UNITED STATES 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 March 31, 2002

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 W. Lancaster Avenue, Bryn Mawr, Pennsylvania	19010-3489
(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 X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of May 7, 2002

68,651,874

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Assets	March 31, 2002	December 31, 2001
	(Unaudited)	
Property, plant and equipment, at cost	$ 1,714,136	$ 1,677,061
Less accumulated depreciation	317,837	308,946

Net property, plant and equipment	1,396,299	1,368,115
Current assets:		
Cash and cash equivalents	4,586	1,010
Accounts receivable and unbilled revenues, net	51,928	56,331
Inventory, materials and supplies	4,738	4,446
Prepayments and other current assets	6,088	8,085
Total current assets	67,340	69,872
Regulatory assets	79,897	79,669
Deferred charges and other assets, net	21,158	22,915
Funds restricted for construction activity	12,536	19,768
	$ 1,577,230	$ 1,560,339
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	$ 816	$ 1,116
Common stock at $.50 par value, authorized 100,000,000 shares, issued 69,494,239 and 69,300,346 in 2002 and 2001	34,747	34,650
Capital in excess of par value	306,928	304,039
Retained earnings	152,493	149,682
Minority interest	787	787
Treasury stock, 925,624 and 913,877 shares in 2002 and 2001	(17,440)	(17,167)
Accumulated other comprehensive income	627	726
Total stockholders' equity	478,958	473,833
Long-term debt, excluding current portion	520,144	516,520
Commitments	--	--
Current liabilities:		
Current portion of long-term debt	14,829	14,935
Loans payable	119,780	109,668
Accounts payable	13,469	27,667
Accrued interest	7,963	8,302
Accrued taxes	25,466	22,865
Other accrued liabilities	18,500	19,198
Total current liabilities	200,007	202,635
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	169,030	167,577
Customers' advances for construction	64,453	59,886
Other	10,678	9,204
Total deferred credits and other liabilities	244,161	236,667
Contributions in aid of construction	133,960	130,684
	$ 1,577,230	$ 1,560,339

See notes to consolidated financial statements on page 5 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

(UNAUDITED)

	Three Months Ended March 31, 2002	2001
Operating revenues	$ 71,669	$ 70,193
Costs and expenses:		
Operations and maintenance	27,285	26,186
Depreciation	9,893	8,953
Amortization	540	522
Taxes other than income taxes	5,314	5,588
	43,032	41,249

Operating income	28,637	28,944
Other expense (income):		
Interest expense, net	9,780	10,262
Allowance for funds used during construction	(386)	(248)
Gain on sale of other assets	(349)	(2,791)
Income before income taxes	19,592	21,721
Provision for income taxes	7,702	8,609
Net income	11,890	13,112
Dividends on preferred stock	15	27
Net income available to common stock	$ 11,875	$ 13,085
Net income	$ 11,890	$ 13,112
Other comprehensive income (loss), net of tax:		
Unrealized gain (loss) on securities	128	(557)
Reclassification adjustment for gains reported in net income	(227)	--
Comprehensive income	$ 11,791	$ 12,555
Net income per common share:		
Basic	$ 0.17	$ 0.19
Diluted	$ 0.17	$ 0.19
Average common shares outstanding during the period:		
Basic	68,451	67,440
Diluted	69,300	68,247

See notes to consolidated financial statements on page 5 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)

(UNAUDITED)

	Three Months Ended March 31, 2002	2001
Cash flows from operating activities:		
Net income	$ 11,890	$ 13,112
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	10,433	9,475
Deferred income taxes	1,440	2,282
Gain on sale of other assets	(349)	(2,791)
Net decrease in receivables, inventory and prepayments	5,364	3,990
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(9,410)	(6,333)
Payment of Competitive Transition Charge	--	(11,465)
Other	120	703
Net cash flows from operating activities	19,488	8,973
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of $386 and $248	(24,955)	(19,809)
Acquisitions of water systems	(2,739)	(424)
Proceeds from the sale of other assets	1,659	2,829
Net decrease (increase) in funds restricted for construction activity	7,232	(967)
Other	(126)	545

Net cash flows used in investing activities	(18,929)	(17,826)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	3,840	601
Repayments of customers' advances	(1,509)	(1,653)
Net proceeds (repayments) of short-term debt	10,112	11,153
Proceeds from long-term debt	1,014	3,389
Repayments of long-term debt	(2,741)	(601)
Redemption of preferred stock	(300)	--
Proceeds from issuing common stock	3,142	3,787
Repurchase of common stock	(428)	(962)
Dividends paid on preferred stock	(15)	(27)
Dividends paid on common stock	(9,064)	(8,382)
Other	(1,034)	--
Net cash flows from financing activities	3,017	7,305
Net increase (decrease) in cash and cash equivalents	3,576	(1,548)
Cash and cash equivalents at beginning of period	1,010	4,087
Cash and cash equivalents at end of period	$ 4,586	$ 2,539

See notes to consolidated financial statements on page 5 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)

	March 31, 2002	December 31, 2001
	(Unaudited)	
Stockholders' equity:		
6.05% Series B cumulative preferred stock	$ 816	$ 1,116
Common stock, $.50 par value	34,747	34,650
Capital in excess of par value	306,928	304,039
Retained earnings	152,493	149,682
Minority interest	787	787
Treasury stock	(17,440)	(17,167)
Accumulated other comprehensive income	627	726
Total stockholders' equity	478,958	473,833
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
Interest Rate Range		
0.00% to 2.49%	13,564	8,325
2.50% to 4.99%	9,870	9,023
5.00% to 5.49%	50,545	50,545
5.50% to 5.99%	30,660	30,660
6.00% to 6.49%	160,674	160,525
6.50% to 6.99%	55,200	55,200
7.00% to 7.49%	58,000	60,000
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,608	17,595
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	53,535	53,535
9.50% to 9.99%	45,601	46,031
10.00% to 10.50%	6,000	6,000
Total First Mortgage Bonds	533,257	529,439
Notes payable, 6.05%, due 2006	344	644
Installment note payable, 9%, due in equal annual payments through 2013	1,372	1,372
	534,973	531,455
Current portion of long-term debt	14,829	14,935
Long-term debt, excluding current portion	520,144	516,520
Total capitalization	$ 999,102	$ 990,353

See notes to consolidated financial statements on page 5 of this report.

Note 1 Basis of Presentation

The accompanying consolidated balance sheet and statement of capitalization of Philadelphia Suburban Corporation ("PSC") at March 31, 2002, the consolidated statements of income and comprehensive income and cash flow for the three months ended March 31, 2002 and 2001, 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, 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 PSC Annual Report on Form 10-K for the year ended December 31, 2001. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. Certain prior year amounts have been reclassified to conform with current year's presentation.

Note 2 Acquisitions

On April 29, 2002, PSC entered into a definitive merger agreement with Pennichuck Corporation ("Pennichuck") for approximately 3.3 million shares of PSC common stock (valued at approximately $79 million as of April 29, 2002) and the assumption of approximately $27 million of Pennichuck's debt. The merger will be accounted for under the purchase method of accounting. The merger, which is subject to several conditions, including the satisfaction of the applicable requirements under the Hart-Scott-Rodino Antitrust Improvements Act and approval by the shareholders of Pennichuck and the New Hampshire Public Utilities Commission, is expected to close before the end of the year. Under the terms of the merger agreement, Pennichuck's shareholders will receive shares of PSC common stock valued at $33.00 per Pennichuck share of common stock based on a PSC share price of $23.00 to $25.00 per share, subject to certain adjustments as provided in the merger agreement. After the merger, Pennichuck will be a wholly-owned subsidiary of PSC. Pennichuck is a holding company based in Nashua, New Hampshire whose operating utility subsidiaries serve approximately 28,200 water customers in service territories located in southern and central New Hampshire, and whose non-regulated operating subsidiaries develop real estate and provide water-related operating and management contract services. Pennichuck's revenues for the year ended December 31, 2001 were $22,754.

During the first quarter of 2002, four acquisitions or other growth ventures were completed in Pennsylvania and New Jersey. The total purchase price for the systems acquired consisted of $2,739 in cash.

Note 3 Long-term Debt and Loans Payable

During the first quarter of 2002, operating subsidiaries issued $1,053 of long-term debt at varying rates of interest ranging from 0% to 4.0% and due at various times through 2031. The proceeds of these issues were used to reduce a portion of the balance of short-term debt. In connection with an acquisition completed in the first quarter of 2002, $6,237 of long-term debt was acquired at an interest rate of 1% due in various years. As of March 31, 2002, the Trustees for various financing issues held $12,536 pending completion of the projects financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity.

Note 4 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per common share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per common share:

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Average common shares outstanding during the period for Basic computation	68,451	67,440
Dilutive effect of employee stock options	849	807
Average common shares outstanding during the period for Diluted computation	69,300	68,247

Note 5 Stockholders' Equity

PSC reports other comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The following table summarizes the activity of accumulated other comprehensive income:

	2002	2001
Balance at January 1,	$ 726	$ 926
Unrealized holding gain (loss) arising during the period, net of tax of $68 in 2002 and $300 in 2001	128	(557)
Less: reclassification adjustment for gains included in net income, net of tax of $122	(227)	--
Other comprehensive income (loss), net of tax	(99)	(557)
Balance at March 31,	$ 627	$ 369

Note 6 Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. The Company intends to adopt this statement as required in 2003. The Company is currently evaluating the provisions of this statement but does not expect the effect of adoption on its results of operations or financial position to be material.

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The adoption of SFAS No. 144 on January 1, 2002 did not have a material impact on the Company's results of operations or financial position.

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

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our use of cash; projected capital expenditures; liquidity; possible acquisitions and other growth ventures; the expected completion date for the Pennichuck merger; the completion of various construction projects; the impact of drought conditions; the projected effect of SFAS No. 143; as well as information contained elsewhere in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans" or similar expressions. These statements are based on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, abnormal weather, changes in capital requirements and funding, acquisitions and approval of the Pennichuck merger by the Pennichuck shareholders and governmental authorities. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Philadelphia Suburban Corporation ("we" or "us"), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to approximately 2 million people in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina. Our two primary subsidiaries are Pennsylvania Suburban Water Company ("PSW"), a regulated public utility that provides water or wastewater services to about 1.3 million residents in the suburban areas north and west of the City of Philadelphia and in ten other counties in Pennsylvania, and Consumers Water Company ("CWC"), a holding company for several regulated public utility companies that provide water or wastewater services to about 700,000 residents in various communities in the other states where we operate. We are among the largest investor-owned water utilities in the United States based on number of customers. In addition, we provide water service to approximately 35,000 people through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. Some of our subsidiaries provide wastewater services (primarily residential) to approximately 40,000 people in Pennsylvania, Illinois, New Jersey and North Carolina.

Financial Condition

During the quarter, we had $24,955 of capital expenditures, repaid $1,509 of customer advances for construction and repaid debt and made sinking fund contributions of $2,741. The capital expenditures were related to improvements to treatment plants, new water mains and customer service lines, the rehabilitation of existing water mains, hydrants and customer service lines, in addition to well and booster improvements.

During the quarter, the proceeds from the issuance of long-term debt, proceeds from the issuance of common stock, internally generated funds, available working capital and funds available under the revolving credit agreements and other credit facilities were used to fund the cash requirements discussed above and to pay dividends. During the quarter, operating subsidiaries issued $1,053 of long-term debt at varying rates of interest ranging from 0% to 4.0% and due at various times through 2031. The proceeds of these issues were used to reduce a portion of the balance of short-term debt.

At March 31, 2001, we had short-term lines of credit of $175,514, of which $55,734 was available.

Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt and common stock are adequate to meet our financing requirements for the balance of the year and beyond.

Results of Operations

Analysis of First Quarter of 2002 Compared to First Quarter of 2001

Revenues for the quarter increased $1,476 or 2.1% primarily due to revenues from the Distribution System Improvement Charge ("DSIC") in Pennsylvania, additional water revenues associated with the larger customer base due to acquisitions, and increased water rates, offset partially by a decrease in water consumption primarily in Pennsylvania. The DSIC provided $1,333 of additional revenues over the prior year. Most of the Pennsylvania service territories were affected by a drought emergency that was declared in February 2002. As a result of the drought actions, water consumption in these areas were reduced below normal levels. In addition, industrial water sales declined due to lower water usage.

Operations and maintenance expenses increased by $1,099 or 4.2% due to the additional operating costs associated with acquisitions, higher insurance expenses, increased bad debt expense, and increased wages as a result of normal wage rate increases, offset partially by lower water production expenses as a result of the reduced water consumption.

Depreciation expense increased $940 or 10.5% reflecting the utility plant placed in service since the first quarter of 2001, including the assets acquired through system acquisitions.

Amortization increased $18 or 3.4% primarily due to the amortization of the costs associated with, and the other costs being recovered in, various rate filings.

Taxes other than income taxes decreased by $274 or 4.9% due to a reduction in state taxes and a decrease in the Pennsylvania Capital Stock Tax. The decrease in state taxes is a result of a reduction in the assessment and the Capital Stock Tax decreased due to a reduction in the base on which the tax is applied.

Interest expense decreased by $482 or 4.7% primarily due to decreased interest rates on borrowings, offset by increased borrowings to finance on-going capital projects.

Allowance for funds used during construction ("AFUDC") increased by $138 primarily due to an increase in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, offset by a decrease in the AFUDC rate. The increase in CWIP is primarily due to the $24 million expansion and upgrade of a water treatment plant in Pennsylvania. Construction commenced on this facility in 2001 and is expected to be completed in mid-2002.

Gains on sale of other assets totaled $349 in the first quarter of 2002 and $2,791 in the first quarter of 2001. Gains on sales of marketable securities of $349 were realized in the first quarter of 2002, compared to a gain on sale of land of $2,791 recorded in the first quarter of 2001. There were no land parcels sold in the first quarter of 2002 and no marketable securities sold in the first quarter of 2001.

Our effective income tax rate was 39.3% in the first quarter of 2002 and 39.6% in the first quarter of 2001. The change is due to a difference between tax deductible expenses and book expenses.

Net income available to common stock for the quarter decreased by $1,210 or 9.2% in comparison to 2001 primarily as a result of the $2,791 gain on the sale of land recognized in 2001 without a comparable gain being realized in the first quarter of 2002, and the other factors described above. On a diluted per share basis, earnings decreased $.02 or 10.5% reflecting the change in net income and a 1.5% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through the dividend reinvestment plan, and employee stock and incentive plan and shares issued in connection with acquisitions.

Recent Events

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because nonessential and recreational use of water is highest. At times other than the summer months, warnings and restrictions generally have less of an effect on water consumption. In February 2002, a drought emergency was declared in several of the counties we serve in Pennsylvania, including our service territory in southeastern Pennsylvania. A drought warning and drought watch had previously been issued in November 2001 for portions of our service territory in Pennsylvania. There are also water use restrictions as a result of drought conditions nearby or within portions of our service territories in New Jersey. As a result of the drought declarations, water consumption and water revenues in these areas were reduced below normal levels. If the drought emergency continues, which appears likely for the balance of the spring, water revenues will continue to be effected during the duration of the drought.

Impact of Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. The Company intends to adopt this statement as required in 2003. The Company is currently evaluating the provisions of this statement but does not expect the effect of adoption on its results of operations or financial position to be material.

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The adoption of SFAS No. 144 on January 1, 2002 did not have a material impact on the Company's results of operations or financial position.

Part II. Other Information

Item 1. Legal Proceedings

There are no pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our properties is the subject that are expected to have a material effect on our financial position, results of operations and cash flows. Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, which is included by a reference herein.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
10.41	2002 Annual Cash Incentive Compensation Plan

(b) Reports on Form 8-K

Current Report on Form 8-K filed on May 14, 2002, responding to Item 5, Other Events. (Related to the Company's press release of May 12, 2002 announcing a change in the investment strategy of Registrant's long-term shareholder, Vivendi Environnement).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2001.

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.

May 14, 2002

PHILADELPHIA SUBURBAN CORPORATION

Registrant

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman and President

/s/ David P. Smeltzer

David P. Smeltzer
Senior Vice President - Finance
and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description	Page No.
10.41	2002 Annual Cash Incentive Compensation Plan	14

EXHIBIT 10.41

PHILADELPHIA SUBURBAN CORPORATION
PENNSYLVANIA SUBURBAN WATER COMPANY
CONSUMERS WATER COMPANY
2002 ANNUAL CASH INCENTIVE COMPENSATION PLAN

BACKGROUND

- In 1989, the Company and its compensation consultant conducted a feasibility study to determine whether the Company should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies with incentive compensation.

- The study included interviews with executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan (the "Plan). The Company has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors believe it has had a positive effect on the Company's operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses).

- The Plan has two components - a Management Incentive Program and an Employee Recognition ("Chairman's Award") Program.

- The Plan is designed to provide an appropriate incentive to the officers, managers and certain other key employees of the Company. The 2002 Management Incentive Program will cover officers, managers and certain key employees of Philadelphia Suburban Corporation, and its subsidiaries.

- The plan is periodically reviewed by the Company's outside compensation consultant and the target bonus percentages are reviewed and approved each year as part of the compensation consultant's annual review of the Company's total compensation plan.

MANAGEMENT INCENTIVE PROGRAM

- Performance Measures

  -- Annual incentive bonus awards are calculated by multiplying an individual's Target Bonus by a Company Rating Factor based on the applicable company's performance and an Individual Rating Factor based on the individual employee's performance.

  The approach of having a plan tied to the applicable company's income performance is appropriate as the participants' assume some of the same risks and rewards as the shareholders who are investing in the company and making its capital construction and acquisition programs possible. Customers also benefit from the participants' individual objectives being met, as improvements in performance are accomplished by controlling costs, improving efficiencies and enhancing customer service. For these reasons, future rate relief should be lessened and less frequent, which directly benefits all customers.

  -- The applicable company's actual after-tax net income from continuing operations relative to its annual budget will be the primary measure for the company's performance. Each year a "Target Net Income" level will be established. Starting in 2000, portions of the Company Rating Factor may be tied to the net income targets of more than one company for some participants. For purposes of the Plan, the Target Net Income may differ from the budgeted net income level. For 2002, the

Target Net Income will exclude the impact of any unbudgeted extraordinary gains or losses as a result of changes in accounting principles.

-- Based on a review of historic performance, the minimum or threshold level of performance is set at 90 percent of the Target Net Income. That is, no bonus awards will be made if actual net income is less than 90 percent of the Target Net Income for the year. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income.

-- Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation (the "Individual Factor"). Performance objectives for each participant are established at the beginning of the year and are primarily directed toward controlling costs, improving efficiencies and productivity, enhancing customer service and growing the company's customer base. Each objective has specific performance measures that are used to determine the level of achievement for each objective.

o Participation

-- Eligible participants consist of officers, managers and certain key employees.

-- Participation in the Management Incentive Program will be determined each year. Each participant will be assigned a "Target Bonus Percentage" ranging from 5 to 50 percent depending on duties and responsibilities.

-- For each company, the Target Bonus Percentage for all the participants within that company will be applied to either their base salary or their salary grade midpoint as designated by the company's chairman, subject to the approval of the Executive Compensation and Employee Benefits Committee.

-- Actual bonuses may range from 0, if the company's financial results fall below the minimum threshold or the participant does not make sufficient progress toward achieving his or her objectives (i.e. performance measure points totaling less than 70 points), to 187.5 percent if performance -- both Company and individual -- is rated at the maximum.

-- New employees who are hired into a position that is eligible to participate in the Management Incentive Plan, will normally be eligible to receive a portion of the bonus calculated in accordance with this Plan that is pro-rated based on the number of full calendar months between the new employee's hire date and the end of the calendar year.

-- Employees who would otherwise be eligible to participate in this Management Incentive Plan, but who leave employment with the company either voluntarily, involuntarily or as a result of retirement, will not receive a bonus for the year in which their employment terminates. If an employee who would otherwise be eligible to participate in this Management Incentive Plan dies, the company will pay the deceased employee's estate a portion of the bonus the deceased employee would otherwise have been entitled to assuming a 100% Individual Rating Factor, but pro-rated for the number of full calendar months the employee completed before his or her death.

o Company Performance

-- Company performance will be measured on the following schedule:

Percent of	Company

	Target Net Income	Rating
Threshold.............	<90%	0%
	90	50
	92	65
	95	80
	96	85
	97	90
	98	94
	99	97
Plan..................	100	100
	105	110
	<110	125

-- The actual Company Factor should be calculated by interpolation between the points shown in the table above.

-- Regardless of the Company rating resulting from this Schedule, the Executive Compensation and Employee Benefits Committee retains the authority to determine the final Company Rating for purposes of this Plan.

o Individual Performance

-- Individual performance will be measured on the following scale:

Performance Measure Points	Individual Rating Factor
0 - 69	0%
70	70%
80	80%
90	90%
100	100%
110	110%

-- In addition, up to 40 additional points and additional percentage points may be awarded to a participant at the discretion of the Chief Executive Officer for exemplary performance. Individual performance points for the Chief Executive Officer are determined by the Executive Compensation and Employee Benefits Committee.

Sample Calculations

o Example 1

Salary or midpoint	$70,000
Target Bonus	10 percent ($7,000)
Company Rating	100 percent
Individual Rating	90 percent

Calculation:

Target Bonus	x	Company Rating	x	Individual Rating	=	Bonus Earned
$7,000	x	100%	x	90%	=	$6,300

o Example 2

-- Using the same salary and target bonus, but assuming Company performance was less than 90 percent of Target Net Income, there would be no bonus earned.

Calculation:

$7,000	x	0	x	90%	=	0

o Example 3

-- Similarly, if the Individual Factor is rated below 70 points, no bonus would be earned regardless of the Company Factor.

Calculation:

$7,000 x 100% x 0 = 0

o Example 4

-- If the Company Rating Factor is allocated between two companies, the bonus will be calculated separately based on the allocation.

Calculation:

Target Bonus	x	Company Rating	x	Company Allocation	x	Individual Rating	= Bonus Earned
$7,000	x	100%	x	20%	x	90%	= $1,260
$7,000	x	110%	x	80%	x	90%	= $5,544
Total Bonus							= $6,804

o Example 5

-- It is also possible that one portion of the applicable Company Rating Factor is zero, for which there would be no bonus, regardless of the participant's Individual Rating Factor.

Calculation:

Target Bonus	x	Company Rating	x	Company Allocation	x	Individual Rating	= Bonus Earned
$7,000	x	0%	x	20%	x	90%	= $0
$7,000	x	110%	x	80%	x	90%	= $5,544
Total Bonus							= $5,544

EMPLOYEE RECOGNITION ("CHAIRMAN'S AWARD") PROGRAM

o In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman's Award program to reward non-union employees not eligible for the management bonus plan for superior performance that contains costs, improves efficiency and productivity of the workforce and better serves our customers. Awards may also be made for a special action or heroic deed, or for a project that positively impacts the performance or image of the Company.

o Awards will be made from an annual pool designated by the Chairman of PSC with the approval of the Executive Compensation and Employee Benefits Committee. Unused funds will not be carried over to the next year. If financial performance warrants, management may request permission from the Executive Compensation and Employee Benefits

Committee for special awards under the program.

- In general, Chairman's Awards will not be made to employees of a company that does not achieve at least 90% of its net income objective for the year.

- Awards may be made throughout the year, however, no more than one-third of a company's Chairman's Award pool may be awarded until the company's final net income for the year is determined.

- Nominations for employees to receive Chairman's Awards will be made to the applicable officer and should include documentation on the reasons for the recommendations. The applicable officer will review the nominations and forward their recommendations to the Chairman of PSC.

- The Chairman will determine the individuals to actually receive a bonus and the amount.