

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 1997

Commission File Number 1-6659

PHILADELPHIA SUBURBAN CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

-----  
(State or other jurisdiction of  
incorporation or organization)

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

762 Lancaster Avenue, Bryn Mawr, Pennsylvania

19010

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: (610)-527-8000

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

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 1997.

19,455,333  
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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)

June 30,      December 31,  
1997                      1996

	----- (Unaudited)	----- (Audited)
Property, plant and equipment, at cost	\$ 625,875	\$ 612,812
Less accumulated depreciation	117,235	109,874
	-----	-----
Net property, plant and equipment	508,640	502,938
Current assets:		
Cash	1,012	1,518
Accounts receivable, net	22,990	21,914
Inventory, materials and supplies	2,010	1,943
Prepayments and other current assets	683	660
	-----	-----
Total current assets	26,695	26,035
Regulatory assets	48,423	48,491
Deferred charges and other assets, net	6,936	5,480
	-----	-----
	\$ 590,694	\$ 582,944
	=====	=====
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 3,220	\$ 3,220
Common stock at \$.50 par value, authorized 40,000,000 shares, outstanding 19,455,333 and 19,198,579 in 1997 and 1996	9,894	9,731
Capital in excess of par value	126,712	121,439
Retained earnings	51,699	49,272
Treasury stock, 333,005 and 262,230 shares in 1997 and 1996	(5,001)	(3,647)
	-----	-----
Total stockholders' equity	186,524	180,015
	-----	-----
Preferred stock of subsidiary with mandatory redemption requirements	2,786	4,214
Long-term debt, excluding current portion	195,391	217,518
Commitments	--	--
Current liabilities:		
Current portion of long-term debt and preferred stock of subsidiary	40,841	13,873
Loans payable	8,365	5,560
Accounts payable	4,436	9,659
Accrued interest	3,884	3,660
Accrued taxes	1,583	3,363
Other accrued liabilities	8,941	8,924
	-----	-----
Total current liabilities	68,050	45,039
	-----	-----
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	78,252	75,949
Customers' advances for construction	22,517	23,524
Other	12,693	12,826
	-----	-----
Total deferred credits and other liabilities	113,462	112,299
	-----	-----
Contributions in aid of construction	24,481	23,859
	-----	-----
	\$ 590,694	\$ 582,944
	=====	=====

See notes to consolidated financial statements on page 6 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)

(UNAUDITED)

Six Months Ended

June 30,

	----- 1997 -----	----- 1996 -----
Earned revenues	\$ 64,336	\$ 59,973
Costs and expenses		
Operating expenses	26,363	25,684
Depreciation	7,296	6,505
Amortization	13	139
Taxes other than income taxes	4,324	4,325
	----- 37,996 -----	----- 36,653 -----
Operating income	26,340	23,320
Interest expense	8,960	7,572
Dividends on preferred stock of subsidiary	188	250
Allowance for funds used during construction	(193)	(82)
	-----	-----
Income before income taxes	17,385	15,580
Provision for income taxes	7,051	6,331
	-----	-----
Net income	10,334	9,249
Dividends on preferred stock	96	--
	-----	-----
Net income available to common stock	\$ 10,238 =====	\$ 9,249 =====
Net income per common share	\$ 0.52 =====	\$ 0.49 =====
Average common and common equivalent shares outstanding during the period	19,564 =====	18,730 =====

See notes to consolidated financial statements on page 6 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended June 30,	
	----- 1997 -----	----- 1996 -----
Earned revenues	\$ 33,315	\$ 30,683
Costs and expenses		
Operating expenses	13,295	12,614
Depreciation	3,609	3,250
Amortization	3	70
Taxes other than income taxes	2,082	2,008
	----- 18,989 -----	----- 17,942 -----
Operating income	14,326	12,741
Interest expense	4,524	3,789

Dividends on preferred stock of subsidiary	91	123
Allowance for funds used during construction	(103)	(50)
	-----	-----
Income before income taxes	9,814	8,879
Provision for income taxes	3,988	3,598
	-----	-----
Net income	5,826	5,281
Dividends on preferred stock	48	--
	-----	-----
Net income available to common stock	\$ 5,778	\$ 5,281
	=====	=====
Net income per common share	\$ 0.29	\$ 0.28
	=====	=====
Average common and common equivalent shares outstanding during the period	19,608	18,854
	=====	=====

See notes to consolidated financial statements on page 6 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands of dollars)

(UNAUDITED)

	Six Months Ended June 30,	
	1997	1996
	-----	-----
Cash flows from operating activities:		
Net income	\$ 10,334	\$ 9,249
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	7,309	6,644
Deferred taxes, net of taxes on customers' advances	1,829	607
Net increase in receivables, inventory and prepayments	(1,051)	(1,858)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(6,576)	(4,528)
Other	(509)	(2)
	-----	-----
Net cash flows from operating activities	11,336	10,112
	-----	-----
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$193 and \$82	(12,666)	(10,373)
Acquisitions of water systems	(435)	(2,377)
Other	(236)	(240)
	-----	-----
Net cash flows used in investing activities	(13,337)	(12,990)
	-----	-----
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction, net of income tax payments	527	93
Repayments of customers' advances	(1,244)	(1,442)
Net proceeds (repayments) of short-term debt	2,805	(3,325)
Proceeds from long-term debt	17,142	27,540
Repayments of longterm debt	(12,400)	(20,054)

Redemption of preferred stock of subsidiary	(1,428)	(1,500)
Proceeds from issuing common stock	5,680	7,827
Repurchase of common stock	(1,599)	(4)
Dividends paid on preferred stock	(96)	--
Dividends paid on common stock	(7,810)	(7,127)
Other	(82)	(161)
	-----	-----
Net cash flows from financing activities	1,495	1,847
	-----	-----
Net decrease in cash	(506)	(1,031)
Cash balance beginning of year	1,518	2,387
	-----	-----
Cash balance at end of period	\$ 1,012	\$ 1,356
	=====	=====

See notes to consolidated financial statements on page 6 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CAPITALIZATION  
(In thousands of dollars, except per share amounts)

	June 30, 1997	December 31, 1996
	----- (Unaudited)	----- (Audited)
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 3,220	\$ 3,220
Common stock, \$.50 par value	9,894	9,731
Capital in excess of par value	126,712	121,439
Retained earnings	51,699	49,272
Treasury stock	(5,001)	(3,647)
	-----	-----
Total stockholders' equity	186,524	180,015
	-----	-----
Preferred stock of subsidiary with mandatory redemption requirements	4,215	5,643
Current portion of preferred stock of subsidiary	1,429	1,429
	-----	-----
	2,786	4,214
	-----	-----
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
8.44% Series, due 1997	-	12,000
5.95% Series, due 2002*	2,000	2,400
6.83% Series, due 2003	10,000	10,000
7.47% Series, due 2003	10,000	10,000
7.06% Series, due 2004	10,000	-
6.82% Series, due 2005	10,000	10,000
6.99% Series, due 2006	10,000	10,000
6.75% Series, due 2007	10,000	-
9.89% Series, due 2008	5,000	5,000
7.15% Series, due 2008*	22,000	22,000
9.12% Series, due 2010	20,000	20,000
6.50% Series, due 2010*	3,200	3,200
9.17% Series, due 2011	5,000	5,000
9.93% Series, due 2013	5,000	5,000
6.89% Series, due 2015	12,000	12,000
9.97% Series, due 2018	5,000	5,000
9.17% Series, due 2021*	8,000	8,000
6.35% Series, due 2025	22,000	22,000
7.72% Series, due 2025	15,000	15,000
9.29% Series, due 2026	12,000	12,000
	-----	-----
Total First Mortgage Bonds	196,200	188,600
Note payable to bank under revolving credit agreement, due March 1998	36,968	39,727
Installment note payable, 9%, due in equal annual payments through 2013	1,635	1,635

	-----	-----
	234,803	229,962
Current portion of long-term debt	39,412	12,444
	-----	-----
Long-term debt, excluding current portion	195,391	217,518
	-----	-----
Total capitalization	\$ 384,701	\$ 401,747
	=====	=====

\*Trust indentures relating to these First Mortgage Bonds require annual sinking fund payments.

See notes to consolidated financial statements on page 6 of this report.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands of dollars, except per share amounts)

Note 1 Basis of Presentation

The accompanying consolidated balance sheet and statement of capitalization of Philadelphia Suburban Corporation at June 30, 1997, the consolidated statements of income for the six months and quarter ended June 30, 1997 and 1996, and the consolidated statements of cash flow for the six months ended June 30, 1997 and 1996 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position at June 30, 1997, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 1996 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 1997.

Note 2 Long-Term Debt and Loans Payable

In July 1997, PSW established a two-year \$150,000 medium-term note program which replaced a similar program that expired in the first quarter of 1997. The program provides for the issuance of long-term debt with maturities ranging between one and 30 years at fixed rates of interest, as determined at the time of issuance. The notes issued under this program are secured by the Thirty-first Supplement to the trust indenture relating to PSW's First Mortgage Bonds.

In July 1997, PSW issued \$10,000 First Mortgage Bonds 6.75% Series due 2007 through this program. The net proceeds of this issue were used to repay amounts outstanding under PSW's revolving credit agreement and, accordingly, \$10,000 of the outstanding balance of PSW's revolving credit agreement has been classified as long-term debt.

In July 1997, the Company increased its short-term lines of credit by \$6,000. Funds borrowed under these lines are used to provide working capital.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(In thousands of dollars, except per share amounts)

Philadelphia Suburban Corporation ("PSC" or "the Company"), a Pennsylvania

corporation, is the holding Company of Philadelphia Suburban Water Company ("PSW"), a regulated water utility. PSW provides water to approximately 286,000 customers in 93 municipalities within its 465 square-mile service territory. PSW's service territory is located north and west of the City of Philadelphia.

#### Financial Condition

During the first half of 1997, the Company made \$12,666 of expenditures related to routine capital improvements and replacements, retired \$12,400 in long-term debt, repaid \$1,244 of customer advances for construction, repurchased \$1,599 of its common stock and redeemed \$1,428 of Preferred Stock.

During the first six months, internally generated funds, available working capital, funds available under the revolving credit facility and the proceeds from the issuance of common stock and long-term debt were used to fund the cash requirements discussed above, and to pay dividends. Proceeds from the issuance of common stock, primarily through the Company's Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan amounted to approximately \$5,680. Effective with the September 1, 1997 payment, the Company has increased the quarterly dividend on common stock from \$.2025 per share to \$.2125 per share.

In July 1997, PSW established a two-year \$150,000 medium-term note program. This program replaced a \$100,000 medium-term note program that expired in March 1997. The program provides for the issuance of long-term debt with maturities ranging between one and 30 years at fixed rates of interest, as determined at the time of issuance. The terms and conditions for debt issued under the new program are essentially the same as those under the expired program. In March 1997, PSW issued \$10,000 of First Mortgage Bonds 7.06% Series due 2004 through the expired program. In July 1997, PSW issued \$10,000 of First Mortgage Bonds 6.75% Series due 2007 through the new program. The net proceeds of these issues were used to repay amounts outstanding under PSW's revolving credit agreement and fund PSW's ongoing construction program.

At June 30, 1997, the Company and PSW had \$635 and \$1,000 available, respectively under short-term lines of credit and PSW had \$3,032 available under its revolving credit agreement. In July 1997, the Company increased its short-term lines of credit by \$6,000 to provide additional working capital. The current portion of long-term debt includes \$46,968 borrowed under the revolving credit agreement that expires in March 1998. The Company intends to renew this facility and refinance a portion of this balance through the issuances of First Mortgage Bonds.

At its August meeting, the Board of Directors approved a resolution allowing the Company to purchase, from time to time, up to 500,000 shares of its common stock in the open market or through privately negotiated transactions. The shares purchased by the Company, if any, shall be used by the Company for share issuance under the Company's direct stock purchase plans, its dividend reinvestment plan, its employee stock purchase plan and upon the exercise of stock options granted under the Company's stock option plans. The purchase of shares has been authorized in order to reduce the number of new shares issued under these plans and the dilutive effect on earnings per share of issuances of additional shares under these plans. Funding for any stock purchases is not expected to have a material impact on the Company's financial position.

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#### PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued) (In thousands of dollars, except per share amounts)

#### Results of Operations

#### Analysis of First Six Months of 1997 Compared to First Six Months of 1996

Revenues increased \$4,363 or 7.3% primarily as a result of \$2,856 in water revenues associated with the water system acquisitions made in 1996. In

addition, water revenues included \$460 from the Distribution System Improvement Charge (DSIC). The balance of the increase is primarily due to additional sales proceeds from a subsidiary the Company sold in 1991, the sale of a vacated operating facility and additional revenues earned from operating and maintenance contracts.

Operating expenses increased by \$679 or 2.6% primarily as a result of the 1996 acquisitions. These increases were partially offset by the effects of the mild 1997 winter which resulted in fewer main breaks and reduced maintenance expenses. Operating expenses were also lower because of additional capitalized labor as more labor resources were utilized on capital projects in the first half of 1997 as compared to 1996, causing a corresponding reduction in employee benefit costs. In addition, the Company benefited from reduced insurance and legal costs.

Depreciation increased by \$791 or 12.2% reflecting utility plant placed in service, including the assets from the acquisitions, in the past year. Depreciation was approximately 2.31% and 2.41% of average utility plant in service in the first half of 1997 and 1996 respectively.

Amortization decreased \$126 primarily due to the completion of the amortization of the costs associated with PSW's 1995 rate filing, offset partially by the amortization of additional debt issuance costs.

Interest expense increased \$1,388 or 18.3% reflecting an increase in borrowing levels, partially offset by lower interest rates. The increase in borrowings were used to finance the 1996 acquisitions and PSW's ongoing capital projects.

Allowance for funds used during construction increased by \$111 due to an increase in the average balance of utility plant construction work in progress.

The Company's effective income tax rate was 40.6% in the first half of 1997 and 1996.

Net income available to common stock increased by \$989 or 10.7% primarily as a result of increased revenues partially offset by increased operating expenses, interest expense and depreciation. On a per share basis, earnings increased \$.03 or 6.1% reflecting the improvement in net income, offset by a 4.5% increase in the average number of shares outstanding. The increased number of shares outstanding reflects additional shares sold since the first half of 1996 through the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase plan.

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## PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued) (In thousands of dollars, except per share amounts)

#### Analysis of Second Quarter of 1997 Compared to Second Quarter of 1996

Revenues for the quarter increased \$2,632 or 8.6% primarily due to water revenues from the 1996 acquisitions of \$1,474, the DSIC, which contributed \$318, and additional non-water revenues of \$264 primarily from consulting and operating contracts.

Operating expenses increased by \$681 or 5.4% as a result of the 1996 acquisitions, partially offset by reduced labor and employee benefit costs resulting from a greater proportion of labor resources being assigned to capital projects and lower legal expenses.

Depreciation increased by \$359 or 11.0% reflecting the impact of utility plant placed in service since the second quarter of 1996. Depreciation was approximately 2.31% and 2.40% of average utility plant in service in the second quarter of 1997 and 1996, respectively.

Amortization decreased \$67 primarily due to the completion of the amortization of the costs associated with PSW's 1995 rate filing, offset by the amortization of additional debt issuance costs.



Taxes other than income taxes increased \$74 or 3.7% due to higher state regulatory assessments and an increase in payroll taxes.

Interest expense increased by \$735 or 19.4% reflecting an increased level of borrowings, partially offset by lower interest rates. The increased borrowings were used to finance acquisitions and other PSW capital projects.

Allowance for funds used during construction increased by \$53 primarily due to an increase in the average balance of utility plant construction work in progress.

The Company's effective income tax rate was 40.6% in 1997 and 40.5% in 1996.

Net income available to common stock for the quarter increased by \$497 or 9.4% principally due to increased revenues offset in part by increased operating expenses, depreciation and interest expense. Earnings per share increased \$.01 or 3.6% reflecting the improvement in net income, offset by a 4.0% increase in the average number of shares outstanding.

#### Impact of Recent Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 128, Earnings per Share (SFAS 128). This Statement introduces new methods for calculating earnings per share. The adoption of this Statement will not affect results from operations, financial condition, or long-term liquidity, but will require the Company to restate earnings per share reported in prior periods. Compliance with this Statement, which will be effective for periods ending after December 15, 1997, is not expected to have a material effect on the Company's earnings per share amounts.

In June 1997, the FASB issued SFAS 130, Reporting Comprehensive Income. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company plans to adopt this Statement on January 1, 1998, as required. The Company does not have any

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#### PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

##### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued) (In thousands of dollars, except per share amounts)

items of comprehensive income, other than that presented on its consolidated statements of income that would require disclosure and presentation of accumulated balances in the equity section of the balance sheet.

In June 1997, the FASB issued SFAS 131, Disclosures About Segments of and Related Information. This Statement established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosure about products and services, geographic areas and major customers. The Company plans to adopt this statement on January 1, 1998, as required. The adoption of this Statement will not affect results from operations, financial conditions or long-term liquidity.

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#### PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

##### Part II. Other Information

###### Item 1. Legal Proceedings

There are no pending legal proceedings to which the Registrant or any

of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant. Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996, which is included by a reference herein.

Item 4. Results of Vote of Security Holders

The Annual Meeting of Shareholders of Philadelphia Suburban Corporation (the "Company") was held on May 15, 1997 at the headquarters of the Company, 762 Lancaster Avenue, Bryn Mawr, Pennsylvania, pursuant to the Notice sent on or about April 4, 1997 to all shareholders of record at the close of business on March 24, 1997. At that meeting, the following nominees were elected as directors of the Company for terms expiring in the year 2000 and received the votes set forth after their names below:

Name of Nominee -----	For ---	Withheld -----
John H. Austin, Jr.	15,321,105	195,320
Alan R. Hirsig	15,351,158	181,267
John F. McCaughan	15,375,795	140,630
Harvey J. Wilson	15,354,208	162,217

Since the Board of Directors is divided into three classes with one class elected each year to hold office for a three-year term, the term of office for the following directors continued after the Annual Meeting: John W. Boyer, Jr.; Mary C. Carroll; Nicholas DeBenedictis; G. Fred DiBona, Jr.; and Richard H. Glanton, Esq..

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
4.22	Thirty-first Supplemental Indenture dated as of July 1, 1997
10.26	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Janney Montgomery Scott, Inc., HSBC Securities, Inc., and Paine Webber Incorporated
27	Financial Data Schedule

(b) Report on Form 8-K

None

SIGNATURE

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

August 12, 1997

PHILADELPHIA SUBURBAN CORPORATION  
-----  
Registrant

Nicholas DeBenedictis  
-----  
Nicholas DeBenedictis  
Chairman and President

Michael P. Graham

-----  
Michael P. Graham  
Senior Vice President - Finance  
and Treasurer

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EXHIBIT INDEX

Exhibit No. -----	Description -----	Page No. -----
4.22	Thirty-first Supplemental Indenture dated as of July 1, 1997	15
10.26	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Janney Montgomery Scott, Inc., HSBC Securities, Inc., and Paine Webber Incorporated	60
27	Financial Data Schedule	139

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THIRTY-FIRST SUPPLEMENTAL  
INDENTURE

DATED AS OF JULY 1, 1997

TO

INDENTURE OF MORTGAGE  
DATED AS OF JANUARY 1, 1941

-----  
PHILADELPHIA SUBURBAN WATER COMPANY

TO

MELLON BANK, N.A., as Trustee

-----  
\$150,000,000 FIRST MORTGAGE BONDS,  
1997 MEDIUM TERM NOTE SERIES

-----  
THIRTY-FIRST SUPPLEMENTAL INDENTURE dated as of the first day of July, 1997, by and between PHILADELPHIA SUBURBAN WATER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company"), party of the first part, and MELLON BANK, N.A., a national banking association (the "Trustee"), party of the second part.

WHEREAS, the Company heretofore duly executed and delivered to The Pennsylvania Company for Insurances on Lives and Granting Annuities, as Trustee, an Indenture of Mortgage dated as of January 1, 1941 (the "Original Indenture"), which by reference is hereby made a part hereof, and in and by the Original Indenture the Company conveyed and mortgaged to the Trustee certain property therein described, to secure the payment of its bonds to be generally known as its "First Mortgage Bonds" and to be issued under the Original Indenture in one or more series as therein provided; and

WHEREAS, on March 29, 1947, concurrently with a merger of Germantown Trust Company into The Pennsylvania Company for Insurances on Lives and Granting Annuities, the name of the surviving corporation was changed to The Pennsylvania Company for Banking and Trusts, on September 30, 1955, concurrently with a merger of The First National Bank of Philadelphia into The Pennsylvania Company for Banking and Trusts, the name of the surviving corporation was changed to The First Pennsylvania Banking and Trust Company, and on June 3, 1974, by amendment to its Articles of Association, The First Pennsylvania Banking and Trust Company was changed and converted into a national bank and concurrently therewith changed its name to First Pennsylvania Bank N.A., and on October 1, 1990, First Pennsylvania Bank N.A. merged with and into The Philadelphia National Bank, which changed its name to CoreStates Bank, N.A., and on October 10, 1995, Mellon Bank, N.A. succeeded CoreStates Bank, N.A., as trustee, such mergers, changes of name and succession as trustee not involving any change in the title, powers, rights or duties of the Trustee, as trustee under the Original Indenture as supplemented at the respective dates thereof; and

WHEREAS, the Company duly executed and delivered to the Trustee a First Supplemental Indenture dated as of July 1, 1948, a Second Supplemental Indenture dated as of July 1, 1952, a Third Supplemental Indenture dated as of November 1, 1953, a Fourth Supplemental Indenture dated as of January 1, 1956, a Fifth Supplemental Indenture dated as of March 1, 1957, a Sixth Supplemental Indenture dated as of May 1, 1958, a Seventh Supplemental Indenture dated as of September 1, 1959, an Eighth Supplemental Indenture dated as of May 1, 1961, a Ninth Supplemental Indenture dated as of April 1, 1962, a Tenth Supplemental Indenture dated as of March 1, 1964, an Eleventh Supplemental Indenture dated as of November 1, 1966, a Twelfth Supplemental Indenture dated as of January 1, 1968, a Thirteenth Supplemental Indenture dated as of June 15, 1970, a Fourteenth Supplemental Indenture dated as of November 1, 1970, a Fifteenth

Supplemental Indenture dated as of December 1, 1972, a Sixteenth Supplemental Indenture dated as of May 15, 1975, a Seventeenth Supplemental Indenture dated as of December 15, 1976, an Eighteenth Supplemental Indenture dated as of May 1, 1977, a Nineteenth Supplemental Indenture dated as of June 1, 1980, a Twentieth Supplemental Indenture dated as of August 1, 1983, a Twenty-First Supplemental Indenture, dated as of August 1, 1985, a Twenty-Second Supplemental Indenture, dated as of April 1, 1986, a Twenty-Third Supplemental Indenture, dated as of April 1, 1987, a Twenty-Fourth Supplemental Indenture, dated as of June 1, 1988, a Twenty-Fifth Supplemental Indenture, dated as of January 1, 1990, a Twenty-Sixth Supplemental Indenture, dated as of November 1, 1991, a Twenty-Seventh Supplemental Indenture, dated as of June 1, 1992, Twenty-Eighth Supplemental Indenture, dated as of April 1, 1993, a Twenty-Ninth Supplemental Indenture dated as of March 1, 1995, and a Thirtieth Supplemental Indenture dated as of August 15, 1995, to subject certain additional property to the lien of the Original Indenture and to provide for the creation of additional series of bonds; and

WHEREAS, the Company has issued under the Original Indenture, as supplemented at the respective dates of issue, thirty-six series of First Mortgage Bonds designated, respectively, as set forth in the following table, the Indenture creating each series and the principal amount of bonds thereof issued being indicated opposite the designation of such series:

Designation -----	Indenture -----	Amount -----
3 1/4% Series due 1971	Original	\$16,375,000
3% Series due 1978	First Supplemental	2,000,000
3 3/8% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3 1/2% Series due 1986	Fourth Supplemental	6,000,000
4 1/2% Series due 1987	Fifth Supplemental	4,000,000
4 1/8% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4 5/8% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
5 1/2% Series due 1996	Eleventh Supplemental	4,000,000

6 7/8% Series due 1993	Twelfth Supplemental	4,500,000
9 5/8% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
7 7/8% Series due 1997	Fifteenth Supplemental	5,000,000
10 1/8% Series due 1995	Sixteenth Supplemental	10,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000

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8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
9.97% Series due 2018	Twenty-Fourth Supplemental	5,000,000
9.93% Series due 2013	Twenty-Fourth Supplemental	5,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
9.17% Series due 2021	Twenty-Sixth Supplemental	8,000,000
9.17% Series due 2011	Twenty-Sixth Supplemental	5,000,000
9.29% Series due 2026	Twenty-Sixth Supplemental	12,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
5.95% Series due 2002	Twenty-Seventh Supplemental	4,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000
1995 Medium Term Note Series	Twenty-Ninth Supplemental	77,000,000
7.72% Subseries A due 2025		15,000,000
6.82% Subseries B due 2005		10,000,000
6.89% Subseries C due 2015		12,000,000
6.99% Subseries D due 2006		10,000,000
7.47% Subseries E due 2003		10,000,000
6.83% Subseries F due 2003		10,000,000
7.06% Subseries G due 2004		10,000,000
6.35% Series due 2025	Thirtieth Supplemental	22,000,000

and

WHEREAS, all of the bonds of each of said series are presently outstanding other than the bonds listed on Schedule A attached hereto and made a part hereof; and

WHEREAS, the Original Indenture and said Supplemental Indentures were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the following counties in the Mortgage Books and at the pages indicated in the following table:

[continued on next page]

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COUNTY

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Original	2/20/41	496	1	H-13.Vol.307	20	1034	1	1625	1
First Supplemental	8/26/48	632	1	F-16.Vol.380	200	1668	169	2031	257
Second Supplemental	7/1/52	768	438	18.Vol.425	186	1962	376	2360	517
Third Supplemental	11/25/53	895	1	18.Vol.442	325	2052	1	2493	1
Fourth Supplemental	1/9/56	1089	155	Z-20.Vol.499	1	2199	1	2722	425
Fifth Supplemental	3/20/57	1181	316	B-22.Vol.536	601	2294	50	2850	335
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	039	2952	289
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090	249

Eighth Supplemental	5/9/61	-	-	Z-26	17	2526	312	-	-
Eighth Supplemental	5/10/61	1409	225	-	-	-	-	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549	129
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	-	-	5864	1347
Twenty-First Supplemental	8/28/85	-	-	-	-	264	159	-	-
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	-	-	-	-	-	-
Twenty-Third Supplemental	4/2/87	-	-	680	337	447	1807	6115	602
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324	143
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538	376
Twenty-Sixth Supplemental	11/8/91	369	2190	2660	205	894	2241	6780	891
Twenty-Seventh Supplemental	6/29/92	0487	1829	3055	182	0969	2023	6918	302
Twenty-Eighth Supplemental	4/22/93	0652	1335	3542	1542	1081	0852	7112	0539

(continued onto next page)

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#### COUNTY

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Twenty-Ninth Supplemental	3/30/95	1045	1872	3875	1368	1349	0829	7561	1155
Thirtieth Supplemental	8/30/95	1111	0798	3932	0471	1393	2255	7631	0689

and

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented, one or more new series of bonds to be designated "First Mortgage Bonds, 1997 Medium Term Note Series, Subseries \_\_\_" (the "Bonds") to be limited in aggregate principal amount to \$150,000,000, to be issued hereunder only as registered bonds without coupons, to be dated as provided in the Original Indenture and this Thirty-First Supplemental Indenture, to bear interest at the rates and mature on the dates as determined hereunder by the Company; and

WHEREAS, the Bonds may be issued in a single series or from time to time in more than one series designated as a "subseries" and, if so issued in more than one subseries, each subseries of the Bonds shall bear a separate letter designation and the first such subseries of the Bonds shall be designated "First Mortgage Bonds, 1997 Medium Term Note Series, Subseries A"; and

WHEREAS, the Company proposes to issue \$150,000,000 principal amount of the Bonds under the provisions of Article IV of the Original Indenture, as supplemented by this Thirty-First Supplemental Indenture, in one or more transactions over a period of up to two years from June 6, 1997 through June 5, 1999 (the "Offering Period"), and, for each such transaction, will comply with the provisions thereof as well as with other provisions of the Original Indenture and indentures supplemental thereto in connection with the issuance of additional bonds so that it will be entitled to procure the

authentication and delivery of the Bonds; and

WHEREAS, the lien of the Original Indenture as supplemented has been perfected as a security interest under the Pennsylvania Uniform Commercial Code by filing a financing statement in the office of the Secretary of the Commonwealth; and

WHEREAS, Article XVIII of the Original Indenture provides that the Company, when authorized by resolution of its Board of Directors, may with the Trustee enter into an indenture supplemental to the Original Indenture, which thereafter shall form a part of the Original Indenture, for the purposes, inter alia, of subjecting to the lien of the Original Indenture additional property, of defining the covenants and provisions applicable to any bonds of any series other than the 3 1/4% Series due 1971, of adding to the covenants and agreements of the Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Company, and of making such provisions in regard to matters or questions

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arising under the Original Indenture as may be necessary or desirable and not inconsistent therewith; and

WHEREAS, in addition to the property described in the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth and Thirtieth Supplemental Indentures, the Company has acquired or will acquire certain other property and desires to confirm the lien of the Original Indenture thereon; and

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of said new series of Bonds (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Thirty-First Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Thirty-First Supplemental Indenture), and has further duly authorized the execution, delivery and recording of this Thirty-First Supplemental Indenture setting forth the terms and provisions of the Bonds insofar as said terms and provisions are not set forth in said Original Indenture; and

WHEREAS, the Bonds and the Trustee's certificate upon said Bonds are to be substantially in the forms following - the proper amount, names of registered owners and numbers to be inserted therein, and such appropriate insertions, omissions and changes to be made therein as may be required or permitted by this Thirty-First Supplemental Indenture to conform to any pertinent law or usage:

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THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS"), APPROVED BY [AGENT(S)] OR ANOTHER DULY APPOINTED PLACEMENT AGENT (THE "PLACEMENT AGENTS") OR BY THE COMPANY IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR



INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR DULY AUTHORIZED PAYING AGENT (AS DEFINED HEREIN) OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

[Bonds eligible for deposit at The Depository Trust Company shall also bear the following legend:]

THIS NOTE IS A PERMANENT GLOBAL NOTE. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE COMPANY OR ITS

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AGENT FOR REGISTRATION OR TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

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No. R- \$ \_\_\_\_\_

PHILADELPHIA SUBURBAN WATER  
COMPANY

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 1997 Medium Term Note Series,  
Subseries \_\_\_\_\_

PRINCIPAL AMOUNT \_\_\_\_\_  
ORIGINAL ISSUE DATE \_\_\_\_\_

INTEREST RATE \_\_\_\_\_  
MATURITY DATE \_\_\_\_\_  
INITIAL REDEMPTION DATE \_\_\_\_\_  
INITIAL REDEMPTION PERCENTAGE \_\_\_\_\_  
ANNUAL REDEMPTION REDUCTION PERCENTAGE \_\_\_\_\_  
[OPTIONAL TENDER DATE \_\_\_\_\_]

Philadelphia Suburban Water Company, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the "Company", which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., as nominee for The Depository Trust Company ("DTC") or its registered assigns, on the Maturity Date referred to above, the sum of \_\_\_\_\_ and to pay interest thereon at the Interest Rate per annum specified above, until the principal hereof is paid or duly made available for payment, semiannually on February 15 and August 15 (each an "Interest Payment Date") in each year commencing on the first Interest Payment Date next succeeding the Original Issue Date specified above (the "Original Issue Date"), unless the Original Issue Date or the date of authentication occurs between a Record Date, as defined below, and the next succeeding Interest Payment Date, in which case commencing on the second Interest Payment Date succeeding the Original Issue Date, to the registered holder of this bond of the 1997 Medium Term Note Series, as defined below, on the Record Date with respect to such Interest Payment Date, and on the maturity date specified on the face hereof (the "Maturity Date"), any date fixed for redemption pursuant to the terms hereof (the "Redemption Date") or any date fixed for the optional tender pursuant to the terms hereof (the "Tender Date"). Interest on this bond of the 1997 Medium Term Note Series will accrue from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the

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Original Issue Date specified above, until the principal hereof has been paid or made duly available for payment. If the Maturity Date (or any Redemption Date or Tender Date) or an Interest Payment Date falls on a day which is not a Business Day, as defined below, principal (and premium, if any) or interest payable with respect to such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date will be paid on the next succeeding Business Day with the same force and effect as if made on such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date, as the case may be, and no interest shall accrue with respect to such payment for the period from and after such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, subject to certain exceptions, be paid to the nominee of DTC, in whose name this bond of the 1997 Medium Term Note Series is registered at the close of business on the Record Date for such interest, which shall be the 1st day of the calendar month in which such Interest Payment Date occurs; provided, however, that interest payable on the Maturity Date (or any Redemption Date or Tender Date) will be payable to the person to whom the principal hereof shall be payable. As used herein, "Business Day" means any day other than a Saturday or Sunday, on which the Trustee, any paying agent, or banks in New York, New York are not required or authorized by law to close.

The interest so payable will (except as otherwise provided in the Thirty-First Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months.

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by an Indenture of Mortgage (herein called the "Indenture") dated as of January 1, 1941, executed by the Company to The Pennsylvania Company for Insurances on Lives and Granting Annuities (now Mellon Bank, N.A., as successor trustee), as Trustee (hereinafter called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of

the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity

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herein and in the Indenture provided, the principal of, (premium if any) and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in an indenture supplemental to said Indenture known as the "Thirty-First Supplemental Indenture" dated as of July 1, 1997, and designated therein as "First Mortgage Bonds, 1997 Medium Term Note Series, Subseries \_\_\_" (the "bonds of the 1997 Medium Term Note Series").

The bonds of the 1997 Medium Term Note Series will be issued in fully registered form, without coupons. The bonds of the 1997 Medium Term Note Series will be deposited with, or on behalf of DTC and registered in the name of a nominee of DTC in the form of one or more global securities (the "Global Bonds") or will remain in the custody of the Trustee pursuant to a Medium-Term Note Certificate Agreement, dated September 22, 1994, between DTC and the Trustee. DTC was created to hold securities of persons who have accounts with DTC ("participants") and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants.

Upon the issuance of a Global Bond, DTC or its nominees will credit the respective bonds of the 1997 Medium Term Note Series represented by such Global Bond to accounts of participants. The accounts to be credited shall be designated by the purchasers. Ownership of beneficial interests in such Global Bonds will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests by participants in such Global Bonds will be shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC or its nominee for such Global Bonds. Ownership of beneficial interests in such Global Bonds by persons that hold through participants will be shown on, and the transfer of that ownership interest within such participant will be effected only through, records maintained by such participant.

So long as DTC or its nominee is the registered owner of a Global Bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of those bonds of the 1997 Medium Term Note Series beneficially owned by other persons for all purposes under the Indenture. Except as set forth below, owners of beneficial interests in such Global Bonds will not be entitled to have the bonds of the 1997 Medium Term Note Series registered in their names, will not receive or be entitled to receive physical delivery of the bonds of the 1997 Medium Term Note Series in definitive form and will not be considered the owners or holders thereof under the Indenture.

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Payment of principal of and any interest on the bonds of the 1997 Medium Term Note Series registered in the name of or held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner or the holder of the Global Bond. Neither the Company, the Trustee nor any paying agent for the bonds of the 1997 Medium Term Note Series will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Bond or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Payment of principal or any interest on the Certificated Bonds (as defined below), if any, will be made to the registered owners thereof.

The Company expects that DTC, upon receipt of any payment of principal or interest in respect of a permanent Global Bond, will credit immediately participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Bond as shown on the records of DTC. The Company also expects that payments by participants to owners of beneficial interests in such Global Bond held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants.

A Global Bond may not be transferred except as a whole by DTC to a nominee or a successor of DTC. If DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Company within 90 days, the Company will issue bonds of the 1997 Medium Term Note Series in definitive registered form (the "Certificated Bonds") in exchange for the Global Bond or Bonds representing such bonds of the 1997 Medium Term Note Series. In addition, the Company may at any time and in its sole discretion determine not to have some of or all the bonds of the 1997 Medium Term Note Series represented by one or more Global Bonds and, in such event, will issue bonds of the 1997 Medium Term Note Series in definitive registered form in exchange for all of the Global Bonds representing such bonds of the 1997 Medium Term Note Series. In any such instance, an owner of a beneficial interest in a Global Bond will be entitled to physical delivery of Certificated Bonds represented by such Global Bond equal in amount to that represented by such beneficial interest and to have such Certificated Bonds registered in its name.

Payments of principal, premium, if any, and interest shall be made in such coin or currency of the United States as at the time of payment is legal tender for the payment of public and private debts. Payments of interest, other than interest payable at the Maturity Date, or any earlier Redemption Date or Tender Date, will be paid in immediately available funds by wire transfer to the account of Cede & Co., as nominee for DTC, or, in the case of Certificated Bonds, by check mailed to the registered holder of

such bond at the address shown in the Register maintained by the Trustee, or at the option of the registered holder, at such place in the United States of America as the registered holder shall designate to the Trustee in writing. Notwithstanding the foregoing, the registered holder of \$10,000,000 or more of Certificated Bonds with the same Interest Payment Date shall be entitled to receive payment by wire transfer of immediately available funds, provided that written instructions designating the account number and bank in New York, New York (or other bank consented to by the Company) shall have been received by the Trustee not less than ten (10) days prior to such Interest Payment Date. Once such wire transfer instructions have been received by the Trustee they shall remain in effect unless (i) the Trustee is notified, in writing, of a change thereof not less than ten (10) days prior to an Interest Payment Date; or (ii) the registered holder no longer holds an aggregate principal amount of at least \$10,000,000 of Certificated Bonds having the same Interest Payment Date.

The principal amount hereof, premium, if any, and interest due on the Redemption Date, Tender Date or at the Maturity Date will be paid on the Redemption Date, Tender Date or at the Maturity Date in immediately available funds by wire transfer to such account at a bank in New York, New York (or such other bank consented to by the Company) as such holder of the bond of the 1997 Medium Term Note Series shall have designated for such payment or for the payment of interest as provided above. Payment to a registered holder of bonds of the 1997 Medium Term Note Series for which appropriate instructions for payment have not been received by the Trustee not later than ten (10) days prior to the related date of payment shall be made by check mailed by the Trustee to the person entitled thereto at such person's address appearing in the registry maintained by the Trustee. Wire transfer instructions received by the Trustee in connection with the payment of principal, premium, if any, and interest due on the Redemption Date, Tender Date or the Maturity Date of the bond of the 1997 Medium Term Note Series shall remain in effect unless the Trustee is notified of a change thereof not less than ten (10) days prior to the Redemption Date, Tender Date or Maturity Date. Payment of principal, premium, if any, and interest due on the Redemption Date, Tender Date or the Maturity Date on the

bond of the 1997 Medium Term Note Series shall only be made against presentation and surrender of this bond at a delivery office designated by the Trustee and maintained for that purpose in Pittsburgh, Pennsylvania, or at such other office or agency of the Company as the Company shall designate.

So long as the bonds of the 1997 Medium Term Note Series are in book-entry form represented by Global Bonds registered in the name of Cede & Co., or another nominee of DTC, then Cede & Co., or such other nominee of DTC, as the case may be, will be considered the sole owner or holder of the bonds of the 1997 Medium

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Term Note Series represented by such Global Bond for the purpose of receiving payment on the bonds of the 1997 Medium Term Note Series, receiving notices and for all other purposes under the Indenture or the Global Bond. Ownership of beneficial interests in Global Bonds will be limited to persons who have accounts with DTC (the "participants") or persons that may hold interests through participants. Beneficial interests in a Global Bond will be evidenced only by, and transfers thereof will be effected only through, records maintained by DTC. Ownership of beneficial interests in such Global Bonds by persons that hold through participants will be shown on, and the transfer of that ownership interest within such participant will be effected only through, records maintained by such participant. In the case of Certificated Bonds, subject to certain restrictions set forth on the face hereof and in the Indenture, this bond may be transferred at the aforesaid office of the Trustee by surrendering this bond for cancellation, accompanied by a written instrument of transfer in form satisfactory to the Trustee and duly executed by the registered holder hereof in person or by the holder's attorney duly authorized in writing, and thereupon the Trustee will issue in the name of the transferee or transferees, in exchange hereof, a new bond or bonds having identical terms and provisions and having a like aggregate principal amount in authorized denominations, subject to the terms and conditions set forth herein; provided, however, that the Trustee will not be required to register the exchange or transfer of any bond of the 1997 Medium Term Note Series after the first notice of redemption of such bond has been mailed or after the first notice of Tender (hereinafter defined) of such bond has been received by the Trustee or during a period beginning at the opening of business ten (10) days preceding an Interest Payment Date. Bonds of the 1997 Medium Term Note Series are exchangeable at said office for other bonds of the 1997 Medium Term Note Series of other authorized denominations of equal aggregate principal amount and having identical terms and provisions. All such exchanges of bonds of the 1997 Medium Term Note Series will be free of charge, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge in connection therewith. All bonds of the 1997 Medium Term Note Series surrendered for exchange shall be accompanied by a written instrument of transfer in the form attached hereto to the Trustee and executed by the registered holder in person or by the holder's attorney duly authorized in writing.

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture,

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and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the

percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal of or interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

The bonds of the 1997 Medium Term Note Series are subject to redemption at the option of the Company on or after the Initial Redemption Date specified on the face hereof (if any), either as a whole or in part, on any Interest Payment Date in coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts at the Redemption Price equal to the Initial Redemption Percentage specified on the face hereof of the principal amount hereof, which shall decline on each anniversary of the Initial Redemption Date by the Annual Redemption Reduction Percentage specified on the face hereof of the principal amount to be redeemed until the Redemption Price is 100% of such principal amount, in each case plus accrued interest to the Redemption Date.

The bonds of the 1997 Medium Term Note Series are subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. In such a mandatory redemption, the bonds of the 1997 Medium Term Note Series are redeemable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the Redemption Date.

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Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days before the Redemption Date, all on the conditions and in the manner provided in the Indenture.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the Redemption Date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

A bond of the 1997 Medium Term Note Series which has a Maturity Date which is more than ten years after the Original Issue Date is, if specified on the face hereof, subject to optional tender ("Tender"), in its entirety, by holders thereof on the first Interest Payment Date ("Tender Date") next succeeding the tenth anniversary of the Original Issue Date in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts at a tender price ("Tender Price") of one hundred percent (100%) of the principal amount thereof, plus accrued interest to the Tender Date.

Any Tender shall be effectuated by (1) notice ("Tender Notice") mailed (by registered mail with return receipt requested or other courier or express delivery service) by the registered owner of a bond of the 1997 Medium Term Note Series to the Trustee at least thirty (30) days prior to the Tender Date, and (2) presentment to the Trustee of said bond[s] of the 1997 Medium Term Note Series at least five (5) Business Days prior to the Tender Date.

If a Bond of the 1997 Medium Term Note Series which is subject

to Tender is tendered and payment thereof is duly provided for, interest shall cease to accrue hereon from and after the Tender Date.

By delivery of the Tender Notice, the owner irrevocably agrees to deliver the bond or bonds described therein (if such bonds are in certificated form) to the office of the Trustee at least five (5) Business Days prior to the Tender Date. The determination by the Trustee of a bondholder's compliance with the requirement of the Tender Notice is in its sole discretion and binding on the Company and the holder of the bond or bonds. Any Tender Notice which is determined not to be in compliance with this Thirty-First Supplemental Indenture shall be of no force and effect.

If a holder who gives a Tender Notice shall fail to deliver the bond identified in the Tender Notice to the Trustee at

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or prior to 10:00 a.m. on the Purchase Date, such bond shall be deemed purchased and shall cease to accrue interest on such Tender Date and the holder thereof shall thereafter be entitled only to payment of the Tender Price therefor and to no other benefits of this Thirty-First Supplemental Indenture.

Notwithstanding anything to the contrary herein, the right of the holders of a bond to tender the bonds shall cease immediately and without further notice from and including the date on which the Trustee notifies the holder of such bond of an acceleration under Article XI of the Indenture.]

The principal hereof may be declared or may become due prior to its Maturity Date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of bonds then outstanding, including the bonds of the 1997 Medium Term Note Series, to annul such declaration.

The Company, the Trustee and any Paying Agent may deem and treat the registered owner of this bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

When any notice to holders of the bonds of the 1997 Medium Term Note Series requesting consents, waivers, votes or other actions of such holders is given by the Trustee hereunder at any time that the bonds of the 1997 Medium Term Note Series are represented by Global Bonds registered in the name of Cede & Co., or another nominee of DTC, such notice shall be sent by the Trustee to DTC with a request that DTC forward (or cause to be forwarded) the notice to the DTC participants so that DTC participants may forward (or cause to be forwarded) the notice to the beneficial owners. The Trustee shall be entitled to rely on any omnibus proxy delivered by DTC and to consider those DTC participants to whose account the bonds of the 1997 Medium Term Note Series are credited on any record date or special record date, as appropriate, and identified in a listing attached to the omnibus proxy, as owners of the aggregate amount of bonds of the 1997 Medium Term Note Series set forth on such listing for purposes of any consent, waiver, vote or other action of holders of such bonds of the 1997 Medium Term Note Series.

No recourse shall be had for the payment of the principal of or interest on this bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or

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through the Company, or through any such predecessor or successor corporation or

through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

The bonds of the 1997 Medium Term Note Series and related documentation may be amended or supplemented from time to time by the Company without the consent of any holder of bonds of the 1997 Medium Term Note Series to modify the restrictions on and procedures for resale and other transfers of the bonds of the 1997 Medium Term Note Series to reflect any change in applicable law or regulation (or the interpretation thereof) or provide alternative procedures in compliance with applicable law and practices relating to the resale or other transfer of restricted securities generally. Each holder of any bond of the 1997 Medium Term Note Series will be deemed, by the acceptance of such bond, to have agreed to any such amendment or supplement.

The Company agrees to make available to any holder of bonds of the 1997 Medium Term Note Series or a prospective purchaser of bonds of the 1997 Medium Term Note Series, each of whom is a Qualified Institutional Buyer as defined in Rule 144A of the Securities Act of 1933, as amended, such information required by Rule 144A to enable resales of the bonds of the 1997 Medium Term Note Series to be made pursuant to Rule 144A. However, the Company shall not be required to provide more information than was required by Rule 144A as originally adopted but may elect to do so, if necessary, under subsequent revisions of Rule 144A.

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until Mellon Bank, N.A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond of the 1997 Medium Term Note Series shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the State of New York (excluding laws governing conflicts of law).

IN WITNESS WHEREOF, Philadelphia Suburban Water Company has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated \_\_\_\_\_.

Attest: PHILADELPHIA SUBURBAN  
WATER COMPANY

\_\_\_\_\_  
Assistant Secretary

By: \_\_\_\_\_  
Vice President and Treasurer

[Form of Trustee's Certificate]

This bond is one of the bonds, of the series designated therein, referred to in the within-mentioned Thirty-First Supplemental Indenture.

MELLON BANK, N.A., TRUSTEE

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

[Form of Certificate of Transfer]



(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a Placement Agent).

In connection with any transfer of this bond occurring prior to the date which is three years after the later of (a) the Original Issue Date of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

- [ ] This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration

under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to the Placement Agent referred to in such legend or to the Company or (ii) through the Placement Agent or by the Placement Agent acting as principal to a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by the Placement Agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

and;

WHEREAS, all acts and things necessary to make the Bonds, when executed by the Company and authenticated and delivered by the Trustee as in this Thirty-First Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Thirty-First

Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Thirty-First Supplemental Indenture has been in all respects duly authorized:

NOW, THEREFORE, THIS THIRTY-FIRST SUPPLEMENTAL INDENTURE WITNESSETH: That, in order to secure the payment of the principal and interest of all bonds issued under the Original Indenture and

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all indentures supplemental thereto, according to their tenor and effect, and according to the terms of the Original Indenture and of any indenture supplemental thereto, and to secure the performance of the covenants and obligations in said bonds and in the Original Indenture and any indenture supplemental thereto respectively contained, and to provide for the proper issuing, conveying and confirming unto the Trustee, its successors in said trust and its and their assigns forever, upon the trusts and for the purposes expressed in the Original Indenture and in any indenture supplemental thereto, all and singular the estates, property and franchises of the Company thereby mortgaged or intended so to be, the Company, for and in consideration of the premises and of the sum of One Dollar (\$1.00) in hand paid by the Trustee to the Company upon the execution and delivery of this Thirty-First Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, has granted, bargained, sold, aliened, infested, released and confirmed and by these presents does grant, bargain, sell, alien, enfeoff, release and confirm unto Mellon Bank, N.A., as Trustee, and to its successors in said trust and its and their assigns forever:

All and singular the premises, property, assets, rights and franchises of the Company, whether now or hereafter owned, constructed or acquired, of whatever character and wherever situated (except as herein expressly excepted), including among other things the following, but reference to or enumeration of any particular kinds, classes, or items of property shall not be deemed to exclude from the operation and effect of the Original Indenture or any indenture supplemental thereto any kind, class or item not so referred to or enumerated:

I.

REAL ESTATE AND WATER RIGHTS.

The real estate described in the deeds from the grantors named in Exhibit A hereto, dated and recorded as therein set forth, and any other real estate and water rights acquired since the date of the Thirtieth Supplemental Indenture.

II.

BUILDINGS AND EQUIPMENT.

All mains, pipes, pipe lines, service pipes, buildings, improvements, standpipes, reservoirs, wells, flumes, sluices, canals, basins, cribs, machinery, conduits, hydrants, water works, plants and systems, tanks, shops, structures, purification systems, pumping stations, fixtures, engines, boilers, pumps, meters and equipment which are now owned or may hereafter be acquired by the

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Company (except as herein expressly excepted), including all improvements, additions and extensions appurtenant to any real or fixed property now or hereafter subject to the lien of the Original Indenture or any indenture supplemental thereto which are used or useful in connection with the business of the Company as a water company or as a water utility, whether any of the foregoing property is now owned or may hereafter be acquired by the Company.

It is hereby declared by the Company that all property of the kinds described in the next preceding paragraph, whether now owned or hereafter acquired, has been or is or will be owned or acquired with the intention of using the same in carrying on the business or branches of the business of the Company, and it is hereby declared that it is the intention of the Company that all thereof (except property hereinafter specifically excepted) shall be subject to the lien of the Original Indenture.

It is agreed by the Company that so far as may be permitted by law tangible personal property now owned or hereafter acquired by the Company, except such as is hereafter expressly excepted from the lien hereof, shall be deemed to be and construed as fixtures and appurtenances to the real property of the Company.

### III.

#### FRANCHISES AND RIGHTS OF WAY.

All the corporate and other franchises of the Company, all water and flowage rights, riparian rights, easements and rights of way, and all permits, licenses, rights, grants, privileges and immunities, and all renewals, extensions, additions or modifications of any of the foregoing, whether the same or any thereof, or any renewals, extensions, additions or modifications thereof, are now owned or may hereafter be acquired, owned, held, or enjoyed by the Company.

### IV.

#### AFTER ACQUIRED PROPERTY.

All real and fixed property and all other property of the character hereinabove described which the Company may hereafter acquire.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, product and profits thereof, and all the estate, right, title, interest and claim whatsoever, at law

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as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, rights and franchises and every part and parcel thereof.

EXCEPTING AND RESERVING, HOWEVER, certain premises, not used or useful in the supplying of water by the Company, expressly excepted and reserved from the lien of the Original Indenture and not subject to the terms thereof.

AND ALSO SAVING AND EXCEPTING from the property hereby mortgaged and pledged, all of the following property (whether now owned by the Company or hereafter acquired by it): all bills, notes and accounts receivable, cash on hand and in banks, contracts, choses in action and leases to others (as distinct from the property leased and without limiting any rights of the Trustee with respect thereto under any of the provisions of the Original Indenture or of any indenture supplemental thereto), all bonds, obligations, evidences of indebtedness, shares of stock and other securities, and certificates or evidences of interest therein, all automobiles, motor trucks, and other like automobile equipment and all furniture, and all equipment, materials, goods, merchandise and supplies acquired for the purpose of sale in the ordinary course of business or for consumption in the operation of any properties of the Company other than any of the foregoing expected property which may be specifically transferred or assigned to or pledged or deposited with the Trustee hereunder or required by the provisions of the Original Indenture or any indenture supplemental thereto so to be; provided, however, that if, upon the happening of a completed default, as specified in Section I of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and

take possession of the mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

SUBJECT, HOWEVER, to the exceptions, reservations and matters hereinabove and in the Original Indenture recited, to releases executed since the date of the Original Indenture in accordance with the provisions thereof, to existing leases, to easements and rights of way for pole lines and electric transmission lines and other similar encumbrances and restrictions which the Company hereby certifies, in its judgment, do not impair the use of said property by the Company in its business, to liens existing on or claims against, and rights in and relating to, real

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estate acquired for right-of-way purposes, to taxes and assessments not delinquent, to alleys, streets and highways that may run across or encroach upon said lands, to liens, if any, incidental to construction, and to Permitted Liens, as defined in the Original Indenture; and, with respect to any property which the Company may hereafter acquire, to all terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in such deeds and other instruments, respectively, under and by virtue of which the Company shall hereafter acquire the same and to any and all liens existing thereon at the time of such acquisition.

TO HAVE AND TO HOLD, all and singular the property, rights, privileges and franchises hereby conveyed, transferred or pledged or intended so to be unto the Trustee and its successors in the trust heretofore and hereby created, and its and their assigns forever.

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every person or corporation who may be or become the holders of bonds and coupons secured by the Original Indenture or by any indenture supplemental thereto, or both, without preference, priority or distinction as to lien or otherwise of any bond or coupon over or from any other bond or coupon, so that each and every of said bonds and coupons issued or to be issued, of whatsoever series, shall have the same right, lien and privilege under the Original Indenture and all indentures supplemental thereto and shall be equally secured hereby and thereby, with the same effect as if said bonds and coupons had all been made, issued and negotiated simultaneously on the date thereof; subject, however, to the provisions with reference to extended, transferred or pledged coupons and claims for interest contained in the Original Indenture and subject to any sinking or improvement fund or maintenance deposit provisions, or both, for the benefit of any particular series of bonds.

IT IS HEREBY COVENANTED, DECLARED AND AGREED, by and between the parties hereto, that all such bonds and coupons are to be authenticated, delivered and issued, and that all property subject or to become subject hereto is to be held subject to the further covenants, conditions, uses and trusts hereinafter set forth, and the Company, for itself and its successors and assigns, does hereby covenant and agree to and with the Trustee and its successor or successors in said trust, for the benefit of those who shall hold said bonds and coupons, or any of them, issued under this Indenture or any indenture supplemental hereto, or both, as follows:

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ARTICLE I.

Form, Authentication and Delivery of the Bonds;  
Redemption and Tender Provisions

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SECTION 1. There shall be a thirty-seventh series (and later series as described herein) of bonds, limited in aggregate principal amount to \$150,000,000 designated as "Philadelphia Suburban Water Company First Mortgage Bonds, 1997 Medium Term Note Series, Subseries "\_\_\_" (the "Bonds"). The Bonds may be issued at any time during the Offering Period in a single subseries or from time to time during the Offering Period in more than one subseries pursuant to this Thirty-First Supplemental Indenture and the Original Indenture. Each subseries of the Bonds issued hereunder shall constitute a separate series for purposes of this Thirty-First Supplemental Indenture and the Original Indenture. Each subseries of the Bonds shall be initially authenticated and delivered from time to time upon delivery to the Trustee of the items specified in Article IV of the Original Indenture, including the initial authorizing resolution of the Board of Directors of the Company for the issuance of the Bonds (a "Series Authorizing Resolution") and a certificate of an authorized officer of the Company issued pursuant to said resolution (a "Subseries Authorizing Certificate") specifying the principal amount of the Bonds of such subseries to be issued on the specified date of issuance, the numbers, denominations, redemption date or dates, tender date if any, maturity date or dates, redemption prices and interest rate or rates of such Bonds.

Interest on each subseries of the Bonds shall be payable semiannually on February 15 and August 15 (each an "Interest Payment Date") in each year commencing on the first Interest Payment Date next succeeding the date of authentication of such Bond (the "Original Issue Date"), unless the Original Issue Date or the date of authentication occurs between a Record Date, as defined below, and the next succeeding Interest Payment Date, in which case commencing on the second Interest Payment Date succeeding the Original Issue Date or the date of authentication, to the registered holders of the Bonds on the Record Date with respect to such Interest Payment Date, and on the maturity date specified on the face of the Bond (the "Maturity Date") or any date fixed for tender or redemption pursuant to the terms of such Bond (the "Tender Date" or "Redemption Date" respectively). Interest on each subseries of Bonds will accrue from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from its Original Issue Date, until the principal has been paid or made duly available for payment. If the Maturity Date (or any Redemption Date or Tender Date) or an Interest Payment Date falls on a day which is not a Business Day, as defined below, principal (and premium, if any) or interest payable with respect to such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date will be paid on the

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next succeeding Business Day with the same force and effect as if made on such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date, as the case may be, and no interest shall accrue with respect to such payment for the period from and after such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date. The term "Record Date" as used in this Section 1 with respect to any regular Interest Payment Date shall mean the 1st day of the calendar month in which such Interest Payment Date occurs. As used herein, "Business Day" means any day other than a Saturday or Sunday, on which the Trustee, any paying agent or banks in New York, New York are not required or authorized by law to close.

Each subseries of the Bonds shall be stated to mature (subject to the right of earlier redemption or Tender at the prices and dates and upon the terms and conditions hereinafter set forth) and shall bear interest at the rates set forth in the Subseries Authorizing Certificate.

The Bonds shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the minimum denomination of \$100,000 or any integral multiple of \$1,000 in excess thereof, shall be lettered "R", and shall bear such numbers as the Company may reasonably require.

The principal of, and premium, if any, and interest on the Bonds shall be payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private

debts; provided, however, that each installment of interest may be paid by check to the order of the person entitled thereto, mailed to such person's address as the same appears on the books maintained for such purpose by or on behalf of the Company, or by bank wire transfer of immediately available funds pursuant to instructions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any Record Date with respect to any Interest Payment Date shall be entitled to receive the interest payable on such Interest Payment Date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such Interest Payment Date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen (15) days preceding such subsequent Record Date, such Record Date to be not less than ten (10) days preceding the date of payment of such defaulted interest.

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Exchange of any Bonds shall be effected in accordance with the applicable provisions of Sections 7, 8 and 9 of Article II of the Original Indenture.

The text of the Bonds and of the certificate of the Trustee upon such Bonds shall be, respectively, substantially of the tenor and effect hereinbefore recited.

SECTION 2. Each subseries of the Bonds shall be subject to redemption at the option of the Company on and after the Initial Redemption Date indicated on the face of the Bonds. On and after the Initial Redemption Date, the Bonds of such subseries may be redeemed in whole or in part in increments of \$1,000 (provided that any remaining principal hereof shall be at least \$100,000) at the option of the Company at the Redemption Price (hereinafter defined), together with interest thereon payable to the Redemption Date.

The Redemption Price shall initially be the Initial Redemption Percentage specified on the face of such subseries of the Bonds of the principal amount of such subseries and, if applicable, shall decline on each anniversary of the Initial Redemption Date by the Annual Redemption Reduction Percentage specified on the face of such Subseries of the Bonds, of the principal amount to be redeemed until the Redemption Price is 100% of such principal amount.

SECTION 3. Each subseries of the Bonds shall be subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. The Bonds are redeemable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption.

SECTION 4. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 5. During the Offering Period, there will be delivered to the Trustee an adequate number of executed Bonds which will have the Bond number, principal amount, Original Issue Date,

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interest rate, Maturity Date, Initial Redemption Date, Initial Redemption Percentage and Annual Redemption Reduction Percentage left blank. Each Bond will be signed and sealed manually or by facsimile on behalf of the Company, to be held in safekeeping by the Trustee for the account of the Company. If an officer of the Company whose signature is on a Bond no longer holds such office at the time the Trustee delivers the Bond in accordance with this Agreement, the Bond will be valid nevertheless. Each subseries of the Bonds may be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture and receipt of a Series Authorizing Resolution for such subseries.

SECTION 6. A Bond of the 1997 Medium Term Note Series which has a Maturity Date which is more than ten years after the Original Issue Date may, at the option of the Company, be issued by the Company subject to optional tender ("Tender"), in its entirety, by holders thereof on the first Interest Payment Date next succeeding the tenth anniversary of the Original Issue Date ("Tender Date") in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts at a tender price ("Tender Price") of one hundred percent (100%) of the principal amount thereof, plus accrued interest to the Tender Date.

Any Tender shall be effectuated by (1) notice ("Tender Notice") mailed (by registered mail with return receipt requested or other courier or express delivery service) by the registered owner of a bond of the Medium Term Notes to the Trustee at least thirty (30) days prior to the Tender Date, and (2) presentment to the Trustee of said bond[s] of the 1997 Medium Term Note Series at least five (5) Business Days prior to the Tender Date.

If a Bond of the 1997 Medium Term Note Series which is subject to Tender is tendered and payment thereof is duly provided for, interest shall cease to accrue hereon from and after the Tender Date.

By delivery of the Tender Notice, the owner irrevocably agrees to deliver the bond or bonds described therein (if such bonds are in certificated form) to the delivery office of the Trustee designated in Article V, Section 2 hereof at least five (5) Business Days prior to the Tender Date. The determination by the Trustee of a bondholder's compliance with the requirement of the Tender Notice is in its sole discretion and binding on the Company and the holder of the bond or bonds. Any Tender Notice which is determined not to be in compliance with this Thirty-First Supplemental Indenture shall be of no force and effect.

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If a holder who gives a Tender Notice shall fail to deliver the bond identified in the Tender Notice to the Trustee at or prior to 10:00 a.m. on the Purchase Date, such bond shall be deemed purchased and shall cease to accrue interest on such Tender Date and the holder thereof shall thereafter be entitled only to payment of the Tender Price therefor and to no other benefits of this Thirty-First Supplemental Indenture.

Notwithstanding anything to the contrary herein, the right of the holders of a bond to tender the bonds shall cease immediately and without further notice from and including the date on which the Trustee notifies the holder of such bond of an acceleration under Article XI of the Indenture.

## ARTICLE II.

### Maintenance or Improvement Deposit.

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SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the 9.89%

Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 7.15% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.93% Series due 2013 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.12% Series due 2010 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.29% Series due 2026 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.17% Series due 2021 shall cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 6.50% Series due 2010 shall cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 5.95% Series due 2002 shall cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1995 Medium Term Note Series issued under the Twenty-Ninth Supplemental Indenture (consisting of the 7.72% Subseries A due 2025, the 6.82% Subseries B due 2005, the 6.89% Subseries C (due 2015, the 6.99% Subseries D due 2006, the 7.47% Subseries E due 2003, the 6.83% Subseries F due 2003, and the 7.06% Subseries G due 2004) shall cease to be outstanding, or on or before the March 1 next occurring after bonds of the 6.35% Series due 2025 shall cease to be outstanding, whichever is latest, and on or before March 1 in each year thereafter if and so long as any of the Bonds are outstanding, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the company desires to take such credits, the following:

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(a) the amount actually expended for maintenance during such calendar year; and

(b) the Cost or Fair Value, whichever is less, of Permanent Additions acquired during such calendar year which at the time of taking such credit constitute Available Permanent Additions; and

(c) the unapplied balance, or any part thereof, of the Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the five calendar years preceding such calendar year and specified in the Officers' Certificates delivered to the Trustee pursuant to Section 2 of this Article, but only to the extent that the Permanent Additions with respect to which such Cost or Fair Value was determined shall at the time of taking such credit constitute Available Permanent Additions.

SECTION 2. The Company covenants that it will on or before March 1 in each year, beginning with the first deposit made with the Trustee under the provisions of Section 1 of this Article, as long as any of the Bonds are outstanding, deliver to the Trustee the following:

(A) An Officers' Certificate, which shall state:

(i) The amount of the Gross Operating Revenues for the preceding calendar year;

(ii) 9% of such Gross Operating Revenues;

(iii) The amount actually expended by the Company for maintenance during such calendar year;

(iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers'



Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

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(v) An amount which shall be the aggregate of all amounts set forth pursuant to the provisions of clause (c) of the foregoing subparagraph (iv);

(vi) The Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the preceding calendar year;

(vii) That part of the amount set forth in subparagraph (vi) which the Company desires to use as a credit against the Maintenance or Improvement Deposit;

(viii) The amount of cash payable to the Trustee under the provisions of Section 1 of this Article, which shall be the amount by which the amount set forth in subparagraph (ii) hereof exceeds the sum of the amounts set forth in subparagraphs (iii), (v) and (vii) hereof;

(ix) The sum of all amounts charged on the books of the Company against any reserve for retirement or depreciation during the preceding calendar year representing the aggregate of the Cost when acquired of any part of the Company's plants and property of the character described in the granting clauses hereof which has been permanently retired or abandoned;

(x) The aggregate of the amounts set forth in subparagraphs (v) and (vii) hereof;

(xi) The amount by which the amount set forth in subparagraph (x) exceeds the amount set forth in subparagraph (ix), being the amount required to be deducted from the Cost or Fair Value of Available Permanent Additions in order to determine a Net Amount of Available Permanent Additions pursuant to the provisions of Section 9 of Article I of the Original Indenture;

(xii) The amount set forth in subparagraph (vi) after deducting the amount, if any, set forth in subparagraph (vii); and

(xiii) That all conditions precedent to the taking of the credit or credits so requested by the Company have been complied with.

(B) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph

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(A) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture.

(C) An amount in cash equal to the sum set forth in subparagraph (viii) of the Officers' Certificate provided for in paragraph (A) hereof.

SECTION 3. All cash deposited with the Trustee as part of any Maintenance or Improvement Deposit provided for in Section 1 of this Article, may, at the option of the Company, be applied to the purchase of bonds under the provisions of Section 2 of Article X of the Original Indenture or to the redemption of bonds under the provisions of Section 3 of Article X of the Original Indenture or may be withdrawn by the Company at any time to reimburse the Company for the cost of a Net Amount of Available Permanent Additions (excluding, however, from any such Available Permanent Additions all Permanent Additions included in any certificate delivered to the Trustee for the purpose of obtaining a credit against any Maintenance or Improvement Deposit provided for in Section 1 of this Article to the extent that such Permanent Additions have been used for any such credit). The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of:

- (a) A Resolution requesting such payment; and
- (b) The documents specified in paragraphs 2, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture, with such modifications, additions and omissions as may be appropriate in the light of the purposes for which they are used.

ARTICLE III.

Covenants of the Company.  
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SECTION 1. The Company hereby covenants and agrees with the Trustee, for the benefit of the Trustee and all the present and future holders of the Bonds, that the Company will pay the principal of and premium, if any, the Tender Price of and interest on all bonds issued or to be issued as aforesaid under and secured by the Original Indenture as hereby supplemented, as well as all bonds which may be hereafter issued in exchange or substitution therefor, and will perform and fulfill all of the terms, covenants and conditions of the Original Indenture and of this Thirty-First Supplemental Indenture with respect to the additional bonds to be issued under the Original Indenture as hereby supplemented.

SECTION 2. The Company covenants and agrees that so long as any of the Bonds are outstanding (a) the Company will not make any Stock Payment if, after giving effect thereto, its retained earnings, computed in accordance with generally accepted accounting principles consistently applied, will be less than the sum of (i) Excluded Earnings, if any, since December 31, 1996, and (ii) \$20,000,000; (b) Stock Payments made more than forty (40) days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) and (b) of Section 1 of Article XI of the Original Indenture.

For the purposes of this Section 2 the following terms shall have the following meanings:

"Stock Payment" shall mean any payment in cash or property (other than common stock of the Company) to any holder of shares of any class of capital stock of the Company as such holder, whether by dividend or upon the purchase, redemption, conversion or other acquisition of such shares, or otherwise.

"Excluded Earnings" shall mean 35% of the Company's Net Income during any Restricted Period.

"Restricted Period" shall mean a period commencing on any Determination Date on which the total Debt of the Company is, or as the result of any Stock Payment then declared or set aside and to be made thereafter will be, more than 70% of Capitalization, and continuing until the third consecutive

Determination Date on which the total Debt of the Company does not exceed 70% of Capitalization.

"Net Income" for any particular Restricted Period shall mean the amount of net income properly attributable to the conduct of the business of the Company for such Restricted Period, as determined in accordance with generally accepted accounting principles consistently applied, after payment of or provision for taxes on income for such Restricted Period.

"Determination Date" shall mean the last day of each calendar quarter. Any calculation with respect to any Determination Date shall be based on the Company's balance sheet as of such date.

"Debt" means (i) all indebtedness, whether or not represented by bonds, debentures, notes or other securities, for the repayment of money borrowed, (ii) all deferred indebtedness for the payment of the purchase price of property or assets purchased (but Debt shall not be deemed to include customer advances for Construction or any bonds issued under the Indenture which are not

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Outstanding Bonds), (iii) leases which have been or, in accordance with generally accepted accounting principles, should be recorded as capital leases and (iv) guarantees of the obligations of another of the nature described in clauses (i), (ii) or (iii) which have been or, in accordance with generally accepted accounting principles, should be recorded as debt.

"Outstanding Bonds" shall mean bonds which are outstanding within the meaning indicated in Section 20 of Article I of the Original Indenture except that, in addition to the bonds referred to in clauses (a), (b) and (c) of said Section 20, said term shall not include bonds for the retirement of which sufficient funds have been deposited with the Trustee with irrevocable instructions to apply such funds to the retirement of such bonds at a specified time, which may be either the maturity thereof or a specified redemption date, whether or not notice of redemption shall have been given.

"Capitalization" shall mean the sum of (i) the aggregate principal amount of all Debt at the time outstanding, (ii) the aggregate par or stated value of all capital stock of the Company of all classes at the time outstanding, (iii) premium on capital stock, (iv) capital surplus, and (v) retained earnings.

SECTION 3. The Company covenants and agrees that so long as any of the Bonds are outstanding neither the Company nor any subsidiary of the Company will, directly or indirectly, lend or in any manner extend its credit to, or indemnify, or make any donation or capital contribution to, or purchase any security of, any corporation which directly or indirectly controls the Company, or any subsidiary or affiliate (other than an affiliate which is a subsidiary of the Company or a natural person (or his estate)) of any such corporation.

#### ARTICLE IV.

The Trustee.

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SECTION 1. The Trustee hereby accepts the trust hereby declared and provided, and agrees to perform the same upon the terms and conditions in the Original Indenture, as supplemented by this Thirty-First Supplemental Indenture, and in this Thirty-First Supplemental Indenture set forth, and upon the terms and conditions set forth in Article IV hereof.

SECTION 2. Subject to the provisions of Article XIII of the Original Indenture, the Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through and consult with attorneys, agents, officers or employees selected by the Trustee in its sole discretion. The Trustee shall be entitled to advice of counsel concerning all matters of trusts hereof and

the duties hereunder and may in all cases pay such reasonable compensation, including the reimbursement of expenses, to all such attorneys, agents, officers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act and rely upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Company) and shall be free from all liability for any action taken or not taken in reliance on such opinion or advice. The Trustee may act and rely on written opinions of experts employed by the Trustee and such advice shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith taken in reliance upon such opinion or advice. The Trustee shall not be bound to confirm, verify or make any investigation into the facts or matters stated in any financial or other statements, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document furnished pursuant to the terms hereof.

SECTION 3. Before the Trustee shall be required to foreclose on, or to take control or possession of, the real property or leasehold interest (the "Premises") which may be the subject of any mortgage or mortgages for which the Trustee is mortgagee in connection with the issuance of the Medium Term Notes, the Trustee shall be indemnified and held harmless by the holders and/or beneficial owners of the Outstanding Bonds from and against any and all expense, loss, or liability that may be suffered by the Trustee in connection with any spill, leak or release which may have occurred on or invaded the Premises or any contamination by any Hazardous Substance or for any Environmental Claim (as such terms are hereinafter defined), whether caused by the Company or any other person or entity, including, but not limited to, (1) any and all reasonable expenses that the Trustee may incur in complying with any of the Environmental Statutes (hereinafter defined), (2) any and all reasonable costs that the Trustee may incur in studying or remedying any spill, leak or release which may have occurred on or invaded the Premises or any contamination, (3) any and all fines or penalties assessed upon the Trustee by reason of such contamination, (4) any and all loss of value of the Premises or the improvements thereon by reason of such contamination, and (5) any and all legal fees and costs reasonably incurred by the Trustee in connection with any of the foregoing. As used in this Section, contamination by any Hazardous Substance shall include contamination arising from the presence, creation, production, collection, treatment, disposal, discharge, release, storage, transport, or transfer of any Hazardous Substance at or from the Premises or any improvements thereon. As used in this Section, the term "Hazardous Substance" shall mean petroleum hydrocarbons or any substance which (a) constitutes a hazardous waste or substance under any applicable federal, state or local law, rule, order or

regulation now or hereafter adopted; (b) constitutes a "hazardous substance" as such term is defined under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. ss.9601 et seq.) and the regulations issued thereunder and any comparable state or local law or regulation; (c) constitutes a "hazardous waste" under the Resource Conservation and Recovery Act, (42 U.S.C. ss.6991) and the regulations issued thereunder; (d) constitutes a pollutant, contaminant, chemical or industrial, toxic or hazardous substance or waste as such terms are defined under the Federal Clean Water Act, as amended (33 U.S.C. ss.1251 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. ss. 2601 et seq.), or any comparable state or local laws or regulations; (e) exhibits any of the characteristics enumerated in 40 C.F.R. Sections 261.20-261.24, inclusive; (f) those extremely hazardous substances listed in Section 302 of the Superfund Amendments and Reauthorization Act of 1986 (Public Law 99-499, 100 Stat. 1613) which are present in threshold planning or reportable quantities as defined under such act; (g) toxic or hazardous chemical substances which are present in quantities which exceed exposure standards as those terms are defined under Sections 6 and 8 of the Occupational Safety and Health Act, as amended (29 U.S.C. ss.655 and 657 and 29 C.F.R. Part 1910, subpart 2); and (h) any asbestos, petroleum-based products, or any

substance contained within or released from any underground or aboveground storage tanks. As used in this Section, the term "Environmental Statutes" shall mean the statutes, laws, rules, orders and regulations referred to in (a) through (h) inclusive in the preceding sentence and the term "Environmental Claim" shall mean with respect to any person, any action, suit, proceeding, investigation, notice, claim, complaint, demand, request for information or other communication (written or oral) by any other person (including any governmental authority, citizens group or employee or former employee of such person) alleging, asserting or claiming any actual or potential: (a) violation of any Environmental Statutes, (b) liability under any Environmental Statutes or (c) liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, fines or penalties arising out of, based on, or resulting from, the presence or release into the environment of any Hazardous Substances at any location, whether or not owned by such person.

ARTICLE V.

Miscellaneous.

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SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth,

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Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth and Thirtieth Supplemental Indentures are hereby confirmed. All references in this Thirty-First Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

SECTION 2. Any notices to the Trustee under this Thirty-First Supplemental Indenture shall be delivered to the Trustee at its administrative office by registered or certified mail, hand delivery or other courier or express delivery service (with receipt confirmed) or by telecopy (with receipt confirmed) at the following address:

Mellon Bank, N.A.  
701 Market Street, 5th Floor  
Corporate Trust Group 199-5000  
Philadelphia, PA 19106  
Telecopy: (215) 553-1771

Any bonds of the 1997 Medium Term Note Series being delivered to the Trustee for payment, exchange or which have been tendered shall be delivered to the Trustee's delivery office currently located at:

Mellon Bank, N.A.  
Two Mellon Bank Center, Room 335  
Pittsburgh, Pennsylvania 15259  
Attention: Corporate Trust Operations

Any change in such address or telecopy number may be made by notice to the Company delivered in the manner set forth above.

SECTION 3. All recitals in this Thirty-First Supplemental Indenture are made by the Company only and not by the Trustee; and all of the provisions contained in the Original Indenture in respect of the rights,

privileges, immunities, powers and duties of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

SECTION 4. Although this Thirty-First Supplemental Indenture is dated for convenience and for the purpose of reference as of July 1, 1997, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

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SECTION 5. In order to facilitate the recording or filing of this Thirty-First Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

#### ARTICLE VI

##### Environmental Matters -----

SECTION 1. The Company represents as follows:

(a) It is in compliance with all applicable Environmental Statutes except for matters which, individually or in the aggregate, could not have a Material Adverse Effect.

(b) It has all Environmental Approvals necessary or desirable for the ownership and operation of its properties, facilities and businesses as presently owned and operated except for matters which, individually or in the aggregate, could not have a Material Adverse Effect.

(c) There is no Environmental Claim pending or, to its knowledge after due inquiry, threatened, and there are no past or present acts, omissions, events or circumstances that could form the basis of any Environmental Claim, against it except for matters which, individually or in the aggregate, could not have a Material Adverse Effect.

(d) No facility or property now or previously owned, operated or leased by it is an Environmental Cleanup Site.

SECTION 2. The Company covenants as follows:

(a) It will comply with all applicable Environmental Statutes.

(b) Promptly upon becoming aware of any Environmental Claim pending or threatened against it, or any past or present acts, omissions, events or circumstances that could form the basis of such Environmental Claim, which if adversely resolved, individually or in the aggregate, could have a Material Adverse Effect, it shall give the Trustee notice thereof, together with a written statement of an Authorized Executive Officer of the Company setting forth the details thereof and any action with respect thereto taken or proposed to be taken by the Company.

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SECTION 3. The Company agrees to indemnify and hold harmless the Trustee against any and all losses, claims, damages or liabilities, joint or several, to which it may become subject under the law of any jurisdiction

insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any violation or breach by the Company of any Environmental Statutes, or any Environmental Claim arising out of the management, use, control, ownership or operation of the Premises.

SECTION 4. For purposes of this Article VI, the following terms shall have the indicated meanings.

"Environmental Concern Materials" shall mean (a) any flammable substance, explosive, radioactive material, hazardous material, hazardous waste, toxic substance, solid waste, pollutant, contaminant or any related material, raw material, substance, product or by-product of any substance specified in, or regulated by, any "Environmental Statute", (b) any toxic chemical or other substance from or related to industrial, commercial or institutional activities, and (c) asbestos, gasoline, diesel fuel, motor oil, waste and used oil, heating oil and other petroleum products or compounds, polychlorinated biphenyls, radon and urea formaldehyde.

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

"Environmental Cleanup Site" shall mean any location which is listed or proposed for listing on the National Priorities List, on CERCLIS or on any similar state list of sites requiring investigation or cleanup, or which is the subject of any pending or threatened action, suit, proceeding or investigation related to or arising from any alleged violation of any Environmental Law.

"Environmental Approvals" shall mean any governmental action pursuant to or required under any Environmental Law.

IN WITNESS WHEREOF the parties hereto, intending to be legally bound, have caused their corporate seals to be hereunto affixed and their Presidents or Vice-Presidents, under and by the authority vested in them, have hereto affixed their signatures, and their Secretaries or Assistant Secretaries or Authorized Officers have duly attested the execution hereof, as of the first day of July, 1997.

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN WATER COMPANY

Attest: Patricia M. Mycek

By: Michael P. Graham

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Secretary

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Vice President and Treasurer

[CORPORATE SEAL]

MELLON BANK, N.A., as Trustee

Attest: John Sohler

By: Marvin Kierstead

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Authorized Signer

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Assistant Vice President

BONDS REDEEMED OR PAID AT MATURITY

Series		Principal Amount Paid or Redeemed (If less than all Bonds of Series)	Date Paid	Maturity
3.25% Series Due	1971		12/31/70	Redemption
9.63% Series Due	1975		6/15/75	Maturity
9.15% Series Due	1977		1/01/77	Maturity
3.00% Series Due	1978		7/01/78	Maturity
3.38% Series Due	1982		7/01/82	Maturity
3.90% Series Due	1983		7/01/83	Maturity
3.50% Series Due	1986		1/01/86	Maturity
4.50% Series Due	1987		1/01/87	Maturity
4.13% Series Due	1988		5/01/88	Maturity
5.00% Series Due	1989		9/01/89	Maturity
4.63% Series Due	1991		5/01/91	Maturity
4.70% Series Due	1992		4/01/92	Maturity
6.88% Series Due	1993		1/01/93	Maturity
4.55% Series Due	1994		3/1/94	Maturity
10.13% Series Due	1995	\$6,300,000	-----	Sinking Fund
10.13% Series Due	1995	\$3,700,000	5/17/93	Redemption
9.20% Series Due	2001	\$3,850,000	-----	Sinking Fund
9.20% Series Due	2001	\$3,150,000	5/1/93	Redemption
8.40% Series Due	2002	\$5,850,000	-----	Sinking Fund
8.40% Series Due	2002	\$4,150,000	1/2/96	Redemption
5.95% Series Due	2002	\$2,000,000	-----	Sinking Fund
12.45% Series Due	2003	\$1,000,000	8/1/93	Sinking Fund
12.45% Series Due	2003	\$9,000,000	8/2/93	Redemption
8.88% Series Due	2010	\$800,000	-----	Sinking Fund
8.88% Series Due	2010	\$7,200,000	6/30/92	Redemption
13.00% Series Due	2005		8/2/95	Redemption
7.88% Series Due	1997		1/2/96	Redemption
10.65% Series Due	2006		4/2/96	Redemption
5.50% Series Due	1996		11/1/96	Maturity
8.44% Series Due	1997		4/1/97	Maturity

Exhibit A

PROPERTIES ACQUIRED FROM 8/15/95 TO 6/3/97							
NAME	GRANTOR	COUNTY	INDEX NO.	DEED DATE	BOOK	PAGE	
PERKIOMEN WATER TANK LOT	PERKIOMEN TWP MUNICIPAL AUTH.	MONTGOMERY	VI-B-51	6/19/96	5151	1433	
PERKIOMEN WELL HOUSE 3	PERKIOMEN TWP MUNICIPAL AUTH.	MONTGOMERY	VI-E-45	6/19/96	5151	1437	
PERKIOMEN WELL HOUSE 4	PERKIOMEN TWP MUNICIPAL AUTH.	MONTGOMERY	VI-E-47	6/19/96	5151	1457	
RAHNS WELLS 1 & 2	PERKIOMEN TWP MUNICIPAL AUTH.	MONTGOMERY	VI-E-48	6/19/96	5151	1463	
GRAVEL PIKE PROP.	PERKIOMEN TWP.	MONTGOMERY	VIII-H-5	9/24/97	5164	943	
HATBORO TANK 2	HATBORO BOROUGH AUTH.	MONTGOMERY	VI-B-53	10/31/96	5166	1448	
HATBORO WELL 9	HATBORO BOROUGH AUTH.	MONTGOMERY	VI-E-50	10/31/96	5166	1460	
HATBORO WELL 14	HATBORO BOROUGH AUTH.	MONTGOMERY	VI-E-51	10/31/96	5166	1470	
HATBORO WELL 15	HATBORO BOROUGH AUTH.	MONTGOMERY	VI-E-52	10/31/96	5166	1467	
HATBORO WELL 17	HATBORO BOROUGH AUTH.	MONTGOMERY	VI-E-53	10/31/96	5166	1464	
HATBORO WELL 20	HATBORO BOROUGH AUTH.	MONTGOMERY	VI-E-54	10/31/96	5166	1457	
HATBORO WELL 21	HATBORO BOROUGH AUTH.	MONTGOMERY	VI-E-55	10/31/96	5166	1451	
HATBORO PIT 3	HATBORO BOROUGH AUTH.	MONTGOMERY	VI-D-4	10/31/96	5166	1454	
LA RESERVE	ROBERT B. BALBIRNIE	CHESTER	VI-E-37	1/19/96	3987	84	
FRANKLIN WELL STATION	FRANKLIN WATER CORP.	CHESTER	VI-E-49	4/19/96	4023	1296	
CLOVER CROFT FARMS	CLOVER CROFT FARMS INC.	CHESTER	VII-D-3	8/16/95	3928	403	
SHIP ROAD BOOSTER	TRUSTEES OF LABORERS DISTRICT	CHESTER	VI-C-11	11/21/95	3963	2377	
EDGLEY WELL FIELD PARCELS "A" & "B"	BRISTOL BOROUGH WATER & SEWER AUTH.	BUCKS	VI-B-54	12/19/96	1336	1807	



MAPLE BEACH TANK	BRISTOL BOROUGH WATER & SEWER AUTH.	BUCKS	VI-B-55	12/19/96	1336	1837
CROYDEN TANK	BRISTOL BOROUGH WATER & SEWER AUTH.	BUCKS	VI-B-56	12/19/96	1336	1841
BRISTOL PLANT	BRISTOL BOROUGH WATER & SEWER AUTH.	BUCKS	VI-D-5	12/19/96	1336	1831
MAPLE BEACH SLUDGE PRESS	BRISTOL BOROUGH WATER & SEWER AUTH.	BUCKS	VI-D-6	12/19/96	1336	1844
CHERRY WATER CO.	CHERRY WATER CO.	MONTGOMERY	VI-B-52	1/30/97	5176	579

COMMONWEALTH OF PENNSYLVANIA :  
: SS.:  
COUNTY OF MONTGOMERY :

On this 10th day of July, 1997 before me, the Subscriber, a Notary public for the Commonwealth of Pennsylvania, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President-Finance and Treasurer of Philadelphia Suburban Water Company, a corporation, and that he as such Senior Vice President-Finance and Treasurer, being authorized to do so, executed the foregoing Thirty-first Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by himself as such officer.

IN WITNESS whereof I hereunto set my hand and official seal.

(NOTARIAL SEAL)

Suzanne Falcone  
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COMMONWEALTH OF PENNSYLVANIA :  
: SS.:  
COUNTY OF MONTGOMERY :

On this 11th day of July, 1997 before me, the Subscriber, a Notary public for the Commonwealth of Pennsylvania, personally appeared Marvin Kierstead who acknowledged himself to be the Assistant Vice President of Mellon Bank, N.A., a corporation, and that he as such Assistant Vice President, being authorized to do so, executed the foregoing Thirty-first Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by himself as such officer. IN WITNESS whereof I hereunto set my hand and official seal.

(NOTARIAL SEAL)

Laura J. Caliman  
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FIRST MORTGAGE BONDS  
1997 MEDIUM TERM NOTE SERIES

Up to U.S. \$150,000,000  
Maturities from One Year to Thirty-Five Years

PLACEMENT AGENCY AGREEMENT

By and Among

PHILADELPHIA SUBURBAN WATER COMPANY  
as Issuer

and

AGENTS LISTED ON SCHEDULE I ATTACHED HERETO

Dated as of July 11, 1997

PHILADELPHIA SUBURBAN WATER COMPANY

U.S. \$150,000,000  
First Mortgage Bonds  
1997 Medium Term Note Series

Maturities from One Year  
to Thirty-Five Years from Date of Issue

Placement Agency Agreement  
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New York, New York  
July 11, 1997

To Each of the Addressees Named  
on Schedule I Hereto Acting  
Severally and Not Jointly in the  
Capacities of Agent and Purchaser  
or in Either Such Capacity

Gentlemen and Ladies:

Philadelphia Suburban Water Company, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Issuer") which is a wholly-owned subsidiary of Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), confirms its agreement with you with respect to the issue and sale by the Issuer of its First Mortgage Bonds, 1997 Medium Term Note Series (the "Notes"). The Notes will be issued in one or more subseries under and secured in accordance with the Thirty-First Supplemental Indenture dated as of July 1, 1997 (the "Supplemental Indenture") to the Indenture of Mortgage dated as of January 1, 1941 (the "Indenture of Mortgage") between the Issuer and Mellon Bank, N.A. (as successor in interest to CoreStates Bank N.A. as successor in interest to The Pennsylvania Company for Insurance on Lives and Granting Annuities), as Trustee (the "Trustee"). The Notes may be sold during the two year period from June 6, 1997 through June 5, 1999 (the "Offering Period"), by the Issuer in an aggregate principal amount of up to U.S. \$150,000,000. It is understood, however, that the Issuer may from time to time, if permitted under the Indenture of Mortgage and pursuant to subsequent supplemental indentures, authorize the issuance of additional notes and that such additional notes may be sold through or to you subject to and in accordance with the terms of this Placement Agency Agreement (the "Agreement"), all as though the issuance of such additional Notes or the sale of Notes after the expiration of the Offering Period were authorized as of the date hereof. The Notes will be offered during the Offering Period from time to time on a private placement basis without being registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the exemption therefrom provided by Section 4(2) of the Securities Act. The Notes will be offered only to "Qualified Institutional Buyers" (as defined in Rule 144A under the Securities Act)

pursuant to this Placement Agreement. All Notes having a common issue date, maturity date, interest rate and otherwise identical terms are referred to herein as a "Tranche". This Agreement is non-exclusive as the Notes of each Tranche may be offered through one or more Agents (hereinafter defined) pursuant to this Agreement. The Notes will be issued, and the terms thereof established, in accordance with the terms of the Indenture of Mortgage and the Supplemental Indenture, and in the case of Notes sold pursuant to Section 2(a), in accordance with the Medium Term Notes Administrative Procedures attached hereto as Exhibit A (the "Administrative Procedures"), the terms of which are incorporated herein by this reference as if set forth herein in their entirety. The Notes will be payable in accordance with a Paying Agency Agreement dated as of July 11, 1997 (the "Paying Agency Agreement"), among the Issuer, Mellon Bank, N.A., as paying agent (the "Paying Agent"), the Trustee and the Agents. The Administrative Procedures set forth in Exhibit A shall remain in effect with respect to sales solicited by the Agents until changed by the Issuer, the Agents and the Paying Agent. For the purposes of this Agreement, the term "Agent" shall refer to each addressee named on Schedule I hereto acting severally and not jointly in the sole capacity as agent for the Issuer pursuant to Section 2(a) and not as principal; the term "Agents" shall refer in general terms to all addressees named on Schedule I acting in the capacity as agent to the Issuer pursuant to Section 2(a); the term "Purchaser" shall refer to the same addressees named on Schedule I hereto acting severally and not jointly in the sole capacity as principal pursuant to Section 2(b) and not as agent; and the term "you" shall refer to each or any addressee named on Schedule I hereto acting severally and not jointly in both such capacities or in either such capacity.

1. Representations and Warranties. The Issuer represents and warrants to you as of the date hereof, and shall be deemed to represent and warrant to you at and as of each time the Issuer gives a notice requesting you to solicit offers as Agent, at and as of each acceptance of an offer by the Issuer, at and as of the date of each Terms Agreement (as defined in Section 2(b)), and upon the delivery to the purchaser (or its agent) pursuant to such offer or to the Purchaser of any Note pursuant to such Terms Agreement, as the case may be, that:

(a) The Issuer confirms that it has prepared a confidential Offering Memorandum (defined below) and authorizes you to distribute copies thereof in connection with the offering of Notes as provided

herein. The Offering Memorandum does not and will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the foregoing representation and warranty shall not apply to statements or

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omissions in the Offering Memorandum made in reliance upon and in conformity with information furnished to the Issuer in writing by you or on your behalf which has been furnished by a person authorized to do so, specifically for use therein. As used in this Agreement, the term "Offering Memorandum" means the confidential offering memorandum dated the same date as this Agreement relating to the Notes, as it may be amended or supplemented from time to time, including with respect to each Tranche, the related pricing supplement (each, a "Pricing Supplement"), any documents expressly incorporated by reference therein and any quarterly or annual reports of the Issuer or PSC delivered to any Agent for delivery together with the Offering Memorandum, which amendment or supplement may be in the form of a separate document that does not state that it is a supplement to the Offering Memorandum, and any reference to the terms "amend", "amendment" or "supplement" with respect to the Offering Memorandum shall refer to and include the filings with the Securities and Exchange Commission (the "Commission") of any documents expressly incorporated by reference into the Offering Memorandum after the date hereof.

(b) The financial statements and schedules included in, or as an exhibit, attachment or appendix to, the Offering Memorandum present fairly the consolidated financial condition of the Issuer as of the respective dates thereof, and the consolidated results of operations and changes in financial condition of the Issuer for the respective periods covered thereby, all in conformity with generally accepted accounting principles applied on a consistent basis throughout the entire period involved, except as otherwise disclosed in the Offering Memorandum. KPMG Peat Marwick (the "Accountants"), who have reported on the annual financial statements and schedules of the Issuer, are independent certified public accountants with respect to the Issuer and its subsidiaries within the meaning of Rule 1.01 of the Code of Professional Conduct of the American Institute of Certified Public Accountants.

(c) Subsequent to the respective dates as of which information is given in the Offering Memorandum, except as otherwise set forth therein, (i) there has been no material adverse change, or to the knowledge of the Issuer any development involving a prospective material adverse change, in the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries, considered as a single enterprise (a "Material Adverse Effect"), (ii) neither the Issuer nor any of its subsidiaries have incurred any material liabilities or obligations, direct or contingent, nor have any of them entered into any material transactions other than pursuant to this Agreement, the Supplemental Indenture and the Paying

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Agency Agreement and the transactions referred to herein and therein and (iii) no rating of any of the securities of the Issuer has been lowered by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) of the Securities Act) (each, a "Rating Agency"), nor has there been any notice given by any Rating Agency of any intended or potential decrease in any such rating or of a possible change in any such rating where such notice does not indicate the direction of the possible change.

(d) The Issuer and each of its subsidiaries is a corporation

duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. The Issuer and each of its subsidiaries has full power and authority to conduct all the activities conducted by it, to own or lease all the assets owned or leased by it and to conduct its business as described in the Offering Memorandum. The Issuer and each of its subsidiaries is duly licensed or qualified to do business and in good standing as a foreign corporation in all jurisdictions in which the nature of the activities conducted by it or the character of the assets owned or leased by it makes such license or qualification necessary, except where the failure to so qualify or be in good standing would not have a Material Adverse Effect.

(e) Except for stock of its subsidiaries, or as disclosed in the Offering Memorandum, the Issuer does not own, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any firm, partnership, joint venture, association or other entity, other than equity investments made by the Issuer for business development purposes or otherwise which are not material to the Issuer.

(f) The Issuer has full corporate power and authority to enter into this Agreement, the Supplemental Indenture, and the Paying Agency Agreement, to issue the Notes, and to perform its obligations under this Agreement, the Supplemental Indenture, the Paying Agency Agreement and the Notes. This Agreement, the Supplemental Indenture and the Paying Agency Agreement have been duly authorized, executed and delivered by the Issuer and, when authorized, executed and delivered by the other parties hereto and thereto, will constitute valid and binding agreements of the Issuer and will be enforceable against the Issuer in accordance with their terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws affecting creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such

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enforceability is considered in a proceeding in equity or at law). The Supplemental Indenture and the Paying Agency Agreement conform in all material respects to the descriptions thereof in the Offering Memorandum.

(g) The execution and delivery of the Notes has been duly authorized by all necessary corporate action on the part of the Issuer; each Note, when completed, executed, authenticated and delivered in accordance with the Indenture of Mortgage and the Supplemental Indenture against payment of the consideration therefor will constitute a legal, valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with the terms of such Note (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws affecting creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law), and will entitle its holder to the benefits of the Indenture of Mortgage and the Supplemental Indenture. Each Note will conform in all material respects to the description thereof in the Offering Memorandum.

(h) Other than the liens created by the Indenture of Mortgage as supplemented by supplemental indentures in accordance with the terms of the Indenture, including as supplemented by the Supplemental Indenture, the performance by the Issuer of this Agreement and the Paying Agency Agreement, the issuance of any Notes and the consummation of the transactions contemplated hereby and thereby will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Issuer or any of its subsidiaries pursuant to the terms or provisions of, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any other party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, the certificate of

incorporation or by-laws of the Issuer or any of its subsidiaries, any indenture, mortgage, deed of trust, voting trust agreement, loan agreement, bond, debenture, note agreement or other evidence of indebtedness, lease, contract or other agreement or instrument to which the Issuer or any of its subsidiaries is a party or by which the Issuer or any of its subsidiaries or any of its properties is bound or affected, or violate or conflict with any judgment, ruling, decree, order, statute, rule or regulations of any court or governmental agency or body applicable to the business or properties of the Issuer or any of its subsidiaries.

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(i) Except as set forth in or contemplated by the Offering Memorandum, there are no actions, suits or proceedings pending or threatened against or affecting the Issuer or any of its subsidiaries, or any of their respective officers or directors in their capacity as such, before or by any Federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding is likely to materially and adversely affect (i) the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries, considered as a single enterprise, or (ii) the ability of the Issuer to perform its obligations under this Agreement, the Supplemental Indenture, the Paying Agency Agreement and the Notes. There are no such actions, suits or proceedings pending or, to the knowledge of the Issuer, threatened, relating to the Notes, their offering, or the Offering Memorandum.

(j) The Issuer and each of its subsidiaries has (i) all governmental licenses, permits, consents, orders, approvals and other authorizations (collectively, "Approvals") necessary to carry on its business as described in the Offering Memorandum, except where the failure to have such Approvals; either individually or in the aggregate, would not have a Material Adverse Effect, (ii) complied with all laws, regulations and orders applicable to it or its business, except where the failure to so comply would not have a Material Adverse Effect and (iii) performed all its obligations required to be performed by it, and is not in default under any material contract or other instrument to which it is a party or by which its property is bound or affected, except where the failure to so perform or the existence of such default would not have a Material Adverse Effect. To the best knowledge of the Issuer, no other party under any material contract or other instrument to which it is a party is in default in any respect thereunder that would have a Material Adverse Effect. Neither the Issuer nor any of its subsidiaries is in violation of any provision of its certificate of incorporation or by-laws.

(k) The Issuer and each of its subsidiaries has good and marketable title to all properties and assets described in the Offering Memorandum as owned by it, free and clear of all liens, charges, encumbrances or restrictions, except such as are described in the Offering Memorandum or are not material to the business of the Issuer or its subsidiaries. The Issuer and each of its subsidiaries has valid, subsisting and enforceable leases for the properties described in the Offering Memorandum as leased by it, with such exceptions as are not material and do not materially

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interfere with the use made and proposed to be made of such properties by the Issuer and such subsidiaries.

(l) No consent, approval, authorization or other order of, or any filing with, any government, governmental or other administrative agency or body is required in connection with the execution and

delivery by the Issuer of this Agreement, the Supplemental Indenture and the Paying Agency Agreement, the solicitation of offers to purchase Notes, the issuance of any Note or the performance by the Issuer of any of its obligations hereunder or thereunder, except such as may be required under the blue sky laws of any jurisdiction in connection with the offering and sale of the Notes or as required by the Pennsylvania Public Utility Commission. All necessary approvals have been obtained from the Pennsylvania Public Utility Commission to authorize the issuance and sale of the Notes and such approvals remain in full force and effect on the date hereof.

(m) The Notes satisfy the requirements set forth in paragraph (d) (3) of Rule 144A ("Rule 144A") under the Securities Act.

(n) Neither the Issuer nor any affiliate (which, for purposes of this Agreement, shall have the meaning given in Rule 501(b) under the Securities Act) of the Issuer has directly or indirectly, (i) sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any of the Notes or, within the six-month period prior to the date hereof, any other debt security of the same class as the Notes which is or will be integrated with any sale of the Notes in a manner that would require the registration of the Notes under the Securities Act or (ii) engaged in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with the offering of the Notes.

(o) Assuming (A) compliance by you with the offering and transfer procedures and restrictions described in the Offering Memorandum, (B) the accuracy of the acknowledgments, representations, warranties and agreements made in accordance with this Agreement and the Offering Memorandum by you and the purchasers to whom you initially offer, sell or resell the Notes and (C) purchasers to whom you initially offer, sell or resell the Notes receive a copy of the Offering Memorandum prior to such sale or resale, the offer, sale and delivery of the Notes in the manner contemplated by this Agreement and the Offering Memorandum will be exempt from the registration requirements of the Securities Act by reason of Section 4(2) thereof, and the initial resale of the Notes in the manner contemplated by

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this Agreement will be exempt from the registration requirements of the Securities Act by reason of Rule 144A thereunder or Section 4(2) thereunder, as the case may be, and the Notes are not required to be issued pursuant to an indenture that qualifies under the Trust Indenture Act of 1939, as amended.

(p) Each Note will be an unconditional and direct debt obligation of the Issuer and will rank pari passu with other senior secured existing and future obligations of the Issuer.

(q) The Issuer is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(r) Neither the Issuer nor any agent thereof acting on behalf of the Issuer has taken or will take any action that is reasonably likely to cause this Agreement or the issuance or sale of the Notes to violate Regulation G, Regulation T, Regulation U or Regulation X (collectively, the "Margin Rules") of the Board of Governors of the Federal Reserve System.

(s) The Issuer is in material compliance with all applicable Federal, state and local environmental laws and regulations, including, without limitation, those applicable to safe drinking water, emissions to the environment, waste management and waste disposal (collectively, the "Environmental Laws"), except for such noncompliance as is not reasonably likely to have a Material Adverse Effect, or as disclosed in the Offering Memorandum, and, to the knowledge of the Issuer, there are no circumstances that would prevent, interfere with or materially increase the cost of such compliance in the future.

(t) Except as disclosed in the Offering Memorandum, there is no claim under any Environmental Law, including common law, pending or threatened against the Issuer (an "Environmental Claim") which would be reasonably likely to have a Material Adverse Effect and, to the knowledge of the Issuer, under applicable law, there are not past or present actions, activities, circumstances, events or incidents, including, without limitation, releases of any material into the environment, that are reasonably likely to form the basis of any Environmental Claim against the Issuer which would be reasonably likely to have a Material Adverse Effect.

(u) No statement, representation, warranty or covenant made by the Issuer in this Agreement, or made in any certificate or document required by this Agreement to be

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delivered to any Agent was or will be, when made, inaccurate, untrue or incorrect.

2. Appointment of an Agent; Solicitation by an Agent of Offers to Purchase; Sales of Notes to a Purchaser.

(a) (i) The Issuer shall deliver a Request for Bids with respect to a Tranche to each Agent via electronic transmission substantially in the form attached as Exhibit G hereto prior to 10:00 a.m. on any Business Day. Each Agent interested in submitting a bid for a particular Tranche shall submit such bid (inclusive of its placement fee) to the Issuer with the information specified in the Request for Bids by 2:00 p.m. on the date of receipt of the Request for Bids or such later deadline as may be specified in writing by the Issuer. The Issuer, in its sole discretion and subject to its right to reject any and all bids for any reason, shall select one or more Agents to participate in offering of each Tranche. Subject to the terms and conditions set forth herein, Agents are to be appointed, in accordance with the terms of a Notice or Notices of Appointment (in the form attached as Exhibit H hereto) executed by the Issuer, to act as the Issuer's agent to accept offers for the purchase of Notes from the Issuer. The appointment by the Issuer of an Agent shall not authorize such Agent to take any action on behalf of the Issuer other than as set forth in this Agreement and the Administrative Procedures. Other than Section 4(a)(v) of this Agreement, this Agreement shall not in any way restrict or limit the Issuer from selling, offering to sell or accepting offers to sell any debt securities other than the Notes.

(ii) On the basis of the representations and warranties and subject to the terms and conditions, set forth herein, upon appointment pursuant to a Notice of Appointment each Agent agrees, as agent of the Issuer, to use its reasonable efforts (commensurate with those efforts customarily made in offerings of a similar nature) to place the Notes on behalf of the Issuer upon the terms and conditions described in the Notice of Appointment, the Offering Memorandum and in the Administrative Procedures. In soliciting offers as agent, each Agent is acting solely as agent of the Issuer and not as principal. Each Agent shall use its reasonable efforts to assist the Issuer in obtaining performance by each purchaser whose offer to purchase Notes has been solicited by such Agent and accepted by the Issuer, however such Agent shall not have any liability to the Issuer in the event any such purchase is not consummated for any reason; provided that the foregoing shall not operate to release the Agent from any liability it may otherwise have as a result of its failure to perform its obligations under this Agreement. Except as provided in Section 2(b), under no

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circumstances will any Agent be obligated to purchase any Notes for its



own account. It is understood and agreed, however, that any Agent may purchase Notes for its own account as Purchaser pursuant to Section 2(b) or otherwise as may be agreed or permitted by the Issuer and such Agent.

(iii) The Issuer reserves the right, in its sole discretion, to instruct the Agents to suspend at any time, for any period of time or permanently, the solicitation of offers to purchase Notes. Within one business day of receipt of instructions to that effect from the Issuer, each Agent will forthwith suspend solicitation of offers to purchase Notes from the Issuer until such time as the Issuer has advised it that such solicitation may be resumed.

(iv) The Issuer acknowledges that each Agent is receiving a placement fee, upon closing, with respect to each sale of Notes by the Issuer as a result of a solicitation made by such Agent, including any sale for the account of any affiliate of such Agent. Such placement fee shall be included in the bid submitted by each Agent pursuant to paragraph 2(a) (i) above which shall have the effect of reducing the proceeds from the sale of the Notes payable to the Issuer.

(v) Subject to the provisions of this Agreement, the Notice of Appointment and the Administrative Procedures, offers for the purchase of Notes may be solicited by the Agent, as agent for the Issuer, at such time and in such amounts as the Agent and the Issuer deem advisable. The Issuer may, subject to Sections 4(a)(v) and 4(a)(xviii) of this Agreement, from time to time offer other debt obligations for sale on its own behalf directly to purchasers otherwise than through an Agent, in which case no commission would be payable with respect to such sale. As long as this Agreement shall be in effect, the Issuer shall not solicit or accept offers to purchase Notes through any agent other than Agents named on Schedule I hereto; provided, however, that the Issuer may amend Schedule I hereto from time to time to appoint additional Agents provided that the Issuer (i) has appointed such agent as an additional Agent hereunder on the same terms and conditions as provided herein for the Agents, and (ii) has caused such additional agent to execute this Agreement.

(vi) Each Agent may, in the exercise of its reasonable discretion, reject any offer to purchase Notes received by it as agent of the Issuer and not communicate such offer to the Issuer. Each Agent shall communicate to the Issuer, orally or in writing, each such offer that it does not reject and, if such Agent or any of its affiliates shall be the offeror, shall advise the Issuer of that fact.

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The Issuer shall have sole and absolute discretion to accept any offer, and may reject any offer to purchase Notes in whole or, if permitted by the terms of such offer, in part.

(vii) If the Issuer shall default in its obligations to deliver Notes to a purchaser whose offer it has accepted, the Issuer shall hold you harmless against any loss, claim or damage arising from or as a result of such default by the Issuer (except to the extent that such default by the Issuer shall result from the failure by you to perform your obligations hereunder).

(b) (i) Subject to the terms and conditions stated herein, whenever the Issuer and any one (or more) of you jointly determine that the Issuer shall sell Notes directly to any one (or more) of you as the Purchaser, each such sale of Notes shall be made in accordance with the terms of this Agreement and, unless specifically waived by the Purchaser, a supplemental agreement relating thereto between the Issuer and the Purchaser. Each such supplemental agreement (which shall be substantially in the form of Exhibit B) is herein referred to as a "Terms Agreement". A Purchaser's commitment to purchase Notes pursuant to any Terms Agreement shall be deemed to have been made on the basis of the representations and warranties of the Issuer contained herein or therein (if any) and shall be subject to the terms and conditions set forth herein and in such Terms Agreement. Unless the context otherwise

requires, each reference contained herein to "this Agreement" shall be deemed to include any applicable Terms Agreement between any one (or more) of you and the Issuer. Each Terms Agreement shall describe the Notes to be purchased by the Purchaser pursuant thereto, specify the principal amount of such Notes, the price to be paid to the Issuer for such Notes specified by reference to the principal amount of the Notes and the discount to the Purchaser from the principal amount thereof, the rate at which interest will be paid on such Notes, the date of issuance of such Notes (the "Closing Date"), the place of delivery of the Notes and payment therefor, the method of payment, any modification of, or addition to, the requirements for the delivery of the opinions of counsel set forth in Section 6(a)(ii), the certificates from the Issuer or its officers and the letter from the Issuer's independent certified public accountants, and such other terms and conditions as may be specified therein from time to time.

(ii) The settlement details for Notes sold to a Purchaser pursuant to any Terms Agreement shall be agreed to between the Issuer and such Purchaser in the respective Terms Agreement. If there is no such Terms Agreement, the settlement details specified in the Administrative

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Procedures shall apply with the Purchaser filling the roles specified therein of the Agent and the beneficial owner.

(iii) Nothing contained in this Agreement shall obligate an Agent to enter into a Terms Agreement with the Issuer or to otherwise agree to purchase Notes for its own account.

3. Offering and Sale of Notes. Each party hereto agrees to perform the respective duties and obligations specifically provided to be performed by it in the Administrative Procedures.

#### 4. Agreements.

(a) The Issuer agrees with you that:

(i) If information that is material to an investment in a Note is not otherwise contained in the Offering Memorandum, or if at any time an event occurs as a result of which the Offering Memorandum as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at such time to amend or supplement the Offering Memorandum to comply with any applicable law, the Issuer promptly will prepare an amendment or supplement which will correct such statement or omission or effect such compliance, and will not effect any amendment or supplement to the Offering Memorandum without your consent, which consent shall not be unreasonably withheld; provided, however, that the foregoing consent requirement shall not apply to periodic and other filings with the Commission by the Issuer or PSC under the federal securities laws including, without limitation, Current Reports on Form 8-K, Quarterly Reports on Form 10-Q, or Annual Reports on Form 10-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act") ("Federal Securities Filings"). Neither your consent to, nor your delivery of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 5 hereto.

(ii) The Issuer shall furnish to you such information and documents relating to the business, operations and affairs of the Issuer, the Offering Memorandum and any amendments thereof or supplements thereto, the Notes, the Supplemental Indenture, this Agreement, any Terms Agreement, the Administrative Procedures, the Paying Agency Agreement and the performance by the parties hereto of their respective obligations

hereunder and thereunder as you may from time to time and at any time prior to the termination of this Agreement reasonably request in connection with soliciting offers to purchase Notes. The Issuer shall notify you promptly (1) if at any time any event occurs which constitutes (or after notice or lapse of time or both would constitute) a default or an event of default under the Notes, the Supplemental Indenture, the Paying Agency Agreement or this Agreement or (2) of any material adverse change, or to the knowledge of the Issuer any development involving a prospective material adverse change, in the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries considered as a single enterprise.

(iii) The Issuer shall, whether or not any sale of Notes is consummated, (1) pay, or reimburse if paid by any Agent, all reasonable costs and expenses incident to the performance of its obligations under this Agreement and any Terms Agreement, including, but not limited to, the cost of preparation, printing or other production and delivery of the Offering Memorandum, all amendments thereof and supplements thereto, the Supplemental Indenture, the Paying Agency Agreement, this Agreement, any Terms Agreement and all other documents relating to the offering of Notes pursuant hereto and thereto, the cost of preparing, printing, packaging and delivering the Notes, the fees and disbursements of counsel to and accountants for the Issuer, the fees and disbursements of the Trustee, the fees and disbursements of the Paying Agent, and the fees of any Rating Agency, (2) reimburse you on a monthly basis for all reasonable out-of-pocket expenses incurred by you in connection with this Agreement and the transactions contemplated hereby and (3) pay the reasonable fees and expenses of your counsel incurred in connection with this Agreement and the transactions contemplated hereby.

(iv) (A) On each date of settlement for any Tranche of Notes (a "Settlement Date"), or if at any time that the Offering Memorandum is amended or supplemented (including incorporation of documents by reference), in the reasonable judgement of the Agent the information disclosed in such amendment or supplement is of such a nature that an officer's certificate and an opinion of counsel need be furnished, the Issuer shall deliver or cause to be delivered promptly to you an officer's certificate, an opinion of counsel and an opinion of its Senior Vice President-Law and Administration or General Counsel, dated the Settlement Date or the date of such amendment or supplement, as the case may be, in form reasonably satisfactory to the Agent, of the same tenor as the certificate and opinions referred to in Sections 5(a) (ii) and (iii), but modified to relate to the

Offering Memorandum, this Agreement and the Paying Agency Agreement, each as then in effect.

(B) Each time that the Offering Memorandum is amended or supplemented to include or incorporate additional financial information, the Issuer shall cause the Accountants promptly to furnish you a letter, dated the date of such amendment or supplement, in form reasonably satisfactory to the Agent, of the same tenor as the letter referred to in Section 5(a) (vi) hereof, but modified to reflect the amended or supplemented financial information included or incorporated by reference in the Offering Memorandum, as amended or supplemented to the date of such letter; provided, however, that if the Offering Memorandum is amended or supplemented solely to include or incorporate by reference financial information as of and for a fiscal quarter, the Accountants may limit the scope of such letter, in form reasonably satisfactory to the Agent, to the unaudited financial statements, the related "Management's Discussion and Analysis of Financial Condition

and Results of Operations" and any other information of an accounting, financial or statistical nature included in such amendment or supplement, unless, in the reasonable judgement of the Agent, such letter should cover other information or changes in specific financial statement line items.

(v) Unless otherwise specified in any Terms Agreement, the Issuer shall not, without the prior consent of the Purchaser thereunder, issue or announce the proposed issuance of any of its debt securities (including Notes), which are denominated in the same currency as, and have similar maturities, similar interest rates and other terms (including in respect of the method of computing interest) substantially similar to those of, the Notes being purchased pursuant to such Terms Agreement, during the period commencing on the date on which the Issuer accepts an offer to purchase any Note in accordance with such Terms Agreement and terminating on the Closing Date for the sale of such Note.

(vi) The Issuer shall furnish to you without charge, from time to time, as many copies of the following as you may reasonably request: (A) the Offering Memorandum and any amendment or supplement that has been prepared with respect thereto, (B) any Pricing Supplement, and (C) any financial statements and other periodic reports that the Issuer may furnish generally to holders of its debt securities.

(vii) The Issuer shall furnish to you in written form all quarterly financial statement information for the first three fiscal quarterly periods of the Issuer and PSC

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promptly upon publication of such quarterly information and, within two months of the end of each such quarterly period, cause the Offering Memorandum to be supplemented to include such financial information and corresponding information for the comparable period of the preceding fiscal year, as well as such other information and explanations as shall be necessary for an understanding of such financial information, which supplement may be in the form of a separate quarterly report, or a report filed by the Issuer or PSC under the Exchange Act.

(viii) The Issuer shall furnish to you the audited consolidated financial statements updating the audited consolidated financial statements and the financial information included in the Offering Memorandum for each corresponding fiscal year as promptly as practicable after the publication of such financial statements, but in any event not later than four months after the end of such fiscal year, and cause the Offering Memorandum to be supplemented to include such audited financial statements and the accountants' report with respect thereto, as well as such other information and explanations as shall be necessary for an understanding of such financial statements, which supplement may be in the form of a separate annual report or report filed by the Issuer or PSC under the Exchange Act.

(ix) The Issuer shall (1) use its best efforts to furnish to you copies of any proposed supplement or amendment to the Offering Memorandum (including any document incorporated by reference therein) five business days (or as soon thereafter as practicable) in advance of using such supplement or amendment, except for Federal Securities Filings, copies of which filings the Issuer will cause to be delivered to the Agent by facsimile or other means of delivery, on or prior to the date of filing with the Commission, and (2) permit you to review and comment as to the form and content thereof and, subject to the proviso in Section 4(a)(i), shall not use any such amendment or supplement to which you have reasonably objected in good faith; provided, however, that an amendment or supplement prepared to set forth terms and conditions of any Notes, including any Pricing Supplement, need not be furnished to or reviewed by those of you who are not named therein, who shall not have solicited offers for such Notes and who are not to be Purchasers of such Notes. Any Agent who shall have an objection in good faith to such proposed amendment or supplement may immediately terminate this Agreement as to such Agent by

notice to the Issuer. At the request of any Agent so terminating, the Issuer shall promptly amend and supplement the Offering Memorandum and Schedule I hereto to indicate those firms that remain Agents.

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(x) The Issuer shall not offer or sell any securities under circumstances which would require the registration of any of the Notes under the Securities Act.

(xi) The Issuer will take appropriate steps to ensure that the aggregate principal amount of Notes issued during the Offering Period does not exceed U.S. \$150,000,000, will not issue any Notes if such issuance would cause such limit to be exceeded, will promptly notify you in the event that at any time such limit has been reached and will promptly notify you if such limit is increased pursuant to this Agreement.

(xii) The Issuer shall not, without having given prior written notice to you, consent to any amendment of the Paying Agency Agreement. The Issuer shall promptly notify you of any resignation or removal of the Paying Agent and the appointment of any successor thereto.

(xiii) For so long as any of the Notes are outstanding, the Issuer will provide to any holder of Notes that are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, and to any prospective purchaser of such Notes designated by a holder thereof, upon the request of such holder or prospective purchaser in connection with a transfer or proposed transfer pursuant to Rule 144A, any information required to be provided to such holder or prospective purchaser to comply with the conditions set forth in Rule 144A as in effect as of the date the Notes of the corresponding Tranche shall have been first issued (together with any such information added by an amendment to Rule 144A after such date, to the extent such information can be provided without unreasonable additional expense to the Issuer).

(xiv) You shall not be liable or responsible to the Issuer for any losses, damages or liabilities suffered or incurred by the Issuer, including any losses, damages or liabilities under the Securities Act, arising from or relating to any resale or transfer of a Note by a holder (other than yourself) in any manner; provided that each of you, severally and not jointly, shall remain liable for the performance of your own obligations under this Agreement.

(xv) The Issuer will at all times ensure that all approvals, authorizations, consents or other orders of, and all filings with, any governmental or other administrative agency or body will be, prior to the time required (taking into account any permitted extensions), obtained or made (1) so that the Issuer may lawfully perform its obligations under the Notes, the Supplemental Indenture, this Agreement, the Administrative Procedures and the Paying

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Agency Agreement and (2) so that performance of such obligations will, in all respects material to the Issuer and its subsidiaries considered as a single enterprise, or material to the Issuer's ability to perform its obligations under the Notes, the Supplemental Indenture, this Agreement, the Administrative Procedures and the Paying Agency Agreement, comply with any laws, decrees, regulations, judgments or orders of any court, government, governmental authority or agency to which the Issuer or any of its subsidiaries or any of their respective properties or assets is subject.

(xvi) The Issuer will send to each Placement Agent, unless this

Agreement has been terminated as to such Placement Agent in accordance with Section 10(a) hereof, a copy of every notice of a meeting of the holders of the Notes (or any of them) that is sent by the Issuer or the Trustee to such holders at the same time it is sent to such holders and will promptly notify you immediately upon its becoming aware that a meeting of the holders of the Notes (or any of them) has been convened by any of such holders.

(xvii) The Issuer shall promptly notify each Placement Agent, unless this Agreement has been terminated as to such Placement Agent in accordance with Section 10(a) hereof, of any lowering in the ratings of any of the Issuer's securities by any Rating Agency, or of any notice given by any Rating Agency of any intended or possible decrease in any such rating or of any possible change in any such rating where such notice does not indicate the direction of the possible change.

(xviii) During the six-month period preceding and the six-month period following the issue date of any Note, neither the Issuer nor any affiliate of the Issuer will directly or indirectly, sell, offer for sale, solicit offers to buy or otherwise negotiate in respect of, any of the Notes or any other security (as defined in the Securities Act) which will be integrated with the solicitation of offers to purchase Notes or the sale of Notes hereunder in a manner that would require the registration of the Notes under the Securities Act.

(xix) The Issuer will apply the net proceeds from the offering and sale of the Notes in the manner set forth in the Offering Memorandum under "Use of Proceeds".

(xx) The Company will cooperate with the Agents in their endeavor to qualify the Notes for offering and sale under the securities or "Blue Sky" laws of such

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jurisdictions of the United States as the Agents may reasonably request.

(b) The obligations of the Issuer under Sections 4(a)(i), (ii), (iv), (vi), (vii), (viii) and (ix) shall be suspended during any period of time during which the Issuer shall have suspended the solicitation of offers to purchase Notes by written notice to each Agent; provided, however, that such obligations of the Issuer shall remain in effect (i) for a period of two years following the date of notice of such suspension if such Agent shall own any Notes with the intention of reselling them as contemplated by Section 2(b) or (ii) if the Issuer has accepted an offer to purchase Notes solicited by such Agent pursuant to this Agreement and the settlement for such sale shall not have occurred. At least one week prior to the end of any such period during which solicitations shall have been suspended, the Issuer shall notify you of any event or change contemplated by Section 4(a)(i) or by the last sentence of Section 4(a)(ii) of which the Issuer would have been obligated to notify you, and shall provide you all written information, documents and supplements referred to in Sections 4(a)(ii), (iv), (vii), (viii) and (ix) that the Issuer would have been obligated to deliver to you, had the Issuer not so suspended the solicitation of offers.

##### 5. Conditions to the Obligations of the Agent.

(a) The obligations of each Agent to solicit offers to purchase any Notes shall be subject to the accuracy of the representations and warranties on the part of the Issuer contained herein as of the date hereof and as of each time the Issuer gives a notice requesting any Agent to solicit offers as Agent, at and as of each acceptance of an offer by the Issuer and upon delivery of any Note to the purchaser (or its agent) pursuant to such offer, to the accuracy of the statements of the Issuer made in any certificates delivered pursuant to the provisions hereof as of the respective dates of such certificates, to the performance and observance by the Issuer of all covenants and

agreements herein contained on its part to be performed and observed and to the following additional conditions precedent:

(i) The Issuer shall have obtained all authorizations, consents and approvals of any court or governmental or other regulatory agency or body required in connection with the issuance and sale of the Notes and the performance of its obligations hereunder and under the Notes, the Notice of Appointment, the Supplemental Indenture and the Paying Agency Agreement.

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(ii) The Issuer shall have furnished to you an accurate certificate dated as of the date hereof, signed by the Chief Executive Officer or the Chief Financial Officer of the Issuer, in form and substance satisfactory to you, to the effect that, to the best of his or her knowledge after reasonable inquiry:

(1) the representations and warranties of the Issuer in this Agreement are true and correct in all material respects on and as of the date of the certificate and the Issuer has performed in all material respects all its obligations and satisfied all the conditions on its part to be satisfied at or prior to the date of the certificate;

(2) since the date of the most recent financial statements included in the current Offering Memorandum, there has been no material adverse change, or to the knowledge of the Issuer any development involving a prospective material adverse change, in the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries, considered as a single enterprise, except as set forth in the Offering Memorandum; and

(3) the Offering Memorandum (other than statements made therein in reliance upon and in conformity with information furnished to the Issuer in writing by any Agent specifically for use therein, as to which no representation shall be made) does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(iii) (A) The Issuer shall have furnished to each Agent the opinion of Dilworth, Paxson, Kalish & Kauffman LLP, counsel to the Issuer, substantially in the form of Exhibit C hereto, which may be subject to any assumptions, qualifications and limitations that are reasonably acceptable to each Agent.

(B) The Issuer shall have furnished to each Agent the opinion of the Senior Vice President-Law and Administration or General Counsel of the Issuer substantially in the form of Exhibit D hereto, which may be subject to any assumptions, qualifications and limitations that are reasonably acceptable to each Agent.

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(iv) Each Agent shall have received from Mellon Bank, N.A., as Trustee under the Indenture of Mortgage and the Supplemental Indenture, a certificate substantially in the form of Exhibit E hereto, which may be subject to any assumptions, qualifications and limitations that are reasonably acceptable to each Agent.

(v) Each Agent shall have received from your counsel such opinion with respect to the proposed issue and sale of the Notes and

other related matters as the Agent may reasonably require.

(vi) KPMG Peat Marwick, independent accountants for the Issuer, shall have furnished to the Agent an executed copy of a letter in the form heretofore agreed to by the Agent.

(vii) The Issuer shall have furnished to each Agent such further information, certificates and documents as any Agent may reasonably request.

(viii) The documents required to be delivered by this Section 5 shall be delivered at, or transmitted by telecopy (with an undertaking promptly to forward the original copies thereof) to, the offices of Dilworth, Paxson, Kalish & Kauffman LLP, counsel for the Issuer, 3200 Mellon Bank Center, 1735 Market Street, Philadelphia, PA 19103, at 4:00 P.M., Philadelphia time, on the date hereof, and an original of each such document will be sent to you.

#### 6. Conditions to the Obligations of a Purchaser.

(a) The obligations of any Purchaser to purchase any Notes shall be subject to the accuracy of the representations and warranties on the part of the Issuer contained herein or in the corresponding Terms Agreement, if any, at and as of the date of the corresponding Terms Agreement and upon the delivery to any Purchaser of any Note pursuant to such Terms Agreement, to the performance and observance by the Issuer of all covenants and agreements herein or therein contained on its part to be performed and observed and to the following additional conditions precedent:

(i) The Issuer shall have obtained all authorizations, consents and approvals of any court or governmental or other regulatory agency or body required in connection with the issuance and sale of the Notes and the performance of its obligations hereunder and under the Notes, the Notice of Appointment, the Supplemental Indenture and the Paying Agency Agreement.

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(ii) To the extent provided by such Terms Agreement, the Purchaser shall have received, appropriately updated, (1) a certificate of the Issuer dated as of the Closing Date to the effect set forth in Section 5(a)(ii), (2) the opinion of Dilworth, Paxson, Kalish & Kauffman LLP dated the Closing Date to the effect set forth in Section 5(a)(iii)(A), (3) the opinion of the Senior Vice President-Law and Administration or General Counsel, dated the Closing Date to the effect set forth in Section 5(a)(iii)(B), (4) the Trustee's certificate dated the Closing Date to the effect set forth in Section 5(a)(iv), (5) the opinion of your counsel dated the Closing Date to the effect set forth in Section 5(a)(v) and (6) the letter of KPMG Peat Marwick dated the Closing Date to the effect set forth in Section 5(a)(vi).

(iii) Prior to the Closing Date, the Issuer shall have furnished to the Purchaser such further information, certificates and documents as the Purchaser may reasonably request.

(b) If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement and any Terms Agreement, or if any other event occurs which permits cancellation under this Agreement, such Terms Agreement and all obligations of the Purchaser thereunder and with respect to the Notes subject thereto may be canceled at, or at any time prior to, the respective Closing Date by the Purchaser. Notice of such cancellation shall be given to the Issuer in writing or by telephone, promptly confirmed in writing, which confirmation may be made by telex or telecopy.

7. Conditions to all Purchases. The consummation of the sale of any Note pursuant to this Agreement shall be subject to the further condition that, at the date of issuance thereof, in the reasonable judgment of the Purchaser or



the Agent that obtained the offer, (a) each condition set forth in Section 5 or 6, as applicable, shall have been satisfied and (b) subsequent to the respective dates as of which information is given in the Offering Memorandum (current as of the date of such agreement to purchase a Note), except as set forth therein or contemplated thereby, there shall not have occurred any material adverse change, or to the knowledge of the Issuer any development involving a prospective material adverse change, in or affecting the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries, considered as a single enterprise, the effect of which makes it impracticable or inadvisable to market the Notes or to proceed with completion of the sale and payment for such Notes.

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8. Restrictions on Offers and Sales of the Notes. Each party hereto represents, warrants and agrees, severally and not jointly, as follows:

(a) It will solicit offers to purchase Notes only from, and it will offer and sell Notes only to, (i) institutional purchasers that are, or that it reasonably believes are, "qualified institutional buyers" as such term is defined in paragraph (a)(1) of Rule 144A ("QIBs") or (ii) any Agent. If it is an Agent, any resales or transfers of Notes through, or arranged by, such Agent similarly will be made only to QIBs. Neither it, its affiliates, nor any person acting on its or their behalf (except that no representation is made with respect to any other party to this Agreement) has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in the United States with respect to the Notes.

(b) It will make reasonable inquiry to determine whether a purchaser is purchasing for such purchaser's own account as a QIB or for the account of others and not with a view to, or for sale in connection with, the public distribution thereof in any transaction that would be in violation of Federal or state securities laws and, in the case of any purchaser acting on behalf of one or more third parties, it shall make reasonable inquiry to determine that each such third party is a QIB and that the amount being purchased on behalf of each such third party is not less than the authorized minimum denomination of such Notes; provided that the Issuer shall have no duty to make any such inquiry in connection with sales to any Agent or pursuant to offers transmitted to it by any Agent.

9. Indemnification and Contribution.

(a) The Issuer agrees to indemnify and hold harmless each Agent and each person who controls any Agent within the meaning of either the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which any such person may become subject under the law of any jurisdiction insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Offering Memorandum, in any amendment thereof or supplement thereto or in any information provided by the Issuer and furnished to any purchaser of the Notes pursuant to Section 4(a)(xiii), or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to

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reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that (i) the Issuer will not be liable in

any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made in the Offering Memorandum or in any amendment thereof or supplement thereto in reliance upon and in conformity with written information furnished to the Issuer by the person seeking indemnification, or on behalf of another person authorized to do so, specifically for use in connection with the preparation thereof. This indemnity will be in addition to any liability which the Issuer may otherwise have.

(b) Each Agent, severally and not jointly, agrees to indemnify and hold harmless the Issuer and each person who controls the Issuer within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from the Issuer, but only with reference to written information relating to the indemnifying party furnished to the Issuer by it, or on its behalf by a person authorized to do so, specifically for use, in the preparation of the Offering Memorandum or any amendment thereof or supplement thereto. This indemnity will be in addition to any liability which any Agent may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 9, notify the indemnifying party in writing of the commencement thereof; however, the omission so to notify the indemnifying party (i) will not relieve it from any liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of any substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and to the extent that it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof, with counsel satisfactory to such indemnified party; provided, however, that if the defendants in any such action include

both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assert such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of its election so to assume the defense of such action and approval by the indemnified party of counsel (which approval shall not be unreasonably withheld), the indemnifying party will not be liable to such indemnified party under this Section 9 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in connection with the assertion of legal defenses in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to any local counsel), representing the indemnified parties under paragraph (a) of this Section 9 who are parties to such action), (ii) the indemnifying party shall not have employed counsel satisfactory to the identified party to represent the indemnified party within a reasonable time after notice of commencement of the action or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party; and except that, if clause (i) or (iii) is applicable, such liability shall be only in respect of the counsel referred to in such clause (i) or

(iii). The indemnifying party shall not be liable for any settlement of any action or claim effected without its consent, which consent shall not be unreasonably withheld.

(d) In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this Section 9 is due in accordance with its terms but is for any reason held by a court to be unavailable on grounds of policy or otherwise, the Issuer and each Agent shall contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) to which the Issuer and any Agent may be subject in such proportion so that each Agent is responsible only for that portion represented by the percentage that the aggregate commissions received by each such Agent pursuant to Section 2 in connection with the Notes from which such losses, claims, damages and liabilities arise (or, in the case of Notes sold to a

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Purchaser, the discount to such Purchaser), bears to the aggregate principal amount of such Notes sold, and the Issuer is responsible for the balance; provided, however, that in no case shall any Agent be responsible for any amount in excess of the commissions received by each such Agent in connection with the Notes from which such losses, claims, damages and liabilities arise (or, in the case of Notes sold to the Purchaser, the discount to such Purchaser). For purposes of this Section 9, each person who controls any Agent within the meaning of either the Securities Act or the Exchange Act shall have the same rights to contribution as such Agent and each person who controls the Issuer within the meaning of either the Securities Act or the Exchange Act shall have the same rights to contribution as the Issuer, subject in each case to the proviso to the preceding sentence. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution hereunder from any person who was not guilty of such fraudulent misrepresentation. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim or contribution may be made against another party or parties under this paragraph (d), notify such party or parties from whom contribution may be sought (which obligation to give notice shall be deemed to be satisfied by the delivery of notice pursuant to paragraph (c) of this Section 9), but the omission so to notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this paragraph (d).

#### 10. Termination.

(a) This Agreement will continue in effect until terminated as provided in this Section 10 or Section 4(a)(ix). This Agreement may be terminated by the Issuer as to any Agent or, in the case of any Agent by such Agent, by giving at least 30 days' written notice of such termination to the other parties hereto, at which time the Issuer shall cause Schedule I hereto to be amended. Notwithstanding any such termination, the rights and liabilities of each party under Sections 2(a)(iv) and (vii), Sections 4(a)(iii), (xiv) and (xvi), Sections 8(a) and (b) (with respect to resales and transfers of Notes), Section 9, Section 11 and any Terms Agreement executed prior to the date of termination hereof shall survive any termination of this Agreement, in whole or in part. In addition, if any termination shall occur either (i) at a time when any Purchaser shall own any Notes, purchased under this Agreement from the Issuer, with the intention of reselling them or (ii) after the Issuer has

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accepted an offer to purchase Notes and prior to the related settlement, all agreements, terms and conditions relating to the purchase and sale of such Notes shall also remain in effect.

(b) Each agreement to purchase Notes pursuant to a solicitation by an Agent hereunder, and each agreement by a Purchaser to purchase Notes hereunder, shall be subject to termination in the absolute discretion of such Agent or the Purchaser (as the case may be), by notice given to the Issuer prior to delivery of any payment for Notes to be purchased, if prior to such time (i) trading in any securities issued by the Issuer or by PSC shall have been suspended or halted on any exchange (whether U.S. or foreign), or trading in securities generally on the New York Stock Exchange shall have been suspended or limited or minimum or maximum prices shall have been generally established on such Exchange, or additional material government restrictions, not in force on the date of this Agreement or the date of any Terms Agreement with respect to such Notes, shall have been imposed upon trading in securities generally by such Exchange or by order of the Commission or any court or other governmental authority, (ii) a general banking moratorium shall have been declared by either U.S. Federal or New York State or Commonwealth of Pennsylvania authorities, (iii) there shall have been a lowering in the ratings of any of the Issuer's securities by any Rating Agency or a notice given by any Rating Agency of any intended or potential decrease in any such rating or of any possible change in any such rating where such notice does not indicate the direction of the possible change, or (iv) there shall have occurred, in the reasonable judgment of such Agent or Purchaser (as the case may be), a material change in national or international political, financial or economic conditions that makes it impracticable or inadvisable to market the Notes or to proceed with completion of the sale of and payment for such Notes.

11. Representations and Indemnities to Survive. The respective agreements, representations, warranties, indemnities and other statements of the Issuer or its officers and of the Agent set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Agent or by or on behalf of the Issuer or any of the controlling persons referred to in Section 9, and will survive delivery of and payment for the Notes.

12. Increases in the Amount of the Notes; Extension of Offering Period. The aggregate principal amount of Notes that may be sold by the Issuer may be increased, or the Offering Period may be extended, if permitted under the Indenture of Mortgage, pursuant to (x) a subsequent supplemental indenture to the

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Indenture of Mortgage and (y) an amendment to this Agreement in the form attached hereto as Exhibit F executed by the Issuer and the Agent named in Schedule I hereto. Upon the execution and delivery of any such amendment, to the extent agreed upon by the Issuer and the Agent, the Issuer shall deliver to such Agent, appropriately updated, (a) a certificate of the Issuer dated as of the date of such amendment to the effect set forth in Section 5(a)(ii), (b) the opinion of Dilworth, Paxson, Kalish & Kauffman LLP dated the date of such amendment to the effect set forth in Section 5(a)(iii)(A), (c) the opinion of its Senior Vice President-Law and Administration or General Counsel, dated the Closing Date to the effect set forth in Section 5(a)(iii)(B), (d) the certificate of the Trustee dated the date of such amendment to the effect set forth in Section 5(a)(iv), and (e) the letter of KPMG Peat Marwick dated the date of such amendment to the effect set forth in Section 5(a)(vi), and the Issuer shall furnish to you such further information, certificates and documents as you may reasonably request.

13. Notices. All communications hereunder will be in writing, and effective only on receipt, or (but only where specifically provided in the Administrative Procedures) by telephone and, if sent to the Agent, will be mailed, delivered, telecopied and confirmed or telexed and confirmed to the Agent, at the address(es) specified in Schedule I hereto; or, if sent to the Issuer, will be mailed, delivered, telecopied and confirmed or telexed and confirmed to it at 762 Lancaster Avenue, Bryn Mawr, PA 19010, Attention: Chief

Financial Officer, (telephone: (215) 527-8000; telecopy: (215) 645-1141).

14. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the controlling persons referred to in Section 9, and no other person will have any right or obligation hereunder.

15. Applicable Law. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (EXCLUDING LAWS GOVERNING CONFLICTS OF LAW).

16. Counterparts. This Agreement may be signed in counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

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If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement between the Issuer and you.

Very truly yours,

PHILADELPHIA SUBURBAN WATER COMPANY,

by

Michael P. Graham

-----  
Name: Michael P. Graham

Title: Sr VP Finance and Treasurer

The foregoing Agreement is hereby confirmed and accepted as of the date hereof.

A.G. Edwards & Sons, Inc.

by

Lester H. Krone

-----  
Name: Lester H. Krone

Title: Vice President

Janney Montgomery Scott, Inc.

by

William L. Rulow-Miller

-----  
Name: William L. Rulow-Miller

Title: Sr. Vice President

HSBC Securities, Inc.

by

J. Randall Burwell

-----  
Name: J. Randall Burwell

Title: Sr. Vice President

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PaineWebber Incorporated

by

Walter S. Hulse, III

-----  
Name: Walter S. Hulse, III  
Title: Managing Director

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SCHEDULE I

Agents:

A.G. Edwards & Sons  
1 North Jefferson  
St. Louis, MO 63103

Lester Krone

Phone: (314) 955-2358  
Fax: (314) 955-7387

Janney Montgomery Scott, Inc.  
Times Bldg., Suite 400  
Suburban Square  
Ardmore, PA 19003-2415

Anthony Spatacco

Phone: (610) 896-2800  
Fax: (610) 896-9943

HSBC Securities, Inc.  
140 Broadway  
New York, NY 10005

MTN Desk

Phone: (212) 895-9328  
Fax: (212) 825-7517

PaineWebber Incorporated  
1285 Avenue of the Americas  
New York, NY 10019

Walter Hulse, III

Phone: (212) 713-2960  
Fax: (212) 247-0371

EXHIBIT A

MEDIUM TERM NOTE ADMINISTRATIVE PROCEDURES

July 11, 1997

First Mortgage Bonds, 1997 Medium Term Notes Series (the "Notes"), due from one year to thirty-five years, are to be offered on a continuing basis during the two year period from June 6, 1997 through June 5, 1999. The Agent or Agents listed on Schedule I to the Placement Agency Agreement (collectively, the "Agent") have agreed to use reasonable efforts to solicit offers to purchase Notes in fully registered form. The Agent may also purchase Notes as principal for resale, but no Agent will be obligated to purchase Notes for its own account. One or more of the Agents may participate in the placement

or purchase of the Notes of each Tranche upon their receipt of a Notice of Appointment from the Issuer for said Tranche. Each such notice of Appointment shall constitute an affirmation by the Issuer of the matters set forth in Section 5(a)(ii)(1)-(3) of the Placement Agency Agreement to the same extent as if the Issuer delivered the certificate described in Section 5(a)(ii) of the Placement Agency Agreement along with, and dated the date of, such Notice of Appointment.

The Notes are being sold pursuant to a Placement Agency Agreement between the Issuer and the Agent dated as of the date hereof (the "Placement Agency Agreement"). The Notes will be issued under and secured in accordance with the Thirty-First Supplemental Indenture dated as of July 1, 1997 (the "Supplemental Indenture") to the Indenture of Mortgage dated as of January 1, 1941 (the Indenture of Mortgage") between the Issuer and Mellon Bank, N.A. (as successor trustee to The Pennsylvania Company for Insurance on Lives and Granting Annuities), as Trustee (the "Trustee").

All Notes shall be represented by Global Securities (as defined hereinafter) registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), and beneficial ownership of such Notes will be represented and maintained in book-entry form on the books of DTC (the "Book-Entry Notes"). An owner of a Book-Entry Note will not be entitled to receive a certificate representing such Note. However, if DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Issuer within 90 days, the Issuer will issue Notes in definitive registered form (the "Certificated Notes") in exchange for the Global Security or Securities representing such Notes. In addition, the Issuer may at any time and in its sole discretion determine not to have some of or all the Notes represented by one or more Global Securities and, in such event, will issue certificated Notes in exchange for all of the Global Securities representing such Notes. In any such instance, an owner of a beneficial interest in a Global Security

will be entitled to physical delivery of Certificated Notes represented by such Global Security equal in amount to that represented by such beneficial interest and to have such Certificated Notes registered in its name.

The procedures to be followed during, and the specific terms of, the solicitation of offers by each Agent and the sale as a result thereof by the Issuer are explained below. Administrative and record-keeping responsibilities will be handled for the Issuer by its Treasurer. The Issuer will advise each Agent and the Trustee in writing of those persons handling administrative responsibilities with whom the Agent and the Trustee are to communicate regarding offers to purchase Notes and the details of their delivery. The Issuer will promptly advise each Agent and the Trustee in writing if any such person shall cease to handle such responsibilities or of the authorization of any additional person to handle such responsibilities.

Administrative procedures and specific terms of the offering are explained below. Book-Entry Notes will be issued in accordance with the administrative procedures set forth in Part I hereof, as adjusted in accordance with changes in DTC's operating requirements, and Certificated Notes will be issued in accordance with the administrative procedures set forth in Part II hereof. Capitalized terms not defined herein shall have the meanings assigned in the Placement Agency Agreement or, if not defined therein, in the Supplemental Indenture or the Offering Memorandum. To the extent the procedures set forth below conflict with the provisions of the Notes, the Indenture of Mortgage, the Supplemental Indenture, DTC's operating requirements or the Placement Agency Agreement, the relevant provisions of the Notes, the Indenture of Mortgage, the Supplemental Indenture, DTC's operating requirements and the Placement Agency Agreement shall control.

#### PART I

##### Administrative Procedures for Book-Entry Notes

In connection with the qualification of the Book-Entry Notes for eligibility in the book-entry system maintained by DTC, the Trustee will perform the custodial, document control and administrative functions described



below, unless certain duties are otherwise designated to a duly authorized paying agent, in accordance with its respective obligations under a Letter of Representations from the Issuer and the Trustee to DTC dated as of the date hereof and a Medium Term Note Certificate Agreement between the Trustee and DTC dated as of September 22, 1994, as amended, and its obligations as a participant in DTC, including DTC's Same-Day Funds Settlement system ("SDFS").

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**Issuance:** On any date of settlement (as defined under "Settlement" below) for one or more Notes, the Issuer will issue a single global security in fully registered form without coupons (a "Global Security") representing all such Notes that have the same rank (senior or subordinated), original issue date, original issue discount provisions, if any, Interest Payment Dates, Record Dates, Interest Payment Period, redemption provisions, if any, tender provisions, if any, Maturity Date, and interest rate (collectively, the "Terms"). Each Global Security will be dated and issued as of the date of its authentication by the Trustee. Each Global Security will bear an original issue date, which will be (i) with respect to an original Global Security (or any portion thereof), the original issue date specified in such Global Security and (ii) following a consolidation of Global Securities, with respect to the Global Security resulting from such consolidation, the most recent Interest Payment Date to which interest has been paid or duly provided for on the predecessor Global Securities, regardless of the date of authentication of such resulting Global Security. No Global Security will represent any Certificated Note.

**Identification Numbers:** The Issuer has arranged with the CUSIP Service Bureau of Standard & Poor's Corporation (the "CUSIP Service Bureau") for the reservation of one series of CUSIP numbers, which consists of approximately 900 CUSIP numbers and relates to Global Securities representing Book-Entry Notes. The Issuer has obtained from the CUSIP Service Bureau a written list of such reserved CUSIP numbers, which the Issuer shall deliver to the Trustee and DTC. The Issuer will assign CUSIP numbers to Global Securities as described below under Settlement Procedure "B". DTC will notify the CUSIP Service Bureau periodically of the CUSIP numbers that the Issuer has assigned to Global Securities. At any time when fewer than 100 of the reserved CUSIP numbers remain unassigned to Global Securities for either series, if it deems necessary, the Issuer will reserve additional CUSIP numbers for assignment to Global Securities. Upon obtaining such additional

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CUSIP numbers, the Issuer shall deliver a list of such additional CUSIP numbers to the Trustee and DTC.

**Registration:** Global Securities will be issued only in fully registered form without coupons. Each Global Security will be registered in the name of Cede & Co., as nominee for DTC, on the securities register for the Notes maintained under the Indenture of Mortgage. The beneficial owner of a Book-Entry Note (or one or more indirect participants in DTC designated by such owner) will designate one or more participants in DTC (with respect to such Book-Entry Note, the "Participants") to act as agent or agents for such owner in connection with the book-entry system maintained by DTC, and DTC will record in book-entry form, in accordance with instructions provided by such Participants, a credit balance

with respect to such beneficial owner in such Book-Entry Note in the account of such Participants. The ownership interest of such beneficial owner (or such participant) in such Book-Entry Note will be recorded through the records of such Participants or through the separate records of such Participants and one or more indirect participants in DTC.

**Transfers:** Transfers of a Book-Entry Note will be accomplished by book entries made by DTC and, in turn, by Participants (and, in certain cases, one or more indirect participants in DTC) acting on behalf of beneficial transferrers and transferees of such Note.

**Exchanges:** The Trustee may deliver to DTC and the CUSIP Service Bureau at any time a written notice of consolidation (a copy of which shall be attached to the resulting Global Security described below) specifying (i) the CUSIP numbers of two or more Outstanding Global Securities that represent fixed rate Notes having the same Terms and for which interest has been paid to the same date, (ii) a date, occurring at least thirty (30) days after such written notice is delivered and at least thirty (30) days before the next Interest Payment Date for such Book-Entry Notes, on which such Global Securities shall be exchanged for a single replacement Global

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Security and (iii) the single CUSIP number to be assigned to such replacement Global Security (which shall be the CUSIP number previously assigned to the Global Security with the earliest date of issuance). Upon receipt of such a notice, DTC will send to its Participants (including the Trustee) a written reorganization notice to the effect that such exchange will occur on such date. Prior to the specified exchange date, the Trustee will deliver to the CUSIP Service Bureau a written notice setting forth such exchange date and such single CUSIP number and stating that, as of such exchange date, the CUSIP numbers of the individual Global Securities not assigned to the replacement Global Security will no longer be valid. On the specified exchange date, the Trustee will exchange such Global Securities for a single Global Security bearing the single CUSIP number and the CUSIP numbers of the individual Global Securities not assigned will, in accordance with CUSIP Service Bureau procedures, be retired and not reassigned.

**Maturities:** Each Book-Entry Note will mature on a date not less than one year nor more than thirty-five years after the settlement date for such Note.

**Denomination:** Book-Entry Notes will be issued in a minimum principal amount of \$100,000 or an integral multiple of \$1,000 in excess thereof. Global Securities will be denominated in principal amounts not in excess of \$150,000,000. If one or more Book Entry Notes having an aggregate principal amount in excess of \$150,000,000 would, but for the preceding sentence, be represented by a single Global Security, then one Global Security will be authenticated and issued to represent each \$150,000,000 principal amount of such Book-Entry or Notes and an additional Global Security will be authenticated and issued to represent any remaining principal amount of such Book-Entry Note or Notes. In such a case, each of the Global Securities representing such Book-Entry Note or Notes shall be assigned the same CUSIP number.

**Interest:** General. Interest, if any, on each Book-Entry Note will accrue from the original

issue date for the first interest period or the last date to which interest has been paid, if any, for each subsequent interest period, on the Global Security representing such Book-Entry Note, and will be calculated and paid in the manner described in such Book-Entry Note and in the Offering Memorandum (as defined in the Placement Agency Agreement), as supplemented by the applicable Pricing Supplement thereto. Unless otherwise specified therein, each payment of interest on a Book-Entry Note will include interest accrued up to but excluding the Interest Payment Date or up to but excluding the Maturity Date. Interest payable upon Maturity of a Book-Entry Note will be payable to the Person to whom the principal of such Note is payable. Standard & Poor's Corporation will use the information received in the pending deposit message described under Settlement Procedure "C" below in order to include the amount of any interest payable and certain other information regarding the related Global Security in the appropriate (daily or weekly) bond report published by Standard & Poor's Corporation.

**Record Dates.** The Record Date with respect to any Interest Payment Date shall be the February 1 or August 1 immediately preceding such Interest Payment Date, whether or not such date shall be a Business Day.

**Interest Payment Dates.** Interest payments will be made semiannually on February 15 and August 15 of each year and at Maturity or earlier redemption or Tender; provided, however, that in the case of a Book-Entry Note issued between a Record Date and an Interest Payment Date, or on an Interest Payment Date, the first interest payment will be made on the Interest Payment Date following the next succeeding Record Date. If any Interest Payment Date for a Book-Entry Note is not a Business Day, the payment due on such day shall be made on the next succeeding Business Day and no interest shall accrue on such payment for the period from and after such Interest Payment Date.

Calculation of Interest:

**Book-Entry Notes.** Interest on Book-Entry Notes (including interest for partial

periods) will be calculated on the basis of a 360-day year of twelve 30-day months.

Payments of Principal and Interest:

**Payment of Interest Only.** Promptly after each Record Date, the Trustee will deliver to the Issuer and DTC a written notice setting forth, by CUSIP number, the amount of interest to be paid on each Global Security on the following Interest Payment Date (other than an Interest Payment Date coinciding with Maturity or earlier redemption or Tender of such Global Security) and the total of such amounts. DTC will confirm the amount payable on each Global Security on such Interest Payment Date by reference to the appropriate (daily or weekly) bond reports published by Standard & Poor's Corporation. The Issuer will pay to the Trustee, as paying agent, the total amount of interest due on such Interest Payment Date (other than at Maturity or earlier redemption or Tender of such Global Security), and the Trustee will pay such amount to DTC, at the times and in the manner set forth below under "Manner of Payment".

**Payments at Maturity.** On or about the last Business Day of each month, the Trustee will deliver to the Issuer and DTC a written list of principal, premium (if any) and interest to

be paid on each Global Security maturing (on a Maturity or Redemption Date or otherwise) in the following month. The Trustee, the Issuer and DTC will confirm the amounts of such principal, premium (if any) and interest payments with respect to each such Global Security on or about the fifth Business Day preceding the Maturity of such Global Security. On or before the Maturity Date, the Issuer will pay to the Trustee, as paying agent, the principal amount of such Global Security, together with any premium and interest due at such Maturity. The Trustee will pay such amount to DTC at the times and in the manner set forth below under "Manner of Payment". If any Maturity of a Global Security representing Book Entry Notes is not a Business Day, the payment due on such day shall be made on the next succeeding Business Day and no interest shall accrue on such payment for the period from and after such Maturity. Promptly after payment to DTC of the principal, premium (if any) and

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interest due at Maturity, earlier redemption or Tender of such Global Security (the "Cancelled Security"), the Trustee will cancel such Global Security (the "Cancelled Security") in accordance with the Indenture of Mortgage and so advise the Issuer; provided, however, if such Global Security is not being redeemed or tendered in its entirety, the Trustee shall authenticate a new Global Security in an amount equal to the principal portion of the Cancelled Security not paid. On the first Business Day of each month, the Trustee will deliver to the Issuer a written statement indicating the total principal amount of Outstanding Global Securities as of the immediately preceding Business Day.

Manner of Payment. The total amount of any principal, premium (if any) and interest due on Global Securities on any Interest Payment Date or at Maturity shall be paid by the Issuer to the Trustee in immediately available funds no later than 9:30 a.m. (New York City time) on such date. The Issuer will make such payment on such Global Securities by wire transfer of funds available for immediate use to the Trustee. The Issuer will confirm any such instructions in writing to the Trustee. Prior to 10:00 a.m. (New York City time) on the date of Maturity or as soon as possible thereafter, the Trustee will pay, from funds received by the Issuer, by separate wire transfer (using Fed wire message entry instructions in a form previously specified by DTC) to an account at the Federal Reserve Bank of New York previously specified by DTC, in funds available for immediate use by DTC, each payment of principal (together with any premium and interest thereon) due on a Global Security on such date. On each Interest Payment Date (other than at Maturity), interest payments shall be made to DTC, in funds available for immediate use by DTC, in accordance with existing arrangements between the Trustee and DTC. On each such date, DTC will pay, in accordance with its SDFS operating procedures then in effect, such amounts in funds available for immediate use to the respective Participants in whose names the Book-Entry Notes represented by such

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Global Securities are recorded in the book-entry system maintained by DTC. Neither the Issuer (as issuer or as paying agent) nor the Trustee shall have any direct responsibility or liability for the payment by DTC to such Participants of the principal of and interest on the Book-Entry Notes.

Withholding Taxes. The amount of any taxes required under applicable law to be withheld from any interest payment on a Book-Entry Note will be determined and withheld by the Participant, indirect participant in DTC or other Person responsible for forwarding payments and materials directly to the beneficial owner of such Note.

Procedure for  
Rate Setting and  
Posting:

The Issuer and the Agent will discuss from time to time the aggregate principal amount of, the issuance price of, and the interest rates to be borne by, Book-Entry Notes that may be sold as a result of the solicitation of orders by the Agent. If the Issuer decides to set prices of, and rates borne by, any Book-Entry Notes in respect of which the Agent is to solicit orders (the setting of such prices and rates to be referred to herein as "posting") or if the Issuer decides to change prices or rates previously posted by it, it will promptly advise the Agent of the prices and rates to be posted.

Acceptance and  
Rejection of  
Orders:

Unless otherwise instructed by the Issuer, each Agent will advise the Issuer promptly by telephone of all orders to purchase Book-Entry Notes received by such Agent, other than those rejected by it in whole or in part in the reasonable exercise of its discretion. The Issuer has the right to accept orders to purchase Book-Entry Notes and may reject any such orders in whole or in part.

Preparation of  
Pricing  
Supplement:

If any order to purchase a Book-Entry Note is accepted by or on behalf of the Issuer, the Issuer, with the approval of the Presenting Agent (defined below) will prepare a supplement (a "Pricing Supplement") reflecting the terms of such Book-Entry Note and will supply at least ten copies thereof (and additional copies if requested) to the Agent which presented the order

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(the "Presenting Agent") at the address set forth on Schedule I to the Placement Agency Agreement, and one copy thereof to the Trustee, to be delivered by overnight courier or telecopy to arrive no later than 11:00 a.m., New York City time, on the Business Day following the date of acceptance.

The Presenting Agent will cause an Offering Memorandum and Pricing Supplement to be delivered to the purchaser of such Book-Entry Note.

Outdated Pricing Supplements (other than those retained for files), will be destroyed.

Suspension of  
Solicitation

The Issuer may instruct each Agent to suspend at any time, for any period of time or permanently, the solicitation of orders to purchase Book-Entry Notes. Upon receipt of such instructions, each Agent will forthwith suspend solicitation until such time as the Issuer has advised them that such solicitation may be resumed.

In the event that at the time the Issuer suspends solicitation of purchases there shall be any orders outstanding for settlement, the Issuer will promptly advise each Agent and the Trustee whether such orders may be settled and whether copies of the Offering Memorandum as in effect at the time of the suspension, together with the appropriate Pricing Supplement, may be delivered in connection with the settlement of such orders. The Issuer will have the sole responsibility for such decision and for any arrangements that may be made in the event that the Issuer determines that such orders may not be settled or that copies of such Offering Memorandum or Pricing Supplement may not be so delivered.

Procedure For  
Rate Changes:

When the Issuer has determined to change the interest rates of Book Entry Notes being offered, it will promptly advise each Agent and each Agent will forthwith suspend solicitation of orders. Each Agent will telephone the Issuer with recommendations as to the changed interest rates. At such time as the Issuer has advised the Agent of the new interest rates, the Agent may resume

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solicitation of orders. Until such time only "indications of interest" may be recorded.

Delivery of  
Offering  
Memorandum:

A copy of the Offering Memorandum any Pricing Supplement relating a Book-Entry Note must accompany or precede the earliest of any written offer of such Book-Entry Note, confirmation of the purchase of such Book-Entry Note and payment for such Book-Entry Note by its purchaser. If notice of a change in the terms of the Book-Entry Notes is received by the Agent between the time an order for a Book-Entry Note is placed and the time written confirmation thereof is sent by the Presenting Agent to a customer or his agent, such confirmation shall be accompanied by a Offering Memorandum and Pricing Supplement setting forth the terms in effect when the order was placed. Subject to "Suspension of Solicitation" above, the Presenting Agent will deliver a Offering Memorandum and Pricing Supplement as herein described with respect to each Book Entry Note sold by it. The Issuer will make such delivery if such Book-Entry Note is sold directly by the Issuer to a purchaser (other than an Agent).

Confirmation:

For each order to purchase a Book Entry Note solicited by any Agent and accepted by or on behalf of the Issuer, the Presenting Agent will issue a confirmation to the purchaser, with a copy to the Issuer, setting forth the details set forth above and delivery and payment instructions.

Settlement:

The receipt by the Issuer of immediately available funds in payment for a Book-Entry Note and the authentication and issuance of the Global Security representing such Book-Entry Note shall constitute "settlement" with respect to such Book-Entry Note. All orders accepted by the Issuer will be settled on the tenth Business Day following the date of sale of such Book-Entry Note pursuant to the timetable for settlement set forth below unless the Issuer and the purchaser agree to settlement on another day which shall be no earlier than one Business Day following the date of sale.

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Settlement  
Procedures:

Procedures with regard to each Book-Entry Note sold by the Issuer through any Agent, as agent, shall be as follows:

- A. The Presenting Agent will advise the Issuer by telephone of the following settlement information:
  1. Principal amount.
  2. Maturity Date.
  3. The interest rate.
  4. Interest Payment Dates and the Interest Payment

Period.

5. Redemption or repayment provisions, if any.
  6. Optional Tender Provisions, if any
  7. Settlement date.
  8. Price.
  9. The Presenting Agent's DTC participant account number and commission, determined as provided in Section 2 of the Placement Agency Agreement.
  10. Whether such Book-Entry Note is issued at an original issue discount ("OID") and, if so, the total amount of OID, the yield to maturity and the initial accrual period OID.
- B. The Issuer will assign a CUSIP number to the Global Security representing such Book-Entry Note and then advise the Trustee and the Presenting Agent by telephone (confirmed in writing at any time on the same date) or electronic transmission of the information set forth in Settlement Procedure "A" above, such CUSIP number and the name of the Presenting Agent.
- C. The Trustee will enter a pending deposit message through DTC's Participant Terminal System providing the settlement

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information to DTC specified in the Letter of Representations from the Issuer and the Trustee to DTC dated as of the date hereof.

- D. To the extent the Issuer has not already done so, the Issuer will deliver to the Trustee a Global Security in a form that has been approved by the Issuer, the Agent and the Trustee.
- E. The Trustee will complete such Global Security, stamp the appropriate legend, as instructed by DTC, if not already set forth thereon, and authenticate the Global Security representing such Book-Entry Note in accordance with the terms of the written order of the Issuer then in effect.
- F. DTC will credit such Book-Entry Note to the Trustee's participant account at DTC.
- G. Upon delivery of the pending deposit message referenced in "C" above, an SDFS deliver order through DTC's Participant Terminal System will be created instructing DTC to debit such Book-Entry Note to the Trustee's participant account and credit such Book-Entry Note to the Presenting Agent's participant account and debit the Presenting Agent's settlement account and credit the Trustee's settlement account for an amount equal to the price of such Book-Entry Note less the Presenting Agent's commission. The entry of such a pending deposit message by the Trustee shall constitute a representation and warranty by the Trustee to DTC that (i) the Global Security representing such Book-Entry Note has been issued and authenticated and (ii) the Trustee is holding such Global Security pursuant to the Medium Term Note Certificate Agreement between the Trustee and DTC.
- H. The Presenting Agent will enter :an SDFS deliver order through DTC's Participant Terminal System instructing DTC (i) to debit such Book-Entry Note to the Presenting

Agent's participant account and credit such Book-Entry Note to the

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participant accounts of the Participants with respect to such Book-Entry Note and (ii) to debit the settlement accounts of such Participants and credit the settlement account of the Presenting Agent for an amount equal to the price of such Book-Entry Note.

- I. Transfers of funds in accordance with SDFS deliver orders described in Settlement Procedures "G" and "H" will be settled in accordance with SDFS operating procedures in effect on the settlement date.
- J. The Trustee will, upon receipt of funds from the Agent in accordance with Settlement Procedure "G", credit to an account of the Issuer maintained at Mellon Bank, N.A., funds available for immediate use in the amount transferred to the Trustee in accordance with Settlement Procedure "G". However, the Trustee shall not credit the account of the Issuer unless and until the Trustee has confirmed receipt of the funds in the appropriate amount transferred in accordance with Settlement Procedure "G".
- K. The Presenting Agent will confirm the purchase of such Book-Entry Note to the purchaser either by transmitting to the Participants with respect to such Book-Entry Note a confirmation order or orders through DTC's institutional delivery system or by mailing a written confirmation to such purchaser.

Settlement  
Procedures  
Timetable:

For orders of Book-Entry Notes solicited by any Agent and accepted the Issuer for settlement on the Business Day after the sale date, Settlement Procedures "A" through "K" set forth above shall be completed as soon as possible but not later than the respective times (New York City time) set forth below:

Settlement Procedure -----	Time -----
A	11:00 a.m. on the sale date
B	12:00 Noon on the sale date
C	2:00 p.m. on the sale date
D	3:00 p.m. on the day before settlement
E	9:00 a.m. on settlement date
F	10:00 a.m. on settlement date
G-H	2:00 p.m. on settlement date
I	4:30 p.m. on settlement date
J-K	5:00 p.m. on settlement date

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If a sale is to be settled more than one Business Day after the sale date, Settlement Procedures "A", "B" and "C" shall be completed as soon as practicable but no later than 11:00 a.m. and 12:00 Noon on the first Business Day after the sale



date and no later than 2:00 p.m. on the Business Day before the settlement date, respectively. Settlement Procedure "I" is subject to extension in accordance with any extension of Fed wire closing deadlines and in the other events specified in SDFS operating procedures in effect on the settlement date.

If settlement of a Book-Entry Note is rescheduled or canceled, the Trustee will deliver to DTC, through DTC's Participant Terminal System, a cancellation message to such effect by no later than 2:00 p.m. on the Business Day immediately preceding the scheduled settlement date.

Failure to  
Settle:

If the Trustee has not entered an SDFS deliver order with respect to a Book-Entry Note pursuant to Settlement Procedure "G", then, upon written request (which may be by telecopy) of the Issuer, the Trustee shall deliver to DTC, through DTC's Participant Terminal System, as soon as practicable, a withdrawal message instructing DTC to debit such Book Entry Note to the Trustee's participant account. DTC will process the withdrawal message, provided that the Trustee's participant account contains a principal amount of the Global Security representing such Book-Entry Note that is at least equal to the principal amount to be

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debited. If a withdrawal message is processed with respect to all the Book-Entry Notes represented by a Global Security, the Trustee will cancel such Global Security in accordance with the Indenture of Mortgage and so advise the Issuer, and will make appropriate entries in its records. The CUSIP number assigned to such Global Security shall, in accordance with CUSIP Service Bureau procedures, be canceled and not immediately reassigned. If a withdrawal message is processed with respect to one or more, but not all, of the Book-Entry Notes represented by a Global Security, the Trustee will exchange such Book-Entry Note for two Global Securities, one of which shall represent such Book Entry Notes and shall be canceled immediately after issuance and the other of which shall represent the other Book-Entry Notes previously represented by the surrendered Global Security and shall bear the CUSIP number of the surrendered Global Security.

If the purchase price for any Book Entry Note is not timely paid to the Participants with respect to such Note by the beneficial purchaser thereof (or a Person, including an indirect participant in DTC, acting on behalf of such purchaser), such Participants and, in turn, the Presenting Agent may enter SDFS deliver orders through DTC's Participant Terminal System debiting such Note to such Presenting Agent's participant account and crediting such Note free to the participant account of the Trustee and shall notify the Trustee and the Issuer thereof. Thereafter, the Trustee (i) will promptly notify the Issuer thereof, once the Trustee has confirmed that such Note has been credited to its participant account, and the Issuer shall immediately transfer by Fed wire (in immediately available funds) to such Agent an amount equal to the price of such Note which was previously credited to the account of the Issuer maintained at Mellon Bank, N.A., or wire transferred at the Issuer's direction in accordance with Settlement Procedure J and (ii) the Trustee will deliver the withdrawal message and take the related actions described in the preceding paragraph. If such failure shall have occurred for any reason

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other than a default by the Presenting Agent in the performance of its obligations hereunder and under the Placement Agency Agreement, then the issuer will reimburse the Presenting Agent or the Trustee, as applicable, on an equitable basis for the loss of the use of the funds during the period when they were credited to the account of the Issuer.

Notwithstanding the foregoing, upon any failure to settle with respect to a Book-Entry Note, DTC may take any actions in accordance with its SDFS operating procedures then in effect. In the event of a failure to settle with respect to one or more, but not all, of the Book-Entry Notes to have been represented by a Global Security, the Trustee will provide, in accordance with Settlement Procedure "E", for the authentication and issuance of a Global Security representing the other Book-Entry Notes to have been represented by such Global Security and will make appropriate entries in its records.

Trustee Not to Risk Funds:

Nothing herein shall be deemed to require the Trustee to risk or expend its own funds in connection with any payment to the Issuer, DTC, the Agent or the purchaser, it being understood by all parties that payments made by the Trustee to the Issuer, DTC, the Agent or the purchaser shall be made only to the extent that funds are provided to the Trustee for such purpose.

Authenticity of Signatures:

The Issuer will cause the Trustee to furnish the Agent from time to time with the specimen signatures of each of the Trustee's officers, employees or agents who have been authorized by the Trustee to authenticate Book-Entry Notes, but no Agent will have any obligation or liability to the Issuer or the Trustee in respect of the authenticity of the signature of any officer, employee or agent of the Issuer or the Trustee on any Book-Entry Note.

Payment of Expenses:

Each Agent shall forward to the Issuer, on a monthly basis, a statement of the out-of-pocket expenses incurred by such Agent during that month that are reimbursable to it pursuant to the terms of the Placement Agency

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Agreement. The Issuer will remit payment to each Agent currently on a monthly basis.

Advertising Costs:

The Issuer will determine with the Agent the amount of advertising that may be appropriate in soliciting offers to purchase the Book-Entry Notes. Advertising expenses will be paid by the Issuer.

Periodic Statements from the Trustee:

Periodically, upon written request, the Trustee will send to the Issuer a statement setting forth the principal amount of Book-Entry Notes outstanding as of that date and setting forth a brief description of any sales of Book-Entry Notes of which the Issuer has advised the Trustee but which have not yet been settled.

Restrictions on Transfers:

No Note may be resold or transferred in any manner that does not comply with the applicable restrictions on resale or transfer or the procedures required for resale or transfer set forth in the Offering Memorandum, the Placement Agency Agreement and on the Note certificate.

Business Day: As used herein, "Business Day" means any day other than a Saturday or Sunday or a day on which the Trustee or banks in New York, New York are generally authorized or obligated by law or executive order to close.

## PART II

### Administrative Procedures for Certificated Notes

The Trustee will serve as registrar and transfer agent, authenticating agent and paying agent in connection with the Certificated Notes, unless a different paying agent is duly appointed by the Issuer to carry out certain duties.

Issuance: Each Certificated Note will be dated and issued as of the date of its authentication by the Trustee. Each Certificated Note will bear an Original Issue Date, which will be (i) with respect to an original Certificated Note (or any portion thereof), its original issuance date (which will be the settlement date) and (ii) with respect to any Certificated Note (or portion thereof) issued subsequently upon transfer or exchange of a

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Certificated Note or in lieu of a destroyed, lost or stolen Certificated Note, the Original Issue Date of the predecessor Certificated Note, regardless of the date of authentication of such subsequently issued Certificated Note.

Registration: Certificated Notes will be issued only in fully registered form without coupons.

Transfers and Exchanges: A Certificated Note may be presented for transfer or exchange at the office designated by the Trustee located in Pittsburgh, Pennsylvania, or at such other office as the Issuer may designate. Certificated Notes will be exchangeable for other Certificated Notes having identical terms but different authorized denominations without service charge. Certificated Notes will not be exchangeable for Book-Entry Notes.

Maturities: Each Certificated Note will mature on a date not less than one year nor more than thirty-five years after the Original Issue Date (the settlement date) for such Note.

Denominations: The denomination of any Certificated Note denominated in U.S. dollars will be a minimum of \$100,000 or any amount in excess thereof that is an integral multiple of \$1,000.

Interest: General. Interest, if any, on each Certificated Note will accrue from the Original Issue Date for the first interest period or the last date to which interest has been paid, if any, for each subsequent interest period, and will be calculated and paid in the manner described in such Note and in the Offering Memorandum, as supplemented by the applicable Pricing Supplement. Unless otherwise specified therein, each payment of interest on a Certificated Note will include interest accrued up to but excluding the Interest Payment Date or up to but excluding the Maturity Date.

Record Dates. The Record Date with respect to any Interest Payment Date shall be the February 1 or August 1 immediately preceding such Interest Payment Date, whether or not such date shall be a Business Day.

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Interest Payment. Unless otherwise specified pursuant to Settlement Procedure "A" below, interest payments will be made semiannually on February 15 and August 15 of each year and at Maturity, or earlier redemption or Tender; provided, however, that in the case of a Certificated Note issued between a Record Date and an Interest Payment Date, or on an Interest Payment Date, the first interest payment will be made on the Interest Payment Date following the next succeeding Record Date. If any Interest Payment Date for, or the Maturity of, a Certificated Note is not a Business Day, the payment due on such day shall be made on the next succeeding Business Day and no interest shall accrue on such payment for the period from and after such Interest Payment Date or Maturity, as the case may be.

Calculation  
of Interest:

Certificated Notes (including interest for partial periods) will be calculated on the basis of a 360 day year of twelve 30-day months.

Payments of  
Principal and  
Interest:

No later than 11:00 a.m. on the due date for any payment of principal, premium (if any) or interest on each Certificated Note, the Issuer will pay to the Trustee, as paying agent, the amount of principal, premium (if any) and/or interest then due. The Trustee will pay the principal amount of each Certificated Note at Maturity or earlier redemption or Tender upon presentation of such Certificated Note to the Trustee. Such payment, together with payment of any premium and interest due at Maturity or earlier redemption or Tender of such Certificated Note, will be paid to an account at a bank in Pittsburgh, Pennsylvania (or other bank consented to by the Issuer) as the registered holder of the Notes shall designate to the Trustee not less than ten (10) days prior to the date of payment, in funds available for immediate use by the Trustee and in turn by the Holder of such Certificated Note. Certificated Notes presented and surrendered to the Trustee at Maturity or earlier redemption or Tender for payment will be cancelled by the Trustee in accordance with the Indenture of Mortgage. All interest

payments on a Certificated Note (other than interest due at Maturity or earlier redemption or Tender) and any other payments for which appropriate instructions for payment shall not have been received by the Trustee not less than ten (10) days prior to payment will be made by check drawn on the Trustee or another Person appointed by the Trustee mailed by the Trustee to the Person entitled thereto as provided in such Note; provided, however, that the holder of \$10,000,000 or more of Certificated Notes with similar tenor and terms will be entitled to receive payment by wire transfer in U.S. dollars upon receipt of written instructions by the Trustee not less than ten (10) days prior to payment. Within five Business Days after each Record Date, the Trustee will furnish the Issuer with a list of interest payments to be made on the following Interest Payment Date for each group of Certificated Notes bearing interest at a particular rate and in total for all Certificated Notes. Interest at Maturity or earlier redemption or Tender will be payable to the Person to whom the payment of principal is payable. The Trustee will provide, on or about the last Business Day of each month, to the Issuer lists of principal and interest, to the extent ascertainable, to be paid on Certificated Notes maturing (on a Maturity or Redemption Date or otherwise) in the next succeeding month.

The Issuer will be responsible for withholding taxes on interest paid on Certificated Notes as required by applicable law.

Procedure for  
Rate Setting and  
Posting:

The Issuer and the Agent will discuss from time to time the aggregate principle amount of, the issuance price of, and the interest rates to be borne by, Notes that may be sold as a result of the solicitation of orders by any Agent. If the Issuer decides to set prices of, and rates borne by, any Notes in respect of which any Agent are to solicit orders (the setting of such prices and rates to be referred to herein as "posting") or if the Issuer decides to change prices or rates previously posted by it, it will promptly advise each Agent of the prices and rates to be posted.

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Acceptance and  
Rejection of  
Orders:

Unless otherwise instructed by the Issuer, each Agent will advise the Issuer promptly by telephone of all orders to purchase Certificated Notes received by such Agent, other than those rejected by it in whole or in part in the reasonable exercise of its discretion and, if such Agent or any of its affiliates shall be the offeror, shall advise the Issuer of that fact. Unless otherwise agreed by the Issuer and each Agent, the Issuer has the sole right to accept orders to purchase Certificated Notes and may reject any such orders in whole or in part. The Issuer will forthwith advise such Presenting Agent of the acceptance or rejection of any offer received through such Agent who shall then so advise the offeror.

Preparation of  
Pricing  
Supplement:

If any order to purchase a Certificated Note is accepted by or on behalf of the Issuer, and if so required by Section 4(a)(i) of the Placement Agency Agreement, the Issuer, with the approval of the Presenting Agent, will prepare a Pricing Supplement reflecting the terms of such Certificated Note and will supply at least ten copies thereof (and additional copies if requested) to the Presenting Agent at the address set forth on Schedule I to the Placement Agency Agreement, and one copy thereof to the Trustee, to be delivered by overnight courier or telecopy to arrive no later than 11:00 a.m., New York City time, on the Business Day following the sale date. The Presenting Agent will cause a Offering Memorandum and Pricing Supplement to be delivered to the purchaser of such Certificated Note. Outdated Pricing Supplements (other than those-retained for files), will be destroyed.

Suspension of  
Solicitation:

Subject to the Issuer's representations, warranties and covenants contained in the Placement Agency Agreement, the Issuer may instruct the Agent to suspend at any time for any period of time or permanently, the solicitation of orders to purchase Certificated Notes. Upon receipt of such instructions, each Agent will forthwith suspend solicitation until such time as the Issuer has advised each Agent that such solicitation may be resumed.

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In the event that at the time the Issuer suspends solicitation of Purchases there shall be any orders outstanding for settlement, the Issuer will promptly advise each Agent and the Trustee whether such orders may be settled and whether copies of the Offering Memorandum as in effect at the time of the suspension, together with the appropriate Pricing Supplement, may be delivered in connection with the settlement of such orders. The Issuer

will have the sole responsibility for such decision and for any arrangements that may be made in the event that the Issuer determines that such orders may not be settled or that copies of such Offering Memorandum may not be so delivered. No such suspension shall excuse any failure by the Issuer to fulfill a contractual obligation to deliver any Certificated Notes.

Procedure for  
Rate Changes:

When the Issuer has determined to change the interest rates of Certificated Notes being offered, it will promptly advise the Agent and each Agent will forthwith suspend solicitation of orders. Each Agent will telephone the Issuer with recommendations as to the changed interest rates. At such time as the Issuer has advised the Agent of the new interest rates, the Agent may resume solicitation of orders. Until such time only "indications of interest" may be recorded.

Delivery of  
Offering  
Memorandum:

A copy of the Offering Memorandum and any Pricing Supplement relating to a Certificated Note must accompany or precede the earliest of any written offer of such Certificated Note, confirmation of the purchase of such Certificated Note and payment for such Certificated Note by its purchaser. If notice of a change in the terms of the Certificated Notes is received by the Agent between the time an order for a Certificated Note is placed and the time written confirmation thereof is sent by the Presenting Agent to a customer or his agent, such confirmation shall be accompanied by a Offering Memorandum and Pricing Supplement setting forth the terms in effect when the order was placed. Subject to "Suspension of Solicitation"

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above, the Presenting Agent will deliver a Offering Memorandum and Pricing Supplement as herein described with respect to each Certificated Note sold by it. The Issuer will make such delivery if such Certificated Note is sold directly by the Issuer to a purchaser (other than any Agent).

Confirmation:

For each order to purchase a Certificated Note solicited by any Agent and accepted by or on behalf of the Issuer, the Presenting Agent will issue a confirmation to the purchaser, with a copy to the Issuer, setting forth the information specified in paragraph A under "Settlement Procedures" and delivery and payment instructions.

Settlement:

The receipt by the Issuer of immediately available funds in exchange for an authenticated Certificated Note delivered to the Presenting Agent and the Presenting Agent's delivery of such Certificated Note against receipt of immediately available funds shall, with respect to such Certificated Note, constitute "settlement". All orders accepted by the Issuer will be settled on the tenth Business Day following the date of sale pursuant to the timetable for settlement set forth below, unless the Issuer and the Purchaser agree to settlement on another day which shall be no earlier than one Business Day following the date of sale.

Settlement  
Procedures:

Settlement Procedures with regard to each Certificated Note sold by the Issuer through any Agent, as agent, shall be as follows:

A. The Presenting Agent will advise the Issuer by telephone of the following settlement information:

1. Name in which such Certificated Note is to be registered ("Registered Owner").

2. Address of the Registered Owner and address for payment of principal and interest.
3. Taxpayer identification number of the Registered Owner (if available).

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4. Rank (senior or subordinated).
  5. Principal amount.
  6. Maturity Date.
  7. Interest Payment Dates and the Interest Payment Period.
  8. Redemption or repayment provisions, if any.
  9. Optional Tender Provisions, if any.
  10. The settlement date.
  11. Price (including currency).
  12. Presenting Agent's commission, determined as provided in Section 2 of the Placement Agency Agreement.
  13. Whether such Certificated Note is issued at an original issue discount ("OID"), and, if so, the total amount of OID, the yield to maturity and the initial accrual period OID.
- B. The Issuer will advise the Trustee by telephone (confirmed in writing at any time on the sale date) or electronic transmission of the information set forth in Settlement Procedure "A" above and the name of the Presenting Agent.
- C. The Issuer will deliver to the Trustee an original Certificated Note with customer confirmation in triplicate in forms that have been approved by Issuer, the Agent and the Trustee.
- D. The Trustee will complete such Certificated Note and will authenticate such Certificated Note and deliver it (with the confirmation) and two copies thereof (clearly marked as such) to the Presenting Agent, and the Presenting Agent will acknowledge receipt of the Note by stamping or otherwise marking the first copy and returning it to the Trustee. Such delivery will be made only against such acknowledgment of receipt. In the event

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that the instructions given by the Presenting Agent for payment to the account of the Issuer are revoked, the Issuer will as promptly as possible wire transfer to the account of the Presenting Agent an amount of immediately available funds equal to the amount of such payment made.

- E. The Presenting Agent will deliver such Certificated Note (with the confirmation) to the customer against payment in immediately payable funds. The Presenting Agent will obtain the acknowledgement of receipt of such

Certificated Note by retaining the second copy thereof.

- F. Upon verification by the Presenting Agent that a Note has been prepared and properly authenticated by the Trustee and registered in the name of the purchaser in the proper principal amount, payment will be made to the Issuer by the Presenting Agent the same day in immediately available funds. Such payment shall be made only upon prior receipt by the Presenting Agent of immediately available funds from or on behalf of the purchaser unless the Presenting Agent decides, at its option, exercised in its sole discretion, to advance its own funds for such payment against subsequent receipt of funds from the purchaser. The Presenting Agent shall immediately notify the Issuer of its decision to advance its own funds for payment against subsequent receipt of funds from a purchaser.
- G. The Trustee will send a third copy of the Certificated Note (clearly marked as such) to the Issuer by first-class mail.

Settlement Procedures Timetable:

For orders of Certificated Notes solicited by any Agent, as agent, and accepted by the Issuer, Settlement Procedures "A" through "G" set forth above shall be -completed on or before the respective times (New York City time) set forth below:

Settlement Procedure -----	Time ----
A	2:00 p.m. on the day before settlement
B-C	3:00 p.m. on the day before settlement
D	2:15 p.m. on settlement date
E	3:00 p.m. on settlement date
F-G	5:00 p.m. on settlement date

Failure to Settle:

If a purchaser fails to accept delivery of and make payment for any Certificated Note, the Presenting Agent will notify the Issuer and the Trustee by telephone and return such Certificated Note to the Trustee. Upon receipt of such notice, the Issuer will immediately wire transfer to the account of the Presenting Agent an amount equal to the amount previously credited to the account of Issuer in respect of such Certificated Note. Such wire transfer will be made on the settlement date, if possible, and in any event not later than the Business Day following the settlement date. If the failure shall have occurred for any reason other than a default by the Presenting Agent in the performance of its obligations hereunder and under the Placement Agency Agreement, then the Issuer will reimburse the Presenting Agent on an equitable basis for its loss of the use of the funds during the period when they were credited to the account of the Issuer. Immediately upon receipt of the Certificated Note in respect of which such failure occurred, the Trustee will cancel such Certificated Note in accordance with the Indenture of Mortgage, as supplemented, and so advise the Issuer and will make appropriate entries in its records.

Trustee Not to Risk Funds:

Nothing herein shall be deemed to require the Trustee to risk or expend its own funds in connection with any payment to the Issuer, the Agent or the purchaser, it being understood by all parties that payments made by the Trustee to the Issuer, the Agent or the purchaser shall be made only



to the extent that funds are provided to the Trustee for such purpose.

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Authenticity of Signatures: The Issuer will cause the Trustee to furnish the Agent from time to time with the specimen signatures of each of the Trustee's officers, employees or agents who has been authorized by the Trustee to authenticate Certificated Notes, but no Agent will have any obligation or liability to the Issuer or the Trustee in respect of the authenticity of the signature of any officer, employee or agent of the Issuer or the Trustee on any Certificated Note.

Payment of Expenses: Each Agent shall forward to the Issuer, on a monthly basis, a statement of the out-of-pocket expenses incurred by such Agent during that month that are reimbursable to it pursuant to the terms of the Placement Agency Agreement. The Issuer will remit payment to each Agent currently on a monthly basis.

Advertising Costs: The Issuer will determine with the Agent the amount of advertising that may be appropriate in soliciting orders to purchase the Certificated Notes. Advertising expenses will be paid by the Issuer.

Periodic Statements from the Trustee: Periodically, upon written request, the Trustee will send to the Issuer a statement setting forth the principal amount of Certificated Notes outstanding as of that date and setting forth a brief description of any sales of Certificated Notes of which the Issuer has advised the Trustee but which have not yet been settled.

Restrictions of Transfer: No Note may be resold or transferred in any manner that does not comply with the applicable restrictions on resale or transfer or the procedures required for resale or transfer set forth on the Note certificate.

Business Day: As used herein, "Business Day" means any day other than a Saturday or Sunday or a day on which the Trustee or banks in New York, New York are generally authorized or obligated by law or executive order to close.

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EXHIBIT B

TERMS AGREEMENT

[Date]

To: PHILADELPHIA SUBURBAN WATER COMPANY

Subject in all respects to the terms and conditions of the Placement Agency Agreement (the "Agreement") dated as of July 11, 1997 between the Placement Agents and you, the undersigned agrees to purchase the following Notes of Philadelphia Suburban Water Company:

Principal Amount:  
Interest Rate:  
Maturity Date:  
Discount to the Purchaser: \_\_\_% of Principal Amount  
Purchase Price:  
Commission:  
Agent DTC No.:

CUSIP No.:  
Closing Date and Time:  
Initial Redemption Date:  
Initial Redemption Percentage:  
Annual Redemption Reduction Percentage:  
Optional Tender Date  
Requirements to deliver the documents specified in Section 6(a)(ii) of the Agreement:  
Certificate contemplated by clause (1): [Required/Not Required]  
Opinion contemplated by clause (2): [Required/Not Required]  
Opinion contemplated by clause (3): [Required/Not Required]  
Certificate contemplated by clause (4): [Required/Not Required]  
Opinion contemplated by clause (5): [Required/Not Required]  
Letter contemplated by clause (6): [Required/Not Required]  
Period during which additional Notes may not be sold if not period between trade date and Closing Date as specified in Section 4(a)(v) of the Agreement:

Other Provisions:

\_\_\_\_\_  
By  
  
\_\_\_\_\_  
Name:  
Title:

Accepted:

PHILADELPHIA SUBURBAN WATER COMPANY

by

\_\_\_\_\_  
Name:  
Title:

(215) 575-7000

\_\_\_\_\_, 1997

To Each of the Addressees Named on Schedule I of the Placement Agency Agreement Acting Severally and Not Jointly in the Capacities of Agent and Purchaser or in Either Such Capacity

Re: Philadelphia Suburban Water Company  
\$150,000,000 First Mortgage Bonds,  
1997 Medium Term Note Series  
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Gentlemen:

We have acted as special counsel to Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Company"), in connection with the transactions contemplated by (i) the Placement Agency Agreement dated July 11, 1997 (the "Placement Agency Agreement") between the Company and the Agents identified therein (the "Agents"); (ii) the Paying Agency Agreement dated as of July 11, 1997 (the "Paying Agency Agreement"), among the Company, Mellon Bank, N.A., as paying agent and the Agents; (iii) the Indenture of Mortgage dated as of January 1, 1941 (the "Original Indenture"), between the Company and Mellon Bank, N.A. (as successor in interest to The Philadelphia Company for Insurance on Lives and Exacting Annuities), as trustee (the "Trustee"), as amended and supplemented by thirty-one supplements thereto (the Original Indenture, as so amended and supplemented, the "Indenture"); (iv) the Thirty-First Supplemental Indenture dated as of July 1, 1997 (the "Thirty-First Supplemental Indenture") between the Company and the Trustee; (v) the First Mortgage Bonds, 1997 Medium Term Note Series to be issued in one or more subseries pursuant to the Thirty-First Supplemental Indenture (the "Notes"); and (vi) the Confidential Offering Memorandum, dated as of July 11, 1997 relating to the offering of

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the Notes, as amended or supplemented through the date hereof, including any documents filed with the Securities and Exchange Commission as of the date hereof and incorporated therein by reference, and any quarterly or annual reports of the Company or the Company's parent, Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), delivered therewith (the "Incorporated Documents" and, together with the Confidential Offering Memorandum, the "Offering Memorandum"). This opinion is being rendered to you pursuant to Section 5(a)(iii) of the Placement Agency Agreement. Unless otherwise specified, capitalized terms not otherwise defined herein shall have the meanings specified in the Placement Agency Agreement, the Original Indenture or the Thirty-First Supplemental Indenture.

In connection with this opinion, we have examined the following documents:

- (a) the Placement Agency Agreement;
- (b) the Paying Agency Agreement;
- (c) the Indenture (including the Thirty-First Supplemental Indenture);
- (d) the form of Note;
- (e) the Offering Memorandum;
- (f) a copy of the Articles of Incorporation of the Company, as amended and restated and now in effect;
- (g) a copy of the Bylaws of the Company as now in effect;
- (h) the Securities Certificate relating to the issue and sale of the Notes, filed by the Company with the Pennsylvania Public Utility Commission (the "PUC") pursuant to the provisions of Chapter 19 of the Pennsylvania Public Utility Code and a copy of the Order of the PUC dated June 5, 1997 registering said Securities Certificate, and certified by the Secretary of the PUC;
- (i) evidence satisfactory to us of the due recordation of the Original Indenture and the Thirty-First Supplemental Indenture in the Counties of Bucks, Chester, Delaware and Montgomery in the Commonwealth of Pennsylvania;
- (j) the resolutions of the Board of Directors of the Company dated March 4, 1997 authorizing the issuance of up to \$150,000,000 aggregate principal

amount of Notes and the execution of the Thirty-First Supplemental Indenture, the Placement Agency Agreement and the Paying Agency Agreement; and

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(k) the certificates of the Company and other documents delivered to you at the Closing.

In rendering the opinions set forth below, we have assumed the genuineness of all signatures on documents and instruments examined by us (except signatures of the Company on the Placement Agency Agreement, the Thirty-First Supplemental Indenture and the Paying Agency Agreement) and that all documents submitted to us as copies conform with the originals thereof. We have also relied, to the extent we have deemed such reliance to be necessary and proper, on the factual matters contained in certificates of public officials and officers of the Company.

To the extent any opinion below is made to our knowledge, such knowledge shall mean the actual knowledge of attorneys within our firm who have provided substantive representation to the Company, based solely upon such limited investigation and inquiry as is set forth herein, and does not include matters of which such attorneys could be deemed to have constructive knowledge.

Based upon the foregoing and such other examination of fact and law as we have deemed necessary for purposes of this opinion, and subject to the assumptions and qualifications set forth herein, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. The Company has full corporate power and authority to conduct all the activities conducted by it, to own or lease all the assets owned or leased by it and to conduct its business as described in the Offering Memorandum.

2. The Company has full corporate power and authority to enter into the Placement Agency Agreement and the Paying Agency Agreement, to issue an aggregate principal amount of \$150,000,000 of the Notes, and to perform its obligations under the Placement Agency Agreement, the Paying Agency Agreement and the Notes. The Placement Agency Agreement has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other parties thereto, constitutes a legal, valid and binding agreement of the Company. The Paying Agency Agreement has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other parties thereto, constitutes a legal, valid and binding agreement of the Company and is enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law).

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3. An aggregate principal amount of \$150,000,000 of the Notes has been duly authorized for issuance and sale pursuant to the Placement Agency Agreement and, when executed by the Company and authenticated by the Trustee and delivered pursuant to the provisions of the Indenture (including the Thirty-First Supplemental Indenture) and the Placement Agency Agreement against payment of the consideration therefor specified in the Placement Agency Agreement, the Notes will constitute legal, valid and binding obligations of the Company, are entitled to the benefits and security of the Indenture (including, without limitation, the Thirty-First Supplemental Indenture) in accordance with its terms and are secured thereby equally and ratably with all First Mortgage Bonds of the Company outstanding under the Indenture, and are enforceable against the

Company in accordance with their terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law).

4. The Company has full corporate power and authority to enter into the Thirty-First Supplemental Indenture. The Thirty-First Supplemental Indenture has been duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other parties thereto, the Indenture, as supplemented by the Thirty-First Supplemental Indenture, constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law). The Original Indenture and the Thirty-First Supplemental Indenture have been properly recorded in the Counties of Bucks, Chester, Delaware and Montgomery in the Commonwealth of Pennsylvania and are the only recordations and filings necessary in order to establish, preserve, protect and perfect the lien of the Indenture on all real estate and fixed property of the Company (excluding easements and other similar rights) described in the Indenture as subject to the lien thereof. The Indenture creates the valid, binding and direct lien which it purports to create upon the interest of the Company in the real estate and fixed property of the Company specifically described therein as subject to the lien thereof.

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5. The execution, delivery and performance of the Thirty-First Supplemental Indenture, the Placement Agency Agreement, the Paying Agency Agreement and the Notes and the consummation of the transactions contemplated thereby do not and will not (with or without the giving of notice or lapse of time) conflict with or result in a breach of or default under the Articles of Incorporation or Bylaws of the Company or the Indenture.

6. The Indenture (including, without limitation, the Thirty-First Supplemental Indenture) and the form of Note conforms in all material respects as to legal matters to the descriptions thereof in the Offering Memorandum. The descriptions in the Confidential Offering Memorandum not including documents incorporated by reference therein of statutes, regulations or legal or governmental proceedings accurately summarize the information purported to be summarized therein.

7. The authorization, execution and delivery of the Thirty-First Supplemental Indenture and the issuance and sale of the Notes under the circumstances described in the Placement Agency Agreement are not subject to the provisions of the Public Utility Holding Company Act of 1935 in any respect, and do not require that (a) a declaration with respect thereto shall have become effective under Section 7 of the Public Utility Holding Company Act of 1935 or (b) other authorization or approval of the Securities and Exchange Commission shall have become effective under the provisions of said Act.

8. To the best of our knowledge, there are no actions, suits or proceedings, pending or threatened, relating to the Notes, their offering, or the Offering Memorandum.

9. The PUC has entered an Order dated June 5, 1997 (the "PUC Order"), registering the Securities Certificate filed by the Company with respect to the issuance and sale of the Notes, which order, on the date hereof, is in effect and is final and nonappealable. Except for the PUC Order and the recording of the Thirty-First Supplemental Indenture as described in paragraph 4 hereof, no other consent, approval, authorization or order of, or any filing with, any government, governmental or other administrative agency or body is required as of the date hereof in connection with the execution and delivery by the Company of the Placement Agency Agreement, the Paying Agency Agreement and the Thirty-First Supplemental Indenture, the solicitation of offers to purchase Notes, the issuance of any Note or the performance by the Company of any of its

obligations thereunder, except such as may be required under the blue sky laws of any jurisdiction in connection with the issue and sale of the Notes.

10. The Notes may be offered, issued, sold and delivered in the manner contemplated by the Placement Agency Agreement, the

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Thirty-First Supplemental Indenture and the Offering Memorandum without registration thereof under the Securities Act of 1933, as amended, and without qualification of an indenture in respect of the Notes under the Trust Indenture Act of 1939, as amended, it being understood that no opinion is expressed as to any subsequent resale of any Notes by any Person or any other person.

11. Upon the issuance of the Notes and the payment of the consideration therefore, the Trustee will have a valid and perfected security interest, for the benefit of the Trustee and the holders of the Notes, to secure the full and punctual performance of the Notes and all obligations of the Company under the Indenture (including the Thirty-First Supplemental Indenture), in all real estate and fixed property (excluding easements and other similar rights) specifically described in the Indenture (other than properties released from the Indenture in accordance with the terms thereof).

12. We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Offering Memorandum and take no responsibility therefor, except to the extent referred to paragraph 5 hereof and in this paragraph. In the course of the preparation by the Company of the Confidential Offering Memorandum, we participated in conferences with certain officers and employees of the Company, examined the Offering Memorandum and made certain inquiries in connection with the preparation of the Confidential Offering Memorandum. We took no part in the preparation of any of the Incorporated Documents and we did not conduct any independent investigation or make any inquiries with respect to the Incorporated Documents and the information contained therein. Subject to the foregoing, we have no reason to believe that the Offering Memorandum contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood that we express no opinion with respect to the financial statements and the notes thereto, schedules and other financial, statistical data or operating information included or incorporated by reference therein).

The foregoing opinions are subject to the following qualifications:

a. We express no opinion as to the adequacy of any notice with respect to the disposition of any collateral. We also express no opinion as to the effectiveness or enforceability of provisions relating to waivers of notice or waivers of other rights, severability, prepayment fees or penalties, choice of law, or any provisions which release or limit the Company's liability or relate to cumulative remedies or, to the extent they purport to or would have the effect of compensating the Company

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in amounts in excess of any actual loss suffered by the Company, provisions relating to the payment of a default rate of interest.

b. We express no opinion as to the enforceability with respect to any provisions in the Indenture executed by the Company purporting to waive the effect of applicable laws and remedies and any provisions releasing any party from, or requiring indemnification for, liability for gross negligence, recklessness or wilful misconduct.

c. Any requirements in the Indenture specifying that provisions of the Indenture may only be waived in writing may not be enforced to the extent

that an oral agreement or an implied agreement by trade practice or course of conduct has been created modifying any provision of the Indenture.

d. This opinion is limited to the matters set forth herein, no opinion may be inferred or implied beyond the matters expressly stated herein, and our statements contained in the opinion portion of this letter must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth in this letter.

e. The opinions herein are expressed as of the date hereof only and not as of some future date. We undertake no responsibility to advise you of any change in law or new laws, regulations or judicial decisions in the future. Nor do we assume any obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention. References to "laws," "regulations" and "judicial decisions" herein shall include only officially published federal laws and regulations of the United States of America and the officially published laws and regulations of the Commonwealth of Pennsylvania.

Our opinions expressed above are limited to the laws of the Commonwealth of Pennsylvania and the Federal law of the United States of America.

This opinion is furnished by us solely for your benefit and the purchasers of the Notes and may not be relied upon by any other person without the express written consent of our firm.

Very truly yours,

DILWORTH, PAXSON, KALISH &  
KAUFFMAN LLP

/mdb

EXHIBIT D

[Letterhead of PSWC]

\_\_\_\_\_, 199

To Each of the Addressees Named  
on Schedule I of the Placement Agency  
Agreement Acting Severally and Not  
Jointly in the Capacities of Agent  
and Purchaser or in Either Such Capacity

RE: \$150,000,000 First Mortgage Bonds,  
1997 Medium Term Note Series ("Notes")  
-----

Ladies and Gentlemen:

I am Senior Vice President-Law and Administration for Philadelphia Suburban Water Company (the "Company").

Pursuant to Section 5(a)(iii)(B) of the Placement Agency Agreement between you and the Company of even date herewith relating to the \$150,000,000 First Mortgage Bonds, 1997 Medium Term Note Series, I have been asked to render an opinion to you regarding certain matters involving the Company.

In my opinion:

(i) To the best of my knowledge, the Company has all governmental licenses, permits, consents, orders, approvals and other authorizations necessary to carry on its business as described in the Confidential Offering

Memorandum dated July 11, 1997 with respect to the Notes (the "Confidential Offering Memorandum, the "Offering Memorandum"), including any documents filed with the Securities and Exchange Commission as of the date hereof and incorporated therein by reference, and any quarterly or annual reports of the Company or the Company's parent, Philadelphia Suburban Corporation delivered therewith (the "Incorporated Documents" and, together with the Confidential Offering Memorandum, the "Offering Memorandum"), except where the failure to do so would not have a material adverse effect on the financial condition of the Company.

(ii) Except as set forth in the Offering Memorandum, there are no actions, suits or proceedings pending (and of which the Company has received notice) or, to the best of my knowledge, threatened against or affecting the Company or any of its officers in their capacity as such, before or by any Federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an

unfavorable ruling, decision or finding is likely which would materially or adversely affect (i) the financial condition of the Company, or (ii) the ability of the Company to perform its obligations under the Placement Agency Agreement, the Paying Agency Agreement, the Original Indenture (as supplemented by the Thirty-First Supplemental Indenture) or the Notes.

(iii) The Company (a) is not in violation of its Articles of Incorporation, by-laws or other charter documents, (b) to the best of my knowledge, is not in default in the performance of any obligation, agreement or condition contained in any indenture, mortgage, deed of trust, voting trust agreement, loan agreement, note, debenture, note agreement or other evidence of indebtedness, lease, contract or other agreement or instrument known to me to which the Company is a party or by which it or its properties is bound or affected where such default would likely have a material adverse effect on the financial condition of the Company, and (c) to the best of my knowledge the Company is not in violation of any judgment, ruling, decree, order, franchise, license or permit known to me or any statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Company, where such violation would likely have a material adverse effect on the financial condition of the Company:

(iv) To the best of my knowledge, the execution, delivery and performance of the Placement Agency Agreement, the Thirty-First Supplemental Indenture, the Paying Agency Agreement and the consummation of the transactions therein contemplated will not, of themselves, or upon notice, lapse of time, or both, conflict with or result in a breach of any of the terms, conditions, or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any of the property or assets of the Company (except as contemplated by the Indenture) pursuant to the terms of the charter or bylaws of the Company, or any indenture, mortgage, deed of trust or other agreement or instrument known to me to which the Company is a party or by which the Company may be bound.

(v) As counsel for the Company I participated in the preparation of the Incorporated Documents (except for the financial statements and the notes thereto and the schedules and other financial and statistical data included in the Incorporated Documents). Although I have not undertaken, except as otherwise indicated in my opinion, to determine independently, and do not assume any responsibility for, the accuracy or completeness of the statements in the Offering Memorandum, nothing has come to my attention that has caused me to believe that the Offering Memorandum as of the date hereof contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that I as counsel express no opinion with

respect to the financial statements and the notes thereto and the schedules and other financial and statistical data included in the Offering Memorandum or



incorporated therein by reference).

The information set forth herein is as of the date set forth above and the Company and I disclaim any undertaking to provide any updates or changes which thereafter may be brought to our attention.

This opinion is solely for your benefit and may not be relied upon by any other person or for any other purpose.

Very truly yours,

Roy H. Stahl

/sw

EXHIBIT E

TRUSTEE'S CERTIFICATE

The undersigned, Mellon Bank, N.A. (hereinafter referred to as the "Bank"), does hereby certify that:

1. It is Trustee under the Indenture of Mortgage dated as of January 1, 1941, of Philadelphia Suburban Water Company (the "Company"), as supplemented and amended by Thirty-One Supplemental Indentures and by a Thirty-First Supplemental Indenture dated as of July 1, 1997 (the "Thirty-First Supplemental Indenture") between the Company and the Bank relating to the authentication and delivery of a global bond representing the aggregate principal amount of \$\_\_\_\_\_ of the Company's First Mortgage Bonds, 1997 Medium Term Note Series (the "Global Bond")

2. The Thirty-First Supplemental Indenture has been duly executed on behalf of the Bank by\_\_\_\_\_, its Vice President; the corporate seal of the Bank has been duly affixed thereto and attested by \_\_\_\_\_, its \_\_\_\_\_; and the Thirty-First Supplemental Indenture has been duly delivered on behalf of the Bank.

3. The Bank, as Trustee, has:

a. pursuant to Section 5 of Article I of the Thirty-First Supplemental Indenture, authenticated the Global Bond, which consist of a fully registered Bond as set forth in Exhibit "A" hereto, in the aggregate principal amount of \$\_\_\_\_\_, bearing the interest rate and maturity date as set forth in Section I of Article 1 of the Thirty-First Supplemental Indenture, by the execution of the Trustee's Certificate of Authentication thereon by \_\_\_\_\_, its \_\_\_\_\_; and

b. registered said Global Bond in the name of Cede & Co, nominee of the Depository Trust Company ("DTC"), as the registered owner of the Global Bond, which Global Bond is to be held by the Trustee as so authenticated and registered on behalf of DTC pursuant to the Medium Term Note Certificate Agreement dated as of \_\_\_\_\_.

4. Set forth below, opposite the names and titles of the above mentioned officers of the Bank, are specimens of their respective signatures.

Name

Title

Specimen Signatures

-----  
-----  
-----

5. \_\_\_\_\_ and \_\_\_\_\_ were, at the time of the acts referred to in paragraph 2 above, and are at the date hereof, duly elected or appointed, qualified and acting officers of the Bank, holding the offices indicated above and were duly authorized to perform such acts, and the signatures appearing on the Thirty-First Supplemental Indenture are their genuine signatures; and was at the time of the acts referred to in paragraph 3(a) above, and \_\_\_\_\_ is at the date hereof, a duly elected or appointed, qualified and acting Corporate Trust Officer of the Bank duly authorized to perform such acts, and the signature appearing on said Bonds is her genuine signature.

6. Attached hereto as Exhibit "B" is a true and correct copy of resolutions as adopted by the Board of Directors of the Bank which, at the date hereof, are still in full force and effect, giving requisite authority to such officers to execute and deliver the Thirty-First Supplemental Indenture and to authenticate the Bonds.

IN WITNESS WHEREOF, Mellon Bank, N.A. has caused this Trustee is Certificate to be executed by its duly authorized officer, this \_\_\_\_\_ day of \_\_\_\_\_, 199\_\_\_\_ .

Mellon Bank, N.A

\_\_\_\_\_  
Title:

EXHIBIT "A"

Cert. No.	Registered Owner	Principal Amount	Interest Rate	Maturity Date ( )
-----	-----	-----	-----	-----
R-1	Cede & Co., as nominee of the Depository Trust Company			

PHILADELPHIA SUBURBAN WATER COMPANY

U.S. \$

First Mortgage Bonds  
1997 Medium Term Note Series

Maturities From One Year to  
Thirty Years From Date of Issue

Amendment to Placement Agency Agreement  
-----

New York, New York  
[Date]

To Each of the Addressees Named  
on Schedule I of the Placement Agency  
Agreement Acting Severally and Not  
Jointly in the Capacities of Agent and  
Purchaser or in Either Such Capacity

Dear Sirs:

The Placement Agency Agreement dated July 11, 1997 (the "Agreement"),  
between you and Philadelphia Suburban Water Company, a corporation organized and  
existing under the laws of the Commonwealth of Pennsylvania (the "Issuer"), is  
hereby amended to increase the aggregate principal amount of Notes (as defined  
in the Agreement) at any time outstanding to up to U.S. \$\_\_\_\_\_.

[The documents referred to in the second sentence of Section 12 of the  
Agreement shall be delivered simultaneously herewith.]

In all other respects the Agreement shall remain in full force and  
effect.

This amendment to the Agreement may be executed in counterparts, and  
the executed counterparts shall together constitute a single instrument.

If the foregoing is in accordance with your understanding of our agreement,  
please sign and return to us the enclosed duplicate

hereof, whereupon this letter shall represent a binding agreement between the  
Issuer and each of you. This letter shall not constitute a binding agreement  
unless and until it is executed by the Issuer and each of you.

Very truly yours,

PHILADELPHIA SUBURBAN WATER  
COMPANY,

by \_\_\_\_\_  
Name:  
Title:

The foregoing Agreement is  
hereby confirmed and accepted  
as of the date hereof.

by

-----

Name:  
Title:

EXHIBIT G

PHILADELPHIA SUBURBAN WATER COMPANY  
FIRST MORTGAGE BONDS  
1997 MEDIUM TERM NOTE SERIES

REQUEST FOR BIDS

Pursuant to Paragraph 2(a)(i) of the Placement Agency Agreement between PSWC ("PSWC") and the agents listed on Schedule I attached thereto dated July 11, 1997 (the "Agreement"), PSWC is requesting bids for Subseries \_\_\_\_\_ of the above-referenced notes (the "Subseries") to be issued by PSWC on or about \_\_\_\_\_, 199\_\_, subject to the terms set forth in the Agreement including Exhibit A thereto.

The Subseries is to be structured based on the following:

- 1. Principal Amount of Notes: \$ \_\_\_\_\_
- 2. Maturity: \_\_\_\_\_
- 3. Minimum price to PSWC as a % of principal:

-----

- [4. Optional Tender Provision: \_\_\_\_\_]

Your bid must provide the following:

- 1. Treasury security bid is based on [describe Treasury Security] \_\_\_\_\_.
- 2. Treasury yield at time of bid: \_\_\_\_\_.
- 3. Reoffered spread to Treasury: \_\_\_\_\_.
- 4. All-in spread to Treasury: \_\_\_\_\_.

PHILADELPHIA SUBURBAN WATER COMPANY

DATE: \_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

EXHIBIT H

PHILADELPHIA SUBURBAN WATER COMPANY  
FIRST MORTGAGE BONDS  
1997 MEDIUM TERM NOTE SERIES

NOTICE OF APPOINTMENT

Pursuant to Paragraph 2 of the Placement Agency Agreement between PSWC ("PSWC") and the Agents listed on Schedule I attached thereto dated July \_\_\_\_,

1997 (the "Agreement"), \_\_\_\_\_ is hereby appointed as Placement Agent for the issuance of \$\_\_\_\_\_ of Subseries \_\_\_\_\_ of the above-referenced notes to be issued by PSWC on or about \_\_\_\_\_, 199\_\_, subject to the terms set forth on the attached Exhibit A [to be furnished by PSWC at issuance of Notice of Appointment] and further subject to the terms and conditions of the Agreement.

PHILADELPHIA SUBURBAN WATER COMPANY

DATE: \_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

<ARTICLE> UT

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND THE STATEMENTS OF CAPITALIZATION AT JUNE 30, 1997, AND THE CONSOLIDATED STATEMENTS OF INCOME AND CASH FLOW FOR THE SIX MONTHS ENDED JUNE 30, 1997, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

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