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October 4, 2002

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102

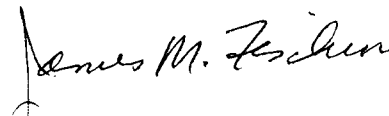
RE: *In the Matter of the Joint Application For Approval Of The Acquisition By
Philadelphia Suburban Corporation Of The Stock Of AquaSource
Development Company, Case No.*

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter is an original of the Application To Purchase Stock filed on behalf of Philadelphia Suburban Corporation and AquaSource Development Company in the above-reference matter. I am also providing to the Data Center a computer disk that has an electronic version of the Application with Exhibits A-F, inclusive, for use in filing in the Commission's Electronic Filing & Information System.

Copies of the foregoing have been hand-delivered, emailed or mailed this date to the Office of the Public Counsel and Dana K. Joyce, General Counsel. Thank you for your attention to this matter.

Sincerely,


James M. Fischer

Enclosures

cc: Office of the Public Counsel
Dana K. Joyce, General Counsel

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

IN THE MATTER OF THE JOINT)	
APPLICATION FOR APPROVAL)	
OF THE ACQUISITION BY)	
PHILADELPHIA SUBURBAN)	Case No. _____
CORPORATION OF THE STOCK)	
OF AQUASOURCE DEVELOPMENT)	
COMPANY)	

APPLICATION TO PURCHASE STOCK

COME NOW Philadelphia Suburban Corporation (“PSC”) and AquaSource Development Company (“AquaSource Development”) (hereinafter collectively the “Joint Applicants”), pursuant to Section 393.190, RSMo 2000, and 4 CSR 240-2.060(1) and (12), and hereby request that the Public Service Commission (“Commission”) approve the acquisition by PSC of the stock of AquaSource Development. In support of this request, the Joint Applicants respectfully state:

A. OVERVIEW

1. The transaction proposed herein will have no immediate effect on the rates charged or service provided by AquaSource Development.¹ It is presently anticipated that local management will remain substantially in place and staffing levels will not be materially disturbed. Indeed, AquaSource Development is expected to continue to operate in much the same manner as it currently does and will continue to be fully subject to all applicable laws, rules and policies governing the regulation of Missouri public utilities.

¹ Nothing herein is intended to limit the ability of AquaSource Development to prosecute, or obtain a ruling with respect to, any rate proceeding(s) prior to the consummation of the transaction contemplated by this Application.

2. What will change, if this Joint Application is approved, is that ultimate ownership and control of AquaSource Development will rest with PSC, rather than DQE, Inc.² However, for the reasons set forth hereinafter, the proposed acquisition will produce a stronger water and wastewater utility system -- one that has the strategic focus, financial and human resources, size and scope to address the challenges facing the water and wastewater utility industry in a more cost-effective manner.

B. DESCRIPTION OF THE JOINT APPLICANTS

3. PSC, duly organized and existing under the laws of the Commonwealth of Pennsylvania, is the second largest investor-owned water utility holding company in the United States, serving approximately two million residents in six states. PSC's largest subsidiary is Pennsylvania Suburban Water Company ("PSW"),³ which is engaged in the business of furnishing water and wastewater service to the public throughout Pennsylvania. Substantial additional water and/or wastewater operations are conducted through other subsidiaries in Illinois, Maine, New Jersey, North Carolina and Ohio. A copy of PSC's most recent annual report to shareholders is attached as Exhibit "A." PSC's corporate headquarters and PSW's principal business office are located at 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489.

4. As noted previously, AquaSource Development, duly organized and existing under the laws of the State of Texas, is a subsidiary of AquaSource, Inc., which, in turn, is a

² DQE is the corporate parent of AquaSource, Inc., which owns all the outstanding stock of AquaSource Development.

³ Prior to January 1, 2002, Pennsylvania Suburban Water Company was known as Philadelphia Suburban Water Company.

subsidiary of DQE, a Pennsylvania based energy service company.⁴ AquaSource Development furnishes regulated wastewater service in a portion of Morgan County. AquaSource Development's present corporate headquarters are located at 411 Seventh Avenue, 14th Floor, Pittsburgh, Pennsylvania 15219, and its local business office is located at 5400 Bus. 50 West, Suite 3, Apache Flats, Jefferson City, Missouri 65109.

5. The names, mailing and e-mail addresses, and telephone and facsimile numbers of the Joint Applicants' attorneys are as follows:

For PSC:

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For AquaSource Development:

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⁴ DQE's largest subsidiary is Duquesne Light Company, which provides electric transmission and distribution service in the Pittsburgh area.

C. SUMMARY OF THE PROPOSED TRANSACTION

6. On July 29, 2002, PSC, Aqua Acquisition Corporation (“Acquisition”),⁵ DQE, and AquaSource, Inc. entered into a Purchase Agreement, a copy of which is attached as Exhibit “B.” Pursuant to the Purchase Agreement, PSC will acquire all of the issued and outstanding shares of common stock of AquaSource Development; all of the issued and outstanding shares of common stock and 90 of the 100 outstanding shares of preferred stock of AquaSource Utility, Inc.;⁶ and all of the issued and outstanding shares of common stock of The Reynolds Group, Inc.⁷ In addition, Acquisition will purchase certain non-regulated assets, consisting largely of contract operating agreements with various water and wastewater service providers. As such, AquaSource Development will become a first tier subsidiary of PSC. A diagram depicting the pre and post-acquisition chain of ownership AquaSource Development is attached as Exhibit “C.”

⁵ Acquisition, a Pennsylvania corporation, is a wholly owned subsidiary of PSC that was formed to help effectuate the proposed transaction.

⁶ AquaSource Utility, directly or indirectly through subsidiaries, owns and operates water and wastewater systems in twelve states. In Missouri, AquaSource Utility’s holdings include all of the common stock of AquaSource/CU, Inc. (the former Capital Utilities) and AquaSource/RU, Inc. (the former Riverside Utility Company), both of which provide regulated water service and, in the case of AquaSource/CU, regulated wastewater service. Because PSC is acquiring the stock of the corporate parent of AquaSource/CU and AquaSource/RU, the Joint Applicants do not believe that Commission approval of this aspect of the proposed transaction is required. *See e.g., Order Closing Case, Re Acquisition of Cilicorp, Inc. by Ameren Corporation Parent Company of Union Electric Co. d/b/a Ameren UE*, Case No. EO-2002-1082 (June 13, 2002); *Order Closing Case, Re Proposed Acquisition of American Water Works Company by the German Corporation RWE AG*, Case No. WO-2002-206 (December 13, 2001); *Order Closing Case, Re United Water Company Missouri, Inc. for Authority for Lyonnaise American Holding, Inc., to Acquire Common Stock of United Water Resources, Inc.*, Case No. WM-2000-318 (December 7, 1999); *Report & Order, Re Merger of American Water Works Company with National Enterprises, Inc. and the Indirect Acquisition by American Water Works Company of the Total Capital Stock of St. Louis County Water Company*, Case No. WM-99-224 (March 23, 1999); *Report & Order, Re SBC Communications, Inc. and Ameritech Corporation*, Case No. TM-96-76.

⁷ The Reynolds Group is an Indiana water utility holding company. The Reynolds Group and each of its subsidiaries, other than Capitol Engineering, Inc. (a non-regulated subsidiary), do not conduct business in Missouri.

7. The Purchase Agreement provides for a target cash purchase price of approximately \$205 million. The final purchase price may be increased by up to \$10 million or decreased by up to \$25 million as various purchase price adjustments are applied. Such adjustments relate to the achievement of certain operating performance metrics, involving revenue, rate base and projected customer connections, and are described in Article I of the Purchase Agreement.

8. PSC and Acquisition intend to fund the purchase with cash from a combination of short-term debt, long-term debt, common stock and/or securities convertible into common stock. The ultimate funding decision will be driven by financial market conditions existing at the time the acquisition is consummated.

9. Closing on the proposed transaction is scheduled to occur five business days after the satisfaction of the conditions precedent set forth in the Purchase Agreement, including the receipt of all required regulatory approvals.

D. IMPACT ON SERVICE, RATES AND LOCAL COMMUNITIES

10. PSC is committed to providing adequate, efficient, safe and reliable water and wastewater service and its performance bears this out.⁸ PSC intends to rely substantially on incumbent local management to operate AquaSource Development's Missouri holdings and, consequently, the acquisition by PSC should have no immediate effect on customer service. The Joint Applicants believe, however, that the combined entity, by virtue of its greater resources,

⁸ For example, PSW, PSC's largest subsidiary, has the lowest customer complaint ratio of any investor-owned water company in Pennsylvania. In addition, PSW has consistently complied with all Federal and State drinking water standards and, in fact, has **never** violated a primary maximum contaminant level (MCL) standard.

will be better positioned to meet future demands and to ensure that the high quality of service presently being provided is maintained.

11. The proposed transaction will have no immediate impact on the rates charged customers of AquaSource Development.⁹ The rates, rules, regulations, and terms and conditions of service in effect on the date of closing will not change as a result of the acquisition. Going forward, the Joint Applicants believe that economies of scale and scope may help to partially offset the ongoing rise in the cost of providing water and wastewater service and thereby moderate somewhat the magnitude of future rate increase requests.

12. The proposed transaction is not expected to have any immediate impact on jobs in Missouri – no material changes in local staffing or compensation are anticipated at the present time. Rather, AquaSource Development’s customers will continue to receive the same level of quality service from essentially the same organization on which they have depended in the past. Moreover, AquaSource Development’s employees should benefit from the expanded training and growth opportunities offered by the combined entity.

E. BENEFITS OF THE PROPOSED TRANSACTION

13. In reviewing requested acquisitions of the stock of regulated utilities, the Commission traditionally has applied a “not detrimental to the public interest” standard. *State ex. rel. City of St. Louis v. Public Service Commission*, 73 S.W.2d 393, 400 (Mo. 1934). As explained *infra*, the proposed transaction clearly satisfies that test. Indeed, the Joint Applicants believe that PSC’s acquisition of AquaSource Development will affirmatively benefit customers in a number of respects.

⁹ See Fn. 1.

14. **Focus On Water And Wastewater Service.** DQE, AquaSource Development's ultimate parent, is currently engaged in multiple lines of business, including, but not limited to, electric transmission and distribution service, communications, landfill gas collection and processing, and propane distribution. The proposed acquisition would place DQE's water and wastewater operations in the hands of an experienced company and industry leader whose sole focus is the provision of high quality utility service at reasonable prices.

15. **Size And Financing Capability.** AquaSource Development's customers will be served by a large, fiscally sound company that has the capability to finance necessary capital additions. To illustrate, as of December 31, 2001, PSC's total permanent capitalization was approximately \$1.0 billion. As the Commission is well aware, the need to comply with increasingly stringent environmental standards, while also rehabilitating and replacing aging infrastructure, has created substantial demands for capital investment by water and wastewater utilities.¹⁰ Given its size, access to capital and its recognized strengths in system planning, capital budgeting and construction management, PSC is uniquely well-positioned to provide high quality water and wastewater service. In addition, because of its outstanding credit quality, PSC believes that it will be able to access the capital markets on favorable terms.¹¹

16. **Economies Of Scale And Scope.** As the second largest investor-owned water and wastewater utility system in the country, PSC enjoys substantial economies of scale and scope through the mass purchasing of certain goods (e.g., chemicals and equipment) and the

¹⁰ In the past several years, PSW has become a leader in the area of infrastructure rehabilitation, having tripled the miles of aging distribution main that are repaired or replaced on an annual basis. This undertaking is critically important, not only to assure high quality water service but also to maintain adequate pressures for fire protection purposes.

¹¹ Although PSC itself is not rated, PSW has been assigned a corporate credit rating of "A+" by Standard & Poors.

provision of centralized services (e.g., the system-wide administration of employee pension and benefit plans). The proposed transaction presents an opportunity to further expand these economies and to extend their resulting benefits to AquaSource Development's customers through consolidation and the elimination of duplicative functions in such areas as accounting and record keeping, financial and regulatory reporting, customer billing and accounting, and customer service.

17. **Commitment To Customer Service.** PSC is totally committed to providing its customers with the highest quality service at the lowest reasonable price. In addition, PSC has worked in partnership with State and local officials to address the problems faced by smaller systems that may lack the financial and/or technical resources needed to comply with evolving water quality or wastewater collection and disposal standards. As part of the PSC system, AquaSource Development should be better equipped to pursue these opportunities.

18. **Opportunities For Employees.** The proposed acquisition offers expanded opportunities to AquaSource Development's employees for career advancement and professional growth. These enhanced opportunities, in turn, will benefit customers by making it easier for AquaSource Development to recruit, develop and maintain a skilled workforce.

F. SUPPORTING DATA

19. As previously noted, the Joint Applicants are providing as Exhibit "A" a copy of PSC's 2001 annual report to shareholders. AquaSource Development's certificate to transact business as a foreign corporation was filed with its Application in Case No. SA-99-608 and is incorporated herein by reference.

20. Attached as Exhibits "D" through "F" are certified resolutions authorizing and approving the proposed transaction passed by the Boards of Directors of PSC, DQE and AquaSource, Inc.

G. CORPORATE APPROVALS

21. As noted *supra* (see Paragraph 21), the proposed transaction has been approved by the Boards of Directors of PSC, DQE and AquaSource, Inc. Approval by the shareholders of PSC and/or DQE is not required.

H. OTHER REGULATORY APPROVALS

22. The proposed transaction is subject to approval by this Commission, as well as by the Connecticut Department of Public Utility Control, the Florida Public Service Commission, the Kentucky Public Service Commission, the New Jersey Board of Public Utilities, the New York Public Service Commission, the North Carolina Utilities Commission, the South Carolina Public Service Commission, the Texas Commission On Environmental Quality, the Virginia State Corporation Commission, the Citrus County (Florida) Water and Sewer Authority, the Board of County Commissioners of Sarasota County (Florida) and the Federal Communications Commission.

23. The proposed acquisition is subject to expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

I. MISCELLANEOUS

24. Notice of the proposed transaction will be provided to AquaSource Development's customers by way of bill insert.

25. Contemporaneously with the filing of this Joint Application, copies hereof are being served upon the Office of the Public Counsel.

26. The proposed transaction is not expected to impact any of the tax revenues of the Missouri political subdivisions in which any structures, facilities or equipment of AquaSource Development are located.

27. The Joint Applicants have no pending action or final unsatisfied judgments or decisions against them from any state or federal agency or court which involve customer service or rates which occurred within three years of the date of this Joint Application.

28. No annual report or assessment fees are overdue in Missouri.

WHEREFORE, for the foregoing reasons, the Joint Applicants respectfully request that the Commission approve this Application and authorize the acquisition by PSC of the stock of AquaSource Development.

Respectfully submitted,



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Attorneys for AquaSource Development

Dated: October 4, 2002



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e-mail: papek@suburbanwater.com


Attorneys for Philadelphia Suburban Corporation

Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was hand-delivered, emailed or mailed this 4th day of October, 2002 to:

Ms. Ruth O'Neil
Office of the Public Counsel
P.O. Box 7800
Jefferson City, Missouri 65102

Mr. Dan Joyce, General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102



James M. Fischer

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

IN THE MATTER OF THE JOINT
APPLICATION FOR APPROVAL OF
THE ACQUISITION BY
PHILADELPHIA SUBURBAN
CORPORATION OF THE STOCK OF
AQUASOURCE DEVELOPMENT
COMPANY

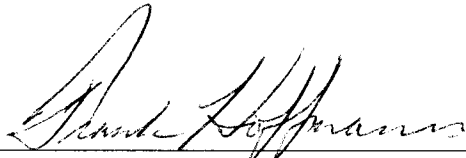
Case No. _____

VERIFICATION

COMMONWEALTH OF PENNSYLVANIA

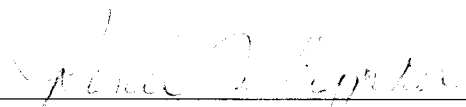
COUNTY OF ALLEGHENY

Frank A. Hoffmann, being first duly sworn, on his oath and in his capacity as President of AquaSource Development Company, states that he is authorized to execute this Application on behalf of AquaSource Development Company, and has knowledge of the matters stated herein, and that said matters are true and correct to the best of his knowledge and belief.



Frank A. Hoffmann

Subscribed and sworn to before me this 4th day of October, 2002.



Notary Public

My commission expires:

4.22.05

Print, Type or Stamp Name of Notary

Notarial Seal
Renee J. Cypher, Notary Public
City of Pittsburgh, Allegheny County
My Commission Expires Sept. 22, 2005
Member, Pennsylvania Association of Notaries

VERIFICATION

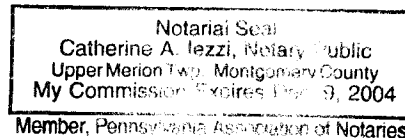
COMMONWEALTH OF PENNSYLVANIA)
) ss.
COUNTY OF MONTGOMERY)

Robert J. Sweeney, being first duly sworn, on his oath and in his capacity as Senior Vice President, of Philadelphia Suburban Corporation, states that he is authorized to execute this Application on behalf of Philadelphia Suburban Corporation, and has knowledge of the matters stated herein, and that said matters are true and correct to the best of his knowledge and belief.

David P. Jewett

Subscribed and sworn to before me this 24 day of October, 2002.

Notary Public



My Commission Expires: _____ Member, Pennsylvania Association of Professional Accountants

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

IN THE MATTER OF THE JOINT	:	
APPLICATION FOR APPROVAL	:	
OF THE ACQUISITION BY	:	
PHILADELPHIA SUBURBAN	:	Case No. _____
CORPORATION OF THE STOCK	:	
OF AQUASOURCE DEVELOPMENT	:	
COMPANY	:	

EXHIBITS TO JOINT APPLICATION

TAB

Copy of PSC’s 2001 annual report to shareholders	A
Purchase Agreement dated July 29, 2002	B
Diagram depicting pre and post-acquisition chain of ownership.....	C
Authorizing resolutions of PSC	D
Authorizing resolutions of DQE	E
Authorizing resolutions of AquaSource, Inc.	F