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March 26, 1999

FILED

MAR 26 1999

Missouri Public
Service Commission

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

RE: Case No. WM-99-238

Dear Mr. Roberts:

Enclosed for filing in the above-referenced case are an original and fourteen (14) copies of POST-ACQUISITION COMPLIANCE FILING AND NOTICE on behalf of the Joint Applicants in this proceeding. Also enclosed for filing in this case are an original and fourteen (14) copies of an ADOPTION NOTICE as ordered by the Commission on behalf of AquaSource/RU, Inc., AquaSource/CU, Inc. (water) and AquaSource/CU, Inc. (sewer).

Copies of this filing have on this date been mailed or hand-delivered to counsel for parties of record. Thank you for your attention to this matter.

Sincerely,

Jeffrey A. Keevil

JAK/er
Enclosures
cc: counsel for parties of record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of Capital Utilities, Inc., Riverside Utility Company, Inc. and Foxfire Utility Company, Inc. for Authority to Sell and Transfer Their Stock and to Transfer Control of Said Companies to operating subsidiaries of AquaSource, Inc.	)	Case No. WM-99-238

POST-ACQUISITION COMPLIANCE FILING AND NOTICE

COME NOW the Joint Applicants in this proceeding and respectfully state as follows:

1. The Joint Applicants, Capital Utilities, Inc., Riverside Utility Company, Inc., Foxfire Utility Company, Inc., and AquaSource, Inc. filed their Application in this proceeding on November 25, 1998 ("Application"), which was approved by Order of the Commission dated February 4, 1999 ("Order").

2. In the Application, the Joint Applicants represented that they would file final copies of the agreement and plan of merger after execution thereof; accordingly, attached hereto are final versions of the agreement and plan of merger among Riverside Utility Company, DQE, Inc., and AquaSource/RU, Inc. and among Capital Utilities, Inc., DQE, Inc., and AquaSource/CU, Inc. Also in the Application, the Joint Applicants represented that they would file documentation from the Missouri Secretary of State evidencing the mergers and appropriate name changes of the surviving corporations; accordingly, attached hereto are certificates of merger from the Missouri Secretary of State concerning the respective mergers of Capital Utilities, Inc. and Riverside Utility

Company which show the names of the surviving corporations changed to AquaSource/CU, Inc. and AquaSource/RU, Inc.

3. Although the Application and Order originally also covered Foxfire Utility Company, Inc., post-Order developments caused the acquisition of Foxfire Utility Company, Inc. by AquaSource to be abandoned. Therefore, Foxfire Utility Company, Inc. will continue to be owned and operated as it was pre-Order under the existing Foxfire Utility Company, Inc. tariffs and certificates.

4. AquaSource/CU, Inc. and AquaSource/RU, Inc. have filed, contemporaneously herewith, adoption notices by which they adopt the tariffs of Capital Utilities, Inc. and Riverside Utility Company, respectively.

5. The Commission's Order of February 4, 1999, appears to have been intended to be self-executing upon the filing of the adoption notices and other material included herewith; therefore, this proceeding should now be concluded. If the Commission contemplated issuing another order to recognize the filing of the adoption notices, Joint Applicants believe such order may now be issued.

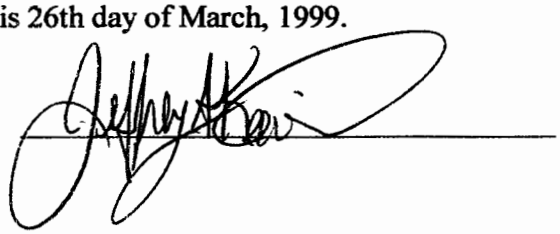
Respectfully submitted,

Jeffrey A. Keevil, MoBar #33825
STEWART & KEEVIL, L.L.C.
1001 Cherry Street, Suite 302
Columbia, Missouri 65201
(573) 499-0635
(573) 499-0638 (fax)

ATTORNEY FOR JOINT APPLICANTS

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing pleading was served on the General Counsel's Office and the Office of the Public Counsel by placing same in the United States mail, or hand-delivery, this 26th day of March, 1999.



AGREEMENT AND PLAN OF MERGER

among

RIVERSIDE UTILITY COMPANY

DQE, INC.

and

AQUASOURCE/RU, INC.

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of February 22, 1999, among AquaSource/RU, Inc., a Texas corporation ("Subsidiary"), Riverside Utility Company, a Missouri corporation (the "Company") and DQE, Inc., a Pennsylvania corporation ("Parent"), the sole shareholder of Subsidiary.

WHEREAS, the Boards of Directors of Subsidiary and the Company deem the merger of Subsidiary into the Company on the terms herein set forth to be desirable and in the best interests of their respective companies and shareholders, and have approved this Agreement and Plan of Merger ("Agreement"), and the Boards of Directors of Subsidiary and the Company have directed that this Agreement and the merger contemplated hereby be submitted to their respective shareholders for approval;

WHEREAS, AquaSource/CU, Inc. is to be merged into Capital Utilities, Inc. pursuant to an Agreement and Plan of Merger (the "Merger Agreement");

NOW, THEREFORE, in accordance with the applicable provisions of the laws of the States of Texas and Missouri, Subsidiary, the Company, and Parent agree that Subsidiary shall be merged into the Company which shall be the surviving corporation, and that the plan, terms and conditions of such merger shall be as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions. In this Agreement:

"Agreement of Shareholders and Indemnity Agreement" shall mean the Agreement of Shareholders and Indemnity Agreement in the form of Exhibit D attached hereto and among the Company, AquaSource/CU, Inc., Subsidiary, Parent, Garah F. Helms and Joy L. Helms;

"Benefit Plans" shall have the meaning set out in Section 6.12(B);

"Closing" shall mean the consummation of the transactions contemplated by this Agreement;

"Environmental Claim," shall mean any and all administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigations or other adversarial proceedings relating to any Environmental Law or Environmental Permit including, without limitation (i) any and all claims by governmental, territorial or regulatory authorities for enforcement, cleanup, removal, response, remedial or other similar actions or damages pursuant to any applicable Environmental Law and (ii) any and all claims by a third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Substances or arising from alleged injury or threat of injury to human health, property, or the environment resulting from exposures to or releases of Hazardous Substances. An "Environmental Claim" includes, but is not limited to, a common law action, as well as a proceeding to issue, modify, terminate or enforce the provisions of an Environmental Permit or requirement of Environmental Law, or to adopt or amend a regulation to the extent that such a proceeding attempts to redress violations or alleged violations of the applicable permit, license, or regulation;

"Environmental Law" shall mean any federal, state, territorial, local or foreign statute, law, rule, regulation, ordinance, code, policy (compliance with which is required by law or if the failure to comply therewith would be reasonably foreseeable to result in adverse administrative action) or rule of common law in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to the delivery of public drinking water, the environment or Hazardous Substances, including, without limitation to the extent applicable under the circumstances, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. § 9601 *et seq.*; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11001 *et seq.*; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 *et seq.*; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 *et seq.*; the Clean Air Act, 42 U.S.C. § 7401 *et seq.*; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. § 136 *et seq.*; the Safe Drinking Water Act, 42 U.S.C. § 300f *et seq.*; the Toxic Substance Control Act, 15 U.S.C. § 2601 *et seq.*; the Oil Pollution Act of 1990, 33 U.S.C. § 2701 *et seq.*; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. § 5101 *et seq.*; the Atomic Energy Act, as amended, 42 U.S.C. § 2011 *et seq.*; any laws regulating the use of biological agents or substances including medical or infectious wastes; and the corresponding foreign, territorial or state laws, regulations and local ordinances, which may be applicable, as any such acts may be amended;

"Environmental Permits" shall mean all permits, approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law;

"Escrow Agreement" shall mean the Escrow Agreement substantially in the form of Exhibit C attached hereto and among Subsidiary, AquaSource/CU, Inc. Garah F. Helms, Joy L. Helms and AquaSource, Inc.

"Financial Statements" shall have the meaning set out in Section 6.5;

"Hazardous Substances" shall mean (i) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "hazardous air pollutants," "pollutants," "contaminants," "toxic chemicals," "toxics," "hazardous chemicals," "extremely hazardous substances," "regulated substances" or "pesticides" as defined as such in any applicable Environmental Law, (ii) any radioactive materials, asbestos-containing materials; urea formaldehyde foam insulation, and radon in harmful quantities or concentration that are regulated by any governmental authority having jurisdiction in the location of such materials and (iii) any other chemical, material or substances, exposure to which is prohibited, limited or regulated by any governmental authority having jurisdiction in the location of such substances on the basis of potential hazards;

"Intellectual Property Rights" shall have the meaning set out in Section 6.9;

"Knowledge", in respect of any person or entity, shall mean the actual knowledge of such person or entity and each director and officer of such person or entity after making all due and reasonable inquiries;

"Material Adverse Effect" shall mean a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of the Company;

"Merger" shall have the meaning set out in Section 2.1;

"Purchase Price" shall have the meaning set out in Section 4.3;

"Regulatory Consent" shall mean the consent of the Missouri Public Service Commission to the Merger;

"Release" shall mean any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of any Hazardous Substance into the environment or into or out of any property, including the movement of any Hazardous Substance through or in the air, soil, surface water, groundwater or property; and

"Taxes" shall mean all income, gross receipts, profits, franchise, sales, use, occupation, property, capital, wealth, environmental, employment, severance, production, excise, stamp, transfer, workers' compensation, social security, withholding, or similar taxes, motor vehicle registration fees, customs or import duties, and all other taxes or all other governmental fees or charges of any nature whatsoever and however denominated, imposed by any country or political subdivision thereof, together with any interest, additions, or penalties with respect thereto.

ARTICLE II

THE MERGER

2.1 Effect of Merger. At the Effective Time of the Merger (as described in Article V), Subsidiary shall be merged into the Company (the Company being the surviving corporation), the separate existence of Subsidiary shall cease, and the Company as the surviving corporation shall continue its corporate existence under the laws of the State of Missouri under the name of AquaSource/RU, Inc. (the "Merger"); and the Company shall possess all the rights, privileges, powers, and franchises of a public as well as of a private nature and be subject to all the restrictions, disabilities, and duties of Subsidiary and all property, real, personal, and mixed, belonging to

Subsidiary shall be vested in the Company; and all property, rights, privileges, powers, and franchises and every other interest shall be thereafter as effectually the property of the Company as they were of Subsidiary and the title to any real estate vested by deed or otherwise in Subsidiary shall not revert or be in any way impaired by reason of the Merger, provided that all rights of creditors and all liens upon any property of Subsidiary shall be preserved unimpaired and all debts, liabilities, and duties of Subsidiary shall thenceforth attach to the Company and may be enforced against the Company to the same extent as if such debts, liabilities, and duties had been incurred or contracted by the Company.

2.2 Further Assistance. From time to time as and when requested by Subsidiary or its successors or assigns, the officers and directors of the Company last in office shall execute and deliver such deeds and other instruments and shall take or cause to be taken such other actions as shall be necessary to vest or perfect in or to confirm of record or otherwise the Company's title to, and possession of, all the property, interests, assets, rights, privileges, immunities, powers, franchises, and authority of Subsidiary, and otherwise to carry out the purposes of this Agreement.

2.3 Plan of Reorganization. A plan of reorganization between Parent, Subsidiary and the Company under the provisions of Sections 368(a)(1)(A) and 368(a)(2)(E) of the Internal Revenue Code is adopted as described in this Agreement.

ARTICLE III

ARTICLES OF INCORPORATION AND BYLAWS

3.1 Articles of Incorporation and Bylaws. At the Effective Time of the Merger, the Articles of Incorporation and Bylaws of the Company shall be the Articles of Incorporation and Bylaws of the surviving corporation.

ARTICLE IV

CONVERSION AND EXCHANGE OF SHARES

4.1 Conversion Ratio and Cash Payment. The manner of converting or exchanging the shares of the Company and Parent shall be as follows:

(A) Each share of common stock of Subsidiary issued and outstanding at the Effective Time of the Merger shall, by virtue of the Merger, automatically be converted into one fully paid and non-assessable share of common stock of the Company which, together, shall constitute all of the issued and outstanding shares of common stock of the Company immediately after the Effective Time of the Merger.

(B) Subject to adjustment in accordance with the Agreement of Shareholders and Indemnity Agreement, each share of the Company's common stock issued and outstanding at the Effective Time of the Merger shall by virtue of the Merger and at the Effective Time of the Merger be converted into and become, without action on the part of the holders thereof:

(i) the right to receive 3.204 shares of fully paid and nonassessable Parent's Preferred Stock, Series A (Convertible), $100 liquidation preference per share ("Preferred Stock"), such shares being more particularly described in the Prospectus dated August 22, 1997, as amended by the Pricing Supplement dated the Closing Date, and, upon delivery to Parent of certificates representing such common stock of the Company, certificates representing such Preferred Stock of Parent shall be delivered to Parent's transfer agent to be held for the benefit of such holders Garah F. Helms and Joy L. Helms; and

(ii) the right to receive cash in the amount of $79.946 for each share, which cash will, subject to Section 4.2, be paid in immediately available funds at the Closing.

4.2 Escrow. Cash in the amount of $9,000 will be withheld from the cash payment referred to in Section 4.1 and held by the escrow agent pursuant to the Escrow Agreement.

4.3 Aggregate Consideration. Subject to the adjustment referred to in Section 4.1(B) and the withholding referred to in Section 4.2, the aggregate price (the "Purchase Price") for the acquisition of the Company's common stock shall be $200,173.

ARTICLE V

EFFECTIVE TIME OF MERGER

5.1 Effective Time. The merger shall become effective on the filing of Articles of Merger (in the forms attached hereto as Exhibit B-1 and Exhibit B-2) ("Articles of Merger") in the manner required by the laws of the States of Texas and Missouri (the date of such filing herein called the "Effective Time of the Merger"). The Articles of Merger shall be filed as soon as practicable after the Closing.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF TARGET COMPANY

The term "Disclosure Schedule" means the Disclosure Schedule attached hereto as Exhibit A, and the phrase "disclosed in the Disclosure Schedule" means expressly referred to in the Disclosure Schedule or in any of the documents referred to in the Disclosure Schedule. The Company represents and warrants to Subsidiary and Parent the following:

6.1 Corporate Existence and Qualification. Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Missouri, and is duly qualified to do business and is in good standing as a foreign corporation in each state where the character of its properties or the nature of its business requires it to be so qualified. The Company has the corporate power to own, operate and lease its properties and to carry on its business as presently conducted.

6.2 Power and Authority; Enforceability. The Company has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by the Company in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by the Company in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of the Company and, assuming due authorization, execution and delivery by Parent and Subsidiary, constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms, except that (a) such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

6.3 Capitalization and Ownership. Details of the capital stock of the Company are set out in the Disclosure Schedule. All of such issued and outstanding shares of the Company are duly authorized, validly issued, fully paid and nonassessable and were not issued in violation of any preemptive or other rights of any person to acquire securities of such Company. Except for this

Agreement, there are no outstanding options, convertible securities, rights (preemptive or other), warrants, calls or agreements relating to any capital stock of the Company.

6.4 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein (a) conflicts with or result in (or with giving of notice or passage of time would result in) a breach, default or violation of (i) any of the terms, provisions or conditions of the charter or bylaws of the Company or (ii) any agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which the Company is a party or to which it is subject or by which its property is bound, (b) results in the creation of any lien, charge or other encumbrance on any material property or asset of the Company, or (c) requires the Company to obtain the consent of any private non-governmental third party. Except for the Regulatory Consent, no consent, action, approval or authorization of, or registration, declaration or filing with, any governmental department, commission, agency or other instrumentality having jurisdiction over the Company is required by the Company to authorize the execution and delivery of this Agreement by the Company or the performance of its terms by the Company.

6.5 Financial Statements. The Company has delivered to Subsidiary and Parent copies of (a) the unaudited consolidated balance sheet of the Company as of December 31, 1997, and the related unaudited consolidated statement of income of the Company for the year then ended and (b) the unaudited consolidated balance sheet of the Company as of July 31, 1998 (a true, complete and accurate copy of which is included in the Disclosure Schedule), and the related unaudited consolidated statement of income for the interim period from January 1, 1998 through July 31, 1998 (together the "Financial Statements"). The Financial Statements fairly present (i) the financial

position of the Company as of the date of the Financial Statements and (ii) the results of the operations of the Company for the fiscal period ended on such date, all in conformity with generally accepted accounting principles applied on a consistent basis with prior periods (except as otherwise stated therein or in the notes thereto) throughout the period involved. The Company owns no stock or any other equity interest in any other corporation, association or business entity and is not a party to any joint venture or partnership agreement. There are no liabilities, contingent or otherwise, of the Company not reflected in the Financial Statements or the Disclosure Schedule.

6.6 No Adverse Changes. Except as disclosed in the Disclosure Schedule, since July 31, 1998 there has been (a) no change in (i) the assets, liabilities or financial condition of the Company from that set forth in the Financial Statements or (ii) the condition (other than financial) or business of the Company, other than, with respect to clauses (i) and (ii) hereof, changes in the ordinary course of business the effect of which changes has not caused, individually or in the aggregate, a Material Adverse Effect, (b) no damage, destruction or loss, whether or not covered by insurance, having a Material Adverse Effect, (c) no labor dispute, other than routine grievances by individual employees, that has caused, individually or in the aggregate, a Material Adverse Effect, (d) no declaration or payment by the Company of any dividend or other distribution, in cash or property or other assets, (e) no transfer of any Intellectual Property Rights, (f) no mortgage or pledge of any assets of the Company, (g) no contractual obligation entered into by the Company providing for obligations of a party thereto of $10,000 or more, (h) no agreement by the Company to borrow money or incur or guarantee indebtedness, or (i) no notice received regarding the termination or cancellation of any contract, to which the Company is a party.

6.7 Title to Properties. The Company has good and indefeasible title to all of its real properties purported to be owned in fee, and good and merchantable title to all of its other material properties and assets, real and personal, reflected in the Financial Statements, or purported to have been acquired after such date (excepting, however, property and other assets, in the aggregate not material to the Company, sold or otherwise disposed of subsequent to such date in the ordinary course of business), free of any mortgage, pledge, lien, charge, security interest or other encumbrance, subordination or adverse claim, except as reflected in the Financial Statements, disclosed in the Disclosure Schedule or for such imperfections of title and encumbrances as do not individually or in the aggregate materially detract from the value of such property or impair the business or property of the Company. The Company enjoys peaceful and undisturbed possession under all permits or leases under which it is operating, and all such leases are valid, subsisting and in full force and effect. The Company has not been advised of a breach of any such permit or lease and there is no basis for any such breach to be threatened.

6.8 Litigation, Judgments, Etc. There are no actions, claims, suits, investigations or proceedings to which the Company is a party pending or, to the Knowledge of the Company, threatened in any court or before or by any federal, state or other governmental department, commission, agency or other instrumentality (excluding any rulemaking, investigation or similar proceeding of general applicability and any appeal or petition for review relating thereto), or before any arbitrator, that may have a Material Adverse Effect or which seeks to prohibit, restrict or delay consummation of the transactions contemplated hereby. The Company is not in default with respect to any judgment, order, writ, injunction, decree or award applicable to it of any court or other governmental instrumentality or arbitrator having jurisdiction over it. The Company has all permits,

certificates, licenses, approvals, and other authorizations which are required in connection with the operation of its business, all such permits, certificates, licenses, approvals and other authorizations are in full force and effect and there is no basis for any breach thereof to be threatened. The Company is exercising reasonable efforts, to the extent customary in its businesses, to comply with all statutes, rules and regulations applicable to it of governmental authorities having jurisdiction over it, and is not in violation of or in default with respect to any statute, or any rule or regulation applicable to it of any governmental authority having jurisdiction over it, which violation or default individually or in the aggregate may have a Material Adverse Effect.

6.9 Intellectual Property Rights. The Disclosure Schedule sets forth a list of all patents, patent applications, trademarks (whether registered or not), trademark applications, trade names, copyrights, patent or know-how licenses (wherein the Company is either licensee or licensor), used in the ordinary course of business of the Company (the "Intellectual Property Rights"). The Intellectual Property Rights are owned, lawfully possessed or used by the Company. No past due royalties or other payments subsequent to the date hereof are or will be required to be paid to any person, firm or corporation who is the licensor under any license agreements as they presently exist. The Company is not in default in any material respect of any obligation with respect to any agreement with others concerning the Intellectual Property Rights. To the Knowledge of the Company: (i) there is no existing or threatened infringement, misuse or misappropriation by others of the Intellectual Property Rights; (ii) there is no pending or threatened claim by the Company against others for any such infringement, misuse or misappropriation and there is no pending judicial proceeding involving any claim; and (iii) the Company has not received any written notice or claim

of any infringement, misuse or misappropriation by the Company of any patent, trademark, trade name, copyright, intellectual property rights license or similar right owned by any third party.

6.10 Contractual Obligations.

(A) Except as disclosed in the Disclosure Schedule or the Financial Statements, the Company is not a party to any of the following, whether written or oral:

(i) express or implied contract for the employment of any individual employee that cannot be terminated by the Company without penalty within 30 days;

(ii) collective bargaining agreement or other contract with any labor union;

(iii) lease under which it is the lessee of real or personal property which lease (a) is not terminable without penalty on less than 30 days' notice and (b) provides for annual base rental payments in excess of $10,000;

(iv) contract for the future purchase or sale of materials, supplies, equipment or services that is not terminable without penalty on less than 30 days' notice;

(v) agreement that purports to limit its freedom to compete in any line of business or in any geographic area or to borrow money or incur or guarantee indebtedness; and

(vi) tax sharing agreement that will survive the date hereof.

(B) Except as disclosed in the Disclosure Schedule, the Company is not a party to any written or oral contract relating to the borrowing of money or the guaranty of any obligation for the borrowing of money, or policy of insurance that will not terminate upon the Merger.

(C) The Company is not, and upon consummation of the transactions contemplated hereby will not be, in default, or but for a requirement that notice be given or that a period of time elapse or both, would be in default, under any contract, agreement, lease or other instrument to which it is a party or by which it or its properties is bound which default may have a Material Adverse Effect.

(D) The Company has no Knowledge of any default in any obligation to be performed by any party to any material contract to which the Company is a party.

6.11 Taxes.

(A) All returns of Taxes, information and other reports required to be filed in any jurisdiction by the Company (collectively, "Tax Returns") have been timely filed and all such Tax Returns are true, correct and complete in all material respects. All Taxes applicable to the Company or any of its properties which are due and payable have been paid or provided for. The Company has no Knowledge of any proposed assessment of Taxes, interest or penalties against the Company for which adequate provision in accordance with generally accepted accounting principles has not been made in the Financial Statements. The provisions for Taxes in the Financial Statements are adequate for all open years. The Company has not given or been requested to give waivers or extensions (or is or would be subject to a waiver or extension given by any other entity) of any statute of limitations relating to payment of any Taxes with respect to the Company or for which the Company may be liable. All Taxes that the Company is or was required by law to withhold or collect through the date hereof, have been duly withheld or collected, and, to the extent required, have been paid to the proper taxing authority or other person.

(B) No audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of the Company, nor has the Company received a ruling from the Internal Revenue Service or entered into any agreement regarding Taxes with any taxing authority that may, individually or in the aggregate, have a Material Adverse Effect after the date hereof.

6.12 Employee Benefit Plans.

(A) Except as set forth in the Disclosure Schedule, the Company does not maintain, sponsor, participate in or contribute to, and is not required to contribute to, directly or indirectly, and has no any obligation under:

(i) Any employee benefit plan, employee pension benefit plan, employee welfare benefit plan (including any medical, dental, disability, accident or sickness, salary continuation or life insurance plan or arrangement), or multiemployer plan, all as defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), regardless of whether or not a plan is exempt from some or all of the otherwise applicable requirements of ERISA; or

(ii) Any bonus, deferred compensation, incentive compensation, restricted stock, stock purchase, stock option, stock appreciation right, debenture, supplemental pension, profit sharing, royalty pool, severance or termination pay plan, supplemental unemployment benefits plan, loan guarantee, relocation assistance, employee loan or other extensions of credit, or other similar plan, program, agreement, policy, commitment, arrangement or benefit currently in effect under which current or former employees or their

dependents, beneficiaries, representatives or estates are currently or will in the future be entitled to benefits.

(B) With respect to each plan, program, policy or benefit referred to in the Disclosure Schedule (each, a "Benefit Plan"):

(i) Each Benefit Plan has been operated and administered in accordance with its terms and applicable laws, including but not limited to ERISA and the Internal Revenue Code of 1986, as amended (the "Code"). Each Benefit Plan that is intended to be qualified under the Code either has received from the Internal Revenue Service, or timely applied for, a determination letter on such Benefit Plan's qualified status.

(ii) Neither the Company nor any other party in interest (within the meaning of ERISA) has engaged in any non-exempt prohibited transaction with respect to any Benefit Plan under ERISA, the Code, and, to the Knowledge of the Company, there is no pending assertion of the occurrence of any such transaction.

(iii) All contributions required under applicable law or the terms of any Benefit Plan, collective bargaining agreement or other agreement relating to a Benefit Plan to be paid by the Company for all periods prior to the date hereof have been completely and timely made to each Benefit Plan when due, and the Company has established adequate reserves on its books to meet liabilities for contributions accrued but that have not been made because they are not yet due and payable.

(iv) There is no current or pending investigation or audit by the Internal Revenue Service, the Department of Labor or any other governmental entity of any Benefit Plan, nor has the Company received notification from any such governmental entity of such

a pending audit or investigation, and there are no actions, suits or claims pending (other than routine claims for benefits) or threatened, with respect to any Benefit Plan or against the assets of any such Benefit Plan.

(v) No Benefit Plan is or ever has been a plan subject to Title IV of ERISA, Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code or is or ever has been a multiemployer plan as defined in Section 3(37) of ERISA or Section 414(f) of the Code.

(vi) The Company has substantially complied with all notice and continuation coverage requirements applicable to group health plans under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), with respect to all medical and health benefits provided by the Company that are subject to COBRA.

(C) There are no members of a "controlled group" of organizations (as defined in Section 414(b), (c), (m) or (o) of the Code) with the Company which sponsor or maintain any employee benefit plan within the meaning of Section 3(3) of ERISA which under Title IV of ERISA or any section of the Code or ERISA would subject the Company or any of its employee benefit plans or the fiduciaries thereof or their respective assets to any taxes, encumbrances, penalties or other liabilities.

6.13 Charter Documents. The Company has delivered to Subsidiary complete, true and accurate copies of the charter documents and bylaws of the Company as currently in effect.

6.14 Insurance. The Disclosure Schedule sets forth the issuers of and the amounts of coverage of all insurance policies which are owned by the Company and complete, true and accurate

copies of such policies have been supplied to Subsidiary. All of such insurance policies are in full force and effect.

6.15 Environmental Matters.

(A) Except as set forth in the Disclosure Schedule, (i) the Company has obtained all Environmental Permits that are required in connection with the business, operations and properties of such Company, (ii) the Company has been, and the Company is, in compliance with all terms and conditions of all applicable requirements of Environmental Law and Environmental Permits, (iii) the Company has not received any written notice from a governmental authority of any violation, alleged violation, or liability arising under any requirements of Environmental Law or Environmental Permits, (iv) no Environmental Claims have ever been threatened or asserted or are presently pending against the Company attributable to present or past operations on premises owned, leased or operated by the Company, and (v) no condition or set of facts or circumstances exists that could reasonably be expected to give rise to an Environmental Claim against the Company.

(B) Except as set forth in the Disclosure Schedule, the Company has not disposed, treated, or arranged for the disposal or treatment of any toxic or hazardous waste, materials or substances at a site or location, or has leased, used, operated or owned a site or location which (i) has been placed on the National Priorities List or its state equivalent pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, as amended ("CERCLA"), or similar foreign, territorial or state law, (ii) the Environmental Protection Agency or relevant foreign, territorial or state authority has proposed, or is proposing, to place on the National Priorities List or foreign, territorial or state equivalent, (iii) is subject to a lien, administrative order or other demand either to take response or other action under CERCLA or other Environmental Law, or to develop

or implement a "Corrective Action Plan" or "Compliance Plan," as each is defined in regulations promulgated pursuant to the Resource Conservation and Recovery Act, as amended, or to reimburse any person who has taken response or other action in connection with that site, (iv) is on any Comprehensive Environmental Response Compensation Liability Information System List, (v) has been the site of any Release from present or past operations of the Company (or any of their predecessors) which would be either reportable under any requirements of Environmental Law or which has caused at such site or any third party site any condition that has resulted in or could reasonably be expected to result in a claim against the Company under Environmental Law, or (vi) to the Knowledge of the Company, is located within one mile of a property described in any of subclauses (i) through (iv) above.

(C) Except as set forth in the Disclosure Schedule, (i) the Company has never owned or operated any underground storage tanks (USTs) containing petroleum products or wastes or other substances regulated by 40 CFR Part 280 or other applicable requirements of Environmental Law, and has not owned or operated any real estate having any USTs, (ii) there are no polychlorinated biphenyl or asbestos in or on premises currently owned, leased or operated by the Company, and (iii) no entities or sites owned or operated by third parties have been used by the Company in connection with the treatment, storage, disposal or transportation of Hazardous Substances, except in compliance with applicable Environmental Law and except for such violations that have been remedied.

(D) Except as set forth in the Disclosure Schedule, the plants, structures, equipment and other properties currently owned or used by the Company are adequate and sufficient

for the current operations of the Company in conformance with all applicable requirements of Environmental Law.

6.16 Personnel. The Disclosure Schedule sets forth a list of all officers, directors, employees, and consultants and agents with whom the Company has agreements not terminable at the will of the Company (by type or classification) and their respective rates of compensation (including the portions thereof attributable to bonuses), including any other salary, bonus or other payment arrangement made with any of them.

6.17 Accounts and Notes Receivable. All accounts receivable of the Company are (a) bona fide claims against debtors for work performed or other charges, (b) to the Knowledge of the Company, subject to no defenses, set-offs or counterclaims, and (c) collectible subject to the Company's normal reserve for bad debts. The Disclosure Schedule sets forth an accurate list of all notes receivable of the Company not shown in the Financial Statements.

6.18 Condition of Assets. Since July 31, 1998, the Company has operated, maintained and repaired its tangible assets in the ordinary course of business in a manner consistent with past practice. Such assets are capable of being used without the present need for repair or replacement except in the ordinary course of business in a manner consistent with the Company's past practice. Complete and accurate details of such assets are set forth in the Disclosure Schedule.

6.19 Real Property. The Company's ownership and use of its real properties and the location, construction, occupancy, operation and use thereof are in compliance with (a) all applicable laws, rules and regulations of any governmental authority (including, without limitation, those regulating the environment, health and safety), (b) all applicable decrees, orders, injunctions and other decisions of any court, arbitrator, governmental authority or administrative agency with

jurisdiction over the Company, (c) all leases, easements, rights-of-way and other instruments creating or establishing any rights over such properties, and (d) all agreements, contracts, leases, deed restrictions and restrictive covenants, whether or not recorded in the public records, affecting the same. None of such real properties is located on or within the immediate vicinity of any waste management facility or fault line. None of such real properties has been condemned, requisitioned or otherwise taken by any governmental authority, and no such condemnation, requisition or other taking is pending or, to the Knowledge of the Company, contemplated.

6.20 Accurate and Complete Records. Except as set forth in the Disclosure Schedule, the books, ledgers, financial records and other records of the Company for the period of time which is not less than three years prior to the date hereof or any such longer period as may be required by applicable laws or regulations:

(a) are in the possession of the Company;

(b) have been, in all material respects, maintained in accordance with all applicable laws, rules and regulations and generally accepted standards of practice; and

(c) are accurate and complete and do not contain or reflect any material discrepancies.

6.21 Brokerage Arrangements. The Company has not entered (directly or indirectly) into any agreement with any person, firm or corporation that would obligate Subsidiary or the Company to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

6.22 No Misleading Statements. The representations and warranties of the Company contained in this Agreement, the Disclosure Schedule and all other documents and information furnished to Subsidiary and its representatives pursuant hereto are complete and accurate and do not and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made not misleading.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES OF PARENT

Parent hereby represents and warrants to the Company as follows:

7.1 Corporate Organization, Good Standing, and Capitalization. Parent is a corporation duly organized, validly existing, and in good standing under the laws of the Commonwealth of Pennsylvania, with the requisite corporate power to own, operate and lease its properties and to carry on its business as presently conducted, except where failure to do so would not, individually or in the aggregate, have a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole.

7.2 Corporate Authority. Parent has authority to execute and deliver this Agreement. Neither the execution and delivery of this Agreement, nor performance hereunder, will conflict with, or result in a breach of the terms, conditions, or provisions of, or constitute a default under, the Certificate of Incorporation or bylaws of Parent or any material agreement or instrument to which Parent is a party or by which it is bound, except for breaches or defaults which would not, individually or in the aggregate, have a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole.

7.3 SEC Reports. Parent has filed with the Securities and Exchange Commission, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1997 under the Securities Exchange Act of 1934, as amended (as such documents have been amended since the time of each filing).

7.4 Shares To Be Issued. The shares of Parent Preferred Stock to be issued and delivered pursuant to this Agreement will be duly authorized and validly issued, fully paid and nonassessable.

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES OF SUBSIDIARY

Subsidiary hereby represents and warrants to the Company as follows:

8.1 Organization. Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas with corporate power to carry on its business as now being conducted.

8.2 Power and Authority; Enforceability. Subsidiary has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by Subsidiary in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by Subsidiary in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of Subsidiary and, assuming due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of Subsidiary enforceable in accordance with its terms, except that (a) such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms

of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

8.3 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein (a) conflict with or result in (or with giving of notice or passage of time would result in) a breach, default or violation of (i) any of the terms, provisions or conditions of the charter or bylaws of Subsidiary or (ii) any material agreement, document, instrument, judgment, decree, order governmental permit, certificate or license to which Subsidiary is a party or to which it is subject or by which its property is bound, or (b) result in the creation of any lien, charge or other encumbrance on any material property of Subsidiary, or (c) require Subsidiary to obtain the consent of any private non-governmental third party. Except for the Regulatory Consent, no consent, action, approval or authorization of, or registration, declaration or filing with, any governmental department, commission, agency or other instrumentality having jurisdiction over Subsidiary is required by Subsidiary to authorize the execution and delivery of this Agreement by Subsidiary or the performance of its terms by Subsidiary.

ARTICLE IX

AGREEMENTS PRIOR TO CLOSING

From the date of this Agreement through the Closing:

9.1 Access. The Company shall keep Subsidiary informed regarding the continuing operation of the business of the Company and the Company shall permit Subsidiary and its authorized employees, agents, accountants, legal counsel and other representatives to have access to the books, records, plants, facilities, properties, personnel and officers of the Company for the purpose of conducting an investigation of its financial condition, corporate status, business properties

and assets; provided, however that such investigation shall be conducted in a manner that does not interfere with normal operations of the Company.

9.2 Restrictions. Except as otherwise contemplated in this Agreement or with the consent of Subsidiary, the Company will not:

(a) increase the rate or form of compensation payable to any employee or increase any employee benefits, except increases in compensation and benefit changes made in the ordinary course of business in accordance with established policies and past practice;

(b) declare or pay any dividend or make a distribution in cash, property or other assets (not including distributions in the ordinary course of business of cash in the course of paying obligations owed by the Company);

(c) acquire or dispose of any properties or assets, except in the ordinary course of business;

(d) engage in any one or more activities or transactions outside the ordinary course of business;

(e) transfer any Intellectual Property Rights, except in the ordinary course of business;

(f) create, incur, assume, guarantee or otherwise become liable or obligated with respect to any indebtedness, or make any loan or advance to, or any investment in, any person or entity;

(g) except in emergency situations, enter into a contractual obligation providing for obligations of a party thereto of $1,000 or more;

(h) file any motions, orders, briefs, settlement agreements or other papers in any proceeding before any court of any federal, state or other governmental department, commission or agency or any arbitrator except with respect to pending proceedings where positions advanced are substantially consistent with previous positions;

(i) issue any securities relating to its capital stock; grant, or enter into any agreement to grant, any options, convertibility rights, other rights, warrants, calls or agreements relating to its capital stock; or redeem, repurchase or otherwise reacquire any of its capital stock;

(j) maintain its books of account other than in the usual, regular and ordinary manner and on a basis consistent with prior periods or make any change in any of its accounting methods or practices;

(k) allow the expiration, termination or cancellation of any of the insurance policies listed in the Disclosure Schedule, unless it is replaced, with no loss of coverage, by a comparable insurance policy; or

(l) agree or commit to do any of the foregoing.

9.3 Regulatory Compliance. Prior to the Closing, the Company will comply in all material respects with all applicable local, state and federal laws, rules and regulations, judgments, decrees, orders, governmental permits, certificates and licenses, including without limitation those relating to the filing of reports and the payment of income, franchise and other taxes due to be paid prior to the Closing.

9.4 Continued Operation of Business. Prior to the Closing, the Company will, to the extent required for continued operation of its business without impairment, use reasonable business

efforts, (a) to preserve substantially intact its business organization, (b) to keep available the services of its employees, and (c) to preserve its present relationships with persons having significant business relations therewith.

9.5 Reasonable Business Efforts. Subsidiary and the Company shall use their reasonable business efforts to ensure that all of the conditions to the obligations of the Company and Subsidiary contained in Sections 10.2 and 10.3 respectively are satisfied timely (unless waived in accordance with Article X). Subsidiary and the Company shall cooperate to the maximum extent possible on all regulatory requirements to obtain the Regulatory Consent.

ARTICLE X

CLOSING

10.1 Closing. The Closing shall be held at the offices of Bracewell & Patterson, L.L.P. located at 711 Louisiana Street, Suite 2900, Houston, Texas 77002-2782 at 11:00 a.m. after fulfillment of the conditions set out in Section 10.2 and 10.3.

10.2 Closing Obligations of Subsidiary and Parent. The obligation of Subsidiary and Parent to consummate the transactions contemplated by this Agreement is subject, at the option of Subsidiary and Parent, to the satisfaction or waiver of the following conditions:

(a) Resolutions of the Company. The Company shall furnish Subsidiary with certified copies of resolutions duly adopted by (i) the Board of Directors of the Company authorizing the execution, delivery and performance of this Agreement, and (ii) the shareholders of the Company approving the plan of merger as required by Missouri Revised Statutes § § 351.410, *et seq.*;

(b) The Company's Corporate Documents. The Company shall deliver to Subsidiary the Stock and Minute Books and Corporate Seal of the Company, certified copies of the certificate of incorporation and bylaws of the Company and certificates of good standing from the state of incorporation of the Company and all states where it is qualified to do business as a foreign corporation;

(c) Stock Certificates. Each shareholder of the Company shall surrender such shareholder's Company's stock certificates to Subsidiary and shall receive a receipt evidencing the number of shares of Preferred Stock being held by the transfer agent on his behalf;

(d) Escrow Agreement. The shareholders of the Company shall execute the Escrow Agreement;

(e) Directors and Officers. The shareholders of the Company shall furnish Subsidiary with written resignations of all directors and officers of the Company in form reasonably acceptable to Subsidiary;

(f) Statutory Compliance. All statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained;

(g) No Action, Suit, etc. No action, suit or proceeding shall have been commenced, pending or threatened, and no statute, rule, regulation or order shall have been proposed, enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement, by any United States federal or state government or

governmental agency or instrumentality or court or private non-governmental person or entity, which, in the opinion of Subsidiary's counsel, reasonably may be expected to, (i) prohibit Subsidiary's ownership or operation of all or a material portion of Subsidiary's or the Company's business or assets, or compel Subsidiary to dispose of or hold separate all or a material portion of Subsidiary's or the Company's business or assets, as a result of the transactions contemplated by this Agreement or (ii) render Subsidiary unable to consummate the transactions contemplated by this Agreement;

(h) Due Diligence. The completion of a Phase I Report regarding the facilities of the Company and, if recommended, the completion of a Phase II Report, each performed pursuant to ASTM Protocol, and the contents of each such report being to the reasonable satisfaction of Subsidiary. The completion by Subsidiary of its due diligence review of the businesses of the Company; and

(i) Consummation of Transactions. The transactions contemplated by the Merger Agreement shall have been consummated.

10.3 Closing Obligations of the Company. The obligation of the Company to consummate the transactions contemplated by this Agreement is subject, at the option of the Company, to the satisfaction or waiver of the following conditions:

(a) Resolutions of Subsidiary. Subsidiary shall furnish the Company with certified copies of resolutions duly adopted by the Board of Directors of Subsidiary authorizing the execution, delivery and performance of this Agreement;

(b) Subsidiary's Corporate Documents. Subsidiary shall furnish the Company with certified copies of the articles of incorporation and bylaws of Subsidiary;

(c) Escrow Agreement. Subsidiary, AquaSource/CU, Inc. and AquaSource, Inc. shall execute the Escrow Agreement;

(d) Statutory Compliance. All statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained.

(e) No Action, Suit, etc. No action, suit or proceeding shall have been commenced, pending or threatened, and no statute, rule, regulation or order shall have been proposed, enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement, by any United States federal or state government or governmental agency or instrumentality or court or private non-governmental person or entity, which, in the opinion of the Company's counsel, reasonably may be expected to render the Company unable to consummate the transactions contemplated by this Agreement; and

(f) Consummation of Transactions. The transactions contemplated by the Merger Agreement shall have been consummated.

ARTICLE XI

EMPLOYEE MATTERS

11.1 Status of Employees. After the Effective Time of the Merger any continued employment of the employees of the Company shall be on such terms and conditions and include such benefits as the Target Company shall deem appropriate in its sole and unlimited discretion.

ARTICLE XII

MISCELLANEOUS

12.1 Notice. Any notice, request, instruction, correspondence or other document required to be given hereunder by any party to another (herein collectively called "Notice") shall be in writing and delivered in person or by courier service requiring acknowledgment of delivery or mailed by certified mail, postage prepaid and return receipt requested, or by telecopier, as follows:

If to Subsidiary, addressed to:

AquaSource/RU, Inc.
16810 Barker Springs, Suite B215
Houston, Texas 77084
Attention: Mr. Edward R. Wallace
Telecopier No. (281) 578-1620

With a copy to:
AquaSource, Inc.
916 Congress, Suite 200
Austin, Texas 78701
Attention: Mr. Richard Zieren
Telecopier No.: (512) 320-8387

If to Parent, addressed to:

DQE, Inc.
Box 68
Pittsburgh, Pennsylvania 15230-0068
Attention: Mr. Victor A. Roque
Telecopier No.: (412) 393-6055

If to the Company, addressed to:

Riverside Utility Company
312 Lafayette
Jefferson City, Missouri 63089
Attention: Mr. Garah F. Helms
Telecopier No.: (573) 635-2157

With a copy to:
Ms. Ann Monaco Warren
Inglish & Monaco
237 E. High Street
P.O. Box 67
Jefferson City, Missouri 65102

Notice given by personal delivery or courier service shall be effective upon actual receipt. Notice given by mail shall be effective five days after deposit with the United States postal service. Notice given by telecopier shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if received before the recipient's normal business hours. All Notices by telecopier shall be confirmed promptly after transmission in writing by regular mail or personal delivery. Any party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

12.2 Public Statements. No party shall issue any public announcement or statement with respect to the transactions contemplated hereby for a period of twelve months following the date hereof without the written consent of the other parties.

12.3 Further Assistance. The Company shall execute and deliver without additional expense to Subsidiary such additional documents as are reasonably necessary to consummate the Merger.

12.4 Governing Law The provisions of this Agreement and the documents delivered pursuant hereto shall be governed by and construed and enforced in accordance with the laws of the State of Missouri.

12.5 Entire Agreement; Amendments and Waivers. This Agreement, together with all schedules and exhibits attached hereto, constitutes the entire agreement among the parties pertaining

to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

12.6 Severability. If any one or more of the provisions contained in this Agreement or in any other document delivered pursuant hereto shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement or any other such document.

12.7 Headings and Exhibits. The headings of the several Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. The schedules and exhibits referred to herein are attached hereto and incorporated herein by this reference.

12.8 Successors Bound; Third Parties. This Agreement may not be assigned by any party without the consent of the other parties. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended to confer upon any person or entity other than the parties hereto and their respective permitted successors and assigns, any liabilities, duties, rights, benefits or obligations hereunder.

12.9 Multiple Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[The remainder of this page has been intentionally left blank.]

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts, all as of the date first above written.

RIVERSIDE UTILITY COMPANY

By: _____

Name: SARAH F. HELMS

Title: President

DQE, INC.

By: _____

Name: _____

Title: _____

AQUASOURCE/RU, INC.

By: _____

Name: _____

Title: _____

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts, all as of the date first above written.

RIVERSIDE UTILITY COMPANY

By:_____

Name:_____

Title:_____

DQE, INC.

By: Morgan K. O'Brien

Name: Morgan K. O'Brien

Title: Vice President, Treasurer & Controller

AQUASOURCE/RU, INC.

By:_____

Name:_____

Title:_____

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts, all as of the date first above written.

RIVERSIDE UTILITY COMPANY

By:_____

Name:_____

Title:_____

DQE, INC.

By:_____

Name:_____

Title:_____

AQUASOURCE/RU, INC.

By:_____

Name: MICHAEL J. MILLER

Title: VICE PRESIDENT

AGREEMENT AND PLAN OF MERGER

among

CAPITAL UTILITIES, INC.

DQE, INC.

and

AQUASOURCE/CU, INC.

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of February 22, 1999, among AquaSource/CU, Inc., a Texas corporation ("Subsidiary"), Capital Utilities, Inc., a Missouri corporation (the "Company") and DQE, Inc., a Pennsylvania corporation ("Parent"), the sole shareholder of Subsidiary.

WHEREAS, the Boards of Directors of Subsidiary and the Company deem the merger of Subsidiary into the Company on the terms herein set forth to be desirable and in the best interests of their respective companies and shareholders, and have approved this Agreement and Plan of Merger ("Agreement"), and the Boards of Directors of Subsidiary and the Company have directed that this Agreement and the merger contemplated hereby be submitted to their respective shareholders for approval;

WHEREAS, AquaSource/RU, Inc. is to be merged into Riverside Utility Company, pursuant to an Agreement and Plan of Merger (the "Merger Agreement");

NOW, THEREFORE, in accordance with the applicable provisions of the laws of the States of Texas and Missouri, Subsidiary, the Company, and Parent agree that Subsidiary shall be merged into the Company which shall be the surviving corporation, and that the plan, terms and conditions of such merger shall be as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions. In this Agreement:

"Agreement of Shareholders and Indemnity Agreement" shall mean the Agreement of Shareholders and Indemnity Agreement in the form of Exhibit D attached hereto and among the Company, AquaSource/RU, Inc., Subsidiary, Parent, Garah F. Helms and Joy L. Helms;

"Benefit Plans" shall have the meaning set out in Section 6.12(B);

"Closing" shall mean the consummation of the transactions contemplated by this Agreement;

"Environmental Claim," shall mean any and all administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigations or other adversarial proceedings relating to any Environmental Law or Environmental Permit including, without limitation (i) any and all claims by governmental, territorial or regulatory authorities for enforcement, cleanup, removal, response, remedial or other similar actions or damages pursuant to any applicable Environmental Law and (ii) any and all claims by a third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Substances or arising from alleged injury or threat of injury to human health, property, or the environment resulting from exposures to or releases of Hazardous Substances. An "Environmental Claim" includes, but is not limited to, a common law action, as well as a proceeding to issue, modify, terminate or enforce the provisions of an Environmental Permit or requirement of

Environmental Law, or to adopt or amend a regulation to the extent that such a proceeding attempts to redress violations or alleged violations of the applicable permit, license, or regulation;

"Environmental Law" shall mean any federal, state, territorial, local or foreign statute, law, rule, regulation, ordinance, code, policy (compliance with which is required by law or if the failure to comply therewith would be reasonably foreseeable to result in adverse administrative action) or rule of common law in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to the delivery of public drinking water, the environment or Hazardous Substances, including, without limitation to the extent applicable under the circumstances, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. § 9601 *et seq* ; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11001 *et seq.*; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901 *et seq.*; the Federal Water Pollution Control Act, 33 U.S.C. § 1251 *et seq.*, the Clean Air Act, 42 U.S.C. § 7401 *et seq.*; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. § 136 *et seq.*; the Safe Drinking Water Act, 42 U.S.C. § 300f *et seq.*; the Toxic Substance Control Act, 15 U.S.C. § 2601 *et seq.*; the Oil Pollution Act of 1990, 33 U.S.C. § 2701 *et seq.*; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. § 5101 *et seq.*; the Atomic Energy Act, as amended, 42 U.S.C. § 2011 *et seq.*; any laws regulating the use of biological agents or substances including medical or infectious wastes; and the corresponding foreign,

territorial or state laws, regulations and local ordinances, which may be applicable, as any such acts may be amended;

"Environmental Permits" shall mean all permits, approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law;

"Escrow Agreement" shall mean the Escrow Agreement substantially in the form of Exhibit C attached hereto and among Subsidiary, AquaSource/RU, Inc. Garah F. Helms, Joy L. Helms and AquaSource, Inc.

"Financial Statements" shall have the meaning set out in Section 6.5;

"Hazardous Substances" shall mean (i) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "hazardous air pollutants," "pollutants," "contaminants," "toxic chemicals," "toxics," "hazardous chemicals," "extremely hazardous substances," "regulated substances" or "pesticides" as defined as such in any applicable Environmental Law, (ii) any radioactive materials, asbestos-containing materials; urea formaldehyde foam insulation, and radon in harmful quantities or concentration that are regulated by any governmental authority having jurisdiction in the location of such materials and (iii) any other chemical, material or substances, exposure to which is prohibited, limited or regulated by any governmental authority having jurisdiction in the location of such substances on the basis of potential hazards;

"Intellectual Property Rights" shall have the meaning set out in Section 6.9;

"Knowledge", in respect of any person or entity, shall mean the actual knowledge of such person or entity and each director and officer of such person or entity after making all due and reasonable inquiries;

"Material Adverse Effect" shall mean a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of the Company;

"Merger" shall have the meaning set out in Section 2.1;

"Regulatory Consent" shall mean the consent of the Missouri Public Services Commission to the Merger;

"Release" shall mean any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration of any Hazardous Substance into the environment or into or out of any property, including the movement of any Hazardous Substance through or in the air, soil, surface water, groundwater or property; and

"Taxes" shall mean all income, gross receipts, profits, franchise, sales, use, occupation, property, capital, wealth, environmental, employment, severance, production, excise, stamp, transfer, workers' compensation, social security, withholding, or similar taxes, motor vehicle registration fees, customs or import duties, and all other taxes or all other governmental fees or charges of any nature whatsoever and however denominated, imposed by any country or political subdivision thereof, together with any interest, additions, or penalties with respect thereto.

ARTICLE II

THE MERGER

2.1 Effect of Merger. At the Effective Time of the Merger (as described in Article V), Subsidiary shall be merged into the Company (the Company being the surviving corporation), the separate existence of Subsidiary shall cease, and the Company as the surviving corporation shall continue its corporate existence under the laws of the State of Missouri under the name of AquaSource/CU, Inc. (the "Merger"); and the Company shall possess all the rights, privileges, powers, and franchises of a public as well as of a private nature and be subject to all the restrictions, disabilities, and duties of Subsidiary and all property, real, personal, and mixed, belonging to Subsidiary shall be vested in the Company; and all property, rights, privileges, powers, and franchises and every other interest shall be thereafter as effectually the property of the Company as they were of Subsidiary and the title to any real estate vested by deed or otherwise in Subsidiary shall not revert or be in any way impaired by reason of the Merger, provided that all rights of creditors and all liens upon any property of Subsidiary shall be preserved unimpaired and all debts, liabilities, and duties of Subsidiary shall thenceforth attach to the Company and may be enforced against the Company to the same extent as if such debts, liabilities, and duties had been incurred or contracted by the Company.

2.2 Further Assistance. From time to time as and when requested by Subsidiary or its successors or assigns, the officers and directors of the Company last in office shall execute and deliver such deeds and other instruments and shall take or cause to be taken such other actions as

shall be necessary to vest or perfect in or to confirm of record or otherwise the Company's title to, and possession of, all the property, interests, assets, rights, privileges, immunities, powers, franchises, and authority of Subsidiary, and otherwise to carry out the purposes of this Agreement.

2.3 Plan of Reorganization. A plan of reorganization between Parent, Subsidiary and the Company under the provisions of Sections 368(a)(1)(A) and 368(a)(2)(E) of the Internal Revenue Code is adopted as described in this Agreement.

ARTICLE III

ARTICLES OF INCORPORATION AND BYLAWS

3.1 Articles of Incorporation and Bylaws. At the Effective Time of the Merger, the Articles of Incorporation and Bylaws of the Company shall be the Articles of Incorporation and Bylaws of the surviving corporation.

ARTICLE IV

CONVERSION AND EXCHANGE OF SHARES

4.1 Conversion Ratio and Cash Payment. The manner of converting or exchanging the shares of the Company and Parent shall be as follows:

(A) Each share of common stock of Subsidiary issued and outstanding at the Effective Time of the Merger shall, by virtue of the Merger, automatically be converted into one fully paid and non-assessable share of common stock of the Company which, together, shall constitute all of the issued and outstanding shares of common stock of the Company immediately after the Effective Time of the Merger.

(B) Subject to adjustment in accordance with the Agreement of Shareholders and Indemnity Agreement, each share of the Company's common stock issued and outstanding at the Effective Time of the Merger shall by virtue of the Merger and at the Effective Time of the Merger be converted into and become, without action on the part of the holders thereof:

(i) the right to receive 10.915 shares of fully paid and nonassessable Parent's Preferred Stock, Series A (Convertible), $100 liquidation preference per share ("Preferred Stock"), as more particularly described in the Prospectus dated August 22, 1997, as amended by the Pricing Supplement dated the Closing Date, and, upon delivery to Parent of certificates representing such common stock of the Company, certificates representing such Preferred Stock of Parent shall be delivered to Parent's transfer agent to be held for the benefit of such holders Garah F. Helms and Joy L. Helms; and

(ii) the right to receive cash in the amount of $272.278 for each share, which cash will, subject to Section 4.2, be paid in immediately available funds at the Closing.

4.2 Escrow. Cash in the amount of $8,000 will be withheld from the cash payment referred to in Section 4.1 and held by the escrow agent pursuant to the Escrow Agreement.

4.3 Aggregate Consideration. Subject to the adjustment referred to in Section 4.1(B) and the withholding referred to in Section 4.2, the aggregate price for the acquisition of the Company's common stock shall be $545,511.

ARTICLE V

EFFECTIVE TIME OF MERGER

5.1 Effective Time. The merger shall become effective on the filing of Articles of Merger (in the forms attached hereto as Exhibit B-1 and Exhibit B-2) ("Articles of Merger") in the manner required by the laws of the States of Texas and Missouri (the date of such filing herein called the "Effective Time of the Merger"). The Articles of Merger shall be filed as soon as practicable after the Closing.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF TARGET COMPANY

The term "Disclosure Schedule" means the Disclosure Schedule attached hereto as Exhibit A, and the phrase "disclosed in the Disclosure Schedule" means expressly referred to in the Disclosure Schedule or in any of the documents referred to in the Disclosure Schedule. The Company represents and warrants to Subsidiary and Parent the following:

6.1 Corporate Existence and Qualification. Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Missouri, and is duly qualified to do business and is in good standing as a foreign corporation in each state where the character of its properties or the nature of its business requires it to be so qualified. The Company has the corporate power to own, operate and lease its properties and to carry on its business as presently conducted.

6.2 Power and Authority; Enforceability. The Company has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by the Company in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by the Company in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of the Company and, assuming due authorization, execution and delivery by Parent and Subsidiary, constitutes a legal, valid and binding obligation of the Company enforceable in accordance with its terms, except that (a) such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

6.3 Capitalization and Ownership. Details of the capital stock of the Company are set out in the Disclosure Schedule. All of such issued and outstanding shares of the Company are duly authorized, validly issued, fully paid and nonassessable and were not issued in violation of any preemptive or other rights of any person to acquire securities of such Company. Except for this Agreement, there are no outstanding options, convertible securities, rights (preemptive or other), warrants, calls or agreements relating to any capital stock of the Company.

6.4 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein (a) conflicts with or result in (or with

giving of notice or passage of time would result in) a breach, default or violation of (i) any of the terms, provisions or conditions of the charter or bylaws of the Company or (ii) any agreement, document, instrument, judgment, decree, order, governmental permit, certificate or license to which the Company is a party or to which it is subject or by which its property is bound, (b) results in the creation of any lien, charge or other encumbrance on any material property or asset of the Company, or (c) requires the Company to obtain the consent of any private non-governmental third party. Except for the Regulatory Consent, no consent, action, approval or authorization of, or registration, declaration or filing with, any governmental department, commission, agency or other instrumentality having jurisdiction over the Company is required by the Company to authorize the execution and delivery of this Agreement by the Company or the performance of its terms by the Company.

6.5 Financial Statements. The Company has delivered to Subsidiary and Parent copies of (a) the unaudited consolidated balance sheet of the Company as of December 31, 1997, and the related unaudited consolidated statement of income of the Company for the year then ended and (b) the unaudited consolidated balance sheet of the Company as of July 31, 1998 (a true, complete and accurate copy of which is included in the Disclosure Schedule), and the related unaudited consolidated statement of income for the interim period from January 1, 1998 through July 31, 1998 (together the "Financial Statements"). The Financial Statements fairly present (i) the financial position of the Company as of the date of the Financial Statements and (ii) the results of the operations of the Company for the fiscal period ended on such date, all in conformity with generally

accepted accounting principles applied on a consistent basis with prior periods (except as otherwise stated therein or in the notes thereto) throughout the period involved. The Company owns no stock or any other equity interest in any other corporation, association or business entity and is not a party to any joint venture or partnership agreement. There are no liabilities, contingent or otherwise, of the Company not reflected in the Financial Statements or the Disclosure Schedule.

6.6 No Adverse Changes. Except as disclosed in the Disclosure Schedule, since July 31, 1998 there has been (a) no change in (i) the assets, liabilities or financial condition of the Company from that set forth in the Financial Statements or (ii) the condition (other than financial) or business of the Company, other than, with respect to clauses (i) and (ii) hereof, changes in the ordinary course of business the effect of which changes has not caused, individually or in the aggregate, a Material Adverse Effect, (b) no damage, destruction or loss, whether or not covered by insurance, having a Material Adverse Effect, (c) no labor dispute, other than routine grievances by individual employees, that has caused, individually or in the aggregate, a Material Adverse Effect, (d) no declaration or payment by the Company of any dividend or other distribution, in cash or property or other assets, (e) no transfer of any Intellectual Property Rights, (f) no mortgage or pledge of any assets of the Company, (g) no contractual obligation entered into by the Company providing for obligations of a party thereto of $10,000 or more, (h) no agreement by the Company to borrow money or incur or guarantee indebtedness, or (i) no notice received regarding the termination or cancellation of any contract, to which the Company is a party.

6.7 Title to Properties. The Company has good and indefeasible title to all of its real properties purported to be owned in fee, and good and merchantable title to all of its other material properties and assets, real and personal, reflected in the Financial Statements, or purported to have been acquired after such date (excepting, however, property and other assets, in the aggregate not material to the Company, sold or otherwise disposed of subsequent to such date in the ordinary course of business), free of any mortgage, pledge, lien, charge, security interest or other encumbrance, subordination or adverse claim, except as reflected in the Financial Statements, disclosed in the Disclosure Schedule or for such imperfections of title and encumbrances as do not individually or in the aggregate materially detract from the value of such property or impair the business or property of the Company. The Company enjoys peaceful and undisturbed possession under all permits or leases under which it is operating, and all such leases are valid, subsisting and in full force and effect. The Company has not been advised of a breach of any such permit or lease and there is no basis for any such breach to be threatened.

6.8 Litigation, Judgments, Etc. There are no actions, claims, suits, investigations or proceedings to which the Company is a party pending or, to the Knowledge of the Company, threatened in any court or before or by any federal, state or other governmental department, commission, agency or other instrumentality (excluding any rulemaking, investigation or similar proceeding of general applicability and any appeal or petition for review relating thereto), or before any arbitrator, that may have a Material Adverse Effect or which seeks to prohibit, restrict or delay consummation of the transactions contemplated hereby. The Company is not in default with respect

to any judgment, order, writ, injunction, decree or award applicable to it of any court or other governmental instrumentality or arbitrator having jurisdiction over it. The Company has all permits, certificates, licenses, approvals, and other authorizations which are required in connection with the operation of its business, all such permits, certificates, licenses, approvals and other authorizations are in full force and effect and there is no basis for any breach thereof to be threatened. The Company is exercising reasonable efforts, to the extent customary in its businesses, to comply with all statutes, rules and regulations applicable to it of governmental authorities having jurisdiction over it, and is not in violation of or in default with respect to any statute, or any rule or regulation applicable to it of any governmental authority having jurisdiction over it, which violation or default individually or in the aggregate may have a Material Adverse Effect.

6.9 Intellectual Property Rights. The Disclosure Schedule sets forth a list of all patents, patent applications, trademarks (whether registered or not), trademark applications, trade names, copyrights, patent or know-how licenses (wherein the Company is either licensee or licensor), used in the ordinary course of business of the Company (the "Intellectual Property Rights"). The Intellectual Property Rights are owned, lawfully possessed or used by the Company. No past due royalties or other payments subsequent to the date hereof are or will be required to be paid to any person, firm or corporation who is the licensor under any license agreements as they presently exist. The Company is not in default in any material respect of any obligation with respect to any agreement with others concerning the Intellectual Property Rights. To the Knowledge of the Company: (i) there is no existing or threatened infringement, misuse or misappropriation by others

of the Intellectual Property Rights; (ii) there is no pending or threatened claim by the Company against others for any such infringement, misuse or misappropriation and there is no pending judicial proceeding involving any claim; and (iii) the Company has not received any written notice or claim of any infringement, misuse or misappropriation by the Company of any patent, trademark, trade name, copyright, intellectual property rights license or similar right owned by any third party.

6.10 Contractual Obligations.

(A) Except as disclosed in the Disclosure Schedule or the Financial Statements, the Company is not a party to any of the following, whether written or oral:

(i) express or implied contract for the employment of any individual employee that cannot be terminated by the Company without penalty within 30 days;

(ii) collective bargaining agreement or other contract with any labor union;

(iii) lease under which it is the lessee of real or personal property which lease (a) is not terminable without penalty on less than 30 days' notice and (b) provides for annual base rental payments in excess of $10,000;

(iv) contract for the future purchase or sale of materials, supplies, equipment or services that is not terminable without penalty on less than 30 days' notice;

(v) agreement that purports to limit its freedom to compete in any line of business or in any geographic area or to borrow money or incur or guarantee indebtedness; and

(vi) tax sharing agreement that will survive the date hereof.

(B) Except as disclosed in the Disclosure Schedule, the Company is not a party to any written or oral contract relating to the borrowing of money or the guaranty of any obligation for the borrowing of money, or policy of insurance that will not terminate upon the Merger.

(C) The Company is not, and upon consummation of the transactions contemplated hereby will not be, in default, or but for a requirement that notice be given or that a period of time elapse or both, would be in default, under any contract, agreement, lease or other instrument to which it is a party or by which it or its properties is bound which default may have a Material Adverse Effect.

(D) The Company has no Knowledge of any default in any obligation to be performed by any party to any material contract to which the Company is a party.

6.11 Taxes.

(A) All returns of Taxes, information and other reports required to be filed in any jurisdiction by the Company (collectively, "Tax Returns") have been timely filed and all such Tax Returns are true, correct and complete in all material respects. All Taxes applicable to the Company or any of its properties which are due and payable have been paid or provided for. The Company has no Knowledge of any proposed assessment of Taxes, interest or penalties against the Company for which adequate provision in accordance with generally accepted accounting principles has not been made in the Financial Statements. The provisions for Taxes in the Financial Statements are adequate for all open years. The Company has not given or been requested to give waivers or

extensions (or is or would be subject to a waiver or extension given by any other entity) of any statute of limitations relating to payment of any Taxes with respect to the Company or for which the Company may be liable. All Taxes that the Company is or was required by law to withhold or collect through the date hereof, have been duly withheld or collected, and, to the extent required, have been paid to the proper taxing authority or other person.

(B) No audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of the Company, nor has the Company received a ruling from the Internal Revenue Service or entered into any agreement regarding Taxes with any taxing authority that may, individually or in the aggregate, have a Material Adverse Effect after the date hereof.

6.12 Employee Benefit Plans.

(A) Except as set forth in the Disclosure Schedule, the Company does not maintain, sponsor, participate in or contribute to, and is not required to contribute to, directly or indirectly, and has no any obligation under:

(i) Any employee benefit plan, employee pension benefit plan, employee welfare benefit plan (including any medical, dental, disability, accident or sickness, salary continuation or life insurance plan or arrangement), or multiemployer plan, all as defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), regardless of whether or not a plan is exempt from some or all of the otherwise applicable requirements of ERISA; or

(ii) Any bonus, deferred compensation, incentive compensation, restricted stock, stock purchase, stock option, stock appreciation right, debenture, supplemental pension, profit sharing, royalty pool, severance or termination pay plan, supplemental unemployment benefits plan, loan guarantee, relocation assistance, employee loan or other extensions of credit, or other similar plan, program, agreement, policy, commitment, arrangement or benefit currently in effect under which current or former employees or their dependents, beneficiaries, representatives or estates are currently or will in the future be entitled to benefits.

(B) With respect to each plan, program, policy or benefit referred to in the Disclosure Schedule (each, a "Benefit Plan"):

(i) Each Benefit Plan has been operated and administered in accordance with its terms and applicable laws, including but not limited to ERISA and the Internal Revenue Code of 1986, as amended (the "Code"). Each Benefit Plan that is intended to be qualified under the Code either has received from the Internal Revenue Service, or timely applied for, a determination letter on such Benefit Plan's qualified status.

(ii) Neither the Company nor any other party in interest (within the meaning of ERISA) has engaged in any non-exempt prohibited transaction with respect to any Benefit Plan under ERISA, the Code, and, to the Knowledge of the Company, there is no pending assertion of the occurrence of any such transaction.

(iii) All contributions required under applicable law or the terms of any Benefit Plan, collective bargaining agreement or other agreement relating to a Benefit Plan to be paid by the Company for all periods prior to the date hereof have been completely and timely made to each Benefit Plan when due, and the Company has established adequate reserves on its books to meet liabilities for contributions accrued but that have not been made because they are not yet due and payable.

(iv) There is no current or pending investigation or audit by the Internal Revenue Service, the Department of Labor or any other governmental entity of any Benefit Plan, nor has the Company received notification from any such governmental entity of such a pending audit or investigation, and there are no actions, suits or claims pending (other than routine claims for benefits) or threatened, with respect to any Benefit Plan or against the assets of any such Benefit Plan.

(v) No Benefit Plan is or ever has been a plan subject to Title IV of ERISA, Part 3 of Subtitle B of Title I of ERISA or Section 412 of the Code or is or ever has been a multiemployer plan as defined in Section 3(37) of ERISA or Section 414(f) of the Code.

(vi) The Company has substantially complied with all notice and continuation coverage requirements applicable to group health plans under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), with respect to all medical and health benefits provided by the Company that are subject to COBRA.

(C) There are no members of a "controlled group" of organizations (as defined in Section 414(b), (c), (m) or (o) of the Code) with the Company which sponsor or maintain any employee benefit plan within the meaning of Section 3(3) of ERISA which under Title IV of ERISA or any section of the Code or ERISA would subject the Company or any of its employee benefit plans or the fiduciaries thereof or their respective assets to any taxes, encumbrances, penalties or other liabilities.

6.13 Charter Documents. The Company has delivered to Subsidiary complete, true and accurate copies of the charter documents and bylaws of the Company as currently in effect.

6.14 Insurance. The Disclosure Schedule sets forth the issuers of and the amounts of coverage of all insurance policies which are owned by the Company and complete, true and accurate copies of such policies have been supplied to Subsidiary. All of such insurance policies are in full force and effect.

6.15 Environmental Matters.

(A) Except as set forth in the Disclosure Schedule, (i) the Company has obtained all Environmental Permits that are required in connection with the business, operations and properties of such Company, (ii) the Company has been, and the Company is, in compliance with all terms and conditions of all applicable requirements of Environmental Law and Environmental Permits, (iii) the Company has not received any written notice from a governmental authority of any violation, alleged violation, or liability arising under any requirements of Environmental Law or Environmental Permits, (iv) no Environmental Claims have ever been threatened or asserted or are

presently pending against the Company attributable to present or past operations on premises owned, leased or operated by the Company, and (v) no condition or set of facts or circumstances exists that could reasonably be expected to give rise to an Environmental Claim against the Company.

(B) Except as set forth in the Disclosure Schedule, the Company has not disposed, treated, or arranged for the disposal or treatment of any toxic or hazardous waste, materials or substances at a site or location, or has leased, used, operated or owned a site or location which (i) has been placed on the National Priorities List or its state equivalent pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, as amended ("CERCLA"), or similar foreign, territorial or state law, (ii) the Environmental Protection Agency or relevant foreign, territorial or state authority has proposed, or is proposing, to place on the National Priorities List or foreign, territorial or state equivalent, (iii) is subject to a lien, administrative order or other demand either to take response or other action under CERCLA or other Environmental Law, or to develop or implement a "Corrective Action Plan" or "Compliance Plan," as each is defined in regulations promulgated pursuant to the Resource Conservation and Recovery Act, as amended, or to reimburse any person who has taken response or other action in connection with that site, (iv) is on any Comprehensive Environmental Response Compensation Liability Information System List, (v) has been the site of any Release from present or past operations of the Company (or any of their predecessors) which would be either reportable under any requirements of Environmental Law or which has caused at such site or any third party site any condition that has resulted in or could reasonably be expected to result in a claim against the Company under Environmental Law, or (vi)

to the Knowledge of the Company, is located within one mile of a property described in any of subclauses (i) through (iv) above.

(C) Except as set forth in the Disclosure Schedule, (i) the Company has never owned or operated any underground storage tanks (USTs) containing petroleum products or wastes or other substances regulated by 40 CFR Part 280 or other applicable requirements of Environmental Law, and has not owned or operated any real estate having any USTs, (ii) there are no polychlorinated biphenyl or asbestos in or on premises currently owned, leased or operated by the Company, and (iii) no entities or sites owned or operated by third parties have been used by the Company in connection with the treatment, storage, disposal or transportation of Hazardous Substances, except in compliance with applicable Environmental Law and except for such violations that have been remedied.

(D) Except as set forth in the Disclosure Schedule, the plants, structures, equipment and other properties currently owned or used by the Company are adequate and sufficient for the current operations of the Company in conformance with all applicable requirements of Environmental Law.

6.16 Personnel. The Disclosure Schedule sets forth a list of all officers, directors, employees, and consultants and agents with whom the Company has agreements not terminable at the will of the Company (by type or classification) and their respective rates of compensation (including the portions thereof attributable to bonuses), including any other salary, bonus or other payment arrangement made with any of them.

6.17 Accounts and Notes Receivable. All accounts receivable of the Company are (a) bona fide claims against debtors for work performed or other charges, (b) to the Knowledge of the Company, subject to no defenses, set-offs or counterclaims, and (c) collectible subject to the Company's normal reserve for bad debts. The Disclosure Schedule sets forth an accurate list of all notes receivable of the Company not shown in the Financial Statements.

6.18 Condition of Assets. Since July 31, 1998, the Company has operated, maintained and repaired its tangible assets in the ordinary course of business in a manner consistent with past practice. Such assets are capable of being used without the present need for repair or replacement except in the ordinary course of business in a manner consistent with the Company's past practice. Complete and accurate details of such assets are set forth in the Disclosure Schedule.

6.19 Real Property. The Company's ownership and use of its real properties and the location, construction, occupancy, operation and use thereof are in compliance with (a) all applicable laws, rules and regulations of any governmental authority (including, without limitation, those regulating the environment, health and safety), (b) all applicable decrees, orders, injunctions and other decisions of any court, arbitrator, governmental authority or administrative agency with jurisdiction over the Company, (c) all leases, easements, rights-of-way and other instruments creating or establishing any rights over such properties, and (d) all agreements, contracts, leases, deed restrictions and restrictive covenants, whether or not recorded in the public records, affecting the same. None of such real properties is located on or within the immediate vicinity of any waste management facility or fault line. None of such real properties has been condemned, requisitioned

or otherwise taken by any governmental authority, and no such condemnation, requisition or other taking is pending or, to the Knowledge of the Company, contemplated.

6.20 Accurate and Complete Records. Except as set forth in the Disclosure Schedule, the books, ledgers, financial records and other records of the Company for the period of time which is not less than three years prior to the date hereof or any such longer period as may be required by applicable laws or regulations:

(a) are in the possession of the Company;

(b) have been, in all material respects, maintained in accordance with all applicable laws, rules and regulations and generally accepted standards of practice; and

(c) are accurate and complete and do not contain or reflect any material discrepancies.

6.21 Brokerage Arrangements. The Company has not entered (directly or indirectly) into any agreement with any person, firm or corporation that would obligate Subsidiary or the Company to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

6.22 No Misleading Statements. The representations and warranties of the Company contained in this Agreement, the Disclosure Schedule and all other documents and information furnished to Subsidiary and its representatives pursuant hereto are complete and accurate and do not

and will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements made not misleading.

ARTICLE VII

REPRESENTATIONS AND WARRANTIES OF PARENT

Parent hereby represents and warrants to the Company as follows:

7.1 Corporate Organization, Good Standing, and Capitalization. Parent is a corporation duly organized, validly existing, and in good standing under the laws of the Commonwealth of Pennsylvania, with the requisite corporate power to own, operate and lease its properties and to carry on its business as presently conducted, except where failure to do so would not, individually or in the aggregate, have a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole.

7.2 Corporate Authority. Parent has authority to execute and deliver this Agreement. Neither the execution and delivery of this Agreement, nor performance hereunder, will conflict with, or result in a breach of the terms, conditions, or provisions of, or constitute a default under, the Certificate of Incorporation or bylaws of Parent or any material agreement or instrument to which Parent is a party or by which it is bound, except for breaches or defaults which would not, individually or in the aggregate, have a material adverse effect on the business, operations, prospects, properties or assets or in the condition (financial or otherwise) of Parent and its subsidiaries, taken as a whole.

7.3 SEC Reports. Parent has filed with the Securities and Exchange Commission, true and complete copies of all forms, reports, schedules, statements and other documents required to be filed by it since January 1, 1997 under the Securities Exchange Act of 1934, as amended (as such documents have been amended since the time of each filing).

7.4 Shares To Be Issued. The shares of Parent Preferred Stock to be issued and delivered pursuant to this Agreement will be duly authorized and validly issued, fully paid and nonassessable.

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES OF SUBSIDIARY

Subsidiary hereby represents and warrants to the Company as follows:

8.1 Organization. Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas with corporate power to carry on its business as now being conducted.

8.2 Power and Authority; Enforceability. Subsidiary has all requisite corporate power and authority to enter into this Agreement and all other documents to be entered into by Subsidiary in connection with the consummation of the transactions contemplated hereby and to perform its obligations hereunder and thereunder. This Agreement and all other documents entered into by Subsidiary in connection with the consummation of the transactions contemplated hereby have been duly authorized, executed and delivered on behalf of Subsidiary and, assuming due authorization, execution and delivery by the Company, constitutes a legal, valid and binding obligation of Subsidiary enforceable in accordance with its terms, except that (a) such enforcement may be limited

by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally and (b) the remedy of specific performance and injunction and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

8.3 No Default or Consents. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated herein (a) conflict with or result in (or with giving of notice or passage of time would result in) a breach, default or violation of (i) any of the terms, provisions or conditions of the charter or bylaws of Subsidiary or (ii) any material agreement, document, instrument, judgment, decree, order governmental permit, certificate or license to which Subsidiary is a party or to which it is subject or by which its property is bound, or (b) result in the creation of any lien, charge or other encumbrance on any material property of Subsidiary, or (c) require Subsidiary to obtain the consent of any private non-governmental third party. Except for the Regulatory Consent, no consent, action, approval or authorization of, or registration, declaration or filing with, any governmental department, commission, agency or other instrumentality having jurisdiction over Subsidiary is required by Subsidiary to authorize the execution and delivery of this Agreement by Subsidiary or the performance of its terms by Subsidiary.

ARTICLE IX

AGREEMENTS PRIOR TO CLOSING

From the date of this Agreement through the Closing:

9.1 Access. The Company shall keep Subsidiary informed regarding the continuing operation of the business of the Company and the Company shall permit Subsidiary and its authorized employees, agents, accountants, legal counsel and other representatives to have access to the books, records, plants, facilities, properties, personnel and officers of the Company for the purpose of conducting an investigation of its financial condition, corporate status, business properties and assets; provided, however that such investigation shall be conducted in a manner that does not interfere with normal operations of the Company.

9.2 Restrictions. Except as otherwise contemplated in this Agreement or with the consent of Subsidiary, the Company will not:

(a) increase the rate or form of compensation payable to any employee or increase any employee benefits, except increases in compensation and benefit changes made in the ordinary course of business in accordance with established policies and past practice;

(b) declare or pay any dividend or make a distribution in cash, property or other assets (not including distributions in the ordinary course of business of cash in the course of paying obligations owed by the Company);

(c) acquire or dispose of any properties or assets, except in the ordinary course of business;

(d) engage in any one or more activities or transactions outside the ordinary course of business;

(e) transfer any Intellectual Property Rights, except in the ordinary course of business;

(f) create, incur, assume, guarantee or otherwise become liable or obligated with respect to any indebtedness, or make any loan or advance to, or any investment in, any person or entity;

(g) except in emergency situations, enter into a contractual obligation providing for obligations of a party thereto of $1,000 or more;

(h) file any motions, orders, briefs, settlement agreements or other papers in any proceeding before any court of any federal, state or other governmental department, commission or agency or any arbitrator except with respect to pending proceedings where positions advanced are substantially consistent with previous positions;

(i) issue any securities relating to its capital stock; grant, or enter into any agreement to grant, any options, convertibility rights, other rights, warrants, calls or agreements relating to its capital stock; or redeem, repurchase or otherwise reacquire any of its capital stock;

(j) maintain its books of account other than in the usual, regular and ordinary manner and on a basis consistent with prior periods or make any change in any of its accounting methods or practices;

(k) allow the expiration, termination or cancellation of any of the insurance policies listed in the Disclosure Schedule, unless it is replaced, with no loss of coverage, by a comparable insurance policy; or

(l) agree or commit to do any of the foregoing.

9.3 Regulatory Compliance. Prior to the Closing, the Company will comply in all material respects with all applicable local, state and federal laws, rules and regulations, judgments, decrees, orders, governmental permits, certificates and licenses, including without limitation those relating to the filing of reports and the payment of income, franchise and other taxes due to be paid prior to the Closing.

9.4 Continued Operation of Business. Prior to the Closing, the Company will, to the extent required for continued operation of its business without impairment, use reasonable business efforts, (a) to preserve substantially intact its business organization, (b) to keep available the services of its employees, and (c) to preserve its present relationships with persons having significant business relations therewith.

9.5 Reasonable Business Efforts. Subsidiary and the Company shall use their reasonable business efforts to ensure that all of the conditions to the obligations of the Company and Subsidiary contained in Sections 10.2 and 10.3 respectively are satisfied timely (unless waived in accordance with Article X). Subsidiary and the Company shall cooperate to the maximum extent possible on all regulatory requirements to obtain the Regulatory Consent.

ARTICLE X

CLOSING

10.1 Closing. The Closing shall be held at the offices of Bracewell & Patterson, L.L.P. located at 711 Louisiana Street, Suite 2900, Houston, Texas 77002-2782 at 11:00 a.m. within five business days after fulfillment of the conditions set out in Section 10.2 and 10.3.

10.2 Closing Obligations of Subsidiary and Parent. The obligation of Subsidiary and Parent to consummate the transactions contemplated by this Agreement is subject, at the option of Subsidiary and Parent, to the satisfaction or waiver of the following conditions:

(a) Resolutions of the Company. The Company shall furnish Subsidiary with certified copies of resolutions duly adopted by (i) the Board of Directors of the Company authorizing the execution, delivery and performance of this Agreement, and (ii) the shareholders of the Company approving the plan of merger as required by Missouri Revised Statutes § § 351.410, *et seq.*;

(b) The Company's Corporate Documents. The Company shall deliver to Subsidiary the Stock and Minute Books and Corporate Seal of the Company, certified copies of the certificate of incorporation and bylaws of the Company and certificates of good standing from the state of incorporation of the Company and all states where it is qualified to do business as a foreign corporation;

(c) Stock Certificates. Each shareholder of the Company shall surrender such shareholder's Company's stock certificates to Subsidiary and shall receive a receipt

evidencing the number of shares of Preferred Stock being held by the transfer agent on his behalf;

(d) Escrow Agreement. The shareholders of the Company shall execute the Escrow Agreement;

(e) Directors and Officers. The shareholders of the Company shall furnish Subsidiary with written resignations of all directors and officers of the Company in form reasonably acceptable to Subsidiary;

(f) Statutory Compliance. All statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained;

(g) No Action, Suit, etc. No action, suit or proceeding shall have been commenced, pending or threatened, and no statute, rule, regulation or order shall have been proposed, enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement, by any United States federal or state government or governmental agency or instrumentality or court or private non-governmental person or entity, which, in the opinion of Subsidiary's counsel, reasonably may be expected to, (i) prohibit Subsidiary's ownership or operation of all or a material portion of Subsidiary's or the Company's business or assets, or compel Subsidiary to dispose of or hold separate all or a material portion of Subsidiary's or the Company's business or assets, as a result of the

transactions contemplated by this Agreement or (ii) render Subsidiary unable to consummate the transactions contemplated by this Agreement;

(h) Due Diligence. The completion of a Phase I Report regarding the facilities of the Company and, if recommended, the completion of a Phase II Report, each performed pursuant to ASTM Protocol, and the contents of each such report being to the reasonable satisfaction of Subsidiary. The completion by Subsidiary of its due diligence review of the businesses of the Company; and

(i) Consummation of Transactions. The transactions contemplated by the Merger Agreement shall have been consummated.

10.3 Closing Obligations of the Company. The obligation of the Company to consummate the transactions contemplated by this Agreement is subject, at the option of the Company, to the satisfaction or waiver of the following conditions:

(a) Resolutions of Subsidiary. Subsidiary shall furnish the Company with certified copies of resolutions duly adopted by the Board of Directors of Subsidiary authorizing the execution, delivery and performance of this Agreement;

(b) Subsidiary's Corporate Documents. Subsidiary shall furnish the Company with certified copies of the articles of incorporation and bylaws of Subsidiary;

(c) Escrow Agreement. Subsidiary, AquaSource/RU, Inc. and AquaSource, Inc. shall execute the Escrow Agreement;

(d) Statutory Compliance. All statutory requirements for the valid consummation of the transactions contemplated herein shall have been fulfilled and all governmental consents, approvals or authorizations necessary for the valid consummation of the transactions contemplated herein shall have been obtained.

(e) No Action, Suit, etc. No action, suit or proceeding shall have been commenced, pending or threatened, and no statute, rule, regulation or order shall have been proposed, enacted, promulgated or issued or deemed applicable to the transactions contemplated by this Agreement, by any United States federal or state government or governmental agency or instrumentality or court or private non-governmental person or entity, which, in the opinion of the Company's counsel, reasonably may be expected to render the Company unable to consummate the transactions contemplated by this Agreement; and

(f) Consummation of Transactions. The transactions contemplated by the Merger Agreement shall have been consummated.

ARTICLE XI

EMPLOYEE MATTERS

11.1 Status of Employees. After the Effective Time of the Merger any continued employment of the employees of the Company shall be on such terms and conditions and include such benefits as the Target Company shall deem appropriate in its sole and unlimited discretion.

ARTICLE XII

MISCELLANEOUS

12.1 Notice. Any notice, request, instruction, correspondence or other document required to be given hereunder by any party to another (herein collectively called "Notice") shall be in writing and delivered in person or by courier service requiring acknowledgment of delivery or mailed by certified mail, postage prepaid and return receipt requested, or by telecopier, as follows:

If to Subsidiary, addressed to:

AquaSource/CU, Inc.
16810 Barker Springs, Suite B215
Houston, Texas 77084
Attention: Mr. Edward R. Wallace
Telecopier No. (281) 578-1620

With a copy to:
AquaSource, Inc.
916 Congress, Suite 200
Austin, Texas 78701
Attention: Mr. Richard Zieren
Telecopier No.: (512) 320-8387

If to Parent, addressed to:

DQE, Inc.
Box 68
Pittsburgh, Pennsylvania 15230-0068
Attention: Mr. Victor A. Roque
Telecopier No.: (412) 393-6055

If to the Company, addressed to:

Capital Utilities, Inc.
312 Lafayette
Jefferson City, Missouri 63089
Attention: Mr. Garah F. Helms
Telecopier No.: (573) 635-2157

With a copy to:
Ms. Ann Monaco Warren
Inglish & Monaco
237 E. High Street
P.O. Box 67
Jefferson City, Missouri 65102

Notice given by personal delivery or courier service shall be effective upon actual receipt. Notice given by mail shall be effective five days after deposit with the United States postal service. Notice given by telecopier shall be confirmed by appropriate answer back and shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if received before the recipient's normal business hours. All Notices by telecopier shall be confirmed promptly after transmission in writing by regular mail or personal delivery. Any party may change any address to which Notice is to be given to it by giving Notice as provided above of such change of address.

12.2 Public Statements. No party shall issue any public announcement or statement with respect to the transactions contemplated hereby for a period of twelve months following the date hereof without the written consent of the other parties.

12.3 Further Assistance. The Company shall execute and deliver without additional expense to Subsidiary such additional documents as are reasonably necessary to consummate the Merger.

12.4 Governing Law. The provisions of this Agreement and the documents delivered pursuant hereto shall be governed by and construed and enforced in accordance with the laws of the State of Missouri.

12.5 Entire Agreement; Amendments and Waivers. This Agreement, together with all schedules and exhibits attached hereto, constitutes the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties. No supplement, modification or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (regardless of whether similar), nor shall any such waiver constitute a continuing waiver unless otherwise expressly provided.

12.6 Severability. If any one or more of the provisions contained in this Agreement or in any other document delivered pursuant hereto shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement or any other such document.

12.7 Headings and Exhibits. The headings of the several Articles and Sections herein are inserted for convenience of reference only and are not intended to be a part of or to affect the

meaning or interpretation of this Agreement. The schedules and exhibits referred to herein are attached hereto and incorporated herein by this reference.

12.8 Successors Bound; Third Parties. This Agreement may not be assigned by any party without the consent of the other parties. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended to confer upon any person or entity other than the parties hereto and their respective permitted successors and assigns, any liabilities, duties, rights, benefits or obligations hereunder.

12.9 Multiple Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[The remainder of this page has been intentionally left blank.]

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts, all as of the date first above written.

CAPITAL UTILITIES, INC.

By: Harold D. Hahn
Name: SARAH F HELMS
Title: President

DQE, INC.

By: _____
Name: _____
Title: ~~Donald J. Clayton, Vice President and Treasurer~~

AQUASOURCE/CU, INC.

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts, all as of the date first above written.

CAPITAL UTILITIES, INC.

By:_____
Name: _____
Title:_____

DQE, INC.

By: Morgan K. O'Brien
Name: Morgan K. O'Brien
Title: Vice President, Treasurer & Controller

AQUASOURCE/CU, INC.

By:_____
Name:_____
Title:_____

IN WITNESS WHEREOF, the parties have signed this Agreement in multiple counterparts, all as of the date first above written.

CAPITAL UTILITIES, INC.

By:_____
Name: _____
Title:_____

DQE, INC.

By:_____
Name:_____
Title:_____

AQUASOURCE/CU, INC.

By:_____
Name: MICHAEL J. MILLER
Title: VICE PRESIDENT

#00333469

STATE OF MISSOURI

Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION

CERTIFICATE OF MERGER
MISSOURI CORPORATION SURVIVING

WHEREAS, Articles of Merger of the following corporations:
AQUASOURCE/CU, INC. (A Texas corp not qual.)
INTO:
CAPITAL UTILITIES, INC. (#00333469)
Organized and Existing Under Law of **Missouri, Texas**
have been received, found to conform to law, and filed.

NOW, THEREFORE, I, REBECCA MCDOWELL COOK, Secretary of State of Missouri, issue this Certificate of Merger, certifying that the merger of the aforenamed corporations is effected with
CAPITAL UTILITIES, INC. (#00333469)
as the surviving corporation.

THE NAME SUBSEQUENTLY CHANGED TO:
AQUASOURCE/CU, INC.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE **24th** Day of **February , 1999.**

Rebecca McDowell Cook
Secretary of State

$30.00

S.O.S. #30

FILED AND CERTIFICATE
ISSUED
FEB 24 1999
Rebecca McDowell Cook
SECRETARY OF STATE

Articles of Merger
of
AQUASOURCE/CU, INC.
(A Texas Corporation)
INTO
CAPITAL UTILITIES, INC.
(A Missouri Corporation)

Pursuant to the provisions of The General Business Corporation Law of Missouri, the undersigned corporations certify the following:

I

That Capital Utilities, Inc. of Missouri and AquaSource/CU, Inc. of Texas are hereby merged and that the above named Capital Utilities, Inc. is the surviving corporation.

II

That the Board of Directors of Capital Utilities, Inc. met on February 22, 1999 and by resolution adopted by a majority vote of the members of such board approved the Plan of Merger set forth in these articles.

III

That the Board of Directors of AquaSource/CU, Inc. met on February 22, 1999 and by resolution adopted by a majority vote of the members of such board approved the Plan of Merger set forth in these articles.

IV

The Plan of Merger thereafter was submitted to a vote at the special meeting of the shareholders of Capital Utilities, Inc. held on February 22, 1999 at Jefferson City, Missouri and at such meeting there were 400 shares entitled to vote and 400 voted in favor and -0- voted against said plan.

V

The Plan of Merger thereafter was submitted to a vote at the special meeting of the shareholders of AquaSource/CU, Inc. held on February 22, 1999 at Houston, Texas and at such meeting there were 1,000 shares entitled to vote and 1,000 voted in favor and -0- voted against said plan.

PLAN OF MERGER

I

Capital Utilities, Inc. of Missouri is the survivor.

II

All of the property, rights, privileges, leases and patents of the AquaSource/CU, Inc. are to be transferred to and become property of Capital Utilities, Inc., the survivor. The officers and board of directors of the above named corporations are authorized to execute all deeds, assignments, and documents of every nature which may be needed to effectuate a full and complete transfer of ownership.

III

The officers of Capital Utilities, Inc. shall continue in office until their successors are duly elected and qualified under the provisions of the by-laws of the surviving corporation.

IV

The outstanding shares of AquaSource/CU, Inc. shall be exchanged for shares of Capital Utilities, Inc. on the following basis:

Conversion Ratio and Cash Payment. The manner of converting or exchanging the shares of the Company and Parent shall be as follows:

(A) Each share of common stock of AquaSource issued and outstanding at the Effective Time of the Merger shall, by virtue of the Merger, automatically be converted into .40 fully paid and non-assessable share of common stock of Capital Utilities which, together, shall constitute all of the issued and outstanding shares of common stock of Capital Utilities immediately after the Effective Time of the Merger.

(B) Subject to adjustment in accordance with the Agreement of Shareholders and Indemnity Agreement, each share of the Capital Utilities' common stock issued and outstanding at the Effective Time of the Merger shall by virtue of the Merger and at the Effective Time of the Merger be converted into and become, without action on the part of the holders thereof:

(i) the right to receive 10.915 shares of fully paid and nonassessable Parent's, DQE, Inc., Preferred Stock, Series A (Convertible), $100 liquidation preference per share ("Preferred Stock"), as more particularly described in the Prospectus dated August 22, 1997, as amended by the Pricing Supplement dated the Closing Date, and, upon delivery to Parent of certificates representing such common stock of Capital Utilities, certificates representing such Preferred Stock of Parent shall be delivered to Parent's transfer agent to be held for the benefit of such holders Garah F. Helms and Joy L. Helms; and

(ii) the right to receive cash in the amount of $272.278 for each share, which cash will, subject to Section 4.2, be paid in immediately available funds at the Closing.

V

The articles of incorporation of the survivor are amended as follows:

Article I: The name of the surviving corporation shall be AquaSource/CU, Inc.

Article VI: The number of directors to constitute the board of directors shall be one (1) who will be Edward R. Wallace, 16810 Barker Springs, Suite B250, Houston, TX 77084. Upon the effective date, all persons who shall then be officers of Capital Utilities, Inc. shall remain as officers, subject to the provisions of its by-laws.

IN WITNESS WHEREOF, these Articles of Merger have been executed in duplicate by the aforementioned corporations as of the day and year hereafter acknowledged.

CAPITAL UTILITIES, INC.

SEAL

BY: _____
Garah F. Helms, President

ATTEST:

_____
BY: Secretary

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

I, Mary L. Williamson, a Notary Public, do hereby certify that on the 22nd day of February, 1999, personally appeared before me Garah F. Helms, who being by me first duly sworn, declared that he is the President of Capital Utilities, Inc., that he signed the foregoing documents as President of the corporation, and that the statements contained therein are true.

_____
Notary Public

My commission expires:
July 14, 2002

AQUASOURCE/CU, INC.

SEAL

BY: [signature]
President or Vice President

ATTEST:

[signature]
BY: Secretary - (ASSISTANT)

STATE OF TEXAS)
) ss
COUNTY OF)

I, LYDIA POTOCZNIAK a Notary Public, do hereby certify that on the 22nd day of February, 1999, personally appeared before me MICHAEL J. Miller who being by me first duly sworn, declared that he is the Vice President of AquaSource/CU, Inc., that he signed the foregoing documents as Vice President of the corporation, and that the statements therein contained are true.

[signature: Lydia A. Potoczniak]
Notary Public

My commission expires:

LYDIA A. POTOCZNIAK
Notary Public, State of Texas
My Commission Expires
AUGUST 21, 2002.

corp\aquamrg1.wpd

#00227858

STATE OF MISSOURI

Rebecca McDowell Cook
Secretary of State

CORPORATION DIVISION

CERTIFICATE OF MERGER
MISSOURI CORPORATION SURVIVING

WHEREAS, Articles of Merger of the following corporations:
AQUASOURCE/RU, INC. (A Texas corp not qual.)
INTO:
RIVERSIDE UTILITY COMPANY (#00227858)
Organized and Existing Under Law of **Missouri, Texas**
have been received, found to conform to law, and filed.

NOW, THEREFORE, I, REBECCA MCDOWELL COOK, Secretary of State of Missouri, issue this Certificate of Merger, certifying that the merger of the aforenamed corporations is effected with
RIVERSIDE UTILITY COMPANY (#00227858)
as the surviving corporation.

THE NAME SUBSEQUENTLY CHANGED TO:
AQUASOURCE/RU, INC.

IN TESTIMONY WHEREOF, I HAVE SET MY HAND AND IMPRINTED THE GREAT SEAL OF THE STATE OF MISSOURI, ON THIS, THE **24th** Day of **February , 1999.**

Rebecca McDowell Cook
Secretary of State

$30.00

FILED AND CERTIFICATE
ISSUED
FEB 24 1999
Rebecca McDowell Cook
SECRETARY OF STATE

Articles of Merger
of
AQUASOURCE/RU, INC.
(A Texas Corporation)
INTO
RIVERSIDE UTILITY COMPANY
(A Missouri Corporation)

Pursuant to the provisions of The General Business Corporation Law of Missouri, the undersigned corporations certify the following:

I

That Riverside Utility Company of Missouri and AquaSource/RU, Inc. of Texas are hereby merged and that the above named Riverside Utility Company is the surviving corporation.

II

That the Board of Directors of Riverside Utility Company met on February 22, 1999 and by resolution adopted by a majority vote of the members of such board approved the Plan of Merger set forth in these articles.

III

That the Board of Directors of AquaSource/RU, Inc. met on February 22, 1999 and by resolution adopted by a majority vote of the members of such board approved the Plan of Merger set forth in these articles.

IV

The Plan of Merger thereafter was submitted to a vote at the special meeting of the shareholders of Riverside Utility Company held on February 22, 1999 at Jefferson City, Missouri and at such meeting there were 500 shares entitled to vote and 500 voted in favor and -0- voted against said plan.

V

The Plan of Merger thereafter was submitted to a vote at the special meeting of the shareholders of AquaSource/RU, Inc. held on February 22, 1999 at Houston, Texas and at such meeting there were 1,000 shares entitled to vote and 1,000 voted in favor and -0- voted against said plan.

PLAN OF MERGER

I

Riverside Utility Company of Missouri is the survivor.

II

All of the property, rights, privileges, leases and patents of the AquaSource/RU, Inc. are to be transferred to and become property of Riverside Utility Company, the survivor. The officers and board of directors of the above named corporations are authorized to execute all deeds, assignments, and documents of every nature which may be needed to effectuate a full and complete transfer of ownership.

III

The officers of Riverside Utility Company shall continue in office until their successors are duly elected and qualified under the provisions of the by-laws of the surviving corporation.

IV

The outstanding shares of AquaSource/RU, Inc. shall be exchanged for shares of Riverside Utility Company on the following basis:

Conversion Ratio and Cash Payment. The manner of converting or exchanging the shares of Rierside Utility and Parent shall be as follows:

(A) Each share of common stock of AquaSource issued and outstanding at the Effective Time of the Merger shall, by virtue of the Merger, automatically be converted into .50 fully paid and non-assessable share of common stock of Riverside Utility which, together, shall constitute all of the issued and outstanding shares of common stock of Riverside Utility immediately after the Effective Time of the Merger.

(B) Subject to adjustment in accordance with the Agreement of Shareholders and Indemnity Agreement, each share of the Riverside Utility's common stock issued and outstanding at the Effective Time of the Merger shall by virtue of the Merger and at the Effective Time of the Merger be converted into and become, without action on the part of the holders thereof:

(i) the right to receive 3.204 shares of fully paid and nonassessable Parent's, DQE, Inc., Preferred Stock, Series A (Convertible), $100 liquidation preference per share ("Preferred Stock"), as more particularly described in the Prospectus dated August 22, 1997, as amended by the Pricing Supplement dated the Closing Date, and, upon delivery to Parent of certificates representing such common stock of Riverside Utility, certificates representing such Preferred Stock of Parent shall be delivered to Parent's transfer agent to be held for the benefit of such holders Garah F. Helms and Joy L. Helms; and

(ii) the right to receive cash in the amount of $79.946 for each share, which cash will, subject to Section 4.2, be paid in immediately available funds at the Closing.

V

The articles of incorporation of the survivor are amended as follows:

Article I: The name of the surviving corporation shall be AquaSource/RU, Inc.

Article VI: The number of directors to constitute the board of directors shall be one (1) who will be Edward R. Wallace, 16810 Barker Springs, Suite B250, Houston, TX 77084. Upon the effective date, all persons shall remain as officers, subject to the provisions of its by-laws.

IN WITNESS WHEREOF, these Articles of Merger have been executed in duplicate by the aforementioned corporations as of the day and year hereafter acknowledged.

RIVERSIDE UTILITY COMPANY

SEAL

BY: _____
Garah F. Helms, President

ATTEST:

_____
BY: Secretary

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

I, Mary L Williamson, a Notary Public, do hereby certify that on the 22nd day of February, 1999, personally appeared before me Garah F. Helms, who being by me first duly sworn, declared that he is the President of Riverside Utility Company, that he signed the foregoing documents as President of the corporation, and that the statements contained therein are true.

_____
Notary Public

My commission expires:

July 14, 2002

AQUASOURCE/RU, INC.

SEAL

BY: _____
President or Vice President

ATTEST:

_____
BY: Secretary (ASSISTANT)

STATE OF TEXAS)
) ss
COUNTY OF HARRIS)

I, LYDIA POTOCZNIAK, a Notary Public, do hereby certify that on the 22nd day of February, 1999, personally appeared before me MICHAEL J. Miller who being by me first duly sworn, declared that he is the Vice President of AquaSource/RU, Inc., that he signed the foregoing documents as Vice President of the corporation, and that the statements therein contained are true.

_____
Notary Public

My commission expires:.

LYDIA A. POTOCZNIAK
Notary Public, State of Texas
My Commission Expires
AUGUST 21, 2002.