinelands Water Company and Pinelands Wastewater Company.

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

Kenneth J. Quinn - Mr. Quinn joined the Company in 2002 as General Counsel and was elected Assistant Secretary in 2003. In 2004, Mr. Quinn was elected Vice President, Secretary and Treasurer for Middlesex and Secretary and Assistant Treasurer for all subsidiaries of Middlesex. He has been engaged in the practice of law for 29 years and prior to joining the Company he had been employed by the law firm of Schenck, Price, Smith and King in Morristown, New Jersey. Prior to that, Mr. Quinn spent 10 years as in-house counsel to two major banking institutions located in New Jersey. In May 2003, he was elected Assistant Secretary of Tidewater Utilities, Inc., Pinelands Water Company, Pinelands Wastewater Company, Utility Service Affiliates (Perth Amboy) Inc., Bayview Water Company and White Marsh Environmental Systems, Inc. He is a Director of Utility Service Affiliates (Perth Amboy) Inc., Utility Service Affiliates, Inc., Pinelands Water Company, Pinelands Wastewater Company, and Bayview Water Company. He is a member of the New Jersey State Bar Association and is also a member of the Public Utility Law Section of the Bar.

James P. Garrett - Mr. Garrett joined the Company in 2003 as Assistant Vice President-Human Resources. In May 2004, he was elected Vice President- Human Resources. Prior to his hire, Mr. Garrett was employed by Toys "R" Us, Inc. for 23 years, most recently as Director of Organizational Development. Mr. Garrett is responsible for all human resource programs and activities at Middlesex Water Company and its subsidiaries.

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

Gerard L. Esposito - Mr. Esposito joined Tidewater Utilities, Inc. in 1998 as Executive Vice President. He was elected President of Tidewater and White Marsh Environmental Systems, Inc. in 2003 and elected President of Tidewater Environmental Services, Inc. in January 2005. Prior to joining the Company he worked for 22 years

in various executive positions for Delaware environmental protection and water quality governmental agencies. He is a Director of Tidewater Utilities, Inc., Tidewater Environmental Services, Inc., and White Marsh Environmental Systems, Inc.

#### Risk Factors

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

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

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

We are subject to penalties unless we comply with environmental laws and regulations, including water quality regulations. Compliance with those laws and regulations impose costs on us.

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

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 them. Those costs could be very high and make us less profitable if we cannot recover those costs through our rates that we charge our customers.

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

We require financing to fund the ongoing capital program for the improvement of our utility system assets and for planned expansion of that system. We project that we may expend approximately \$74.4 million for existing capital projects. We must have regulatory approval to sell debt or equity securities to raise money for these projects. If sufficient capital is not available or the cost of capital is too high, or if the regulatory authorities deny a petition of ours to sell debt or equity securities, we would not be able to meet the cost of complying with

environmental laws and regulations or the costs of improving and expanding our utility system assets. This might result in the imposition of fines or restrictions on our operations and may curtail our ability to improve upon and expand our utility system assets.

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

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

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

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

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

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

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

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

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

Middlesex Water Company and USA-PA operate and maintain the water and wastewater systems of the City of Perth Amboy, New Jersey under a multi-year contract. This contract does not protect us against incurring costs in excess of payments we will receive pursuant to the contract. There can be no assurance that we will not experience losses resulting from this contract. Losses under this contract or our failure or inability to perform may have a material adverse effect on our financial condition and results of operations. Also, as of December 31, 2004, approximately \$23.9 million of Perth Amboy's bonds we have guaranteed remain outstanding. If Perth Amboy defaults on its obligations to pay the bonds we have guaranteed, we would have to raise funds to meet our obligations under that guarantee,

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

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

We have restrictions on our dividends. There can also be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

Our Restated Certificate of Incorporation and our Indenture of Mortgage dated as of April 1, 1927, as supplemented impose conditions on our ability to pay dividends. We have paid dividends on our common stock each year since 1912 and have increased the amount of dividends paid each year since 1973. Our earnings, financial condition, capital requirements, applicable regulations and other factors, including the timeliness and adequacy of rate increases, will determine both our ability to pay dividends on common stock and the amount of those dividends. There can be no assurance that we will continue to pay dividends in the future or, if dividends are paid, that they will be in amounts similar to past dividends.

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

Subsection 10A of the New Jersey Business Corporation Act, known as the Shareholder Protection Act, applies to us. The Shareholder Protection Act deters merger proposals, tender offers or other attempts to effect changes in our control that are not negotiated and approved by our Board of Directors. In addition, we have a classified Board of Directors, which means only one-third of the Directors are elected each year. A classified Board can make it harder for an acquirer to gain control by voting its candidates onto the Board of Directors and may also deter merger proposals and tender offers. Our Board of Directors also has the ability, subject to obtaining BPU approval, to issue one or more series of preferred stock having such number of shares, designation, preferences, voting rights, limitations and other rights as the Board of Directors may fix. This could be used by the Board of Directors to discourage, delay or prevent an acquisition that might benefit non-management shareholders.

## Item 2. Properties.

### Utility Plant

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

### Middlesex System

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

Water is withdrawn from the Delaware & Raritan Canal at New Brunswick, New Jersey through our intake and pumping station, which has a design capacity of 80 million gallons per day and is located on state-owned land bordering the canal. The four electric motor-driven, vertical turbine pumps presently installed have an aggregate design capacity of 82 million gallons per day. Water is transported through our 4,900 foot 54-inch reinforced concrete supply main for treatment and distribution at our CJO Plant in Edison, New Jersey. The design capacity of our raw water supply main is 55 million gallons per day.

In the Spring of 2004, the Company began construction on a second raw water pipeline from the intake and pumping station to the CJO Plant. The pipeline, which is approximately 6,100 feet of 60-inch ductile iron pipe, will provide for redundancy, additional security, and additional capacity. The project, which includes renovations to the intake and pumping station, is scheduled to be completed in the Spring of 2005 (see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation- Liquidity and Capital Resources- Capital Expenditures and Commitments for additional discussion).

The CJO Plant includes chemical storage and chemical feed equipment, two dual rapid mixing basins, four upflow clarifiers which are also called superpulsators, four underground reinforced chlorine contact tanks, twelve rapid filters containing gravel, sand and anthracite for water treatment and a steel washwater tank. The CJO Plant also includes a computerized Supervisory Control and Data Acquisitions system to monitor and control the CJO Plant and the water supply and distribution system in the Middlesex System. There is an on site State certified laboratory capable of performing bacteriological, chemical, process control and advanced instrumental chemical sampling and analysis. The firm design capacity of the CJO Plant is 45 million gallons per day (60 million gallons per day maximum capacity). The main pumping station at the CJO Plant has a design capacity of 90 million gallons per day. The four electric motor-driven, vertical turbine pumps presently installed have an aggregate capacity of 72 million gallons per day.

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

The transmission and distribution system is comprised of 722 miles of mains and includes 23,200 feet of 48-inch reinforced concrete transmission main connecting the CJO Plant to our distribution pipe network and related storage facilities. Also included is a 58,600 foot transmission main and a 38,800 foot transmission main, augmented with a long-term, non-exclusive agreement with the East Brunswick system to transport water to several of our contract customers.

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



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

#### Tidewater System

The Tidewater System's is comprised of 91 production plants that vary in pumping capacity from 40,000 gallons per day to 1.5 million gallons per day. Water is transported to our customers through 446 miles of transmission and distribution mains. Storage facilities include 38 tanks, with an aggregate capacity of 4.7 million gallons. Our Delaware operations are managed from Tidewater's leased offices in Dover, Delaware and Millsboro, Delaware. Tidewater's Dover, Delaware office property, located on property owned by White Marsh, consists of a 6,800 square foot office building situated on an eleven-acre lot. White Marsh also owns another business site for which it is exploring several options for future use.

#### Pinelands System

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

#### Pinelands Wastewater System

Pinelands Wastewater owns a 12 acre site on which its 0.5 million gallons per day capacity tertiary treatment plant and connecting pipes are located. Its wastewater collection system is comprised of approximately 24.5 miles of main.

#### Bayview System

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

#### USA-PA, USA and White Marsh

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

#### Item 3. Legal Proceedings

A lawsuit was filed in 1998 against the Company for damages involving the break of both a Company water line and an underground electric power cable containing both electric lines and petroleum based insulating fluid. The electric utility also asserted claims against the Company. The lawsuit was settled in 2003, and by agreement, the electric utility's counterclaim for approximately \$1.1 million in damages was submitted to binding arbitration, in which the agreed maximum exposure of the Company is \$0.3 million, which the Company has accrued for. While we are unable to predict the outcome of the arbitration, we believe that we have substantial defenses.

A claim involving a construction subcontractor, the Company's general contractor and the Company concerning a major construction project was settled during October 2004. The matter was instituted in 2001, and related to work required to be performed under a construction contract and related subcontracts and included payment

issues and timing/delay issues. The amount that was determined to be due from us for the work performed was \$1.4 million and was recorded as an addition to utility plant in service during fiscal 2004.

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

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

None.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Market Information

The Company's common stock is traded on the NASDAQ Stock Market, under the symbol MSEX. The following table shows the range of high and low share prices per share for the common stock and the dividend paid to shareholders in such quarter.

2004 ----	High ----	Low ---	Dividend -----
Fourth Quarter	\$ 20.72	\$ 17.06	\$0.1675
Third Quarter	19.50	16.65	0.1650
Second Quarter	21.81	18.83	0.1650
First Quarter	21.32	19.38	0.1650
2003 ----	High ----	Low ---	Dividend -----
Fourth Quarter	\$ 21.12	\$ 18.19	\$0.1650
Third Quarter	21.23	17.72	0.1613
Second Quarter	18.49	16.32	0.1613
First Quarter	18.00	15.77	0.1613

(b) Approximate Number of Equity Security Holders as of December 31, 2004

Title of Class -----	Number of Record Holders -----
Common Stock, No Par Value	2,077
Cumulative Preferred Stock, No Par Value:	
\$7.00 Series	14
\$4.75 Series	1
Cumulative Convertible Preferred Stock, No Par Value:	
\$7.00 Series	4
\$8.00 Series	3

(c) 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.

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

(d) Restricted Stock Plan

The Company maintains a shareholder approved restricted Stock Plan, under which 65,233 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.

(e) Sale of Unregistered Securities

The Company did not issue any shares of unregistered securities during fiscal years 2004, 2003, or 2002.

(f) Issuer Purchases of Equity Securities

The Company did not purchase any shares of its equity securities during fiscal year 2004.

## Item 6. Selected Financial Data

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

	2004	2003	2002	2001	2000
Operating Revenues	\$ 70,991	\$ 64,111	\$ 61,933	\$ 59,638	\$ 54,477
Operating Expenses:					
Operations and Maintenance	39,984	36,195	32,767	31,740	30,269
Depreciation	5,846	5,363	4,963	5,051	4,701
Other Taxes	8,228	7,816	7,737	7,594	6,916
Income Taxes	3,814	3,237	3,999	3,760	2,653
Total Operating Expenses	57,872	52,611	49,466	48,145	44,539
Operating Income	13,119	11,500	12,467	11,493	9,938
Other Income, Net	795	358	442	502	364
Interest Charges	5,468	5,227	5,144	5,042	4,997
Net Income	8,446	6,631	7,765	6,953	5,305
Preferred Stock Dividend	255	255	255	255	255
Earnings Applicable to Common Stock	\$ 8,191	\$ 6,376	\$ 7,510	\$ 6,698	\$ 5,050
Earnings per Share:					
Basic	\$ 0.74	\$ 0.61	\$ 0.73	\$ 0.66	\$ 0.50
Diluted	\$ 0.73	\$ 0.61	\$ 0.73	\$ 0.66	\$ 0.50
Average Shares Outstanding:					
Basic	11,080	10,475	10,280	10,131	10,044
Diluted	11,423	10,818	10,623	10,474	10,387
Dividends Declared and Paid	\$ 0.663	\$ 0.649	\$ 0.634	\$ 0.623	\$ 0.613
Total Assets	\$305,634*	\$267,956*	\$251,971*	\$242,512*	\$224,534*
Convertible Preferred Stock	\$ 2,961	\$ 2,961	\$ 2,961	\$ 2,961	\$ 2,961
Long-term Debt	\$115,281	\$ 97,377	\$ 87,483	\$ 88,140	\$ 82,109

\* As Restated (see Note 10 of the Notes to the Consolidated Financial Statements included in Item 8)

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

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

This Management's Discussion and Analysis of Financial Condition and Results of Operation reflects the restatement of the Company's Consolidated Financial Statements, as discussed in Note 10 of the Notes to the Consolidated Financial Statements.

Overview

Middlesex Water Company has operated as a water utility in New Jersey since 1897, and in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services in New Jersey and for water services in Delaware, as to the quality of water service we provide and as to certain other matters. Our TESI subsidiary is expected to commence operations during 2005 as a regulated wastewater utility in Delaware. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

Our New Jersey water utility system (the Middlesex System) provides water services to approximately 58,000 retail customers, primarily in central New Jersey. The Middlesex System also provides water service under contract to municipalities in central New Jersey with a total population of approximately 267,000. In partnership with our subsidiary, USA-PA, we operate the water supply system and wastewater system for the City of Perth Amboy, New Jersey. Our other New Jersey subsidiaries, Pinelands Water and Pinelands Wastewater, provide water and wastewater services to residents in Southampton Township, New Jersey.

Our Delaware subsidiaries, Tidewater and Southern Shores, provide water services to approximately 26,000 retail customers in New Castle, Kent and Sussex Counties, Delaware. Our other Delaware subsidiary, White Marsh, services an additional 4,500 customers in Kent and Sussex Counties.

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

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

Results of Operations in 2004 Compared to 2003

Operating revenues for the year rose \$6.9 million, or 10.7% over the same period in 2003. Water sales improved by \$2.9 million in our Middlesex system, which was primarily a result of base rate increases. Customer growth of 10.4% in Delaware provided additional consumption revenues of \$1.2 million and higher base rates provided \$0.8 million. Our meter services venture provided \$2.0 million of additional revenues for completed meter installations. New unregulated wastewater contracts in Delaware provided \$0.3 million in additional revenues. Base rate increases for our Pinelands system contributed \$0.1 million of additional revenues. Revenues from our operations and maintenance contracts decreased \$0.4 million due to scheduled reductions in fixed fees under the City of Perth Amboy contract.

While we anticipate continued growth in the number of customers and increased water consumption among our Delaware systems, such growth and increased consumption cannot be guaranteed. Weather conditions may

adversely impact future consumption even with an anticipated growth in the number of customers. Our New Jersey systems are also highly dependent on the effects of weather. Our ability to generate operating revenues by our meter services venture is dependent upon our ability to obtain additional contracts, however USA did not submit bids for any meter service contracts during fiscal 2004 and currently does not expect to submit any bids during fiscal 2005. The existing meter services contracts were substantially completed during the fourth quarter of 2004.

Operating expenses increased by \$5.3 million, or 10.0% as compared to the same period in 2003. Operation and maintenance expenses increased \$3.8 million or 10.5%. In New Jersey, payroll costs, employee benefits and corporate governance related fees increased costs by \$1.1 million. Source of supply and pumping costs for the Middlesex system increased by \$0.7 million combined due to increased costs for electricity and purchased water. Costs to operate the Tidewater system, as well as an increase in our Delaware employee base, general wage increases and higher costs associated with employee medical and retirement benefits increased costs by \$0.6 million. The costs of our meter services venture increased \$1.6 million due to completed installations. The costs of our non-regulated wastewater operations and maintenance contracts increased \$0.3 million due to additional contracts obtained during the year. These increases were partially offset by \$0.4 million of reduced costs related to our City of Perth Amboy contract due to reduced water treatment costs and a decrease of \$0.1 million for water main repair costs in our Middlesex system.

Going forward we anticipate an increase in New Jersey's electric generation costs due to deregulation of electricity. These increasing costs, in addition to higher business insurance and corporate governance costs, as well as completion of the new raw water pipeline during the second quarter of 2005 will require us to file for a base rate increase with the BPU for Middlesex during 2005. We cannot predict whether the BPU will approve, deny or reduce the amount of any request.

Depreciation expense for 2004 increased by \$0.5 million, or 9.0%, due to a higher level of utility plant in service. Allowance for funds used during construction rose by \$0.3 million for the year, due to large construction projects in New Jersey for the RENEW program and a new raw water pipeline (see Liquidity and Capital Resources for additional discussion of capital spending). As our investments in utility plant and operating expenses increase, we continue to seek timely rate relief through base rate filings as discussed above.

Other taxes increased by \$0.4 million generally reflecting additional taxes on higher taxable gross revenues, payroll and real estate. Improved operating results in 2004 compared to 2003 led to higher income taxes of \$0.8 million, which was partially offset by \$0.2 million of tax benefits.

Other income increased \$0.1 million, primarily due the recognition of a gain on the sale of real estate that had previously been deferred pending the outcome of the Middlesex rate case.

Interest expense increased by \$0.2 million, primarily due to higher average long-term borrowings as compared to the prior year period.

Net income increased by 27.4% to \$8.4 million from \$6.6 million in the prior year, and basic earnings per share increased from \$0.61 to \$0.74. Diluted earnings per share increased from \$0.61 to \$0.73. The increase in earnings per share was impacted by the higher number of shares outstanding during the current year as a result of the sale of 700,000 shares of common stock in May 2004.

## Results of Operations in 2003 Compared to 2002

Operating revenues for the year rose \$2.2 million, or 3.5% over the same period in 2002. Customer growth of 10.9% in Delaware provided additional facility charges and connection fees of \$1.4 million. Higher base rates in our Delaware service territories provided \$0.6 million of the increase. For the year ended December 31, 2003, cool wet weather in the Mid-Atlantic region pushed Tidewater's consumption revenue down by \$0.3 million and Middlesex consumption revenue down by \$0.5 million. Despite such adverse weather conditions, revenues from our operations and maintenance contracts rose \$0.5 million due to scheduled increases in fixed fees under the City of Perth Amboy contract.

New unregulated wastewater operations in Delaware provided \$0.1 million in additional revenues. Our new meter services venture provided \$0.3 million in additional revenues. All other operations accounted for \$0.1 million of the higher revenues.

Operating expenses increased by \$3.1 million, or 6.4%. Costs related to main breaks resulting from severe winter weather conditions in the first quarter of 2003 contributed to additional expenses of \$0.4 million. There were also higher sewer disposal fees and security costs for USA-PA that helped increase costs by \$0.6 million. An increase in our Delaware employee base, general wage increases and higher costs associated with employee medical and retirement benefits pushed up costs by \$0.7 million. In New Jersey, payroll costs, employee benefits and legal fees pushed up costs by \$0.9 million. Non-regulated operations of meter installations and wastewater, which began in 2003, contributed \$0.3 million of the overall expense increase. Water treatment, source of supply and pumping costs increased by \$0.5 million combined.

Depreciation expense for 2003 increased by \$0.4 million, or 8.1%, due to a higher level of utility plant in service. Allowance for funds used during construction rose 17% for the year as Tidewater's capital program included larger projects with longer construction schedules.

Other taxes increased by \$0.1 million generally due to higher payroll related taxes and real estate taxes in both New Jersey and Delaware. Lower federal income taxes of \$0.8 million over last year are attributable to the reduced operating results for 2003 as compared to 2002.

Other income decreased by \$0.1 million as interest rates fell on short-term cash balance investments. Interest expense increased by \$0.1 million due to a higher level of overall debt outstanding as compared to last year.

Net income decreased to \$6.6 million from \$7.8 million and basic and diluted earnings per share decreased by \$0.12 to \$0.61 due to lower earnings.

## Outlook

In addition to some of the factors previously discussed under "Results of Operations in 2004 Compared to 2003," our revenues are expected to increase in 2005 from anticipated customer growth in Delaware for our regulated operations and, to a lesser degree, from growth of non-regulated operations in Delaware and elsewhere. We settled four rate cases during 2004, from which we expect to receive the full annualized benefit in 2005. Revenues and earnings will also be influenced by weather. Changes in these factors, as well as increases in capital expenditures and operating costs are the primary factors that determine the need for rate increase filings. The level of revenues and earnings will be impacted by the ultimate timing and outcome of the anticipated base rate filing in New Jersey during 2005.

We continue 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 91 stand-alone production and distribution systems serving 250 communities.

As a result of anticipated regulation of wastewater services in Delaware, we have established a new regulated wastewater operation that will commence operations during fiscal 2005. Due to the start-up nature of this operation, we expect our expenses with respect to this subsidiary to exceed its revenues in the near term.

We expect our interest expense to increase during 2005 as a result of incurring a full year of interest expense on the approximately \$19.0 million of long-term debt we financed during fiscal 2004 and higher expected average borrowings and interest rates on short-term credit facilities in order to finance a portion of our capital expenditures during the coming year (see Liquidity and Capital Resources).

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

#### Liquidity and Capital Resources

Cash flows from operations are largely based on three factors: weather, adequate and timely rate increases, and customer growth. The effect of those factors on net income is discussed in results of operations. For 2004, cash flows from operating activities increased \$1.4 million to \$15.6 million, as compared to the prior year. This increase was primarily attributable to improved profitability during the current year period and the timing of payments made toward prepaid expenses, materials and supplies, and employee benefit plans. These increases in cash flows were partially offset by the timing of collection of customer accounts and payments to vendors. The \$15.6 million of net cash flow from operations allowed us to fund approximately 54% of our utility plant expenditures for the period internally, with the remainder funded with both short-term and long-term borrowings. Net proceeds from issuing long-term debt were used to fund the balance of those expenditures.

For 2003, net cash flow from operations of \$14.2 million, which increased over 2002 due to lower working capital requirements, and proceeds from prior year financings allowed us to fund approximately 81% of our 2003 utility plant expenditures. Net proceeds from issuing long-term debt were used to fund the balance of those expenditures.

Increases in certain operating costs will impact our liquidity and capital resources. As described in our results of operations discussion, during 2004 we received rate relief for Middlesex, Tidewater and the Pinelands Companies. We also plan to file for a base rate increase for Middlesex in 2005 in conjunction with the completion of the raw water pipeline project (see Capital Expenditures and Commitments). There is no certainty, however, that the BPU will approve any or all of this or other future requested increases.

#### Sources of Liquidity

**Short-Term Debt.** The Board of Directors has authorized lines of credit for up to an aggregate of \$40.0 million. As of December 31, 2004, the Company has established revolving lines of credit aggregating \$33.0 million. At December 31, 2004, the outstanding borrowings under these credit lines were \$11.0 million at a weighted average interest rate of 3.42%. As of that date, the Company had borrowing capacity of \$22.0 million under its credit lines.

The weighted average daily amounts of borrowings outstanding under the Company's credit lines and the weighted average interest rates on those amounts were \$8.9 million and \$14.0 million at 2.37% and 1.89% for the years ended December 31, 2004 and 2003, respectively.

**Long-Term Debt.** Subject to regulatory approval, the Company periodically finances capital projects under State Revolving Fund (SRF) loan programs in New Jersey and Delaware. These government programs provide



financing at interest rates that are typically below rates available in the financial markets. A portion of the borrowings under the New Jersey SRF is interest free. We participated in the SRF loan programs during 2004 and will continue to pursue opportunities to participate as circumstances allow us in the future.

During 2004, Middlesex closed on \$16.6 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust (NJEIT) under the New Jersey SRF loan program in order to finance the costs of a new raw water pipeline and our 2005 and 2006 RENEW programs (see Capital Expenditures and Commitments for discussion of these projects). The proceeds of these bonds and any interest earned are held by a trustee, and are classified as Restricted Cash on the Consolidated Balance Sheet.

During 2004, Tidewater closed on a Delaware SRF loan of \$0.8 million to fund a portion of its multi-year capital program. The Delaware SRF program will allow, but does not obligate, Tidewater to draw down against a General Obligation Note for three specific projects.

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

Common Stock. The Company periodically issues shares of common stock in connection with its dividend reinvestment and stock purchase plan. Periodically, the Company may issue additional equity to reduce short-term indebtedness and for other general corporate purposes. During 2004, the Company issued \$15.1 million of common stock, which included a common stock offering of 700,000 shares that was priced at \$19.80 in May. The majority of the net proceeds of approximately \$12.9 million from the common stock offering were used to repay most of the Company's short-term borrowings outstanding at that time.

#### Capital Expenditures and Commitments

As shown in the following table, we expect our capital expenditures in 2005 and 2006 to increase over 2004. These increases are attributable to a major pipeline installation in the Middlesex system and continued customer growth and service improvement requirements in our Tidewater systems in Delaware, where we spent \$12.8 million on utility plant in 2004. At this time we have not determined any amounts anticipated to be spent by TESI in the table below.

	(Millions of Dollars)		
	2005	2006	2007
	-----	-----	-----
Delaware Systems	\$16.5	\$18.1	\$ 9.3
Raw Water Line	3.4	--	--
RENEW Program	3.3	3.3	3.3
Scheduled Upgrades to Existing Systems	5.3	8.1	3.8
	-----	-----	-----
Total	\$28.5	\$29.5	\$16.4
	=====	=====	=====

Under our capital program for 2005, we plan to expend \$16.5 million for water system additions and improvements for our Delaware systems, which include the construction of several storage tanks and the creation of new wells and interconnections. We expect to spend approximately \$3.4 million to complete the new raw water line to the Middlesex primary water treatment plant that began in 2004. We expect to spend \$3.3 million for the RENEW program, which is our program to clean and cement line unlined mains in the Middlesex System. There remains a total of approximately 129 miles of unlined mains in the 730-mile Middlesex System. In 2004, nine miles of unlined mains were cleaned and cement lined. The capital program also includes \$5.3 million for scheduled upgrades to our existing systems in New Jersey. The scheduled upgrades consist of \$1.1 million for improvements to existing plant, \$1.2 million for mains, \$0.8 million for

service lines, \$0.3 million for meters, \$0.3 million for hydrants, and \$1.6 million for computer systems and various other items.

To pay for our capital program in 2005, we will utilize internally generated funds and funds available under existing NJEIT loans (currently, \$8.3 million) and Delaware SRF loans (currently, \$1.8 million). The SRF programs provide low cost financing for projects that meet certain water quality and system improvement benchmarks. If necessary, we will also utilize short-term borrowings through \$33.0 million of available lines of credit with four financial institutions. As of December 31, 2004, we had \$11.0 million outstanding against the lines of credit.

Going forward into 2006 through 2007, we currently project that we will be required to expend approximately \$45.9 million for capital projects. To the extent possible and because of the favorable interest rates available to regulated water utilities, we will finance our capital expenditures under the SRF loan programs. We also expect to use internally generated funds and proceeds from the sale of common stock through the Dividend Reinvestment and Common Stock Purchase Plan.

#### Contractual Obligations

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

The table below presents our known contractual obligations for the periods specified as of December 31, 2004.

	Total	Payment Due by Period (Millions of Dollars)			
		Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Long-term Debt	\$116.4	\$ 1.1	\$ 3.4	\$ 3.9	\$108.0
Notes Payable	11.0	11.0	--	--	--
Interest on Long-term Debt	104.0	5.6	11.2	10.2	77.0
Purchased Water Contracts	21.7	3.9	4.5	4.5	8.8
Wastewater Operations	63.0	3.8	7.8	8.3	43.1
Total	\$316.1	\$ 25.4	\$ 26.9	\$ 26.9	\$236.9

#### Guarantees

USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments began at \$6.4 million in the first year and will increase over the term of the contract to \$10.2 million at the end of the contract.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final

maturity date on September 1, 2015. As of December 31, 2004, approximately \$23.9 million of the Series C Serial Bonds remained outstanding.

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

#### Critical Accounting Policies and Estimates

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

##### Regulatory Accounting

We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 86% of Operating Revenues and 99% of Total Assets, are subject to regulation in the states in which they operate. Those companies are required to maintain their accounts in accordance with regulatory authorities' rules and guidelines, which may differ from other authoritative accounting pronouncements. In those instances, the Company follows the guidance provided in the Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards No. 71, "Accounting For the Effects of Certain Types of Regulation" (SFAS 71).

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

##### Revenues

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

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

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

## Pension Plan

We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service.

The discount rate utilized for determining future pension obligations has decreased from 6.75% at December 31, 2002 to 6.00% at December 31, 2003 to 5.875% at December 31, 2004. Lowering the discount rate by 0.5% would have increased the net periodic pension cost by \$0.1 million in 2004. Lowering the expected long-term rate of return on the pension plans by 0.5% (from 8.0% to 7.5%) would have increased the net periodic pension cost in 2004 by approximately \$0.1 million.

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

Future actual pension income will depend on future investment performance, changes in future discount rates and various other factors related to the population participating in the pension plans.

### Recent Accounting Standards

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No.123(R) "Share-Based Payment", which replaces SFAS No.123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". The Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Statement also establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. This statement is effective for quarters beginning after June 15, 2005. The Company currently recognizes compensation expense at fair value for stock-based payment awards in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation," and does not anticipate adoption of this standard will have a material impact on its financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (SFAS 153). SFAS 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS 153 is effective for nonmonetary asset exchanges occurring in quarters beginning after June 15, 2005. The Company does not anticipate adoption of this standard will have a material impact on its financial position, results of operations, or cash flows.

In May 2004, the FASB issued FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). FSP 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Drug Act) for employers who sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Medicare Drug Act. The Medicare Drug Act generally permits plan sponsors that provide retiree prescription drug benefits that are "actuarially equivalent" to the benefits of Medicare Part D to be eligible for a non-taxable federal subsidy. FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. FSP 106-2 provides that if the effect of the Medicare Drug Act is not considered a significant event, the measurement date for the adoption of FSP 106-2 is delayed until the next regular measurement date. Based on Management's discussions with its Actuary, Management determined the effect of the Medicare Drug Act was not considered a significant event and thus

the Company will account for the effects of FSP 106-2 at its next measurement date (January 1, 2005). The adoption of FSP 106-2 will not have a material effect on the Company's financial statements.

In March 2004, the Emerging Issues Task Force (EITF) reached consensus on EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1). EITF 03-1 further defines the meaning of an "other-than-temporary impairment" and its application to debt and equity securities. Impairment occurs when the fair value of a security is less than its cost basis. When such a condition exists, the investor is required to evaluate whether the impairment is other-than-temporary as defined in EITF 03-1. When an impairment is other-than-temporary, the security must be written down to its fair value. EITF 03-1 also requires additional annual quantitative and qualitative disclosures for available for sale and held to maturity impaired investments that are not other-than-temporarily impaired. On September 30, 2004, the FASB issued FSP EITF 03-1-1, "Effective date of Paragraph's 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP EITF 03-1-1). FSP EITF 03-1-1 delayed the effective date for the measurement and recognition guidance contained in EITF 03-1 until further implementation guidance is issued. The Company does not expect any material effects from the adoption of EITF 03-1 on its financial statements.

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

The Company is subject to the risk of fluctuating interest rates in the normal course of business. Our policy is to manage interest rates through the use of fixed rate long-term debt and, to a lesser extent, short-term debt. The Company's interest rate risk related to existing fixed rate, long-term debt is not material due to the term of the majority of our First Mortgage Bonds, which have final maturity dates ranging from 2009 to 2038. Over the next twelve months, approximately \$1.1 million of the current portion of ten existing long-term debt instruments will mature. Combining this amount with the \$11.0 million in short-term debt outstanding at December 31, 2004, and applying a hypothetical change in the rate of interest charged by 10% on those borrowings, would not have a material effect on our earnings.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of 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 subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2005 (November 17, 2005 as to the effect of the material weakness described in Management's Report on Internal Controls Over Financial Reporting (as revised)) expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in Note 10, the accompanying consolidated balance sheets and statements of cash flows have been restated.

/s/ DELOITTE & TOUCHE LLP  
Parsippany, New Jersey  
March 15, 2005 (November 14, 2005 as to the effects of the restatement described in Note 10)

MIDDLESEX WATER COMPANY  
CONSOLIDATED BALANCE SHEETS

		December 31,	
ASSETS		2004	2003
		(Restated - see Note 10)	(Restated - see Note 10)
<hr/>			
UTILITY PLANT:	Water Production	\$ 82,340,798	\$ 77,265,782
	Transmission and Distribution	194,531,035	179,219,783
	General	20,451,215	19,776,293
	Construction Work in Progress	13,013,391	2,798,070
	TOTAL	310,336,439	279,059,928
	Less Accumulated Depreciation	52,017,761	47,510,797
	UTILITY PLANT - NET	258,318,678	231,549,131
<hr/>			
CURRENT ASSETS:	Cash and Cash Equivalents	4,034,768	3,005,610
	Accounts Receivable, net	6,316,853	5,682,608
	Unbilled Revenues	3,572,713	3,234,788
	Materials and Supplies (at average cost)	1,203,906	1,419,142
	Prepayments	823,976	1,009,304
	TOTAL CURRENT ASSETS	15,952,216	14,351,452
<hr/>			
DEFERRED CHARGES AND OTHER ASSETS:	Unamortized Debt Expense	3,172,254	3,272,783
	Preliminary Survey and Investigation Charges	1,032,182	1,380,771
	Regulatory Assets	8,198,565	8,216,117
	Operations Contracts Fees Receivable	685,599	699,806
	Restricted Cash	13,257,106	3,825,420
	Non-utility Assets - Net	4,552,023	4,147,685
	Other	465,419	513,116
	TOTAL DEFERRED CHARGES AND OTHER ASSETS	31,363,148	22,055,698
	TOTAL ASSETS	\$ 305,634,042	\$ 267,956,281
<hr/>			
CAPITALIZATION AND LIABILITIES			
<hr/>			
CAPITALIZATION:	Common Stock, No Par Value	\$ 71,979,902	\$ 56,924,028
	Retained Earnings	23,103,908	22,668,348
	Accumulated Other Comprehensive Income, net of tax	44,841	50,808
	TOTAL COMMON EQUITY	95,128,651	79,643,184
	Preferred Stock	4,063,062	4,063,062
	Long-term Debt	115,280,649	97,376,847
	TOTAL CAPITALIZATION	214,472,362	181,083,093
<hr/>			
CURRENT LIABILITIES:	Current Portion of Long-term Debt	1,091,351	1,067,258
	Notes Payable	11,000,000	12,500,000
	Accounts Payable	6,001,806	4,777,400
	Accrued Taxes	6,784,380	6,258,739
	Accrued Interest	1,703,131	1,810,639
	Unearned Revenues and Advanced Service Fees	387,156	602,854
	Other	795,456	678,596
	TOTAL CURRENT LIABILITIES	27,763,280	27,695,486
<hr/>			
COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)			
<hr/>			
DEFERRED CREDITS AND OTHER LIABILITIES:	Customer Advances for Construction	14,018,006	12,838,342
	Accumulated Deferred Investment Tax Credits	1,696,566	1,775,183
	Accumulated Deferred Income Taxes	14,556,153	14,125,970
	Employee Benefit Plans	5,464,056	5,086,988
	Regulatory Liability - Cost of Utility Plant Removal	5,363,152	4,830,308
	Other	849,551	909,498
	TOTAL DEFERRED CREDITS AND OTHER LIABILITIES	41,947,484	39,566,289
<hr/>			
CONTRIBUTIONS IN AID OF CONSTRUCTION		21,450,916	19,611,413
	TOTAL CAPITALIZATION AND LIABILITIES	\$ 305,634,042	\$ 267,956,281

See Notes to Consolidated Financial Statements.

MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2004	2003	2002
Operating Revenues	\$ 70,991,146	\$ 64,111,214	\$ 61,932,786
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Operating Expenses:			
Operations	36,519,355	32,666,099	29,918,921
Maintenance	3,464,036	3,529,113	2,847,209
Depreciation	5,846,191	5,362,727	4,963,268
Other Taxes	8,228,354	7,815,918	7,737,155
Income Taxes	3,814,418	3,237,218	3,999,295
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Total Operating Expenses	57,872,354	52,611,075	49,465,848
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Operating Income	13,118,792	11,500,139	12,466,938
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Other Income (Expense):			
Allowance for Funds Used During Construction	606,019	315,919	269,668
Other Income	221,950	131,499	249,324
Other Expense	(32,676)	(89,931)	(77,114)
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Total Other Income, net	795,293	357,487	441,878
Interest Charges	5,468,576	5,227,030	5,143,463
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Net Income	8,445,509	6,630,596	7,765,353
Preferred Stock Dividend Requirements	254,786	254,786	254,786
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Earnings Applicable to Common Stock	\$ 8,190,723	\$ 6,375,810	\$ 7,510,567
<hr style="border-top: 1px dashed black;"/>			
Earnings per share of Common Stock:			
Basic	\$ 0.74	\$ 0.61	\$ 0.73
Diluted	\$ 0.73	\$ 0.61	\$ 0.73
Average Number of Common Shares Outstanding :			
Basic	11,079,835	10,475,295	10,280,302
Diluted	11,422,975	10,818,435	10,623,442
Cash Dividends Paid per Common Share	\$ 0.663	\$ 0.649	\$ 0.634

See Notes to Consolidated Financial Statements.



MIDDLESEX WATER COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2004	2003	2002
	(Restated - see Note 10)	(Restated - see Note 10)	(Restated - see Note 10)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income	\$ 8,445,509	\$ 6,630,596	\$ 7,765,353
Adjustments to Reconcile Net Income to			
Net Cash Provided by Operating Activities:			
Depreciation and Amortization	6,387,808	5,633,863	5,436,525
Provision for Deferred Income Taxes and ITC	603,275	306,919	197,714
Allowance for Funds Used During Construction	(606,019)	(315,919)	(269,668)
Changes in Assets and Liabilities:			
Accounts Receivable	(634,245)	345,694	637,418
Unbilled Revenues	(337,925)	(53,697)	(380,076)
Materials & Supplies	215,236	(228,805)	(162,417)
Prepayments	185,328	(193,912)	54,301
Other Assets	(578,048)	275,802	(256,683)
Operations Contracts Receivable	14,207	(699,806)	--
Accounts Payable	1,224,406	2,260,431	(476,148)
Accrued Taxes	528,715	333,815	(432,126)
Accrued Interest	(107,508)	196,361	(199,618)
Employee Benefit Plans	377,068	(192,749)	17,061
Unearned Revenue & Advanced Service Fees	(215,698)	186,265	71,316
Other Liabilities	56,913	(236,431)	(803,949)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>15,559,022</b>	<b>14,248,427</b>	<b>11,199,003</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Utility Plant Expenditures*	(28,878,576)	(17,576,634)	(16,255,866)
Cash Surrender Value & Other Investments	(273,837)	(466,290)	(4,438)
Restricted Cash	(9,431,686)	2,321,158	2,843,996
Proceeds from Real Estate Dispositions	--	532,922	--
Preliminary Survey & Investigation Charges	348,589	(282,303)	(154,846)
Other Assets	--	(47,264)	(68,179)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(38,235,510)</b>	<b>(15,518,411)</b>	<b>(13,639,333)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Redemption of Long-term Debt	(1,067,258)	(884,427)	(6,443,836)
Proceeds from Issuance of Long-term Debt	18,995,153	11,205,723	6,067,350
Net Short-term Bank Borrowings (Repayments)	(1,500,000)	(5,150,000)	4,425,000
Deferred Debt Issuance Expenses	(65,219)	(194,484)	(510,818)
Common Stock Issuance Expense	(379,534)	(103,284)	(3,688)
Restricted Cash	--	121	219,588
Proceeds from Issuance of Common Stock	15,055,874	3,609,859	3,214,548
Payment of Common Dividends	(7,375,629)	(6,791,254)	(6,510,494)
Payment of Preferred Dividends	(254,786)	(254,786)	(254,786)
Construction Advances and Contributions-Net	297,045	(99,768)	640,976
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>23,705,646</b>	<b>1,337,700</b>	<b>843,840</b>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>1,029,158</b>	<b>67,716</b>	<b>(1,596,490)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,005,610</b>	<b>2,937,894</b>	<b>4,534,384</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 4,034,768</b>	<b>\$ 3,005,610</b>	<b>\$ 2,937,894</b>

\*Excludes Allowance for Funds Used During Construction.

<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY:</b>			
Utility Plant received as Construction Advances and Contributions	\$ 2,722,121	\$ 3,753,037	\$ 1,042,529
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>			
Cash Paid During the Year for:			
Interest	\$ 5,409,803	\$ 5,061,878	\$ 5,103,787
Interest Capitalized	\$ (606,019)	\$ (315,919)	\$ (269,668)
Income Taxes	\$ 3,074,513	\$ 2,472,000	\$ 4,237,000

See Notes to Consolidated Financial Statements.

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

	December 31,	
	2004	2003
<hr style="border-top: 1px dashed black;"/>		
Common Stock, No Par Value		
Shares Authorized - 20,000,000		
Shares Outstanding - 2004 - 11,358,772	\$ 71,979,902	\$ 56,924,028
2003 - 10,566,937		
Retained Earnings	23,103,908	22,668,348
Accumulated Other Comprehensive Income, net of tax	44,841	50,808
<hr style="border-top: 1px dashed black;"/>		
TOTAL COMMON EQUITY	95,128,651	79,643,184
<hr style="border-top: 1px dashed black;"/>		
Cumulative Preference Stock, No Par Value:		
Shares Authorized - 100,000		
Shares Outstanding - None		
Cumulative Preferred Stock, No Par Value		
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
<hr style="border-top: 1px dashed black;"/>		
TOTAL PREFERRED STOCK	4,063,062	4,063,062
<hr style="border-top: 1px dashed black;"/>		
Long-term Debt		
8.05%, Amortizing Secured Note, due December 20, 2021	3,063,389	3,136,531
6.25%, Amortizing Secured Note, due May 22, 2028	9,835,000	10,255,000
4.22%, State Revolving Trust Note, due December 31, 2022	784,000	192,281
3.60%, State Revolving Trust Note, due May 1, 2025	2,348,316	580,792
4.00% to 5.00%, State Revolving Trust Bond, due September 1, 2021	790,000	820,000
0.00%, State Revolving Fund Bond, due September 1, 2021	652,306	690,833
First Mortgage Bonds:		
5.20%, Series S, due October 1, 2022	12,000,000	12,000,000
5.25%, Series T, due October 1, 2023	6,500,000	6,500,000
6.40%, Series U, due February 1, 2009	15,000,000	15,000,000
5.25%, Series V, due February 1, 2029	10,000,000	10,000,000
5.35%, Series W, due February 1, 2038	23,000,000	23,000,000
0.00%, Series X, due September 1, 2018	755,006	807,956
4.25% to 4.63%, Series Y, due September 1, 2018	920,000	965,000
0.00%, Series Z, due September 1, 2019	1,679,979	1,792,435
5.25% to 5.75%, Series AA, due September 1, 2019	2,085,000	2,175,000
0.00%, Series BB, due September 1, 2021	2,048,095	2,168,277
4.00% to 5.00%, Series CC, due September 1, 2021	2,275,000	2,360,000
5.10%, Series DD, due January 1, 2032	6,000,000	6,000,000
0.00%, Series EE, due September 1, 2024	7,715,909	--
3.00% to 5.50%, Series FF, due September 1, 2024	8,920,000	--
<hr style="border-top: 1px dashed black;"/>		
SUBTOTAL LONG-TERM DEBT	116,372,000	98,444,105
<hr style="border-top: 1px dashed black;"/>		
Less: Current Portion of Long-term Debt	(1,091,351)	(1,067,258)
<hr style="border-top: 1px dashed black;"/>		
TOTAL LONG-TERM DEBT	\$ 115,280,649	\$ 97,376,847
<hr style="border-top: 1px dashed black;"/>		

See Notes to Consolidated Financial Statements.

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

	Common Stock Shares =====	Common Stock Amount =====	Retained Earnings =====	Accumulated Other Comprehensive Income =====	Total =====
Balance at January 1, 2002	10,168,002	\$50,099,621	\$22,190,691	\$ --	\$72,290,312
Net Income			7,765,353		7,765,353
Dividend Reinvestment & Common Stock Purchase Plan	176,320	2,990,712			2,990,712
Restricted Stock Awards - Net	12,167	223,836			223,836
Cash Dividends on Common Stock			(6,510,494)		(6,510,494)
Cash Dividends on Preferred Stock			(254,786)		(254,786)
Common Stock Expenses			(3,688)		(3,688)
	-----	-----	-----	-----	-----
Balance at December 31, 2002	10,356,489	\$53,314,169	\$23,187,076	\$ --	\$76,501,245
Net Income			6,630,596		6,630,596
Change in Value of Equity Investments, net of \$26,000 Income Tax				50,808	50,808
Comprehensive Income					6,681,404
	-----	-----	-----	-----	-----
Dividend Reinvestment & Common Stock Purchase Plan	192,515	3,263,569			3,263,569
Restricted Stock Awards - Net	17,933	346,290			346,290
Cash Dividends on Common Stock			(6,791,254)		(6,791,254)
Cash Dividends on Preferred Stock			(254,786)		(254,786)
Common Stock Expenses			(103,284)		(103,284)
	-----	-----	-----	-----	-----
Balance at December 31, 2003	10,566,937	\$56,924,028	\$22,668,348	\$ 50,808	\$79,643,184
Net Income			8,445,509		8,445,509
Change in Value of Equity Investments, net of \$3,000 Income Tax				(5,967)	(5,967)
Comprehensive Income					8,439,542
	-----	-----	-----	-----	-----
Dividend Reinvestment & Common Stock Purchase Plan	76,935	1,533,507			1,533,507
Issuance of Common Stock	700,000	13,257,000			13,257,000
Restricted Stock Awards - Net	14,900	265,367			265,367
Cash Dividends on Common Stock			(7,375,629)		(7,375,629)
Cash Dividends on Preferred Stock			(254,786)		(254,786)
Common Stock Expenses			(379,534)		(379,534)
	-----	-----	-----	-----	-----
Balance at December 31, 2004	11,358,772	\$71,979,902	\$23,103,908	\$ 44,841	\$95,128,651
	=====	=====	=====	=====	=====

See Notes to Consolidated Financial Statements.

Middlesex Water Company  
Notes to Consolidated Financial Statements (as Restated)

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 Water) and Pinelands Wastewater Company (Pinelands Wastewater) (collectively, Pinelands), 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. (White Marsh), are wholly-owned subsidiaries of Tidewater. The financial statements for Middlesex and its wholly-owned subsidiaries (the Company) are reported on a consolidated basis. All significant intercompany accounts and transactions have been eliminated.

Middlesex Water Company has operated as a water utility in New Jersey since 1897, and in Delaware, through our wholly-owned subsidiary, Tidewater, since 1992. We are in the business of collecting, treating, distributing and selling water for domestic, commercial, municipal, industrial and fire protection purposes. We also operate a New Jersey municipal water and wastewater system under contract and provide wastewater services in New Jersey and Delaware through our subsidiaries. We are regulated as to rates charged to customers for water and wastewater services in New Jersey and for water services in Delaware, as to the quality of water service we provide and as to certain other matters. Our Tidewater Environmental Services, Inc. subsidiary will commence operations during 2005 as a regulated wastewater utility in Delaware. Only our USA, USA-PA and White Marsh subsidiaries are not regulated utilities.

(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, 2004, there was no event or change in circumstance that would indicate that the carrying amount of any long-lived asset was not recoverable.

(d) Depreciation is computed by each regulated member of the Company utilizing a rate approved by the applicable regulatory authority. The Accumulated Provision for Depreciation is charged with the cost of property retired, less salvage. The following table sets forth the range of depreciation rates for the major utility plant categories used to calculate depreciation for the years ended December 31, 2004, 2003 and 2002. These rates have been approved by either the BPU or PSC:

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

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

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

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

(f) 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 and construction period thresholds established for each company and then depreciated along with the rest of the utility plant's costs over its estimated useful life. For the years ended December 31, 2004, 2003 and 2002 approximately \$0.6 million, \$0.3 million and \$0.3 million of AFUDC was added to the cost of construction projects. AFUDC is calculated using each company's weighted cost of debt and equity as approved in their most recent respective regulatory rate order. The average AFUDC rate for the years ended December 31, 2004, 2003 and 2002 for Middlesex, Tidewater and Bayview were 7.42%, 8.77% and 3.11%, respectively. Pinelands Water and Pinelands Wastewater did not incur AFUDC during the periods covered by this report.

(g) Accounts Receivable - We record bad debt expense based on historical accounts receivable write-offs. The allowance for doubtful accounts at December 31, 2004, 2003 and 2002 was \$0.2 million, \$0.2 million and \$0.1 million, respectively. The corresponding expense for the year ended December 31, 2004, 2003 and 2002 was \$0.1 million, \$0.2 million and \$0.1 million, respectively.

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

Bayview and Southern Shores are unmetered systems. Customers are billed a fixed service charge in accordance with the approved tariff. Southern Shore service charges are billed in advance at the beginning of each month and are recognized as earned. Bayview service charges are billed in advance at the beginning of each calendar quarter and are recognized in revenue ratably over the quarter. Revenues from the City of Perth Amboy management contract are comprised of fixed and variable fees. Fixed fees, which have been set for the life of the contract, are billed monthly and recorded as earned. Variable fees, which are not significant, are recorded upon approval of the amount by the City of Perth Amboy.

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

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

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

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

(m) Recent Accounting Pronouncements - In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.123(R) "Share-Based Payment", which replaces SFAS No.123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". The Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. The Statement also establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. This statement is effective for quarters beginning after June 15, 2005. The Company currently recognizes compensation expense at fair value for stock-based payment awards in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation," and does not anticipate adoption of this standard will have a material impact on its financial position, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29 (SFAS 153). SFAS 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS 153 is effective for nonmonetary asset exchanges occurring in quarters beginning after June 15, 2005. The Company does not anticipate adoption of this standard will have a material impact on its financial position, results of operations, or cash flows.

In May 2004, the FASB issued FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-2). FSP 106-2 provides guidance on the accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Drug Act) for employers who sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 also requires those employers to provide certain disclosures regarding the effect of the federal subsidy provided by the Medicare Drug Act. The Medicare Drug Act generally permits plan sponsors that provide retiree prescription drug benefits that are "actuarially equivalent" to the benefits of Medicare Part D to be eligible for a non-taxable federal subsidy. FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. FSP 106-2 provides that if the effect of the Medicare Drug Act is not considered a significant event, the measurement date for the adoption of FSP 106-2 is delayed until the next regular measurement date. Based on Management's discussions with its Actuary, Management determined the effect of the Medicare Drug Act is not considered a significant event and thus the Company will account for the effects of FSP 106-2 at its next measurement date (January 1, 2005). The adoption of FSP 106-2 will not have a material effect on the Company's financial statements.

In March 2004, the Emerging Issues Task Force (EITF) reached consensus on EITF No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (EITF 03-1). EITF 03-1 further defines the meaning of an "other-than-temporary impairment" and its application to debt and equity securities. Impairment occurs when the fair value of a security is less than its cost basis. When such a

condition exists, the investor is required to evaluate whether the impairment is other-than-temporary as defined in EITF 03-1. When an impairment is other-than-temporary, the security must be written down to its fair value. EITF 03-1 also requires additional annual quantitative and qualitative disclosures for available for sale and held to maturity impaired investments that are not other-than-temporarily impaired. On September 30, 2004, the FASB issued FSP EITF 03-1-1, "Effective date of Paragraph's 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" (FSP EITF 03-1-1). FSP EITF 03-1-1 delayed the effective date for the measurement and recognition guidance contained in EITF 03-1 until further implementation guidance is issued. The Company does not expect any material effects from the adoption of EITF 03-1 on its financial statements.

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

(o) Regulatory Accounting - We maintain our books and records in accordance with accounting principles generally accepted in the United States of America. Middlesex and certain of its subsidiaries, which account for 86% 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 SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation."

(p) Pension Plan - We maintain a noncontributory defined benefit pension plan which covers substantially all employees with more than 1,000 hours of service. The discount rate utilized for determining pension costs decreased from 7.25% for the year ended December 31, 2002 to 6.75% for the year ended December 31, 2003 to 6.00% for the year ended December 31, 2004. Future actual pension income will depend on future investment performance, changes in future discount rates and various other factors related to the population participating in the pension plans.

#### Note 2 - Rate and Regulatory Matters

Effective May 27, 2004, Middlesex received approval from the BPU for a 9.5%, or \$4.3 million increase in its water rates. This increase represents a portion of Middlesex's November 2003 request for a total rate increase of 17.8% to cover the costs of its increased capital investment, as well as maintenance and operating expenses.

Effective June 24, 2004, Pinelands Water and Pinelands Wastewater received approval from the BPU for rate increases of 9.2% and 9.9%, respectively, or approximately \$0.13 million in the aggregate. This increase represents a portion of Pinelands' December 2003 request for a total rate increase of approximately \$0.25 million to help offset the increasing costs associated with capital improvements, and the operation and maintenance of their systems.

Effective June 25, 2004, Tidewater received approval from the PSC for an interim rate increase of 15%, or \$1.5 million increase in its water rates, which includes 4.89% of previously implemented Distribution System Improvement Charges (DSIC). On October 19, 2004, the PSC approved a settlement between Tidewater and interveners in the matter. The settlement allows the interim rates to become permanent. This increase represents a portion of Tidewater's April 2004 request for a 24% rate increase to accommodate the growth of Tidewater's customer base, improvements to water treatment, fire protection and to interconnect systems for service reliability and back-up. As part of the settlement, Tidewater will be eligible to apply for a second phase rate increase of \$0.5 million, provided it completes a number of capital projects within a specified time schedule. Tidewater must file an application for this increase no earlier than March 2005 or later than May 2005. Upon

verification of project completion, new rates will become effective 30 days after the filing date. Tidewater also agreed to waive its right to file DSIC applications over the next three six-month cycles (January and July 2005, and January 2006) and to defer making an application for a general rate increase until after April 1, 2006.

In accordance with the tariff established for Southern Shores, an annual rate increase of 2.8% was implemented on January 1, 2004. The increase cannot exceed the lesser of the regional Consumer Price Index or 3%.

Other than rates for the Southern Shores system, there can be no assurance that any rate increases will be granted or, if granted, that they will be in the amounts we requested.

In the fall of 2002, the BPU approved a 76.7% base rate increase for the Bayview. This translates into additional revenues of less than \$0.1 million. Two-thirds of the increase was implemented on January 1, 2003 and the balance became effective July 1, 2003. The new rates are designed to allow for the recovery of operating costs and capital costs incurred to replace the entire water distribution system on Fortescue Island in Southern New Jersey.

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

Years Ended December 31,  
(Thousands of Dollars)

Regulatory Assets	2004	2003	Remaining Recovery Periods
-----	-----	-----	-----
Income Taxes	\$6,535	\$6,786	Various
Post-retirement Benefits	697	783	8 years
Tank Painting	426	198	3-10 years
Rate Cases and Other	541	449	Up to 3 years
	-----	-----	
Total	\$8,199	\$8,216	
	=====	=====	

The recovery period for income taxes is dependent upon when the temporary differences between tax and book will reverse.

The Company uses the composite depreciation method for its regulated utility operations, which is currently an acceptable method of accounting under generally accepted accounting principles and is widely used in the utility industry. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. However, FASB Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143), precludes the recognition of expected future costs of removal as a component of depreciation expense unless they are legal obligations under SFAS 143. The Company recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of December 31, 2004 and 2003, the Company has approximately \$5.4 million and \$4.8 million, respectively, of cost of removal recovered in rates in excess of actual costs incurred. These amounts are included in regulatory liabilities.

Bayview, Pinelands Water and Pinelands Wastewater are recovering the acquisition premium of \$0.9 million over the remaining life of their Utility Plant. These deferred costs have been included in their rate bases as utility plant and are earning a return on the unamortized costs during the recovery periods.



Note 3 - Income Taxes

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

	Years Ended December 31, (Thousands of Dollars)		
	2004	2003	2002
Income Tax at Statutory Rate of 34%	\$ 4,168	\$ 3,355	\$ 4,000
Tax Effect of:			
Utility Plant Related	(500)	(171)	(123)
State Income Taxes - Net	167	106	80
Employee Benefits	(25)	(67)	25
Other	4	14	17
<b>Total Income Tax Expense</b>	<b>\$ 3,814</b>	<b>\$ 3,237</b>	<b>\$ 3,999</b>

Income tax expense is comprised of the following:

Current:			
Federal	\$ 3,128	\$ 2,835	\$ 3,730
State	83	95	82
Deferred:			
Federal	512	321	227
State	170	65	39
Investment Tax Credits	(79)	(79)	(79)
<b>Total Income Tax Expense</b>	<b>\$ 3,814</b>	<b>\$ 3,237</b>	<b>\$ 3,999</b>

The statutory review period for income tax returns for the years prior to 2001 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)	
	2004	2003
Utility Plant Related	\$ 21,293	\$ 20,522
Customer Advances	(4,263)	(4,218)
Employee Benefits	(2,568)	(2,209)
Other	94	31
<b>Total Deferred Tax Liability</b>	<b>\$ 14,556</b>	<b>\$ 14,126</b>

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 \$6.5 million and \$6.8 million has been recorded at December 31, 2004 and 2003 respectively.

#### Note 4 - Commitments and Contingent Liabilities

Guarantees - USA-PA operates the City of Perth Amboy's (Perth Amboy) water and wastewater systems under a service contract agreement through June 30, 2018. The agreement was effected under New Jersey's Water Supply Public/Private Contracting Act and the New Jersey Wastewater Public/Private Contracting Act. Under the agreement, USA-PA receives a fixed fee and a variable fee based on increased system billing. Scheduled fixed fee payments for 2004, 2003 and 2002 were \$7.4 million, \$7.2 million and \$6.9 million, respectively. The fixed fees will increase over the term of the contract to \$10.2 million.

In connection with the agreement, Perth Amboy, through the Middlesex County Improvement Authority, issued approximately \$68.0 million in three series of bonds. Middlesex guaranteed one of those series of bonds, designated the Series C Serial Bonds, in the principal amount of approximately \$26.3 million. Perth Amboy guaranteed the two other series of bonds. The Series C Serial Bonds have various maturity dates with the final maturity date on September 1, 2015. As of December 31, 2004, approximately \$23.9 million of the Series C Serial Bonds remained outstanding.

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

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. Fixed fee revenues recognized under the original contract have been eliminated effective December 1999, in lieu of revenues earned from providing water to South Amboy's 2,900 customers.

Water Supply - Middlesex revised and extended its agreement with the New Jersey Water Supply Authority (NJWSA) for the purchase of untreated water, effective January 1, 2004. The agreement now expires November 30, 2023 and provides an average purchase of 27 million gallons a day (mgd) up from 20 mgd. Pricing has been modified to include a two tier pricing schedule for the original 20 mgd and the additional 7 mgd. In addition, the agreement has provisions for additional pricing in the event Middlesex overdrafts or exceeds certain monthly and annual thresholds.

Middlesex also has an agreement with a nonaffiliated water utility for the purchase of treated water. This agreement, which expires December 31, 2005, provides for the minimum purchase of 3 mgd of treated water with provisions for additional purchases.

Purchased water costs are shown below:

Purchased Water	(Millions of Dollars)		
	Years Ended December 31,		
	2004	2003	2002
-----	-----	-----	-----
Untreated	\$ 2.2	\$ 2.0	\$ 1.9
Treated	2.0	1.8	1.8
	-----	-----	-----
Total Costs	\$ 4.2	\$ 3.8	\$ 3.7
	=====	=====	=====

Construction - Based on its capital budget, the Company plans to spend approximately \$28.5 million in 2005, \$29.5 million in 2006 and \$16.4 million in 2007 on its construction program.

Litigation - A lawsuit was filed in 1998 against the Company for damages involving the break of both a Company water line and an underground electric power cable containing both electric lines and petroleum based insulating fluid. The electric utility also asserted claims against the Company. The lawsuit was settled in 2003, and by agreement, the electric utility's counterclaim for approximately \$1.1 million in damages was submitted to binding arbitration, in which the agreed maximum exposure of the Company is \$0.3 million, which the Company has accrued for. While we are unable to predict the outcome of the arbitration, we believe that we have substantial defenses.

A claim involving a construction subcontractor, the Company's general contractor and the Company concerning a major construction project was settled during October 2004. The matter was instituted in 2001, and related to work required to be performed under a construction contract and related subcontracts and included payment issues and timing/delay issues. The amount that was determined to be due from us for the work performed was \$1.4 million and was recorded as an addition to utility plant in service during fiscal 2004.

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

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

#### Note 5 - Short-term Borrowings

Information regarding the Company's short-term borrowings for the years ended December 31, 2004 and 2003 is summarized below:

	(Millions of Dollars)	
	2004	2003
-----	-----	-----
Established Lines at Year-End	\$33.0	\$25.0
Maximum Amount Outstanding	13.5	18.5
Average Outstanding	8.9	14.0
Notes Payable at Year-End	11.0	12.5
Weighted Average Interest Rate	2.37%	1.89%
Weighted Average Interest Rate at Year-End	3.42%	1.64%

Year-end interest rates on short-term borrowings outstanding ranged from 2.82% to 3.75% and 1.56% to 1.67% as of December 31, 2004 and 2003, respectively. The maturity dates for borrowings outstanding as of December 31, 2004 are: January 3, 2005- \$7.0 million; January 21, 2005- \$3.0 million; and March 14, 2005- \$1.0 million.

The Board of Directors has authorized lines of credit for up to \$40.0 million. Short-term borrowings are below the prime rate with some requirements for compensating balances not exceeding 1% of the line.

#### Note 6 - Capitalization

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

#### Common Stock

In May 2004, the Company sold and issued 700,000 shares of its common stock in a public offering that was priced at \$19.80. The majority of the net proceeds of approximately \$12.9 million were used to repay most of the Company's short-term borrowings outstanding at that time.

In August 2003, the Board of Directors approved a four-for-three stock split of its common stock, effective November 14, 2003 for shareholders of record on November 1, 2003. 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 share, average number of shares and per share amounts of no par common stock on the financial statements have been restated to reflect the effect of both stock splits.

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, 2004, is 1,316,725. In each of 2003 and 2002 for specific six month periods, DRP participants had the opportunity to purchase the Company's common stock at a 5% discount with reinvested dividends and optional cash payments. The Company also has a restricted stock plan, which is described in Note 7 - Employee Benefit Plans.

In the event dividends on the preferred stock are in arrears, no dividends may be declared or paid on the common stock of the Company. At December 31, 2004, no preferred stock dividends were in arrears.

#### Preferred Stock

If four or more quarterly dividends are in arrears, the preferred shareholders, as a class, are entitled to elect two members to the Board of Directors in addition to Directors elected by holders of the common stock. At December 31, 2004 and 2003, 37,898 shares of preferred stock presently authorized were outstanding and there were no dividends in arrears.

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

The conversion feature of the no par \$8.00 Series Cumulative and Convertible Preferred Stock allows the security holders to exchange one convertible preferred share for 13.714 shares of the Company's common stock. The preferred shares are convertible 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 March 24, 2004, Tidewater received approval from the PSC to borrow \$0.8 million to fund a portion of its multi-year capital program. Subsequent to the PSC approval, Tidewater closed on a Delaware State Revolving Fund (SRF) loan of \$0.8 million. The Delaware SRF program will allow, but does not obligate, Tidewater to

draw down against a General Obligation Note for three specific projects. Tidewater will be charged an annual fee, which is a combination of interest charges and administrative fees, of 3.30% on the outstanding principal amount. All unpaid principal and fees must be paid on or before March 1, 2026.

Middlesex received approval from the BPU to issue up to \$18.0 million of first mortgage bonds through the New Jersey Environmental Infrastructure Trust under the New Jersey SRF program. The Company closed on \$16.6 million of First Mortgage Bonds designated as Series EE and FF on November 4, 2004.

First Mortgage Bonds Series S through W and Series DD are term bonds with single maturity dates. The aggregate annual principal repayment obligations for all other long-term debt are shown below:

(Millions of Dollars)			
Year	Annual Maturities	Year	Annual Maturities
----	-----	----	-----
2005	\$1.1	2008	\$1.9
2006	\$1.5	2009	\$2.0
2007	\$1.9		

The weighted average interest rate on all long-term debt at December 31, 2004 and 2003 was 5.26% and 6.03%, 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), the New Jersey Environmental Infrastructure Trust program (\$27.9 million) and the SRF program (\$3.1 million).

Restricted cash includes proceeds from the Series Y, AA, BB, CC, EE and FF First Mortgage Bonds and State Revolving Trust Bonds issuances. These funds are held in trusts and restricted for specific capital expenditures and debt service requirements. Series BB and CC proceeds can only be used for the 2004 main cleaning and cement lining programs. Series EE and FF proceeds can only be used for the construction of a raw water pipeline and the 2005 and 2006 main cleaning and cement lining programs.

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

#### Earnings Per Share

The following table presents the calculation of basic and diluted earnings per share (EPS) for the three years ended December 31, 2004. 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 and the four-for-three common stock split, effective November 14, 2003.

	(In Thousands of Dollars, Except per Share Amounts)					
	2004		2003		2002	
Basic:	Income	Shares	Income	Shares	Income	Shares
Net Income	\$ 8,446	11,080	\$ 6,631	10,475	\$ 7,765	10,280
Preferred Dividend	(255)		(255)		(255)	
Earnings Applicable to Common Stock	\$ 8,191	11,080	\$ 6,376	10,475	\$ 7,510	10,280
Basic EPS	\$ 0.74		\$ 0.61		\$ 0.73	
Diluted:						
Earnings Applicable to Common Stock	\$ 8,191	11,080	\$ 6,376	10,475	\$ 7,510	10,280
\$7.00 Series Dividend	104	178	104	178	104	178
\$8.00 Series Dividend	96	165	96	165	96	165
Adjusted Earnings Applicable to Common Stock	\$ 8,391	11,423	\$ 6,576	10,818	\$ 7,710	10,623
Diluted EPS	\$ 0.73		\$ 0.61		\$ 0.73	

#### Fair Value of Financial Instruments

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

	(Thousands of Dollars)			
	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
First Mortgage Bonds	\$98,899	\$101,968	\$82,769	\$85,734
State Revolving Bonds	\$ 1,442	\$ 1,476	\$ 1,511	\$ 1,539

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, 2004 and 2003 was \$16.0 million and \$14.2 million, respectively. Customer advances for construction have a carrying amount of \$12.4 million and \$11.7 million at December 31, 2004 and 2003, 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. In addition, the Company maintains an unfunded supplemental pension

plan for its executives. The Accumulated Benefit Obligation for all pension plans at December 31, 2004 was \$20.9 million.

#### 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, 2004 and 2003, respectively were \$0.7 million and \$0.8 million.

The Company uses a December 31 measurement date for all of its employee benefit plans. The following table sets forth information relating to the Company's pension plans and other postretirement benefits:

	(Thousands of Dollars)			
	Years Ended December 31,			
	Pension Benefits	Pension Benefits	Other Benefits	Other Benefits
	2004	2003	2004	2003
-----				
Reconciliation of Projected Benefit Obligation				
Beginning Balance	\$ 23,671	\$ 19,677	\$ 9,498	\$ 7,437
Service Cost	746	684	426	263
Interest Cost	1,387	1,356	580	485
Actuarial (Gain)/Loss	1,516	3,039	1,028	1,645
Benefits Paid	(1,221)	(1,085)	(399)	(332)
-----				
Ending Balance	\$ 26,099	\$ 23,671	\$ 11,133	\$ 9,498
-----				
Reconciliation of Plan Assets at Fair Value				
Beginning Balance	\$ 18,587	\$ 15,846	\$ 2,582	\$ 2,065
Actual Return on Plan Assets	1,497	2,768	190	15
Employer Contributions	647	1,058	1,057	834
Benefits Paid	(1,221)	(1,085)	(399)	(332)
-----				
Ending Balance	\$ 19,510	\$ 18,587	\$ 3,430	\$ 2,582
-----				
Funded Status	\$ (6,589)	\$ (5,084)	\$ (7,703)	\$(6,916)
Unrecognized Net Transition Obligation	--	--	1,082	1,217
Unrecognized Net Actuarial (Gain)/Loss	2,655	1,144	4,835	4,076
Unrecognized Prior Service Cost	173	264	(3)	(3)
-----				
Accrued Benefit Cost	\$ (3,761)	\$ (3,676)	\$ (1,789)	\$(1,626)
-----				

(Thousands of Dollars)  
Years Ended December 31,

	Pension Benefits			Other Benefits		
	2004	2003	2002	2004	2003	2002
-----						
Components of Net Periodic Benefit Cost						
Service Cost	\$ 746	\$ 684	\$ 724	\$ 426	\$ 263	\$ 222
Interest Cost	1,387	1,356	1,300	580	485	463
Expected Return on Plan Assets	(1,492)	(1,272)	(1,281)	(213)	(175)	(125)
Amortization of Net Transition Obligation	--	--	2	135	135	135
Amortization of Net Actuarial (Gain)/Loss	--	--	--	292	143	111
Amortization of Prior Service Cost	92	92	92	--	--	--
-----						
Net Periodic Benefit Cost	\$ 733	\$ 860	\$ 837	\$ 1,220	\$ 851	\$ 806
-----						
	2004	2003	2002	2004	2003	2002
-----						
Actual Return on Plan Assets	8.18%	17.48%	(9.47%)	6.53%	0.77%	1.38%
Weighted Average Assumptions:						
Expected Return on Plan Assets	8.00%	8.00%	8.00%	7.50%	7.50%	7.50%
Discount Rate for:						
Benefit Obligation	5.875%	6.00%	6.75%	5.875%	6.00%	6.75%
Benefit Cost	6.00%	6.75%	7.25%	6.00%	6.75%	7.25%
Compensation Increase for:						
Benefit Obligation	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Benefit Cost	3.50%	3.50%	4.25%	3.50%	3.50%	4.25%

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2004 and declining by 1.0% per year through 2007 and 0.5% per year to 5% by year 2009. 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)  
1 Percentage Point  
Increase                      Decrease

Effect on Current Year's Service and Benefit Cost	\$ 230	\$ (173)
Effect on Benefit Obligation	1,714	(1,338)

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

Year	Pension Benefits		Other Benefits	
2005	\$ 1,282		\$ 354	
2006	1,269		367	
2007	1,457		388	
2008	1,509		414	
2009	1,528		452	
2010-2014	8,075		2,565	
Totals	\$15,120		\$4,540	
	=====		=====	

Benefit Plans Assets

The benefit plans asset allocations at December 31, 2004 and 2003, by asset category are as follows:

Asset Category	Pension Plan		Other Benefits		Target	Range
	2004	2003	2004	2003		
Equity Securities	62.8%	63.1%	54.0%	-0 %	60%	30-65%
Debt Securities	34.5	33.4	36.9	-0 %	38%	25-70%
Cash	2.7	3.5	9.1	100.0%	2%	0-10%
Total	100.0%	100.0%	100.0%	100.0%		
	=====	=====	=====	=====		



Middlesex utilizes two investment firms to manage its pension plan asset portfolio. One of those investment firms manages the other post-retirement benefits assets. Quarterly meetings are held between the Company's Pension Committee and the investment managers to review their performance and asset allocation. If the current asset allocation is outside the targeted range, the Pension Committee reviews current market conditions and advice provided by the investment managers to determine the appropriateness of rebalancing the portfolio.

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

Equity securities include Middlesex common stock in the amounts of \$0.7 million (3.8 percent of total plan assets) and \$0.8 million (4.2 percent of total plan assets) at December 31, 2004 and 2003, respectively.

For the pension plan, Middlesex made total cash contributions of \$0.6 million in 2004 and expects to make cash contributions of approximately \$0.8 million in 2005.

For the other benefit plan, Middlesex made total cash contributions of \$1.1 million in 2004 and expects to make cash contributions of approximately \$1.2 million in 2005.

#### 401(k) Plan

The Company has a 401(k) defined contribution plan, which covers substantially all employees with more than 1,000 hours of service. Under the terms of the Plan, the Company matches 100% of a participant's contributions, which do not exceed 1% of a participant's compensation, plus 50% of a participant's contributions exceeding 1% but not more than 6%. The Company's matching contributions were \$0.3 million in 2004, \$0.3 million in 2003 and \$0.2 million in 2002.

#### Stock Based Compensation

The Company maintains a Restricted Stock Plan, under which 65,233 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 award 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 each of the years ended December 31, 2004, 2003 and 2002 was \$0.3 million, \$0.3 million and \$0.2 million, respectively.

The Company recognizes compensation expense at fair value for the restricted stock awards in accordance with SFAS No. 123 "Accounting for Stock-Based Compensation."

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 non-regulated contract services for the operation and maintenance of municipal and private water and wastewater systems in New Jersey and Delaware. Inter-segment transactions relating to operational costs are treated as pass-through expenses. Finance charges on inter-segment loan activities are based on interest rates that are below what would normally be charged by a third party lender.

Operations by Segments:	(Thousands of Dollars)		
	Twelve Months Ended December 31,		
	2004	2003	2002
-----			
Revenues:			
Regulated	\$ 60,745	\$ 55,707	\$ 54,398
Non - Regulated	10,366	8,500	7,576
Inter-segment Elimination	(120)	(96)	(41)
-----			
Consolidated Revenues	\$ 70,991	\$ 64,111	\$ 61,933
-----			
Operating Income:			
Regulated	\$ 12,569	\$ 11,013	\$ 12,032
Non - Regulated	550	487	435
-----			
Consolidated Operating Income	\$ 13,119	\$ 11,500	\$ 12,467
-----			
Depreciation:			
Regulated	\$ 5,762	\$ 5,308	\$ 4,925
Non - Regulated	84	55	38
-----			
Consolidated Depreciation	\$ 5,846	\$ 5,363	\$ 4,963
-----			
Other Income, Net:			
Regulated	\$ 892	\$ 506	\$ 474
Non - Regulated	(1)	(33)	22
Inter-segment Elimination	(96)	(116)	(54)
-----			
Consolidated Other Income, Net	\$ 795	\$ 357	\$ 442
-----			
Interest Expense:			
Regulated	\$ 5,469	\$ 5,227	\$ 5,143
Non - Regulated	96	116	54
Inter-segment Elimination	(96)	(116)	(54)
-----			
Consolidated Interest Charges	\$ 5,469	\$ 5,227	\$ 5,143
-----			
Net Income:			
Regulated	\$ 7,993	\$ 6,292	\$ 7,361
Non - Regulated	453	339	404
-----			
Consolidated Net Income	\$ 8,446	\$ 6,631	\$ 7,765
-----			
Capital Expenditures:			
Regulated	\$ 28,669	\$ 17,005	\$ 15,827
Non - Regulated	210	572	429
-----			
Total Capital Expenditures	\$ 28,879	\$ 17,577	\$ 16,256
-----			
		As of	As of
		December 31,	December 31,
		2004	2003
-----			
Assets:			
Regulated		\$302,765	\$264,453
Non - Regulated		4,943	5,223
Inter-segment Elimination		(2,074)	(1,720)
-----			
Consolidated Assets		\$305,634	\$267,956
-----			

Note 9 - Quarterly Operating Results - Unaudited

Quarterly operating results for 2004 and 2003 are as follows:

(Thousands of Dollars, Except per Share Data)

	1st	2nd	3rd	4th	Total
<b>2004</b>					
Operating Revenues	\$15,876	\$17,770	\$19,856	\$17,489	\$70,991
Operating Income	2,220	3,110	4,497	3,292	13,119
Net Income	1,034	1,890	3,362	2,160	8,446
Basic Earnings per Share	\$ 0.09	\$ 0.17	\$ 0.29	\$ 0.19	\$ 0.74
Diluted Earnings per Share	\$ 0.09	\$ 0.16	\$ 0.29	\$ 0.19	\$ 0.73
<b>2003</b>					
Operating Revenues	\$14,981	\$15,998	\$17,586	\$15,546	\$64,111
Operating Income	2,376	3,108	3,500	2,516	11,500
Net Income	1,225	1,804	2,393	1,209	6,631
Basic Earnings per Share	\$ 0.11	\$ 0.17	\$ 0.22	\$ 0.11	\$ 0.61
Diluted Earnings per Share	\$ 0.11	\$ 0.17	\$ 0.22	\$ 0.11	\$ 0.61

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.

Note 10 - Restatement of Consolidated Financial Statements

On November 5, 2005 and subsequent to the issuance of the Company's Form 10-K for the year ended December 31, 2004, management determined that the previously filed Consolidated Balance Sheets and Statements of Cash Flows needed to be restated.

The Consolidated Balance Sheets as of December 31, 2004 and 2003, reflect the non-cash contributions of utility plant from developers and the related construction advance or contributions as of the date the Company took ownership of the property. Previously, the Company recorded the contributions as of the date the cost information regarding the contributed property was received from the developer.

The Consolidated Statements of Cash Flows for the three years ended December 31, 2004 reflect only the related cash activity for construction advances and contributions of utility plant. Additionally, the Company has included supplemental non-cash disclosure related to utility plant contributions by developers. Previously, the Company incorrectly included non-cash activity for construction advances and contributions of utility plant as cash outflows from investing activities and cash inflows from financing activities.

The restatement does not have any effect on net income, earnings applicable to common stock, cash flow from operations, or liquidity.

A summary of the significant effects of the restatement is as follows:

Consolidated Balance Sheet Effects:

	December 31, 2004		December 31, 2003	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Utility Plant - Transmission and Distribution	\$188,026,091	\$194,531,035	\$174,455,437	\$179,219,783
Total Assets	299,129,098	305,634,042	263,191,935	267,956,281
Customer Advances for Construction	12,366,060	14,018,006	11,711,846	12,838,342
Contributions in Aid of Construction	16,597,918	21,450,916	15,973,563	19,611,413
Total Capitalization and Liabilities	299,129,098	305,634,042	263,191,935	267,956,281

Consolidated Statement of Cash Flows Effects:

	Year Ended December 31, 2004		Year Ended December 31, 2003		Year Ended December 31, 2002	
	As Previously Reported	As Restated	As Previously Reported	As Restated	As Previously Reported	As Restated
	-----	-----	-----	-----	-----	-----
Utility Plant Expenditures	\$(29,860,100)	\$(28,878,576)	\$(19,574,205)	\$(17,576,634)	\$(16,489,095)	\$(16,255,866)
Net Cash Used in Investing Activities	(39,217,034)	(38,235,510)	(17,515,982)	(15,518,411)	(13,872,562)	(13,639,333)
Construction Advances and Contributions - Net	1,278,569	297,045	1,897,803	(99,768)	874,205	640,976
Net Cash Provided by Financing Activities	24,687,170	23,705,646	3,335,271	1,337,700	1,077,069	843,840
Supplemental Disclosure of Non-Cash Activity:						
Utility Plant received as Construction Advances and Contributions	\$ --	\$ 2,722,121	\$ --	\$ 3,753,037	\$ --	\$ 1,042,529

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

None.

Item 9A. Controls and Procedures

(1) The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act) as of the end of the period covered by this annual report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, solely due to the material weakness described below under (2) Management's Report on Internal Control Over Financial Reporting, the Company's disclosure controls and procedures were not effective as of the end of the period covered by this annual report.

This matter and its resolution has been discussed with the Audit Committee of the Company's Board of Directors.

Based on the foregoing, in connection with this Annual Report on Form 10-K/A, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting were not effective as of the period covered by this annual report. Subsequent to the period covered by this report, in connection with the discovery of errors related to recording and reporting construction advances and contributions for utility plant, and conclusion that the Company had a material weakness in its internal control over financial reporting, the Company implemented procedures related to recording non-cash contributions of utility assets from developers, expanded its periodic review process of non-cash activities and expanded its review of the presentation of non-cash transactions. Management believes these changes will remediate the material weakness that led to the restatement and enhance the reliability and effectiveness of the financial reporting process. Accordingly, management believes that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

There were no other changes in the Company's internal control over financial reporting identified in connection with the foregoing evaluation that occurred during the quarter ended December 31, 2004, that have materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

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

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

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the adequacy of financial statement preparation and presentation.

In the Company's 2004 annual report on Form 10-K, filed on March 16, 2005, management of the Company included Management's Report on Internal Control Over Financial Reporting, which expressed a conclusion by management that as of December 31, 2004, the Company's internal control over financial reporting was effective. As a result of the restatement of its financial statements, as described further in Note 10 of the Notes to Consolidated Financial Statements, management has concluded that a material weakness in internal control over financial reporting existed as of December 31, 2004 and, accordingly, has revised its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Due to the circumstances described in Note 10 of the Notes to Consolidated Financial Statements, the management of Middlesex Water Company has concluded that a material weakness existed in the Company's internal control over financial reporting as of December 31, 2004 as defined under standards established by the Public Company Accounting Oversight Board. Specifically, there were ineffective controls to record non-cash contributions of utility plant from developers and disclosure of these non-cash transactions in the statement of cash flows. These errors resulted in the restatement of the Company's Consolidated Balance Sheets as of December 31, 2004 and 2003 and Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002.

In making this revised assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control- Integrated Framework. Based on those criteria and management's revised assessment, management concludes that the Company did not maintain effective internal control over financial reporting as of December 31, 2004, solely as a result of the material weakness described above.

Subsequent to December 31, 2004, the Company completed a comprehensive review of the recording of non-cash contributions of utility plant from developers and disclosure of these non-cash transactions in the statement of cash flows. As a result of this remediation effort, in the Company's best judgment, it has remediated the aforementioned material weakness.

Middlesex's independent registered public accounting firm has issued their report on our revised assessment of the Company's internal control over financial reporting. This report appears on pages 51 through 53.

/s/ Dennis G. Sullivan  
-----  
Dennis G. Sullivan  
President

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

Iselin, New Jersey  
November 18, 2005

(3) Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting (as revised), that Middlesex Water Company and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of December 31, 2004, because of the effect of the material weakness identified in management's assessment based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 15, 2005, we expressed an unqualified opinion on management's assessment that the Company maintained effective internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting. As described in the following paragraph, the Company subsequently identified material misstatements in its 2002, 2003, and 2004 annual financial statements and 2004 interim financial statements, which caused such annual financial statements to be restated. Management subsequently revised its assessment due to the identification of a material weakness, described in the following paragraph, in connection with the financial statement restatement. Accordingly, our opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 expressed herein is different from that expressed in our previous report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's revised assessment: there were ineffective controls to record non-cash contributions of utility plant from developers and disclosure of these non-cash transactions in the statement of cash flows. This material weakness resulted in the restatement of the Company's previously issued annual financial statements as described more fully in Note 10 of the Notes to Consolidated Financial Statements. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2004 (as restated), of the Company and this report does not affect our report on such restated financial statements.

In our opinion, management's revised assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effect of the material weakness described above on the achievement of objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. We do not express an opinion or any other form of assurance on management's statements regarding the remediation of the material weakness included in paragraph six of Management's Report on Internal Control Over Financial Reporting (as revised).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and consolidated statements of capital stock and long-term debt of the Company as of December 31, 2004, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for the year ended December 31, 2004 and our report dated March 15, 2005 (November 14, 2005 as to the effects of the restatement described in Note 10 of the Notes to Consolidated Financial Statements) expressed an unqualified opinion on those consolidated financial statements and includes an explanatory paragraph relating to the restatement described in Note 10.

/s/ DELOITTE & TOUCHE LLP  
Parsippany, New Jersey  
March 15, 2005 (November 14, 2005 as to the effect of the  
material weakness described in Management's Report on  
Internal Control Over Financial Reporting (as revised))

Item 9B. Other Information.

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 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

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

Item 11. Executive Compensation.

This Information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2005 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 2005 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 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

This information for Middlesex Water Company is included in Middlesex Water Company's Proxy Statement for the 2005 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

Consolidated Balance Sheets at December 31, 2004 and 2003 (as restated).

Consolidated Statements of Income for each of the three years in the period ended December 31, 2004, 2003 and 2002.

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2004, 2003 and 2002 (as restated).

Consolidated Statements of Capital Stock and Long-term Debt at December 31, 2004 and 2003.

Consolidated Statements of Common Stockholders Equity and Comprehensive Income for each of the three years in the period ended December 31, 2004, 2003 and 2002.

Notes to Consolidated Financial Statements.

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

3. Exhibits  
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See Exhibit listing immediately following the signature page.

SIGNATURES

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

MIDDLESEX WATER COMPANY

By: /s/ Dennis G. Sullivan  
-----  
Dennis G. Sullivan  
President, Chief Executive Officer and Director

Date: November 18, 2005

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities on November 18, 2005.

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

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

By: /s/ Dennis G. Sullivan  
-----  
Dennis G. Sullivan  
President, Chief Executive Officer and Director

By: /s/ Annette Catino  
-----  
Annette Catino  
Director

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

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

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

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

By: /s/ Jeffries Shein  
-----  
Jeffries Shein  
Director

EXHIBIT INDEX

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

Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
3.1	Certificate of Incorporation of the Company, as amended, filed as Exhibit 3.1 of 1998 Form 10-K.		
3.2	Bylaws of the Company, as amended	33-54922	3.2
3.3	Certificate of Correction of Middlesex Water Company filed with the State of New Jersey on April 30, 1999, filed as Exhibit 3.3 of 2003 Form 10-K.		
3.4	Certificate of Amendment to the Restated Certificate of Incorporation Middlesex Water Company, filed with the State of New Jersey on February 17, 2000, filed as Exhibit 3.4 of 2003 Form 10-K.		
3.5	Certificate of Amendment to the Restated Certificate of Incorporation Middlesex Water Company, filed with the State of New Jersey on June 5, 2002, filed as Exhibit 3.5 of 2003 Form 10-K.		
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 Indenture, dated as of July 1, 1964 and June 15, 1991, between the Company and Union County Trust Company, as Trustee.	33-54922	10.4-10.9
10.4	Copy of Supply Agreement, dated as of November 17, 1986, between the Company and the Old Bridge Municipal Utilities Authority.	33-31476	10.12
10.5	Copy of Supply Agreement, dated as of July 14, 1987, between the Company and the Marlboro Township Municipal Utilities Authority, as amended.	33-31476	10.13

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.6	Copy of Supply Agreement, dated as of February 11, 1988, with modifications dated February 25, 1992, and April 20, 1994, between the Company and the Borough of Sayreville filed as Exhibit No. 10.11 of 1994 First Quarter Form 10-Q.		
10.7	Copy of Water Purchase Contract, dated as of September 25, 2003, between the Company and the New Jersey Water Supply Authority, filed as Exhibit No. 10.7 of 2003 Form 10-K.		
10.8	Copy of Treating and Pumping Agreement, dated April 9, 1984, between the Company and the Township of East Brunswick.	33-31476	10.17
10.9	Copy of Supply Agreement, dated June 4, 1990, between the Company and Edison Township.	33-54922	10.24
10.10	Copy of Supply Agreement, between the Company and the Borough of Highland Park, filed as Exhibit No. 10.15 of 1996 Form 10-K.		
(t)10.11	Copy of Supplemental Executive Retirement Plan, filed as Exhibit 10.13 of 1999 Third Quarter Form 10-Q.		
(t)10.12	Copy of 1989 Restricted Stock Plan, filed as Appendix B to the Company's Definitive Proxy Statement, dated and filed April 25, 1997.	33-31476	10.22
(t)10.13(a)	Employment Agreement between Middlesex Water Company and Dennis G. Sullivan, filed as Exhibit 10.15(f) of 1999 Third Quarter Form 10-Q.		
(t)10.13(b)	Employment Agreement between Middlesex Water Company and A. Bruce O'Connor, filed as Exhibit 10.15(c) of 1999 Third Quarter Form 10-Q.		
(t)10.13(d)	Employment Agreement between Middlesex Water Company and Richard M. Risoldi, filed as Exhibit 10.13(d) of 2003 Form 10-K.		
(t)10.13(e)	Employment Agreement between Middlesex Water Company and Kenneth J. Quinn, filed as Exhibit 10.13(e) of 2003 Form 10-K.		
(t)10.13(f)	Employment Agreement between Middlesex Water Company and James P. Garrett, filed as Exhibit 10.13(f) of 2003 Form 10-K.		
(t)10.13(g)	Employment Agreement between Tidewater Utilities, Inc. and Gerard L. Esposito, filed as Exhibit 10.13(g) of 2003 Form 10-K.		
(t)10.13(h)	Consulting Agreement between Middlesex Water Company and J. Richard Tompkins, filed as Exhibit 10.13(h) of 2003 Form 10-K.		
(t)*10.13(i)	Employment Agreement between Middlesex Water Company and Dennis W. Doll.		

EXHIBIT INDEX

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

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
10.22	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the State of New Jersey and Middlesex Water Company (Series BB). Filed as Exhibit No. 10.22 of the 2001 Form 10-K.		
10.23	Copy of Supplemental Indenture dated October 15, 2001 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated November 1, 2001 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series CC). Filed as Exhibit No. 10.22 of the 2001 Form 10-K.		
10.24	Copy of Supplemental Indenture dated January 15, 2002 between Middlesex Water Company and First Union National Bank, as Trustee and copy of Loan Agreement dated January 1, 2002 between the New Jersey Economic Development Authority and Middlesex Water Company (Series DD), filed as Exhibit No. 10.24 of the 2001 Form 10-K.		
10.25	Copy of Supplemental Indenture dated March 1, 1998 between Middlesex Water Company and First Union National Bank, as Trustee. Copy of Trust Indenture dated March 1, 1998 between the New Jersey Economic Development Authority and PNC Bank, National Association, as Trustee (Series W), filed as Exhibit No. 10.21 of the 1998 Third Quarter Form 10-Q.		
*10.26	Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the State of New Jersey and Middlesex Water Company (Series EE).		
*10.27	Copy of Supplemental Indenture dated October 15, 2004 between Middlesex Water Company and Wachovia Bank, as Trustee and copy of Loan Agreement dated November 1, 2004 between the New Jersey Environmental Infrastructure Trust and Middlesex Water Company (Series FF).		
*21	Middlesex Water Company Subsidiaries.		
*23	Consent of Independent Registered Public Accounting Firm.		
*31	Section 302 Certification by Dennis G. Sullivan pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.		
*31.1	Section 302 Certification by A. Bruce O'Connor pursuant to Rules 13a-14 and 15d-14 of the Securities Exchange Act of 1934.		

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Exhibit No.	Document Description	Previous Registration No.	Filing's Exhibit No.
*32	Section 906 Certification by Dennis G. Sullivan pursuant to 18 U.S.C. ss.1350.		
*32.1	Section 906 Certification by A. Bruce O'Connor pursuant to 18 U.S.C. ss.1350.		



## CHANGE IN CONTROL TERMINATION AGREEMENT

This Change in Control Termination Agreement (the "Agreement") is entered into as of November 1, 2004, between Middlesex Water Company, a New Jersey corporation, with its principal place of business located at 1500 Ronson Road, P.O. Box 1500, Iselin, New Jersey 08830-0452, (the "Company"), and Dennis W. Doll, residing at 15 Edward Avenue, Monroe Township, New Jersey 08831, (referred to as "You" in this Agreement).

## Recitals

A. The Company considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel. In this connection, the Board of Directors of the Company (the "Board") recognizes that, as is the case with many publicly held Companies, the possibility of a Change In Control may exist. This possibility, and the uncertainty and questions that it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders.

B. The Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including yourself, to the assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change In Control of the Company.

C. To induce you to remain in the employ of the Company, and in consideration of your agreement set forth below, the Company agrees that you shall receive the severance benefits set forth in this Agreement in the event your employment with the Company is terminated or "constructively terminated" as defined herein in connection with a "Change In Control of the Company" (as defined in Section 2 below) under the circumstances described below. This Agreement is meant to supersede any other specific written agreements that may have been entered into between yourself and the Company concerning termination of employment.

Therefore, in consideration of your continued employment and the parties' agreement to be bound by the terms contained in this Agreement, the parties agree as follows:

1. Term of Agreement. This Agreement shall commence as of November 1, 2004 and shall continue in effect through December 31, 2005. However, commencing on December 31, 2005, and each December 31 afterwards, the term

of this Agreement shall automatically be extended for one additional year unless, no later than the preceding November 1, the Company shall have given notice that it does not wish to extend this Agreement. Notwithstanding the foregoing, if a Change In Control of the Company shall be proposed to occur or have occurred during the original or any extended term of this Agreement, this Agreement shall continue in effect until your termination of employment with the Company or its successor or when all amounts due under this Agreement following a termination have been paid, whichever is later.

2. Change In Control. No benefits shall be payable under this Agreement unless there shall have been a Change In Control of the Company, as set forth below. For purposes of this Agreement, a "Change In Control" of the Company shall be deemed to occur if any party or group acquires beneficial ownership of 20 percent or more of the voting shares of the Company; or if shareholder approval is required for a transaction involving the acquisition of the Company through the purchase or exchange of the stock or assets of the Company by merger or otherwise; or if one-third or more of the Board elected in a 12-month period or less are so elected without the approval of a majority of the Board as constituted at the beginning of such period; or a liquidation or dissolution of Company.

3. Termination Following Change In Control. If any of the events described in Section 2 above constituting a Change In Control of the Company shall have occurred, unless the termination is (A) because of your death, Disability or Retirement, (B) by the Company for Cause, or (C) by you other than for Good Reason, on the subsequent termination or "Constructive Termination" of your employment during the term of this Agreement: (i) you shall be entitled to the benefits provided in subsection 4.3 below if such termination occurs on or before the third anniversary of the Change in Control or (ii) you shall be entitled to the benefits provided in subsection 4.4 below if such termination occurs after the third anniversary of the Change in Control.

3.1 Disability; Retirement. If, as a result of your incapacity due to physical or mental illness, you shall have been absent from the full-time performance of your duties with the Company for 6 consecutive months, and within 30 days after written notice of termination is given you shall not have returned to the full-time performance of your duties, your employment may be terminated for "Disability." Termination by the Company or you of your employment based on "Retirement" shall mean termination in accordance with the Company's retirement policy, including early retirement, generally applicable to its salaried employees or in accordance with any retirement arrangement established with your consent with respect to you.

3.2 Cause. Termination by the Company of your employment for "Cause" shall mean termination on:

3.2.1 The willful and continued failure by you to substantially perform your duties with the Company as such employment was performed by you prior to the Change of Control (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance by you of a Notice of Termination for Good Reason as defined in Subsections 3.4 and 3.3, respectively) after a written demand for substantial performance is delivered to you by the Board, which demand specifically identifies the manner in which the Board believes that you have not substantially performed your duties; or

3.2.2 The willful act by you in conduct that is demonstrably and materially injurious to the Company, and which the Board deems to cause or will cause substantial economic damage to the Company or injury to the business reputation of the Company, monetarily or otherwise. For purposes of this Subsection, no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without a reasonable belief that your action or omission was in the best interest of the Company. Notwithstanding the foregoing, you shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth above in clauses 3.2.1 or 3.2.2 of the first sentence of this Subsection and specifying the particulars in detail.

3.3 Good Reason. You shall be entitled to terminate your employment for Good Reason. For purposes of this Agreement, "Good Reason" shall mean, without your express written consent, the occurrence in connection with a Change In Control of the Company of any of the following circumstances unless, in the case of paragraphs 3.3.1, 3.3.5, 3.3.6, 3.3.7, or 3.3.8, the circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination, as defined in Subsections 3.5 and 3.4, respectively, given in respect of them. If you have Good Reason for your termination you shall be considered to have been "Constructively Terminated" by the Company under the following circumstances:

3.3.1 The assignment to you of any duties inconsistent with your status and position (i) prior to the Change In Control where such change is a direct result of any pending Change in Control; or (ii) as such status exists immediately prior to the Change In Control of the

Company, or (iii) a substantial adverse alteration in the nature or status of your responsibilities from those in effect immediately prior to the Change In Control of the Company whichever is applicable;

3.3.2 A reduction by the Company in your annual base salary as in effect on this date or as the same may be increased from time to time irrespective of future Company policies including any across-the-board salary reductions similarly affecting all key employees of the Company;

3.3.3 Your relocation, without your consent, to a location not within twenty-five (25) miles of your present office or job location, except for required travel on the Company's business to an extent substantially consistent with your present business travel obligations;

3.3.4 The failure by the Company, without your consent, to pay to you any part of your current compensation, or to pay to you any part of an installment of deferred compensation under any deferred compensation program of the Company, within fourteen (14) days of the date the compensation is due;

3.3.5 The failure by the Company to continue in effect any bonus to which you were entitled, or any compensation plan in which you participate (i) prior to the Change in Control where such change is a direct result of any pending Change In Control, or (ii) immediately prior to the Change In Control of the Company that is material to your total compensation, including but not limited to the Company's Restricted Stock Plan, 401(k) Plan, and Benefit Plans, or any substitute plans adopted prior to the Change In Control of the Company, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to the plan, or the failure by the Company to continue your participation in it (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, as existed at the time of the Change In Control;

3.3.6 The failure by the Company to continue to provide you with (i) benefits substantially similar to those enjoyed by you under any of the Company's life insurance, medical, health and accident, or disability plans in which you were participating at the time of the Change In Control of the Company was in effect for the employees of the Company generally at the time of the Change In Control, (ii) the failure to continue to provide you with a Company automobile or allowance in lieu of it at the time of the Change In Control of the

Company, (iii) the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive you of any material fringe benefit enjoyed by you at the time of the Change In Control of the Company, or (iv) the failure by the Company to provide you with the number of paid vacation days to which you are entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the Change In Control of the Company;

3.3.7 The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 5 of this Agreement; or

3.3.8 Any purported termination of your employment that is not effected pursuant to a Notice of Termination satisfying the requirements of Subsection 3.4 below (and, if applicable, the requirements of Subsection 3.2 above); for purposes of this Agreement, no such purported termination shall be effective.

3.4 Notice of Termination. Any purported termination of your employment by the Company or by you shall be communicated by written Notice of Termination to the other party to this Agreement in accordance with Section 6 of this Agreement. For purposes of this Agreement, a "Notice of Termination" shall mean a notice that shall indicate the specific termination provision in this Agreement relied on, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated. Your rights to terminate your employment pursuant to this Subsection shall not be affected by your incapacity due to physical or mental illness. Your continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason under this Agreement. In the event you deliver Notice of Termination based on circumstances set forth in Paragraphs 3.3.1, 3.3.5, 3.3.6, 3.3.7, or 3.3.8 above, which are fully corrected prior to the Date of Termination set forth in your Notice of Termination, the Notice of Termination shall be deemed withdrawn and of no further force or effect.

3.5 Date of Termination, etc. "Date of Termination" shall mean (A) if your employment is terminated for Disability, 30 days after Notice of Termination is given (provided that you shall not have returned to the full-time performance of your duties during such 30-day period), and (B) if your employment is terminated pursuant to Subsection 3.2 or 3.3 above or for any other reason (other than Disability), the date specified in the Notice of Termination (which, in the case of a termination pursuant to Subsection 3.2 above shall not be less than 30 days, and in the case of a termination pursuant to Subsection 3.3 above shall not be less than 15 nor more than 60 days, respectively, from the date

the Notice of Termination is given). However, if within 15 days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this provision), the party receiving the Notice of Termination notifies the other party that a dispute exists concerning the termination, then the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding arbitration award, or by a final judgment, order, or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal has expired and no appeal has been perfected). The Date of Termination shall be extended by a notice of dispute only if the notice is given in good faith and the party giving the notice pursues the resolution of the dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit, and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this Subsection. Amounts paid under this Subsection are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement.

4. Compensation on Termination or During Disability. Following a Change In Control of the Company, as defined by Section 2, on termination of your employment or during a period of disability you shall be entitled to the following benefits:

4.1 During any period that you fail to perform your full-time duties with the Company as a result of incapacity due to physical or mental illness, you shall continue to receive your base salary at the rate in effect at the commencement of any such period, together with all amounts payable to you under any compensation plan of the Company during the period, until this Agreement is terminated pursuant to section 3.1 above. Thereafter, or in the event your employment shall be terminated by the Company or by you for Retirement, or by reason of your death, your benefits shall be determined under the Company's retirement, insurance, and other compensation programs then in effect in accordance with the terms of those programs.

4.2 If your employment shall be terminated by the Company for Cause or by you other than for Good Reason, Disability, death, or Retirement, the Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts and benefits to which you are entitled under any compensation plan of the Company at the time the payments are due. The Company shall have no obligations to you under this Agreement.

4.3 On or before the third anniversary of the Change In Control, if your employment by the Company shall be terminated (a) by the Company other than for Cause, Retirement or Disability, or (b) by you for Good Reason (as defined in Section 3.3 herein), then you shall be entitled to the benefits provided below:

4.3.1 The Company shall pay you your full salary through the Date of Termination at the rate in effect at the time notice of Termination is given, plus all other amounts and benefits to which you are entitled under any compensation plan of the Company, at the time the payments are due, except as otherwise provided below.

4.3.2 In lieu of any further salary payments to you for periods subsequent to the Date of Termination, the Company shall pay to you, as severance pay the following: (i) a lump sum severance payment equal to three (3) times the average of your Compensation for the five (5) years prior to the occurrence of the circumstance giving rise to the notice of Termination (or if employed less than 5 years, the average annualized compensation of the period worked to date), plus (ii) the amounts in the forms set forth in paragraphs 4.3.3, 4.3.4 and 4.3.5 (the "Severance Payments"). In addition to the Severance Payments, the Company shall pay to you an additional amount equal to the amount of the Excise Tax, if any, that is due or determined to be due under Section 4999 of the Internal Revenue Code of 1986, as amended, resulting from the Severance Payments or any other payments under this Agreement or any other agreement between you and the Company and an amount sufficient to pay the taxes on any such Excise Taxes (the "Gross-up").

4.3.3 The Company shall continue coverage for you and your dependents under any health or welfare benefit plan under which you and your dependents were participating prior to the Change in Control for a period ending on the earlier to occur of (i) the date you become covered by a new employer's health and welfare benefit plan, (ii) the date you become covered by Medicare, or (iii) the date which is thirty-six (36) months from the date of Termination. The coverage for your dependents shall end earlier than (i), (ii) or (iii) if required by the health or welfare benefit plan due to age eligibility.

4.3.4 The Company shall pay to you any deferred compensation, including, but not limited to deferred bonuses, allocated or credited to you or your account as of the Date of Termination.

4.3.5 Outstanding stock options or Restricted Stock grants, if any, granted to you under the Company's Stock Plans which are not vested on Termination shall immediately vest.

4.3.6 Where you shall prevail in any such action, the Company shall also pay to you all legal and accounting fees and expenses incurred by you as a result of the termination (including all such fees and expenses incurred by you as a result of the termination (including all such fees and expenses, if any, incurred in contesting or disputing any termination or in seeking to obtain or enforce any right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Code Section 4999 to any payment or benefit provided under this Agreement) or any other agreement with the Company.

4.3.7 The amount of Severance Payments and any Gross-up due to you under this or any other relevant agreement with the Company shall be determined by a third party agreed to by you and the Company. If you cannot agree on a third party, then both third parties shall determine the amounts due under this Agreement. If the third parties do not agree on the amount to be paid to you, then either party may submit the calculation of the amounts which are in dispute to Arbitration in accordance with this Agreement. The payments provided for in Paragraphs 4.3.2, 4.3.4 and 4.3.5 above, shall be made no later than the thirtieth (30th) day following the Date of Termination. However, if the amounts of the payments cannot be finally determined on or before that day, the Company shall pay to you on that day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of those payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount can be determined but in no event later than the 30th day after the Date of Termination. In the event that the amount of the estimate payments exceeds the amount subsequently determined to have been due, the excess shall constitute a loan by the Company to you payable on the 30th day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

4.4 After the third anniversary of the Change In Control, if your employment by the Company shall be terminated (a) by the Company other than for Cause, Retirement or Disability, or (b) by you for Good Reason (as defined in Section 3.3 herein), then you shall be entitled to the benefits provided in Section 4.3 above and as otherwise provided under this Agreement except that sub paragraph 4.3.2(i) shall read: (i) a lump sum severance payment equal to one and

one half (1.5) times the average of your Compensation for the five (5) years prior to the occurrence of the circumstance giving rise to the notice of Termination (the "Termination Payment").

4.5 For purposes of this Agreement, "Compensation" shall mean the aggregate remuneration paid by the Company to you during a calendar year, including bonuses, awards under the Company's Restricted Stock Plan, benefits under employee benefit plans, automobile allowances or any fees paid to you as remuneration for serving as a Director of the Company.

4.6 You shall not be required to mitigate the amount of any payment provided for in this Section 4 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4 be reduced by any compensation earned by you as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by you to the Company, or otherwise except as specifically provided in this Section 4.

4.7 In addition to all other amounts payable to you under this Section 4, you shall be entitled to receive all qualified benefits payable to you under the Company's 401(k) Plan, Defined Benefit Plan and any other plan or agreement relating to retirement benefits in accordance with the terms of those plans.

5. Successors; Binding Agreement.

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5.1 The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain the assumption and agreement prior to the effectiveness of any succession shall be a breach of this agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would have been entitled to under this Agreement if you had terminated your employment for Good Reason following a Change In Control of the Company, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

5.2 This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, heirs, distributees, and legatees. If you should die while any amount would still be payable to you if you had continued to live, all such amounts, unless otherwise provided in this Agreement, shall be paid in accordance with the terms of this



Agreement to your legatee or other designee or, if there is no such designee, to your estate.

6. Notice. For the purpose of this Agreement, all notices and other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Board with a copy to the Secretary of the Company, or to such other address as either party may have furnished to the other in writing in accordance this Agreement, except that notice of a change of address shall be effective only on receipt.

7. Miscellaneous

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7.1 No provision of this Agreement may be modified, waived, or discharged unless the waiver, modification, or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Board.

7.2 No waiver by either party to this Agreement at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

7.3 No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter of this Agreement have been made by either party that are not expressly set forth in this Agreement.

7.4 Nothing in this Agreement is intended to reduce any benefits payable to you under any other agreement you may have with the Company or in any Company plan in which you may participate.

7.5 The validity, interpretation, construction, and performance of this Agreement shall be governed by the law of New Jersey without reference to its conflict of laws principles.

7.6 All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for shall be paid net of any applicable withholding or deduction required under federal, state or local law.

7.7 The obligations of the Company under Section 4 shall survive the expiration of the term of this Agreement.

8. Validity. The validity or enforceability of any provision of this Agreement shall not affect the validity or unenforceability of any other provision of this Agreement, which shall remain in full force and effect.

9. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

10. Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in New Jersey in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. However, you shall be entitled to seek specific performance of your right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection this Agreement.

11. Entire Agreement. This Agreement sets forth the entire understanding of the parties with respect to its subject matter and supersedes all prior written or oral agreements or understandings with respect to the subject matter.

In witness whereof, the parties have executed this Agreement as of the day and year first above written.

MIDDLESEX WATER COMPANY

By: /s/Dennis G. Sullivan

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Dennis G. Sullivan  
President

ATTEST:

/s/ Kenneth J. Quinn

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Kenneth J. Quinn  
Vice President and  
Secretary

/s/Dennis W. Doll

-----  
Dennis W. Doll

[MASTER FUND LOAN AGREEMENT FOR MIDDLESEX WATER COMPANY - PRIVATE FORM]

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, 2004

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE FUND LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of November 1, 2003, by and between THE STATE OF NEW JERSEY, acting by and through the New Jersey Department of Environmental Protection, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings ascribed thereto in Section 1.01 hereof);

WITNESSETH THAT:

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

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

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

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

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

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

ARTICLE I

DEFINITIONS

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

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

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

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

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

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

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

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

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

"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.

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

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

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

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

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

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

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

"Master Program Trust Agreement" means that certain Master Program Trust Agreement, dated as of November 1, 1995, by and among the Trust, the State, United States Trust Company of New York, as Master Program Trustee thereunder, The Bank of New York (NJ), in several capacities thereunder, and First Fidelity Bank, N.A. (predecessor to Wachovia Bank, National Association), in several capacities thereunder, as supplemented by that certain

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

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

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

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

"State" means the State of New Jersey, acting, unless otherwise specifically indicated, by and through the 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, 2003 to finance or refinance a portion of the Cost of the Project.

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

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



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

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

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

(a) Organization and Authority.

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

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

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

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

the execution, delivery and due performance of any and all other certificates, agreements and instruments that may be required to be executed, delivered and performed by the Borrower in order to carry out, give effect to and consummate the transactions contemplated by this Loan Agreement.

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

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

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

(d) Compliance with Existing Laws and Agreements. (i) The authorization, execution, attestation and delivery of this Loan Agreement and the Borrower Bond by the Borrower, (ii) the authentication of the Borrower Bond by the trustee or paying agent under the

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

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

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

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

(g) Compliance with Law. The Borrower:

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

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

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

SECTION 2.02. Particular Covenants of Borrower.

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

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

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

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

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

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

(f) Reserved.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

SECTION 3.01. Loan; Loan Term. The State hereby agrees to make the Loan as described in Exhibit A-2 hereof and to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, and the Borrower hereby agrees to borrow and accept the Loan from the State upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof; provided, however, that the State shall be under no obligation to make the Loan if (a) at the Loan Closing, the Borrower does not deliver to the State a Borrower Bond and such other documents required under Section 2.02(1) hereof, or (b) an Event of Default has occurred and is continuing under this Loan Agreement. Although the State intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Cost of the Project, due to unforeseen circumstances there may not be sufficient Federal Funds on deposit on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the aggregate principal amount set forth in Exhibit A-2 hereto shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and the State shall have no obligation thereafter to loan any additional amounts to the Borrower.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

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

(c) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the State and its employees and officers as additional "named insureds" on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the 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 agrees that, to the extent allowed by law, including, without limitation, the appropriations act of the New Jersey State Legislature authorizing the expenditure of Trust bond proceeds to finance a portion of the Cost of the Project, or the Borrower Bond Resolution, any loan repayments then due and payable on the Borrower's Trust Loan, including, without limitation, any administrative fees and any late payment charges then due and payable under the Trust Loan Agreement, shall be satisfied by the Borrower before any Loan Repayments then due and payable hereunder on the Loan shall be satisfied by the Borrower.

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

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

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

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

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

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

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

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

(a) failure by the Borrower to pay, or cause to be paid, any Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;

(b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

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

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

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

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



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

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

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

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

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

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

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

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

ARTICLE VI

MISCELLANEOUS

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

(a) State:

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

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

(b) Trustee:

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

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

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

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

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

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

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

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

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

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

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

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

[SEAL]

By: \_\_\_\_\_  
Bradley M. Campbell  
Commissioner, Department of  
Environmental Protection

ATTEST:

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

MIDDLESEX WATER COMPANY

[SEAL]

By: /s/Dennis G. Sullivan  
-----  
Dennis G. Sullivan  
President

ATTEST:

/s/Kenneth J. Quinn  
-----  
Kenneth J. Quinn  
Secretary

[Signature Page]

SCHEDULE A

Certain Additional Loan Agreement Provisions

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EXHIBIT A-1

Description of Project and Environmental Infrastructure System

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A-1-1

EXHIBIT A-2

Description of Loan  
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A-2-1



EXHIBIT B

Basis for Determination of Allowable Project Costs

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EXHIBIT C

Estimated Disbursement Schedule

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EXHIBIT D

Specimen Borrower Bond

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D-1

(To be supplied by Borrower's  
bond counsel in substantially the following form)

IMPORTANT NOTE: The next two pages set forth the form of the Borrower Bond prepared by the Trust's Bond Counsel for municipal/county Borrowers. Although the Trust recognizes that each corporate Borrower has its own bond form as required pursuant to its Borrower Bond Resolution, please incorporate in the bond form the pertinent information from this municipal/county bond form (e.g., include the concept of principal amount or lesser amount under Section 3.01, reference to payments to the Trustee, disbursement process, unconditional nature, prepayment, security and date). To the extent that you do not have an existing Bond Resolution, the pledge under your Bond Resolution should be drafted to constitute a general obligation pledge of (i) all the gross revenues of the company and (ii) any specific property (e.g. mortgage) or other security pledged for this transaction (e.g. letter of credit).

FOR VALUE RECEIVED, [NAME OF BORROWER], a corporation duly created and validly existing under the Constitution and laws of the State of New Jersey (the "Borrower"), hereby promises to pay to the order of the State of New Jersey (the "State") the principal amount of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), or such lesser amount as shall be determined in accordance with Section 3.01 of the Loan Agreement (as hereinafter defined), at the times and in the amounts determined as provided in the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the times and in the amounts as provided therein. The Borrower irrevocably pledges its full faith and credit for the punctual payment of the principal of, and all other amounts due under, this Borrower Bond and the Loan Agreement according to their respective terms.

This Borrower Bond is issued pursuant to the Loan Agreement dated as of November 1, 2003 by and between the State, acting by and through the New Jersey Department of Environmental Protection, and the Borrower (the "Loan Agreement"). This Borrower Bond is issued in consideration of the loan made under the Loan Agreement (the "Loan") to evidence the payment obligations of the Borrower set forth therein. Payments under this Borrower Bond shall, except as otherwise provided in the Loan Agreement, be made directly to the Trustee (as defined in the Loan Agreement) for the account of the State. This Borrower Bond is subject to assignment or endorsement in accordance with the terms of the Loan Agreement. All of the terms, conditions and provisions of the Loan Agreement are, by this reference thereto, incorporated herein as part of this Borrower Bond.

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

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

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

To the extent provided by law, this Borrower Bond is junior and subordinate in all respects to any bonds or notes of the Borrower issued on even date herewith to the New Jersey Environmental Infrastructure Trust as to lien on, and source and security for payment from, the revenues of the Borrower.

IN WITNESS WHEREOF, the Borrower has caused this Borrower Bond to be duly executed, sealed and delivered as of October 15, 2003.

[NAME OF BORROWER]

[SEAL]

ATTEST:

\_\_\_\_\_

Clerk

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

By: \_\_\_\_\_  
Chief Financial Officer/Treasurer

EXHIBIT E

Opinions of Borrower's Bond and General Counsels

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November 6, 2003

State of New Jersey  
Department of Environmental Protection  
401 East State Street  
Trenton, New Jersey 08625

Ladies and Gentlemen:

We have acted as counsel to [Name of Borrower], a corporation duly organized and validly existing under the laws of the State of New Jersey (the "Borrower"), which has entered into a Loan Agreement (as hereinafter defined) with the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection (the "State"), and have acted as such in connection with the authorization, execution, attestation and delivery by the Borrower of its Loan Agreement and Borrower Bond (as hereinafter defined) pursuant to the New Jersey Business Corporation Act, P.L. 1968, c. 263, as amended (the "Business Corporation Law"), and a [bond resolution] [indenture] of the Borrower [adopted on] [dated] [DATE] and entitled "[TITLE]", as amended and supplemented, including by a supplemental [resolution] [indenture] [adopted on] [dated] [DATE] and entitled "[TITLE]" (such [resolutions] [indentures] shall be collectively referred to herein as the "Resolution"). All capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

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

(a) the Loan Agreement dated as of November 1, 2003 (the "Loan Agreement") by and between the State and the Borrower;

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

(c) the Borrower Bond dated as of October 15, 2003 (the "Borrower Bond") issued by the Borrower to the State to evidence the Loan; and

(d) the proceedings (together with the proceedings referred to in clause (b) above and Section 5 below, the "Proceedings") of the board of directors of the Borrower, including, without limitation, the Resolution, relating to the authorization of the Borrower Bond and the sale, execution, attestation, authentication and delivery thereof to the State (the Loan Agreement and the Borrower Bond are referred to herein collectively as the "Loan Documents").



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

We are of the opinion that:

1. The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State of New Jersey, including the Business Corporation Law, with the legal right to carry on the business of its Environmental Infrastructure System as currently being conducted and as proposed to be conducted.

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

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

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

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

6. The Loan Documents have been duly authorized, executed, attested and delivered by the Authorized Officers of the Borrower, the Borrower Bond has been duly sold by the

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

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

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

9. There is no litigation or other proceeding pending or, to our knowledge, after due inquiry, threatened in any court or other tribunal of competent jurisdiction (either State or federal) (i) questioning the creation, organization or existence of the Borrower, (ii) questioning the validity, legality or enforceability of the Resolution, the Loan or the Loan Documents, (iii) questioning the undertaking or completion of the Project, (iv) otherwise challenging the Borrower's ability to consummate the transactions contemplated by the Loan or the Loan Documents, or (v) that, if adversely decided, would have a materially adverse impact on the financial condition of the Borrower.

10. Other than its bond or note dated as of October 15, 2003 issued to the New Jersey Environmental Infrastructure Trust, the Borrower has no bonds, notes or other debt obligations outstanding that are superior or senior to the Borrower Bond as to lien on, and source and security for payment thereof from, the revenues of the Borrower.

[11. To the best of our knowledge, upon due inquiry, (i) all representations made by the Borrower contained within Exhibit F of the Loan Agreement are true, accurate and complete, and (ii) all expectations contained therein are reasonable, and we know of no reason why the Borrower would be unable to comply on a continuing basis with the covenants contained within Exhibit F of the Loan Agreement.]

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

Very truly yours,

E-5

EXHIBIT F

Additional Covenants and Requirements

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EXHIBIT G

General Administrative Requirements for the  
State Environmental Infrastructure Financing Program  
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M O R T G A G E

THIRTIETH SUPPLEMENTAL INDENTURE

MIDDLESEX WATER COMPANY

TO

WACHOVIA BANK, NATIONAL ASSOCIATION  
Trustee

Dated as of October 15, 2004

Record and Return to:

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

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

THIS THIRTIETH SUPPLEMENTAL INDENTURE, dated as of the 15th day of October, 2004, 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 WACHOVIA BANK, NATIONAL ASSOCIATION (as successor to First Union National Bank, the 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"), which bonds have since been redeemed by Water Company, 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, as of January 15, 2002, Water Company executed and delivered to Trustee a Twenty-Ninth Supplemental Indenture of Mortgage (herein called the "Twenty-Ninth Supplemental Indenture") to secure its First Mortgage 5.10% Bonds, Series DD (herein called the "Series DD 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, the Twenty-Ninth Supplemental Indentures and by this Thirtieth 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 \$7,715,909 designated Series EE and to be known as its "First Mortgage 0% Bond, Series EE" (herein called the "Series EE Bond"), it being the intention of the parties that the Series EE 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 EE Bond shall be issued to fund payment of the principal of \$7,715,909 the amount of the Loan borrowed from the from the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection (the "State") under the Loan Agreement dated as of November 1, 2004 the "Loan Agreement") by and between the State and the Water Company, or such lesser amount as shall be determined in accordance with Section 3.01 of the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the time and in the amounts as provided therein, which principal amount is to be applied for the cleaning and lining of certain pipes and mains 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 construction of a six thousand two hundred fifty linear foot, sixty inch diameter ductile iron pipeline from its raw

water pump station in the City of New Brunswick, New Jersey, to the Carl J. Olsen Water Treatment Plant in the Township of Edison, New Jersey; and

WHEREAS, the State requires as a condition of making the loan documented by the Loan Agreement, that a single Series EE Bond be issued to the State, 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 EE Bond be made to the Loan Servicer (as defined in the Loan Agreement) for the account of the State, that the Series EE 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 EE Bond, that the obligations of the Water Company under the Series EE Bond shall be absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of default by the State under the Loan Agreement or under any other agreement between the Water Company and the State or out of any indebtedness or liability at any time owing to the Water Company or for any other reason, that the Series EE 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 EE 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, the Twenty-Seventh, the Twenty-Eighth, and the Twenty-Ninth Supplemental Indentures (to the extent applicable) necessary to make the Series EE 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 Thirtieth 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, the Twenty-Eighth, and the Twenty-Ninth 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 Thirtieth 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 Thirtieth 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, the Twenty-Eighth, and the Twenty-Ninth Supplemental Indentures, or intended to be (including without limitation all such property acquired by Water Company since January 15, 2002, 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, the Twenty-Eighth and the Twenty-Ninth 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 Thirtieth Supplemental Indenture; and Water Company for itself and its successors does hereby covenant and agree to and with the Trustee, and its successors in said trust, for the equal benefit of all present and future holders and registered owners of the bonds issued under the Mortgage and all indentures supplemental thereto, as follows:

#### ARTICLE I

##### First Mortgage 0% Bonds, Series EE

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, the Twenty-Eighth and the Twenty-Ninth Supplemental Indentures and by this Thirtieth Supplemental Indenture, and to be designated as, and to be distinguished from the bonds of all other series by the title, "First Mortgage 0% Bonds, Series EE". The Series EE 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, 2004; and shall be issued in non-negotiable form to the State. The Series EE Bond shall bear interest from the date of issuance of the Series EE 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 November 1, 2024, 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 July 8, 2004 Order (Docket No. WF04050341 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 EE Bond shall evidence the obligation to pay to the order of the State the principal amount of the Loan (as defined in the Loan Agreement) made by the State under the Loan Agreement which shall be \$7,715,909, 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 EE Bond are absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of any default by the State under the Loan Agreement or under any other agreement between the Water Company and the State or out of any indebtedness or liability at any time owing to the Water Company by the State or for any other reason. The Series EE Bond is subject to assignment or transfer in accordance with the terms of the Loan Agreement. The Series EE 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 EE Bond shall, except as otherwise provided in the Loan Agreement, be made directly to the Loan Servicer (as defined in the Loan Agreement), for the account of the State.

In addition to any other default provided for under the Mortgage and the Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth and Seventeenth, Supplemental Indentures and the Supplementary Indenture to the Fifteenth Supplemental Indenture and the Eighteenth, the Nineteenth, the Twentieth, the Twenty-First, the Twenty-Second, the Twenty-Third, the Twenty-Fourth, the Twenty-Fifth, the Twenty-Sixth, the Twenty-Seventh, the Twenty-Eighth, and the Twenty-Ninth Supplemental Indentures, it shall be a default under this Thirtieth 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 State under the Loan Agreement evidenced by the Series EE Bond shall be made by the State to the Water Company upon receipt by the State of requisitions from the Water Company executed and delivered in accordance with the requirements set forth in Section 3.02 of the Loan Agreement.

Section 3. The Series EE 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 Thirtieth Supplemental Indenture as Exhibit A; and shall contain appropriate references to this Thirtieth 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, the Twenty-Eighth, and the Twenty-Ninth Supplemental Indentures and appropriate changes with respect to the aggregate principal amount, interest rate, redemption dates and provisions, and maturity date of the Series EE 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 EE 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, the Twenty-Seventh, the Twenty-Eighth, and the Twenty-Ninth Supplemental Indentures, forthwith upon the execution and delivery of this Thirtieth Supplemental Indenture, or from time to time thereafter, Series EE Bond in an aggregate principal amount of \$7,715,909 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 EE 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 Thirtieth Supplemental Indenture).

ARTICLE II  
Miscellaneous  
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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, the Twenty-Eighth, and the Twenty-Ninth Supplemental Indentures, and as modified and extended by this Thirtieth 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, the Twenty-Eighth, and the Twenty-Ninth 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, Series CC and Series DD Bonds shall apply to the Series EE 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, the Twenty-Eighth, and the Twenty-Ninth Supplemental Indentures to the Mortgage or any of such Supplemental Indentures shall be construed as also referring to this Thirtieth 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 EE Bond shall not be amended by, and the Series EE 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 Thirtieth 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, the Twenty-Ninth and this Thirtieth 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 EE Bond for the account of the State.

Section 5. This Thirtieth 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 Thirtieth Supplemental Indenture, for convenience and for the purpose of reference, is dated as of October 15, 2004, 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 EE Bonds by Water Company.

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

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[MASTER TRUST LOAN AGREEMENT FOR MIDDLESEX WATER CO. - PRIVATE FORM]

LOAN AGREEMENT

BY AND BETWEEN

NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

AND

MIDDLESEX WATER COMPANY

DATED AS OF NOVEMBER 1, 2004

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NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST LOAN AGREEMENT

THIS LOAN AGREEMENT, made and entered into as of this November 1, 2004, by and between the NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST, a public body corporate and politic with corporate succession, and the Borrower (capitalized terms used in this Loan Agreement shall have, unless the context otherwise requires, the meanings set forth in said Section 1.01);

WITNESSETH THAT:

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

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

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

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

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

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

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

ARTICLE I

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

"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, 2004 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 Costs of the Project.

"Fund Loan Agreement" means the loan agreement dated as of November 1, 2004 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 Costs of the Project pursuant to this Loan Agreement.

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



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

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

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

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

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

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

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

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

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

"Project" means the Environmental Infrastructure Facilities of the Borrower described in Exhibit A-1 attached hereto and made a part hereof, which constitutes a project for which the Trust is permitted to make a loan to the Borrower pursuant to the Act, the Regulations and the Bond Resolution, all or a portion of the Costs of which is financed or refinanced by the Trust through the making of the Loan under this Loan Agreement and which may be identified under

either the Drinking Water or Clean Water Project Lists with the Project Number specified in Exhibit A-1 attached hereto.

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

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

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

"State" means the State of New Jersey.

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

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

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

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

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

(c) Except as otherwise defined herein or where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words

importing persons shall include firms, associations, corporations, agencies and districts. Words importing one gender shall include the other gender.

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

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

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

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

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

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

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

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

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

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

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

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

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

(f) Governmental Consent. The Borrower has obtained all permits and approvals required to date by any governmental body or officer for the authorization, execution, attestation

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

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

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

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

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

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

SECTION 2.02. Particular Covenants of Borrower.

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

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

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



with respect thereto prior to, or of equal rank with, the Borrower Bond, and all corporate or other action on the part of the Borrower to that end has been and will be duly and validly taken.

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

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

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

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

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

(iv) The Borrower shall not directly or indirectly use or permit the use of any proceeds of the Trust Bonds to reimburse the Borrower for an expenditure with respect to a Costs of the Borrower's Project paid by the Borrower prior to the issuance of the Trust Bonds, unless (A) the allocation by the Borrower of the proceeds of the Trust Bonds to reimburse such expenditure complies with the requirements of Treasury Regulations 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 Costs 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) See Section 2.02(f)(x) as set forth in Schedule A attached hereto, made a part hereof and incorporated in this Section 2.02(f)(x) by reference as if set forth in full herein.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

SECTION 3.01. Loan; Loan Term. The Trust hereby agrees to make the Loan as described in Exhibit A-2 hereof and to disburse proceeds of the Loan to the Borrower in accordance with Section 3.02 and Exhibit C hereof, and the Borrower hereby agrees to borrow and accept the Loan from the Trust upon the terms set forth in Exhibit A-2 attached hereto and made a part hereof; provided, however, that the Trust shall be under no obligation to make the Loan if (a) at the Loan Closing, the Borrower does not deliver to the Trust a Borrower Bond and such other documents required under Section 2.02(1) hereof, or (b) an Event of Default has occurred and is continuing under the Bond Resolution or this Loan Agreement. Although the Trust intends to disburse proceeds of the Loan to the Borrower at the times and up to the amounts set forth in Exhibit C to pay a portion of the Costs of the Project, due to unforeseen circumstances there may not be a sufficient amount on deposit in the Project Fund on any date to make the disbursement in such amount. Nevertheless, the Borrower agrees that the amount actually deposited in the Project Loan Account at the Loan Closing plus the Borrower's allocable share of (i) certain costs of issuance and underwriter's discount for all Trust Bonds issued to finance the Loan; (ii) capitalized interest during the Project construction period, if applicable; and (iii) that portion of the Debt Service Reserve Fund attributable to the cost of funding reserve capacity for the Project, if applicable, shall constitute the initial principal amount of the Loan (as the same may be adjusted downward in accordance with the definition thereof), and neither the Trust nor the Trustee shall have any obligation thereafter to loan any additional amounts to the Borrower.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Borrower acknowledges that payment of the Trust Bonds by the Trust, including payment from moneys drawn by the Trustee from the Debt Service Reserve Fund, does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond. If at any time the amount in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Requirement as the result of any transfer of moneys from the Debt Service Reserve Fund to the Debt Service Fund (as all such terms are defined in the Bond Resolution) as the result of a failure by the Borrower to make any Trust Bond Loan Repayments required hereunder, the Borrower agrees to replenish (i) such moneys so transferred and (ii) any deficiency arising from losses incurred in making such transfer as the result of the liquidation by the Trust of Investment Securities (as defined in the Bond Resolution) acquired as an investment of moneys in the Debt Service Reserve Fund, by making payments to the Trust in equal monthly installments for the lesser of six (6) months or the remaining term of the Loan at an interest rate to be determined by the Trust necessary to make up any loss caused by such deficiency.

The Borrower acknowledges that payment of the Trust Bonds from moneys that were originally received by the Trustee from repayments by the Borrowers of loans made to the Borrowers by the State, acting by and through the New Jersey Department of Environmental Protection, pursuant to loan agreements dated as of November 1, 2004 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 Costs of the Environmental Infrastructure Facilities of the Borrowers, and which moneys were upon such receipt by the Trustee deposited in the Trust Bonds Security Account (as defined in the Bond Resolution), does not constitute payment of the amounts due under this Loan Agreement and the Borrower Bond.

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

SECTION 3.06. Disclaimer of Warranties and Indemnification. (a) The Borrower acknowledges and agrees that (i) neither the Trust nor the Trustee makes any warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for any use of the Environmental Infrastructure System or the Project or any portions thereof or any other warranty or representation with respect thereto; (ii) in no event shall the Trust or the Trustee or their respective agents be liable or responsible for any incidental, indirect, special or consequential damages in connection with or arising out of this Loan Agreement or the Project or the existence, furnishing, functioning or use of the Environmental Infrastructure System or the Project or any item or products or services provided

for in this Loan Agreement; and (iii) to the fullest extent permitted by law, the Borrower shall indemnify and hold the Trust and the Trustee harmless against, and the Borrower shall pay any and all, liability, loss, cost, damage, claim, judgment or expense of any and all kinds or nature and however arising and imposed by law, which the Trust and the Trustee may sustain, be subject to or be caused to incur by reason of any claim, suit or action based upon personal injury, death or damage to property, whether real, personal or mixed, or upon or arising out of contracts entered into by the Borrower, the Borrower's ownership of the Environmental Infrastructure System or the Project, or the acquisition, construction or installation of the Project.

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

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

(d) In connection with its obligation to provide the insurance required under Section 2.02(j) hereof: (i) the Borrower shall include, or cause to be included, the Trust and its directors, employees and officers as additional "named insureds" on (A) any certificate of liability insurance procured by the Borrower (or other similar document evidencing the liability insurance coverage procured by the Borrower) and (B) any certificate of liability insurance procured by any contractor or subcontractor for the Project, and from the 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 agrees that, to the extent allowed by law or the Borrower Bond Resolution, any Loan Repayments then due and payable on the Loan shall be satisfied by the Borrower before any loan repayments on the Borrower's Fund Loan shall be satisfied by the Borrower.

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

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

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

the New Jersey State Treasurer approved the Loan and the terms and conditions thereof as established by the provisions of this Loan Agreement.

ARTICLE IV

ASSIGNMENT OF LOAN AGREEMENT AND BORROWER BOND

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

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

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

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



ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

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

(a) failure by the Borrower to pay, or cause to be paid, any Trust Bond Loan Repayment required to be paid hereunder when due, which failure shall continue for a period of fifteen (15) days;

(b) failure by the Borrower to make, or cause to be made, any required payments of principal, redemption premium, if any, and interest on any bonds, notes or other obligations of the Borrower issued under the Borrower Bond Resolution (other than the Loan and the Borrower Bond) or otherwise secured by all or a portion of the property pledged under the Borrower Bond Resolution, after giving effect to the applicable grace period;

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE VI

MISCELLANEOUS

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

(a) Trust:

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

(b) Trustee:

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

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

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

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

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

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

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

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

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

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

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

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

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

NEW JERSEY ENVIRONMENTAL  
INFRASTRUCTURE TRUST

[SEAL]

ATTEST:

By: \_\_\_\_\_  
Robert A. Briant, Sr.  
Chairman

-----  
Eileen Swan  
Secretary

MIDDLESEX WATER COMPANY

[SEAL]

ATTEST:

By: /s/ Dennis G. Sullivan  
-----  
Dennis G. Sullivan  
President

/s/ Kenneth J. Quinn  
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Kenneth J. Quinn  
Secretary

[Signature Page]

SCHEDULE A

Certain Additional Loan Agreement Provisions

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EXHIBIT A-1

Description of Project and Environmental Infrastructure System

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A-1-1



EXHIBIT A-2

Description of Loan  
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A-2-1

EXHIBIT B

Basis for Determination of Allowable Project Costs

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B-1

EXHIBIT C

Estimated Disbursement Schedule

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C-1

EXHIBIT D  
Specimen Borrower Bond  
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D-1

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

IMPORTANT NOTE: The next three pages set forth the form of the Borrower Bond prepared by the Trust's Bond Counsel for municipal/county Borrowers. Although the Trust recognizes that each corporate Borrower has its own bond form as required pursuant to its Borrower Bond Resolution, please incorporate in the bond form the pertinent information from this municipal/county bond form (e.g., amounts payable under the Borrower Bond set forth in the first paragraph, assignment in the second paragraph, disbursement language in the third paragraph, unconditional obligation in the fourth paragraph, optional prepayment provisions in the fifth paragraph and the date of the Borrower Bond). To the extent that you do not have an existing Bond Resolution, the pledge under your Bond Resolution should be drafted to constitute a general obligation pledge of (i) all the gross revenues of the company and (ii) any specific property (e.g. mortgage) or other security pledged for this transaction (e.g. letter of credit).

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

This Borrower Bond is issued pursuant to the Loan Agreement dated as of November 1, 2004 by and between the Trust and the Borrower (the "Loan Agreement"). This Borrower Bond is issued in consideration of the loan made under the Loan Agreement (the "Loan") to evidence the payment obligations of the Borrower set forth therein. This Borrower Bond has been assigned to \_\_\_\_\_, as trustee (the "Trustee") under the "Environmental Infrastructure Bond Resolution, Series 2004[\_\_\_\_\_]", adopted by the Trust on September \_\_, 2004, as the same may be amended and supplemented in accordance with the terms thereof (the "Bond Resolution"), and payments hereunder shall, except as otherwise provided in the Loan Agreement, be made directly to the Trustee for the account of the Trust pursuant to such assignment. Such assignment has been made as security for the payment of the Trust Bonds (as defined in the Loan Agreement) issued to finance or refinance the Loan and as otherwise described in the Loan Agreement. This Borrower Bond is subject to further assignment or endorsement in accordance with the terms of the Bond Resolution and the Loan Agreement. All of the terms, conditions and provisions of the Loan Agreement are, by this reference thereto, incorporated herein as part of this Borrower Bond.

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

This Borrower Bond is entitled to the benefits and is subject to the conditions of the Loan Agreement. The obligations of the Borrower to make the payments required hereunder shall be

absolute and unconditional, without any defense or right of set-off, counterclaim or recoupment by reason of any default by the Trust under the Loan Agreement or under any other agreement between the Borrower and the Trust or out of any indebtedness or liability at any time owing to the Borrower by the Trust or for any other reason.

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

IN WITNESS WHEREOF, the Borrower has caused this Borrower Bond to be duly executed, sealed and delivered as of October 15, 2004.

[NAME OF BORROWER]

[SEAL]

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

ATTEST:

By: \_\_\_\_\_  
[Treasurer] [Chief Financial Officer]

\_\_\_\_\_  
Clerk

New Jersey Environmental Infrastructure Trust hereby assigns the foregoing Borrower Bond to \_\_\_\_\_, as Trustee under the "Environmental Infrastructure Bond Resolution, Series 2004[\_]", adopted on September \_\_, 2004, as amended and supplemented, all as of the date of this Borrower Bond, as security for the Trust Bonds issued or to be issued under the Bond Resolution to finance or refinance the Project Fund (as defined in the Bond Resolution).

NEW JERSEY ENVIRONMENTAL  
INFRASTRUCTURE TRUST

[SEAL]

ATTEST:

By: \_\_\_\_\_  
Robert A. Briant, Sr.  
Chairman

-----  
Eileen Swan  
Secretary



EXHIBIT E

Opinions of Borrower's Bond and General Counsels

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November \_\_, 2004

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

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Ladies and Gentlemen:

We have acted as counsel to [Name of Borrower], a corporation duly organized and validly existing under the laws of the State (the "Borrower"), which has entered into a Loan Agreement (as hereinafter defined) with the New Jersey Environmental Infrastructure Trust (the "Trust"), and have acted as such in connection with the authorization, execution, attestation and delivery by the Borrower of its Loan Agreement and Borrower Bond (as hereinafter defined) pursuant to the New Jersey Business Corporation Act, P.L. 1968, c. 263, as amended (the "Business Corporation Law"), and a [bond resolution] [indenture] of the Borrower [adopted on] [dated] [DATE] and entitled "[TITLE]", as amended and supplemented, including by a supplemental [resolution] [indenture] [adopted on] [dated] [DATE] and entitled "[TITLE]" (such [resolutions] [indentures] shall be collectively referred to herein as the "Resolution"). All capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

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

- (a) the Trust's "Environmental Infrastructure Bond Resolution, Series 2004[\_]", adopted by the Board of Directors of the Trust on September \_\_, 2004
- (b) the Loan Agreement dated as of November 1, 2004 (the "Loan Agreement") by and between the Trust and the Borrower;
- (c) the proceedings of the board of directors of the Borrower relating to the approval of the Loan Agreement and the execution, attestation and delivery thereof on behalf of the Borrower and the authorization of the undertaking and completion of the Project;
- (d) the Borrower Bond dated as of October 15, 2004 (the "Borrower Bond") issued by the Borrower to the Trust to evidence the Loan; and

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

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

We are of the opinion that:

1. The Borrower is a corporation duly created and validly existing under and pursuant to the Constitution and statutes of the State of New Jersey, including the Business Corporation Law, with the legal right to carry on the business of its Environmental Infrastructure System as currently being conducted and as proposed to be conducted.

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

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

4. In accordance with the terms of the Resolution and to the extent provided in the Resolution, the Borrower has unconditionally and irrevocably promised to make the Loan Repayments and pay all other amounts due under the Loan Documents.

5. The proceedings of the Borrower's board of directors (i) approving the Loan Documents, (ii) authorizing their execution, attestation and delivery on behalf of the Borrower, (iii) with respect to the Borrower Bond only, authorizing its sale by the Borrower to the Trust and authorizing its authentication on behalf of the Borrower, (iv) authorizing the Borrower to consummate the transactions contemplated by the Loan Documents, (v) authorizing the Borrower to undertake and complete the Project, [(vi) authorizing the approval of the inclusion in the Official Statement of the Borrower Appendices,] and (vi) [(vii)] authorizing the execution and delivery of all other certificates, agreements, documents and instruments in connection with the execution, attestation and delivery of the Loan Documents, [including, without limitation, the designation of the Borrower Appendices portion of the Preliminary Official Statement as "deemed final" for the purposes and within the meaning of Rule 15c2-12(b)(1) of the Securities Exchange Act of 1934, as amended, as promulgated by the Securities and Exchange

Commission,] have each been duly and lawfully adopted and authorized in accordance with applicable law and applicable resolutions of the Borrower, including, without limitation, the Resolution, the other Proceedings and the Business Corporation Law, which Proceedings constitute all of the actions necessary to be taken by the Borrower to authorize its actions contemplated by clauses (i) through (vi) [(vii)] above and which Proceedings, including, without limitation, the Resolution, were duly adopted in accordance with applicable New Jersey law at a meeting or meetings duly called and held in accordance with applicable New Jersey law and at which quorums were present and acting throughout.

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

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

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

9. There is no litigation or other proceeding pending or, to our knowledge, after due inquiry, threatened in any court or other tribunal of competent jurisdiction (either State or federal) (i) questioning the creation, organization or existence of the Borrower, (ii) questioning the validity, legality or enforceability of the Resolution, the Loan or the Loan Documents, (iii) questioning the undertaking or completion of the Project, (iv) otherwise challenging the Borrower's ability to consummate the transactions contemplated by the Loan or the Loan Documents, or (v) that, if adversely decided, would have a materially adverse impact on the financial condition of the Borrower.

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

11. To the best of our knowledge, upon due inquiry, (i) all representations made by the Borrower contained within subsections (f) and (h) of Section 2.02 and, if applicable, Exhibit F of the Loan Agreement are true, accurate and complete, and (ii) all expectations contained therein are reasonable, and we know of no reason why the Borrower would be unable to comply on a continuing basis with the covenants contained within subsections (f) and (h) of Section 2.02 and, if applicable, Exhibit F of the Loan Agreement.

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

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

Very truly yours,

EXHIBIT F

Additional Covenants and Requirements

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EXHIBIT G

General Administrative Requirements for the  
State Environmental Infrastructure Financing Program  
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EXHIBIT H

Form of Continuing Disclosure Agreement

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H-1

M O R T G A G E

THIRTY-FIRST SUPPLEMENTAL INDENTURE

MIDDLESEX WATER COMPANY

TO

WACHOVIA BANK, NATIONAL ASSOCIATION  
Trustee

Dated as of October 15, 2004

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 THIRTY-FIRST SUPPLEMENTAL INDENTURE, dated as of the fifteenth day of October, 2004, 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 WACHOVIA BANK, NATIONAL ASSOCIATION, (as successor to First Union National Bank, the 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"), which bonds have since been redeemed by Water Company, 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, as of January 15, 2002, Water Company executed and delivered to Trustee a Twenty-Ninth Supplemental Indenture of Mortgage (herein called the "Twenty-Seventh Supplemental Indenture") to secure its First Mortgage 5.10% Bonds, Series DD (herein called the "Series DD Bond"), and otherwise supplementing the Mortgage; and

WHEREAS, as of October 15, 2004, Water Company executed and delivered to Trustee a Thirtieth Supplemental Indenture of Mortgage (herein called the "Thirtieth Supplemental Indenture") to secure its First Mortgage 0% Bond, Series EE (herein called the "Series EE 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, the Twenty-Ninth, the Thirtieth Supplemental Indentures and by this Thirty-First 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 \$8,920,000 designated Series FF and to be known as its "First Mortgage Scheduled Interest Rates Bonds, Series FF" (herein called the "Series FF Bond"), it being the intention of the parties that the Series FF 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 FF Bond shall be issued to fund payment of the principal of \$8,920,000, the amount of the Loan borrowed from the New Jersey Environmental Infrastructure Trust (the "Trust") under the Loan Agreement dated as of November 1, 2004 (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 construction of a six thousand two hundred fifty linear foot, sixty inch diameter

ductile iron pipe line from its raw water pump station in the City of New Brunswick, New Jersey, to the Carl J. Olsen Water Treatment Plant in the Township of Edison, New Jersey; and

WHEREAS, the Trust requires as a condition of making the loan documented by the Loan Agreement, that a single Series FF 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 FF Bond be made to the Loan Servicer (as defined in the Loan Agreement) for the account of the Trust, that the Series FF 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 FF Bond, that the obligations of the Water Company under the Series FF 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 FF 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 FF 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, the Twenty-Seventh, the Twenty-Eighth, the Twenty-Ninth, and the Thirtieth Supplemental Indentures (to the extent applicable) necessary to make the Series FF 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 Thirty-First 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, the Twenty-Eighth, the Twenty-Ninth, and the Thirtieth 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 Thirty-First 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 Thirty-First 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, the Twenty-Eighth, the Twenty-Ninth, the Thirtieth and the Thirty-First Supplemental Indentures, or intended to be (including without limitation all such property acquired by Water Company since October 15, 2004, 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, the Twenty-Eighth, the Twenty-Ninth, and the Thirtieth 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 Thirty-First 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 FF

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, the Twenty-Eighth, the Twenty-Ninth and the Thirtieth Supplemental Indentures and by this Thirty-First 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 FF". The Series FF 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, 2004; and shall be issued in non-negotiable form to the Trust. The Series FF Bond shall bear interest from the date of issuance of the Series FF 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 November 1, 2024; 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 July 8, 2004 Order (Docket No. WF04050341) 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 FF 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 \$8,920,000 or such lesser amount as determined in accordance with Section 3.01 of the Loan Agreement, at the times and in the amounts determined as provided in the Loan Agreement, plus any other amounts due and owing under the Loan Agreement at the times and in the amounts as provided therein. The obligations of the

Water Company to make payments under the Series FF 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 FF Bond is subject to assignment or transfer in accordance with the terms of the Loan Agreement. The Series FF 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 FF 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, the Twenty-Seventh, the Twenty-Eighth, the Twenty-Ninth and the Thirtieth Supplemental Indentures, it shall be a default under this Thirty-First 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 FF 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 FF 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 Thirty-First Supplemental Indenture as Exhibit A; and shall contain appropriate references to this Thirty-First 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, the Twenty-Eighth, the Twenty-Ninth and the Thirtieth Supplemental Indentures and appropriate changes with respect to the aggregate principal amount, interest rate, redemption dates and provisions, and maturity date of the Series FF 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 FF 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, the Twenty-Seventh, the Twenty-Eighth, the Twenty-Ninth and the Thirtieth Supplemental Indentures, forthwith upon the execution and delivery of this Thirty-First Supplemental Indenture, or from time to time thereafter, Series FF Bond in an aggregate principal amount of \$8,920,000 may be executed by Water Company and delivered to the Trustee for authentication and shall thereupon be authenticated and delivered by the Trustee upon the written order of Water Company, signed by its President or a Vice President and its Treasurer or Assistant Treasurer, in such denominations and registered in such name or names as may be specified in such written order.

Section 5. Sections 4(A)(iii) and (iv) of Article VIII of the Second Supplemental Indenture shall not be available to the Water Company with respect to the Series FF 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 Thirty-First Supplemental Indenture).

ARTICLE II  
Miscellaneous  
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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, the Twenty-Eighth, the Twenty-Ninth and the Thirtieth Supplemental Indentures, and as modified and extended by this Thirty-First 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, the Twenty-Eighth, the Twenty-Ninth and the Thirtieth 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, Series CC, Series DD and Series EE Bonds shall apply to the Series FF 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, the Twenty-Eighth, the Twenty-Ninth and the Thirtieth Supplemental Indentures to the Mortgage or any of such Supplemental Indentures shall be construed as also referring to this Thirty-First 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 FF Bond shall not be amended by, and the Series FF 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 Thirty-First 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, the Twenty-Ninth, the Thirtieth and this Thirty-First 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 FF Bond for the account of the Trust.

Section 5. This Thirty-First 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 Thirty-First Supplemental Indenture, for convenience and for the purpose of reference, is dated as of October 15, 2004, 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 FF Bonds by Water Company.

Section 7. In any case where the payment of principal of the Series FF Bond or the date fixed for redemption of any Series FF 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 preceding 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.

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Middlesex Water Company

Subsidiaries

Jurisdiction of  
Organization

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

Delaware  
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## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 33-11717 on Form S-3 of our report dated March 15, 2005 (November 14, 2005 as to the effects of the restatement described in Note 10), relating to the consolidated financial statements of Middlesex Water Company (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the restatement described in Note 10), and of our report on internal control over financial reporting dated March 15, 2005 (November 14, 2005 as to the effect of the material weakness described in Management's Report on Internal Control Over Financial Reporting (as revised)), (which expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of a material weakness), appearing in this Annual Report on Form 10-K/A of Middlesex Water Company for the year ended December 31, 2004.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
November 17, 2005



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

I, Dennis G. Sullivan, certify that:

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

/s/ Dennis G. Sullivan

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Dennis G. Sullivan  
Chief Executive Officer

Date: November 18, 2005

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

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

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

/s/ A. Bruce O'Connor

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A. Bruce O'Connor  
Chief Financial Officer

Date: November 18, 2005

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

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

/s/ Dennis G. Sullivan

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Dennis G. Sullivan  
Chief Executive Officer

Date: November 18, 2005

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

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

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

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

Date: November 18, 2005

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