Duquesne Light Company
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JAMES D. MITCHELL
Treasurer

March 30, 1993

Mr. David Mark, Section Chief
Policy Development and Financial Evaluation Section
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, DC 20555

Re: Docket No. 50-440 - Perry Nuclear Power Plant Unit No. 1
Docket No. 50-334 - Beaver Valley Power Station Unit No. 1
Docket No. 50-412 - Beaver Valley Power Station Unit No. 2

Gentlemen:

In accordance with NRC Regulation 10 CFR Section 140.21, regarding the Price-Anderson Act retrospective premium system guarantee requirements, you will find enclosed:

1. A copy of Duquesne Light Company's consolidated financial statements for the twelve month period ended December 31, 1992;

2. An internal cash flow projection, including actual 1992 data and projections for 1993. This statement indicates that $7.498 million, our portion of the $30 million retrospective premiums for the three subject units, would be available for the payment of such premiums in 1993. Duquesne Light Company has a 47.5% ownership in Beaver Valley Unit No. 1, a 13.74% ownership in Perry Unit No. 1 and a 13.74% leasehold interest in Beaver Valley Unit No. 2.

Pursuant to Commission rules, Duquesne Light Company has elected to utilize its financial statement as it's guarantee of payment of deferred premiums. We are providing these statements to meet our reporting requirements for both Beaver Valley Unit 1 and Unit 2 and Perry Unit 1 at this time.

Sincerely,

James D. Mitchell

James D. Mitchell
Treasurer

Enclosures

DELIVERING QUALITY ENERGY

010076

M004 1/1

Source and Application of Funds 1
(in Millions of Dollars)

	ACTUAL 1992	FORECAST 1993
Capital Requirements		
Construction Expenditures (Excluding AFUDC) 2	$112	$102
Capital Additions Projected to be Leased (Principally nuclear fuel)	42	38
Maturities and Sinking Funds	78	5
Total Capital Requirements (Excluding AFUDC) 2	$232	$145
Sources of Capital		
Internal Sources 3		
Depreciation	$112	$118
Amortization	65	67
Deferred Taxes	4	(38)
Investment Tax Credit	(5)	(6)
Phase-In Plan Deferred Revenues & Carrying Charges	83	102
Total Internal Sources (Excluding Retained Earnings)	$259	$243

1 The figures below do not include the effects of the proposed GPU Project. Approximately $240 million of cash capital expenditures will be required. That amount has been adjusted to reflect the transfer to GPU of a half-interest in the reactivated Phillips plant for an estimated $145 million. Major capital expenditures are not planned until siting on the transmission line is approved.

2 Total AFUDC for the years 1993 through 1996 is projected to be $20 million.

3 Changes in Retained Earnings have not been reflected.

4 Primarily amortization of the Perry 2 investment.

INDEPENDENT AUDITORS' REPORT

To the Directors and Stockholder of Duquesne Light Company:

We have audited the accompanying consolidated balance sheets of Duquesne Light Company and its subsidiary as of December 31, 1992 and 1991, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1992. Our audits also included the financial statement schedules listed in Item 14. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Duquesne Light Company and its subsidiary as of December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche
DELOITTE & TOUCHE
Pittsburgh, Pennsylvania
January 26, 1993

DUQUESNE LIGHT COMPANY
STATEMENT OF CONSOLIDATED INCOME

Year Ended December 31, *(Thousands of Dollars)*	1992	1991	1990
OPERATING REVENUES:			
Customers:			
Current	$1,213,151	$1,219,091	$1,075,068
Deferred (Note I)	(98,201)	(78,344)	10,784
Other utilities	72,439	58,903	45,153
Total Operating Revenues	1,187,389	1,199,650	1,131,005
OPERATING EXPENSES:			
Fuel	255,866	237,855	213,324
Purchased power	9,474	12,900	6,187
Other operation	279,228	289,178	267,795
Maintenance	79,146	83,773	97,756
Depreciation and amortization	127,924	119,264	122,251
Taxes other than income taxes	85,368	95,067	81,043
Income taxes (Note G)	96,253	95,941	76,247
Total Operating Expenses	933,259	933,978	864,603
OPERATING INCOME	254,130	265,672	266,402
OTHER INCOME AND (DEDUCTIONS):			
Allowance for equity funds used during construction	2,598	1,855	1,375
Carrying charges on deferred revenues	15,145	21,514	22,950
Income taxes (Note G)	(11,746)	(5,132)	(8,231)
Other – net	13,205	(9,379)	(2,922)
Total Other Income and (Deductions)	19,202	8,858	13,172
INCOME BEFORE INTEREST CHARGES	273,332	274,530	279,574
INTEREST CHARGES:			
Interest on long-term debt	123,402	131,499	139,889
Other interest	2,458	2,316	5,788
Allowance for borrowed funds used during construction	(2,296)	(2,418)	(1,559)
Total Interest Charges	123,564	131,397	144,118
NET INCOME	149,768	143,133	135,456
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	9,411	10,801	14,046
EARNINGS FOR COMMON STOCK	$140,357	$132,332	$121,410

See Notes to Consolidated Financial Statements.

DUQUESNE LIGHT COMPANY

CONSOLIDATED BALANCE SHEET

Year Ended December 31, (Thousands of Dollars)	1992	1991
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant in service	$3,860,040	$3,740,809
Construction work in progress	67,435	91,140
Property held under capital leases (Note F)	212,172	220,106
Property held for future use (Note I)	216,893	216,343
Total	4,356,540	4,268,398
Less accumulated depreciation and amortization	(1,340,846)	(1,233,283)
Property, Plant and Equipment – Net	3,015,694	3,035,115
OTHER PROPERTY AND INVESTMENTS (at cost):		
Investment in DQE common stock	30,000	11,524
Other property and investments	21,307	17,195
Total Other Property and Investments	51,307	28,719
CURRENT ASSETS:		
Cash and temporary cash investments (at cost which approximates market)	6,156	3,169
Receivables (Note C)	52,088	116,659
Materials and supplies (generally at average cost):		
Coal	39,297	36,470
Operating and construction	66,016	64,692
Other current assets	11,766	18,897
Total Current Assets	175,323	239,887
OTHER ASSETS:		
Extraordinary property loss (Note B)	46,447	67,514
Unamortized loss on reacquired debt (Note E)	70,324	55,270
Beaver Valley Unit 2 sale/leaseback premium (Note F)	36,371	—
Income taxes on sale of Beaver Valley Unit 2 (Note F)	70,113	73,107
Deferred costs of units not in rate base (Note I)	51,149	51,149
Phase-in plan deferrals (Note I)	127,996	211,053
Deferred debits	152,844	123,282
Total Other Assets	555,244	581,375
Total Assets	$3,797,568	$3,885,096

See Notes to Consolidated Financial Statements.

DUQUESNE LIGHT COMPANY
CONSOLIDATED BALANCE SHEET

As of December 31, (Thousands of Dollars)	1992	1991
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (Note E):		
Common stock (authorized – 90,000,000 shares, issued – 10 shares)	$ —	$ —
Capital surplus	806,867	762,719
Retained earnings	300,742	301,385
Total common stockholder's equity	1,107,609	1,064,104
Non-redeemable preferred and preference stock	121,906	121,906
Redeemable preferred and preference stock	8,579	15,437
Non-redeemable preference stock, Plan Series A	29,995	30,000
Deferred employee stock ownership plan benefit	(28,471)	(30,000)
Total preferred and preference stock	132,009	137,343
Senior secured debt (excluding Pollution Control Notes)	1,018,098	1,025,299
Other long-term debt	398,915	399,275
Unamortized debt discount and premium – net	(4,012)	(3,848)
Total long-term debt	1,413,001	1,420,726
Total Capitalization	2,652,619	2,622,173
OBLIGATIONS UNDER CAPITAL LEASES (Note F)	71,876	87,861
CURRENT LIABILITIES:		
Current maturities and sinking fund requirements (Notes E and F)	46,054	148,093
Accounts payable	118,423	126,996
Accrued income taxes	19,849	35,333
Accrued taxes other than income taxes	28,342	33,277
Accrued interest	28,258	32,339
Dividends declared:		
DQE	30,000	28,000
Other	5,109	5,287
Deferred energy costs (Note A)	18,893	—
Total Current Liabilities	294,928	409,325
OTHER NONCURRENT LIABILITIES:		
Investment tax credits unamortized	135,580	141,549
Accumulated deferred income taxes	540,829	529,625
Other deferred credits	101,736	94,563
Total Other Noncurrent Liabilities	778,145	765,737
COMMITMENTS AND CONTINGENCIES (Notes B through L)		
Total Capitalization and Liabilities	$3,797,568	$3,885,096

See Notes to Consolidated Financial Statements.

DUQUESNE LIGHT COMPANY
STATEMENT OF CONSOLIDATED CASH FLOWS

Year Ended December 31, (Thousands of Dollars)	1992	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$149,768	$143,133	$135,456
Principal non-cash charges (credits) to net income:			
Depreciation and amortization	127,924	119,264	122,251
Capital lease and other amortization	49,001	56,437	49,261
Deferred income taxes and investment tax credits – net	(10,896)	(18,974)	20,535
Allowance for equity funds used during construction	(2,598)	(1,855)	(1,375)
Phase-in plan revenues and related carrying charges	83,056	56,830	(33,734)
Rate refund - net	—	(1,360)	(16,889)
Changes in working capital other than cash (Note L)	55,193	(41,651)	(7,925)
Other – net	7,166	38,051	20,365
Net Cash Provided from Operating Activities	458,614	349,875	287,945
CASH FLOWS USED BY INVESTING ACTIVITIES:			
Construction expenditures	(112,409)	(125,358)	(103,701)
Allowance for borrowed funds used during construction	(2,296)	(2,418)	(1,559)
Other – net	(7,877)	(6,905)	(3,097)
Net Cash Used by Investing Activities	(122,582)	(134,681)	(108,357)
CASH FLOWS USED IN FINANCING ACTIVITIES:			
Sale of bonds	312,925	50,000	199,450
Dividends on capital stock	(151,404)	(143,801)	(134,545)
Reductions of long-term obligations:			
Preferred and preference stock	(24,158)	(38,505)	(31,974)
Long-term debt	(394,951)	(58,782)	(241,788)
Other obligations	(43,686)	(42,997)	(43,517)
Premium on reacquired debt	(18,127)	(2,947)	(3,349)
Contribution from parent company	45,000	30,000	—
Beaver Valley Unit 2 sale/leaseback premium	(36,371)	—	—
Purchase of DQE common stock	(18,476)	(11,524)	—
Other – net	(3,797)	963	2,034
Net Cash Used In Financing Activities	(333,045)	(217,593)	(253,689)
Net increase (decrease) in cash and temporary cash investments	2,987	(2,399)	(74,101)
Cash and temporary cash investments at beginning of year	3,169	5,568	79,669
Cash and temporary cash investments at end of year	$ 6,156	$ 3,169	$ 5,568

SUPPLEMENTAL CASH FLOW INFORMATION

	1992	1991	1990
Cash paid during the year for:			
Interest (net of amount capitalized)	$126,014	$136,147	$153,754
Income taxes	$112,859	$ 86,201	$ 41,593
Non-cash investing and financing activities:			
Capital lease obligations recorded	$ 17,089	$ 22,028	$ 31,921
ESOP preference stock issued	$ —	$ 30,000	$ —

See Notes to Consolidated Financial Statements.

DUQUESNE LIGHT COMPANY

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Year Ended December 31, (Thousands of Dollars)	1992	1991	1990
BALANCE, JANUARY 1	$301,385	$302,053	$301,142
NET INCOME FOR THE YEAR	149,768	143,133	135,456
Total	451,153	445,186	436,598
Cash dividends declared:			
Preferred stock	4,906	5,456	6,028
Preference stock (net of tax benefit of ESOP dividend)	4,505	5,345	8,018
Common stock	141,000	133,000	120,499
Total Cash Dividends Declared	150,411	143,801	134,545
BALANCE, December 31	$300,742	$301,385	$302,053

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A Summary of Accounting Policies

Consolidation and Reclassifications

The consolidated financial statements include the accounts of Duquesne Light Company (Duquesne) and its wholly owned subsidiary. All material intercompany balances and transactions have been eliminated in the preparation of the consolidated financial statements.

System of Accounts

Duquesne's accounting records are maintained in accordance with the Federal Energy Regulatory Commission's Uniform System of Accounts which has been adopted by the Pennsylvania Public Utility Commission (PUC).

Property, Plant and Equipment

The asset values of properties are stated at original construction cost. This includes the related payroll taxes, pensions and other fringe benefits, and administrative and general costs. Also included is an allowance for funds used during construction (AFC), which represents the estimated cost of both debt and equity funds used to finance construction. The amount of AFC capitalized varies according to changes in the level of construction work in progress (CWIP) and in the cost of capital. AFC rates applied to CWIP were 10.3 percent in 1992, 9.6 percent in 1991 and 9.9 percent in 1990. Duquesne does not realize cash currently from this allowance. It realizes cash over the service life of the plant through increased revenues resulting from higher rate base and higher depreciation expense.

Additions and replacements of property units are charged to plant accounts. Maintenance, repairs and replacement of minor items of property are charged to expense as incurred. The cost of property retired plus removal costs, less any salvage value, is charged to the accumulated provision for depreciation. Substantially all of Duquesne's properties are subject to a first mortgage lien, as well as to a junior lien.

Depreciation

Depreciation of electric plant, including plant-related intangibles, is recorded on a straight-line basis over the estimated useful lives of property. Amortization of other intangibles is on a straight-line basis over a five-year period. Depreciation and amortization of other property are calculated on various bases, such as the amount of nuclear fuel burned.

Decommissioning

Duquesne has received regulatory approval from the PUC to recover its share of the estimated decommissioning costs in rates over the operating life of each of its nuclear units. The recovery granted was $70 million for Beaver Valley 1, $20 million for Beaver Valley 2 and $38 million for Perry 1.

In 1988, Duquesne updated its decommissioning cost study for Beaver Valley. Duquesne's share, including removal and decontamination costs, amounted to $80 million for Unit 1 and $23 million for Unit 2. In 1992, Duquesne's share of estimated decommissioning cost for Unit 2 was further updated through a site specific study to $35 million and additional funding was provided in amounts consistent with the method approved by the PUC. Duquesne plans to continue to periodically reevaluate the estimated cost to decommission, provide additional funding consistent with the method approved by the PUC, and seek regulatory approval to recognize these increased funding levels.

Duquesne records decommissioning costs in depreciation expense and records a liability for nuclear decommissioning expense equal to the amount of cost recovery in

rates. Funds recovered through the ratemaking process for nuclear decommissioning are deposited in external segregated trust accounts. Trust fund earnings increase the fund balance and recorded liability. Collections and related interest of $13.7 million are recorded in *Other Property and Investments* in the Consolidated Balance Sheet with the related liability in *Other Deferred Credits.*

Maintenance

Maintenance costs incurred for scheduled outages at Duquesne's nuclear units are deferred and amortized over the period between scheduled outages. All other maintenance costs, including the costs of forced outages at the nuclear units, are charged to expense as incurred.

Revenues

Meters are read monthly and customers are billed on the same basis. Revenues are recorded in the accounting periods for which they are billed. Deferred revenues are associated with Duquesne's 1987 rate case. See Note I.

Income Taxes

Deferred income taxes result from timing differences in the recognition of revenue and expense for financial and tax reporting purposes. Deferred income taxes are provided at the statutory rate in effect at the time the difference originates. The deferred tax effects of certain timing differences, however, are not provided in order to be consistent with ratemaking policies. These differences are recognized for book purposes, and in rates, in the years they affect taxes payable. As of December 31, 1992, the cumulative net amount of timing differences for which deferred income taxes have not been provided was approximately $450 million. These items are principally book versus tax basis differences.

Investment tax credits related to utility property generally were deferred when applied to reduce Duquesne's income tax liability. They are subsequently reflected as reductions to tax expense over the lives of the related assets.

In February 1992, the FASB adopted Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes,* which effective beginning in 1993, requires the liability method of accounting for income taxes. The adoption of this Statement will not affect Duquesne's policy stated above for investment tax credits. Implementation of the statement will result in a favorable income statement impact of approximately $8 million in the year of adoption and the recognition of a net deferred tax liability of approximately $700 million. This liability will be offset primarily by recognition of a corresponding asset which Duquesne will recover through the regulatory process.

Deferred Energy Costs

Duquesne recovers from customers fuel and other energy costs not otherwise recovered through base rates, through an annual energy cost rate (ECR). The ECR is based on projected costs and is recalculated each year. This rate includes a credit to Duquesne's customers for profits from short-term power sales to other utilities, as well as an adjustment for any over- or under-collections from customers which occurred in prior years. Duquesne defers the difference between actual energy costs and the amounts currently recovered from customers through the ECR The difference is recorded in the Consolidated Balance Sheet as a payable to, or a receivable from, customers. At December 31, 1992, $18.9 million was payable to customers and shown as *Deferred Energy Costs,* while at December 31, 1991, $8.6 million was receivable from customers and included in *Other Current Assets.*

Nuclear Fuel Costs

Duquesne finances its acquisition of nuclear fuel through a capital lease. The cost of nuclear fuel is charged to fuel expense based on the quantity of energy generated by the reactors. The U.S. Department of Energy (DOE) is responsible for the ultimate storage and disposition of spent nuclear fuel. Duquesne pays DOE a fee for future disposal service. This fee is recovered through customer rates.

Cash Flows

For the purpose of the statement of cash flows, Duquesne considers all highly liquid investments that mature in three or fewer months to be cash equivalents.

Reclassifications

The 1991 and 1990 financial statements have been reclassified to conform with accounting presentations adopted during 1992.

B Extraordinary Property Loss

In 1984, the Central Area Power Coordination Group (CAPCO) companies agreed to minimize construction work and cash expenditures on Perry Unit 2 pending consideration of several alternatives, including resumption of construction or cancellation of the unit. In 1986, Duquesne abandoned its interest in the unit.

In 1987, the PUC approved recovery of Duquesne's original $155 million investment in the unit over a 10-year period. Duquesne is not earning a return on the as yet unrecovered portion of its investment in the unit, which was $51.1 million at December 31, 1992.

In February 1992, Duquesne sold its ownership interest of 13.74 percent in the uncompleted Perry Unit 2 to The Cleveland Electric Illuminating Company for $3.3 million.

C Receivables

In 1989, Duquesne entered into an arrangement with an unaffiliated corporation by which Duquesne is entitled to sell and the corporation must purchase, on an ongoing basis, up to $100 million of its accounts receivable. At December 31, 1992, Duquesne had sold $66.3 million of customer receivables and $9.7 million of other receivables. The sales agreement includes a limited recourse obligation under which Duquesne could be required to repurchase certain of the receivables.

The maximum amount for which Duquesne is contingently liable was $16.8 million at December 31, 1992.

Amounts in Thousands of Dollars at December 31,	1992	1991	1990
Customer accounts receivable	$109,692	$137,706	$117,234
Other accounts receivable	26,103	34,851	29,368
Less: Allowance for uncollectible accounts	(7,707)	(30,898)	(16,805)
Receivables less allowance for uncollectible accounts	128,088	141,659	129,797
Less: Receivables sold	(76,000)	(25,000)	(68,139)
Total Receivables	$ 52,088	$116,659	$ 61,658

D Short-Term Borrowing and Revolving Credit Arrangements

Duquesne has an extendable revolving credit agreement with a group of banks totaling $225 million. The current expiration date of this arrangement is October 29, 1993. Depending on the option selected by Duquesne at the time of each borrowing, interest rates can be based on prime, federal funds, Eurodollar or CD rates. Duquesne pays a commitment fee based on the unborrowed amount of the commitment.

There were no short-term borrowings during 1992. During 1991 and 1990, the maximum short-term bank and commercial paper borrowings outstanding were $66 million and $53 million, the average daily short-term borrowings outstanding were $11 million and $14.3 million, and the weighted average daily interest rate applied to such borrowings was 6.36 percent and 8.34 percent, respectively.

G Capitalization

Common Stock and Capital Surplus

In July 1989, Duquesne became a wholly owned subsidiary of DQE, the holding company formed as part of a shareholder-approved restructuring. As a result of the restructuring, DQE common stock replaced all outstanding share of Duquesne common stock, except for ten shares which DQE holds.

(Thousands of Dollars)	Year Ended December 31, 1992	1991	1990
Capital Surplus			
Premium on common stock	$808,707	$764,687	$736,276
Capital stock expense	(1,840)	(1,968)	(3,270)
Total Capital Surplus	$806,867	$762,719	$733,006

Preferred and Preference Stock

Holders of Duquesne's preferred stock are entitled to cumulative quarterly dividends. If four quarterly dividends on any series of preferred stock are in arrears, holders of the preferred stock are entitled to elect a majority of Duquesne's board of directors until all dividends have been paid.

Holders of Duquesne's preference stock are entitled to cumulative quarterly dividends, provided that no dividends on any series of preferred stock are unpaid. If six quarterly dividends on any series of preference stock are in arrears, the holders of the preference stock are entitled to elect two of Duquesne's directors until all dividends have been paid.

Duquesne is current on all dividends.

Outstanding preferred and preference stock is generally callable on not less than 30 days' notice at the prices stated in the table on page __, plus accrued dividends. Certain call prices decline in 1993 and beyond. One series of preference stock is subject to purchase and sinking fund requirements. At December 31, 1992 the maximum combined aggregate sinking fund and mandatory purchase requirement for preference stock was $1.3 million for each year from 1993 through 1997.

In December 1991, Duquesne established an ESOP to provide matching contributions under its 401(k) Retirement Savings Plan for Management Employees. See Note H to the Consolidated Financial Statements. Duquesne issued and sold 845,070 shares of Preference Stock, Plan Series A, to the trustee of the ESOP. As consideration for the stock, Duquesne received a note valued at $30 million from the trustee. The preference stock has an annual dividend rate of $2.80 per share and each share of the preference stock is exchangeable for one share of DQE common stock. At December 31, 1992, $28.5 million of preference stock issued in connection with the establishment of the ESOP has been offset, for financial statement purposes, by the recognition of a deferred compensation benefit. Dividends on the preference stock and cash contributions from Duquesne will be used to repay the ESOP note. As shares of preference stock are allocated to the accounts of participants in the ESOP, Duquesne recognizes compensation expense, and the amount of the deferred compensation benefit is amortized. In 1992, Duquesne recognized $1.5 million of compensation expense related to the 401(k) plan.

At December 31, 1992 Duquesne held 984,629 shares of DQE common stock, of which 579,629 were purchased during 1992.

Preferred and Preference Stock

(In Thousands, Except Per Share Amounts)		Outstanding on December 31,					
	Call Price	1992		1991		1990	
	Per Share	Shares	Amount	Shares	Amount	Shares	Amount
Preferred Stock Series: (1)							
3.75% (3)(7)	$ 51.00	148	$ 7,407	148	$ 7,407	148	$ 7,407
4.00% (3)(7)	51.50	550	27,486	550	27,486	550	27,486
4.10% (3)(7)	51.75	120	6,012	120	6,012	120	6,012
4.15% (3)(7)	51.73	132	6,643	132	6,643	132	6,643
4.20% (3)(7)	51.71	100	5,021	100	5,021	100	5,021
$2.10 (3)(7)	51.84	159	8,039	159	8,039	159	8,039
$7.20 (4)(7)	101.00	319	31,915	319	31,915	319	31,915
$8.375 (4)(6)	—	—	—	80	7,945	104	10,345
Total Preferred Stock		1,528	92,523	1,608	100,468	1,632	102,868
Preference Stock Series: (2)							
$2.315 (5)(7)	—	—	—	—	—	1,177	29,440
$2.100 (5)(7)	25.00	1,175	29,383	1,175	29,383	1,175	29,383
$7.500 (4)(6)	101.00	86	8,579	87	8,692	92	9,172
$9.125 (4)(6)	—	—	—	161	16,100	223	22,284
Plan Series A (7)(8)	38.30	845	29,995	845	30,000	—	—
Total Preference Stock		2,106	67,957	2,268	84,175	2,667	90,279
Purchase and sinking fund requirements			—		(17,300)		(4,054)
Deferred ESOP benefit			(28,471)		(30,000)		—
Total Preferred and Preference Stock		3,634	$132,009	3,876	$137,343	4,299	$189,093

(1) Preferred stock: 4,000,000 authorized shares; $50 par value; cumulative.
(2) Preference stock: 8,000,000 authorized shares; $1 par value; cumulative.
(3) $50 per share involuntary liquidation value.
(4) $100 per share involuntary liquidation value.
(5) $25 per share involuntary liquidation value.
(6) Redeemable.
(7) Non-redeemable.
(8) $35.50 per share involuntary liquidation value.

Long-Term Debt

At December 31, 1992, Duquesne had $1.428 billion of outstanding debt securities; including $265 million of first collateral trust bonds, $764 million of first mortgage bonds, $393 million of pollution control notes and $6 million of debentures.

In May 1992, Duquesne began issuing secured debt under a new First Collateral Trust Indenture. This new indenture will ultimately replace Duquesne's 1947 First Mortgage Bond Indenture.

The first collateral trust bonds, which total $265 million and have an average interest rate of 8.04 percent, were issued in 1992; $50 million of first mortgage bonds, with an average interest rate of 8.25 percent, were issued in 1991.

Since 1985, Duquesne has reacquired $848 million of its high-cost debt. The difference between the purchase prices and the net carrying amounts of these bonds has been included in the Consolidated Balance Sheet as *Unamortized Loss on Reacquired Debt*. Duquesne amortizes and recovers these losses through rates. The current balance of *Unamortized Loss on Reacquired Debt* is $70.3 million.

Long-Term Debt

Average Interest Rate	Maturity	Series	Principal Amount Outstanding (In Thousands of $) at December 31, 1992	1991
First Collateral Trust Bonds:				
6.08%	11-15-97		$ 50,000	$ —
6.55%	11-15-98		5,000	—
8.75%	5-15-22		100,000	—
8.20%	11-15-22		10,000	—
8.375%	5-15-24		100,000	—
Total First Collateral Trust Bonds			265,000	—
First Mortgage Bonds:				
8.45%	12-1-92		—	73,500
9%	6-1-06		—	80,000
10-1/8%	2-1-09		—	93,040
11-5/8%	12-1-15		—	94,161
8-1/4%	6-1-95		50,000	50,000
5-1/8%	2-1-96		22,800	22,800
5-1/4%	2-1-97		24,600	24,600
6-3/8%	2-1-98		34,700	34,700
7%	1-1-99		30,000	30,000
7-3/4%	7-1-99		28,647	28,947
8-3/4% (1)	3-1-00		29,700	30,000
7-7/8%	3-1-01		34,650	35,000
7-1/2%	12-1-01		26,461	26,461
7-1/2%	6-1-02		28,470	28,470
7-1/4%	1-1-03		32,670	32,670
7-3/4%	7-1-03		35,000	35,000
8-5/8%	4-1-04		43,650	44,100
9-1/2% (1)	3-1-05		49,000	49,500
8-3/8%	4-1-07		96,400	97,400
9-1/2%	12-1-16		98,000	99,000
9%	2-1-17		99,000	100,000
Less current maturities and sinking fund requirements			(10,650)	(84,050)
Total First Mortgage Bonds			753,098	1,025,299
Pollution Control Notes:				
5.588%	8-1-02	1972 Allegheny County Series A	—	19,000
5.70%	10-1-03	1973 Allegheny County Series B	—	13,050
7.50%	4-1-05	1975 Allegheny County Series C	—	17,000
(2)(3)	9-1-11	1992 Allegheny County Series A	47,925	—
(2)	12-1-13	1990 Allegheny County Series A	50,000	50,000
5.739%	6-1-03	1973 Beaver County Series A	9,800	10,100
(2)	8-1-09	1990 Beaver County Series B	18,000	18,000
6.90%	9-1-11	1976 Beaver County Series C	15,000	15,000
11.625%	12-1-14	1984 Beaver County Series B	51,000	51,000
(2)	8-1-20	1990 Beaver County Series A	13,700	13,700
(2)	8-1-25	1990 Beaver County Series C	44,250	44,250
10.50%	10-1-13	1983 Ohio Development Authority	20,500	20,500
11.125% (3)	2-1-15	1985 Ohio Development Authority	38,610	38,610
(2)	9-1-18	1988 Ohio Development Authority	71,000	71,000
6.65% (4)	10-1-23	1989 Ohio Development Authority	13,500	13,500
Less current maturities and sinking fund requirements			(690)	(1,815)
Total Pollution Control Notes			392,595	392,895
5% sinking fund debentures due March 1, 2010 (5)			6,042	6,042
Miscellaneous			278	338
Less unamortized debt discount and premium–net			(4,012)	(3,848)
Total Long-Term Debt			$1,413,001	$1,420,726

(1) To be redeemed March 1, 1993.
(2) Certain of the Pollution Control Revenue Notes have variable interest rate periods ranging from one day to 360 days. On 30-days notice prior to any interest reset date, Duquesne can change the subsequent interest rate period on the notes to a different interest rate period ranging from one day to the final maturity of the bonds.
(3) Issued in the form of First Mortgage Bonds or First Collateral Trust Bonds.
(4) Fixed rate through first five years, thereafter becoming variable rates as in footnote 2.
(5) Sinking fund requirements for 1993 and 1994 have been met and the requirement for 1995 has been partially satisfied.

At December 31, 1992 and 1991, Duquesne was in compliance with all of its debt covenants.

Sinking fund requirements and maturities of long-term debt outstanding at December 31, 1992 for the next five years are as follows (in millions): $11.0 and $.3 in 1993; $12.1 and $.1 in 1994; $11.7 and $50.1 in 1995; $11.8 and $22.9 in 1996 and $11.1 and $74.6 in 1997.

Sinking fund requirements relate primarily to the first mortgage bonds and may be satisfied by cash or the certification of property additions equal to 166-2/3 percent of the bonds required to be redeemed. During 1992, $5.7 million of the annual sinking fund requirements was satisfied by cash and $4.2 million by certification of property additions.

Total interest costs incurred were $130.4 million in 1992, $143.1 million in 1991 and $158.5 million in 1990. Of these amounts, $4.7 million in 1992, $9.3 million in 1991 and $13.9 million in 1990, including AFC, were capitalized. Debt discount or premium and related issuance expenses are amortized over the lives of the applicable issues.

In 1992 Duquesne was involved in the issuance of $419.0 million of collateralized lease bonds, which were originally issued by an unaffiliated corporation for the purpose of partially financing the lease of Beaver Valley Unit 2. Duquesne is also associated with a letter of credit securing the lessors' $188 million equity interest in the unit and certain tax benefits. If certain specified events occur, the leases could terminate and the bonds would become direct obligations of Duquesne.

The pollution control notes arise from the sale of bonds by public authorities to finance the construction of pollution control facilities at Duquesne's plants or to refund such bonds. Duquesne is obligated to pay the principal and interest on the bonds. For certain of the pollution control notes, there is an annual commitment fee for an irrevocable letter of credit. The letter of credit is available, under certain circumstances, for the payment of interest on – or redemption of – a portion of the notes. In December 1992, pollution control notes totaling $47.9 million were refinanced at lower interest rates.

At December 31, 1992, the fair value of Duquesne's long-term debt and redeemable preference stock approximates the carrying value. The fair value of Duquesne's long-term debt and redeemable preference stock was estimated on the basis of (a) quoted market prices for the same or similar issues or (b) current rates offered to Duquesne for debt of the same remaining maturities.

At December 31, 1992, the fair market value of Duquesne's investment in DQE common stock was $31.8 million.

F Leases

Duquesne leases nuclear fuel, a portion of a nuclear generating plant, office buildings, computer equipment and other property and equipment. The capitalized leases are summarized below:

Amounts in Thousands of Dollars at December 31,	1992	1991	1990
Nuclear fuel	$169,837	$170,704	$192,657
Electric plant	42,335	49,402	43,134
Total	212,172	220,106	235,791
Less accumulated amortization	(101,860)	(84,003)	(80,000)
Property Held Under Capital Leases – Net (1)	$110,312	$136,103	$155,791

(1) Includes $3,782 in 1992 and $3,374 in 1991 of capital leases with associated obligations retired.

In 1987, Duquesne sold its 13.74 percent interest in Beaver Valley Unit 2, exclusive of transmission and common facilities. The total sales price was $537.9 million, which was the appraised value of Duquesne's interest in the property. Duquesne subsequently leased back its interest in the unit for a term of 29-1/2 years. The leases provide for semi-annual payments and are accounted for as operating leases. Duquesne is responsible under the terms of the lease for all costs of its interest in the unit. In December 1992, Duquesne participated in the refinancing of the collateralized lease bonds which were originally issued in 1987 for the purpose of partially financing the lease of Beaver Valley Unit 2. In accordance with the Beaver Valley Unit 2 lease agreement, Duquesne paid the premiums as a supplemental rent payment to the lessors in the amount of approximately $36.4 million. The $36.4 million cost has been deferred as of December 31, 1992, and will be amortized over the remaining term of the lease.

Leased nuclear fuel is amortized as the fuel is burned. The amortization of all other leased property is based on rental payments made. Payments for capital and operating leases are charged to operating expenses on the Statement of Consolidated Income. The following summarizes those rental payments reported in the Statement of Consolidated Income for the three years ended December 31, 1992.

Amounts in Thousands of Dollars for the Year	1992	1991	1990
Operating leases	$ 64,986	$ 65,414	$ 65,989
Amortization of capital leases	43,119	39,323	43,368
Interest on capital leases	7,880	10,057	10,334
Total Rental Payments	$115,985	$114,794	$119,691

Future minimum lease payments for capital leases are related principally to the estimated usage of nuclear fuel financed through leasing arrangements and building leases. Minimum payments for operating leases are related principally to Beaver Valley Unit 2 and the corporate headquarters. Future minimum lease payments at December 31, 1992 were as follows:

Amounts in Thousands of Dollars for the Year	Operating Leases	Capital Leases
1993	$ 55,715	$ 41,563
1994	53,196	33,396
1995	51,964	20,168
1996	51,949	10,602
1997	51,836	6,046
1998 and thereafter	1,025,915	31,944
Total Minimum Lease Payments	$1,290,575	143,719
Less amount representing interest		(37,189)
Present value of minimum lease payments for capital leases		$ 106,530

Future payments due to Duquesne under subleases of corporate headquarter's space are expected to be $11.5 million.

⑥ *Income Taxes*

Since DQE's formation in 1989, Duquesne has filed consolidated federal tax returns with its parent and other companies in the affiliated group. Duquesne's federal income tax returns are closed through 1987. The Internal Revenue Service is reviewing Duquesne's return for 1988 and the consolidated 1989 return. The consolidated 1990 and 1991 returns are subject to review. Duquesne does not believe that the final settlement of federal and state taxes will have a material adverse effect on its financial position or results of operations.

Amounts in Thousands of Dollars for the Year		1992	1991	1990
Included in operating expenses:				
Currently payable:	Federal	$ 80,850	$ 84,862	$ 44,711
	State	27,797	31,980	10,864
Deferred – net:	Federal	(3,208)	(4,823)	31,430
	State	(3,750)	(10,750)	(4,920)
Investment tax credits deferred – net		(5,436)	(5,328)	(5,838)
Total Included in Operating Expenses		96,253	95,941	76,247
Included in other income and deductions:				
Currently payable:	Federal	7,265	2,131	6,573
	State	2,983	1,074	1,795
Deferred:	Federal	1,654	1,943	331
	State	377	443	(9)
Investment tax credits		(533)	(459)	(459)
Total Included in Other Income and Deductions		11,746	5,132	8,231
Total Income Tax Expense		$107,999	$101,073	$84,478

Total income taxes differ from the amount computed by applying the statutory federal income tax rate to income before income taxes and Duquesne's preferred and preference dividends. The reasons for this difference in each year were as follows:

Computed federal income tax at statutory rate	$ 87,641	$ 83,030	$ 74,777
Increase (decrease) in taxes resulting from:			
Excess of book over tax depreciation	3,830	5,333	8,547
State income taxes, net of federal income tax benefit	18,089	15,013	5,102
Amortization of deferred investment tax credits	(5,969)	(5,787)	(6,435)
Other – net	4,408	3,484	2,487
Total Income Tax Expense	$107,999	$101,073	$ 84,478
Sources of income taxes deferred and the related tax effects were:			
Excess of tax depreciation	$ 16,611	$ 20,957	$ 24,230
Deferred revenues recorded/(recovered) for book purposes	(30,702)	(21,240)	12,774
Allowance for uncollectible accounts	9,760	(5,930)	(2,722)
Fuel costs	(10,820)	1,047	(180)
Loss on early retirement of debt	20,999	(166)	(1,167)
Other – net	(10,775)	(7,855)	(6,103)
Total Deferred Income Tax Expense (Benefit)	$ (4,927)	$(13,187)	$ 26,832

H Employee Benefits

Retirement Plans

Duquesne has trusteed retirement plans to provide pensions for all full-time employees. Upon retirement, employees receive a monthly pension based on length of service and compensation. The cost of funding the pension plan is determined by the unit credit actuarial cost method. Duquesne's policy is to record an expense in an amount at least equal to the minimum funding requirements required by the Employee Retirement Income Security Act (ERISA). This expense may exceed the minimum funding requirement but may not exceed the maximum tax deductible amount for the year. Pension costs charged to expense or construction were $11.4 million for 1992, $11.2 million for 1991 and $12.6 million for 1990.

The following sets forth the funded status of the retirement plans and amounts recognized on the Consolidated Balance Sheet at December 31, 1992, 1991 and 1990.

Amounts in Thousands of Dollars at December 31,	1992	1991	1990
Actuarial present value of benefits rendered to date:			
Vested benefits	$287,360	$279,917	$241,193
Non-vested benefits	16,252	14,294	19,915
Accumulated benefit obligations based on compensation to date	303,612	294,211	261,108
Additional benefits based on estimated future salary levels	77,017	64,919	56,434
Projected benefit obligation	380,629	359,130	317,542
Fair market value of plan assets	411,440	392,027	319,594
Projected benefit obligation under plan assets	$ 30,811	$ 32,897	$ 2,052
Unrecognized net gain	$ 81,971	$ 86,695	$ 56,573
Unrecognized prior service cost	(20,848)	(22,317)	(23,959)
Unrecognized net transition liability	(21,102)	(22,913)	(24,725)
Net pension liability per balance sheet	(9,210)	(8,568)	(5,837)
Total	$ 30,811	$ 32,897	$ 2,052
Assumed rate of return on plan assets	8.00%	7.50%	8.00%
Discount rate used to determine projected benefit obligation	7.50%	7.50%	8.00%
Assumed change in compensation levels	5.75%	5.75%	5.75%

Plan assets consist primarily of common stocks, United States obligations and corporate debt securities. Net pension cost for 1992, 1991 and 1990 was computed as follows:

Amounts in Thousands of Dollars for the Year	1992	1991	1990
Service cost benefits earned during the year	$ 11,397	$ 9,911	$ 9,710
Interest on projected benefit obligation	26,390	24,705	23,101
Return on plan assets	(26,736)	(80,716)	(3,897)
Net amortization and deferrals	325	57,319	(16,289)
Net Pension Cost	$ 11,376	$ 11,219	$ 12,625

Retirement Savings Plan and Other Benefit Options

Duquesne sponsors separate 401(k) Retirement Plans for its union-represented employees and its management employees. The 401(k) Retirement Savings Plan for Management Employees provides that Duquesne will match $.25 for every $1.00 that an employee contributes to a 401(k) account up to a maximum of 6% of their eligible salary. Duquesne will match up to an additional $.25 on every $1.00, if certain incentive targets approved by Duquesne's board of directors are met. The 1992 incentive target was met. Duquesne is funding its matching contributions with contributions to an Employee Stock Ownership Plan (ESOP) established in December 1991. See Note E.

Duquesne's shareholders have approved a long-term incentive plan through which Duquesne may grant management employees options to purchase up to a total of three million shares of DQE common stock during the period 1987-1997 at prices equal to the fair market value of such stock on the dates the options were granted.

As of December 31, 1992 active grants totaled 848,369 shares, at exercise prices ranging from $12.31 to $28.75 per share, which expire at various dates from 1997 to 2001. Stock appreciation rights (SARs) have been granted in connection with 622,869 of the options outstanding. During 1992, 107,594 SARs were exercised, 50,205 options at prices ranging from $12.3125 to $26.375 were exercised for shares and 59,330 options lapsed. Of the 848,369 grants active at December 31, 1992, 232,293 were not exercisable at December 31, 1992.

Other Postretirement Benefits

The FASB has issued Statement of Financial Accounting Standards No. 106, *Employer's Accounting for Postretirement Benefits Other Than Pensions*, which requires, among other things, accrual of postretirement health care benefits during the years an employee provides service. Duquesne is required to adopt this Statement beginning in 1993.

Duquesne currently pays a portion of its early retirees' postretirement medical coverage from the date of early retirement to the point at which Medicare begins at age 65. The cost of this coverage is reflected in Duquesne's financial statements, and is recovered through rates, on a pay-as-you-go (cash method) accounting basis. This cost is approximately $1.2 million annually.

Based on an actuarial study, the unfunded transition obligation related to contributing toward the cost of postretirement medical coverage for Duquesne's retirees to age 65 is estimated at approximately $31.4 million. Duquesne will amortize this cost over twenty years. The annual cost, including this amortization, is expected to add approximately $4 million to the current level of costs in 1993.

I Rate Matters

1987 Rate Case

The March 1988 PUC rate order increased annual revenues by $232 million. This increase is being phased in from April 1, 1988 through April 1, 1994. Deficiencies in the revenues collected from customers resulting from the phase-in were included in the consolidated income statement as deferred revenues. Deferred revenues are recorded on the balance sheet as a deferred asset for future recovery. As prior period deficiencies are billed to customers, they reduce this deferred asset instead of being included in current revenues. The phase-in plan includes a return on the revenues deferred for future recovery equal to the after-tax AFC rate.

Duquesne has recovered previously deferred revenues of $185.6 million as of December 31, 1992. Deferred revenues and related carrying charges of $128.0 million remain to be recovered as of that date. Duquesne expects to fully recover this amount by the end of the phase-in period.

At this time, Duquesne has no pending base rate case and has no plans to file a base rate case.

Deferred Costs of Units Not in Rate Base

In 1987, the PUC approved Duquesne's petition to defer initial operating and other costs of Perry Unit 1 and Beaver Valley Unit 2. Duquesne deferred costs incurred from the time the units went into commercial operation until the March 1988 rate order. The PUC order deferred ruling on whether these costs are recoverable from ratepayers. These costs totaled $51.1 million at December 31, 1992, net of deferred fuel savings related to the two units. Duquesne is not earning a current return on the deferred costs. Duquesne believes that these deferred costs will be recovered in its next base rate filing.

Deferred Coal Costs

The PUC has established two market price coal cost standards. One applies only to coal delivered at the Mansfield plant. The other, the system-wide coal cost standard, applies to coal delivered to the remainder of Duquesne's system. Both standards are updated monthly to reflect prevailing market prices of similar coal during the month. The PUC has directed Duquesne to defer recovery of the delivered cost of coal over generally prevailing market prices for similar coal. However, the PUC does allow deferred amounts to be recovered from customers when the delivered costs of coal fall below prevailing market prices. The unrecovered cost of Mansfield coal was $7.2 million and the unrecovered cost of the remainder of the system-wide coal was $3.3 million at December 31, 1992. Duquesne believes that all deferred coal costs will be recovered.

In 1990, the PUC approved a Joint Petition for Settlement that clarified certain aspects of the system-wide coal cost standard and gave Duquesne options to extend it through March 2000. In December 1991, Duquesne exercised the first of two options that extended the standard through March 1996.

Warwick Mine Costs

The 1990 Joint Petition for Settlement (see Deferred Coal Costs) also recognized costs at the Company's Warwick mine.

The Warwick mine had been on standby since 1988. In 1990, Duquesne entered into an agreement under which an unaffiliated firm will operate the mine until March 2000 and sell the coal to Duquesne . Production began in late 1990. The mine reached a full production rate in early 1991. The Joint Petition recognizes costs at Duquesne's Warwick mine and allows for recovery of such costs, including the costs of ultimately closing the mine. Duquesne expects to recover its net investment in the mine through the cost of coal during the period of the system-wide coal cost standard, including extensions. The net investment in the mine was $30.1 million at December 31, 1992. Duquesne has collected approximately $6.2 million toward mine closing costs as of December 31, 1992.

Property Held for Future Use

In 1986, the PUC approved Duquesne's request to remove the Phillips and most of the Brunot Island power stations from service and place them in "cold reserve." Duquesne expects to return them to service in connection with the long-term sale of power to General Public Utilities Corporation (GPU). Duquesne's original net investment in the cold-reserved stations was $106 million. To date, Duquesne has additional net investments of $17.4 million related to condition assessment, preservation and preliminary preparation work for returning the cold-reserved units to service, $3.5 million related to plant improvements and $4.9 million in other transaction costs. Additionally, Duquesne's share of the current investment in siting the transmission line is $6.4 million. Should this project not be approved by the PUC or otherwise not go forward, a portion of these costs may not be recoverable.

Commitments and Contingencies

Construction

Duquesne estimates that it will spend approximately $100 million on construction during 1993. Construction expenditures for 1994 and 1995 are expected to total $170 million to improve its operating facilities. These amounts exclude AFC, nuclear fuel, the proposed transaction with GPU, expenditures for possible early replacement of steam generators at the Beaver Valley Station and expenditures required under the Residual Waste Management Regulations.

Westinghouse Lawsuit

The CAPCO companies are owners in various portions of Beaver Valley Units 1 and 2. In 1991, the CAPCO companies filed suit against Westinghouse Electric Corporation in the United States District Court for the Western District of Pennsylvania. The suit alleges that six steam generators supplied by Westinghouse for the two units contain serious defects, particularly defects causing tube corrosion and cracking. Duquesne is seeking monetary and corrective relief. Steam generator maintenance costs have increased due to these defects and will likely continue to increase. The condition of the steam generators is being monitored closely. If the corrosion and cracking continue, replacement of the steam generators could be required earlier than their 40-year design life. No site specific estimates of the cost of potential replacement of the steam generators are yet available; however, industry replacement cc..s have exceeded $100 million per nuclear unit. Duquesne cannot predict the outcome of this matter; however, Duquesne does not believe that its resolution will have a material adverse effect on Duquesne's financial position or results of operations. Duquesne's percentage interests (ownership and leasehold) in Beaver Valley Unit 1 and in Beaver Valley Unit 2 are 47.5 percent and 13.74 percent, respectively, with the remainder held by the other CAPCO companies. Duquesne operates both units on behalf of the CAPCO companies.

Nuclear Insurance

The CAPCO companies maintain the maximum available nuclear insurance for the $5.9 billion total investments in Beaver Valley Units 1 and 2. The insurance program provides $2.6 billion for property damage, decommissioning and decontamination liabilities. The CAPCO companies have similar property insurance for the $5.4 billion total investment in Perry Unit 1. Duquesne would be responsible for its share of any damages in excess of insurance coverage. In addition, if the property damage reserves of any insurer are inadequate to cover claims arising from an incident at any nuclear site in the United States covered by that insurer, Duquesne could be assessed retrospective premiums of up to $3.1 million per year, for up to seven years.

The Price-Anderson Amendments to the Atomic Energy Act limit public liability from a single incident at a nuclear plant to $7.4 billion. Duquesne has purchased $200 million, the maximum amount of available insurance, which provides the first level of financial protection. Additional protection of $7.2 billion would be provided by an assessment of up to $63 million per incident on each nuclear unit in the United States. Duquesne's maximum total assessment is $47 million and would be limited to a maximum of $7.5 million per incident per year. Another surcharge of 5 percent could be levied if the total amount of public claims exceeded the funds provided under the assessment program. Finally, Congress could impose other revenue-raising measures on the nuclear industry if funds prove insufficient to pay claims.

Duquesne carries extra expense insurance which includes the incremental cost of any replacement power purchased (over the costs which would have been incurred had the units been operating) and other incidental expenses after the

occurrence of certain types of accidents at Duquesne's nuclear units. The amounts of the coverage are 100 percent of the estimated extra expense per week during the 52-week period starting 21 weeks after an accident and 67 percent of such estimate per week for the following 104 weeks. The amount and duration of extra expenses could substantially exceed insurance coverage.

National Energy Policy Act of 1992

The National Energy Policy Act of 1992 (Energy Act) requires utilities (including Duquesne) which have purchased uranium enrichment services from the U.S. Department of Energy to collectively contribute up to $150 million annually (adjusted for inflation) up to a total of $2.25 billion for decommissioning and decontamination of enrichment facilities. Assessments are based on the amount of uranium a utility had processed for enrichment prior to enactment of the Energy Act and are to be paid by such utilities over a 15-year period. The Energy Act states that the assessment shall be deemed a necessary and reasonable current cost of fuel and shall be fully recoverable in rates in all jurisdictions in the same manner as the utility's other fuel costs. Duquesne believes such assessments will be fully recoverable in rates. Duquesne has recorded an estimated liability for contributions of $12.5 million offset by a regulatory asset.

Emission Allowances

In April 1992, Duquesne entered into an agreement with Wisconsin Power & Light to purchase 5,000 allowances per year for $1.3 million in 1995, $1.4 million in 1996 and $1.4 million in 1997. Duquesne also received an option to buy an additional 5,000 allowances per year in 1998 and 1999.

Guarantees

Duquesne and the other CAPCO companies have guaranteed certain debt and lease obligations concerning a coal supply contract for the Bruce Mansfield plant. At December 31, 1992, Duquesne's share of these guarantees was $40 million. In January 1992, certain bonds were refunded at lower interest rates that will contribute to lower future coal costs. The prices paid for the coal by the CAPCO companies under this contract are expected to be sufficient to satisfy the debt and lease obligations. See Note I to the Consolidated Financial Statements. The minimum future payments in millions of dollars to be made by Duquesne that relate solely to these obligations are $7.2 in 1993, $6.9 in 1994, $6.5 in 1995, $6.2 in 1996, $5.9 in 1997 and $15.1 thereafter. Duquesne's total payments for coal purchased under the contract were $25.2 million in 1992, $32.6 million in 1991 and $25.7 million in 1990.

Residual Waste Management Regulations

In July 1992, the Pennsylvania Department of Environmental Resources issued Residual Waste Management Regulations governing the generation and management of non-hazardous waste. Duquesne is currently developing compliance strategies and has estimated its costs over the next three years to be approximately $10 million.

Other

Duquesne is involved in various other legal proceedings and environmental matters. Duquesne believes such proceedings and matters in total will not have a material adverse effect on its financial position or results of operations.

(K) Generating Units

In addition to its wholly owned generating units, Duquesne, together with other electric utilities, has an ownership or leasehold interest in certain jointly owned units. Duquesne is required to pay its share of the construction and operating costs of the units. The operating expenses of the units are included in the Statement of Consolidated Income.

Amounts included on the Consolidated Balance Sheet at December 31, 1992 as property, plant and equipment include the following (thousands of dollars):

Generating Units: Duquesne's Interest

Unit	Percentage Interest	Megawatts	Utility Plant in Service	Accumulated Depreciation	Construction Work In Progress	Fuel Source
Cheswick	100.0	570	$ 182,250	$ 72,333	$ 2,909	Coal
Elrama (1)	100.0	487	195,294	107,007	3,004	Coal
Ft. Martin 1	50.0	276	65,836	28,417	1,769	Coal
Eastlake 5	31.2	186	69,113	25,290	5,212	Coal
Sammis 7	31.2	187	82,999	28,318	1,024	Coal
Bruce Mansfield 1 (1)	29.3	228	117,555	54,007	653	Coal
Bruce Mansfield 2 (1)	8.0	62	32,404	14,199	166	Coal
Bruce Mansfield 3 (1)	13.74	110	87,376	34,091	121	Coal
Beaver Valley 1 (2)	47.5	385	398,202	140,963	10,826	Nuclear
Beaver Valley 2 (3) (4)	13.74	113	18,069	2,198	2,144	Nuclear
Beaver Valley Common Facilities			210,838	40,093	1,972	
Perry 1 (5)	13.74	164	752,405	124,208	4,668	Nuclear
Total		2,768	2,212,341	671,124	34,468	
Cold-reserved units:						
Brunot Island	100.0	306	87,250	34,414	595	Fuel Oil
Phillips (1)	100.0	300	144,436	67,110	249	Coal
Total Generating Units		3,374	$2,444,027	$772,648	$35,312	

(1) Unit is equipped with flue gas desulfurization equipment.
(2) The NRC has granted an operating license through January 2016.
(3) On October 2, 1987 Duquesne sold its 13.74% interest in Beaver Valley Unit 2, exclusive of transmission and common facilities. Amounts shown represent facilities not sold and subsequent leasehold improvements.
(4) The NRC has granted an operating license through May 2027.
(5) The NRC has granted an operating license through March 2026.

L Changes in Working Capital Other Than Cash

The following is a summary of changes in working capital other than cash:

Amounts in Thousands of Dollars for the Year	1992	1991	1990
Accounts receivable (Note C)	$64,571	$(55,001)	$(24,667)
Materials and supplies	(4,151)	(3,122)	(17,031)
Other current assets	7,131	(8,050)	(2,752)
Accounts payable	(8,573)	(465)	22,546
Other current liabilities	(3,785)	24,987	13,979
Total	$55,193	$(41,651)	$ (7,925)

M Quarterly Financial Information (Unaudited)

The following is a summary of selected quarterly financial data (thousands of dollars, except per share amounts). The quarterly data reflect seasonal weather variations in Duquesne's service territory.

1992	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating Revenues	$298,178	$290,149	$314,515	$284,547
Operating Income	62,810	59,200	74,600	57,520
Net Income	36,171	32,769	47,996	32,832
1991	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Operating Revenues	$288,069	$288,703	$333,408	$289,470
Operating Income (1)	65,656	65,276	75,264	59,476
Net Income	35,552	31,635	45,298	30,648

(1) Restated to conform with presentations adopted during 1992.

Thousands of Dollars	1992	1991	1990	1989	1988	1987
INCOME STATEMENT ITEMS						
Total operating revenues	$1,187,389	$1,199,650	$1,131,005	$1,118,583	$1,060,817	$ 866,200
Operating income	$ 254,130	$ 265,672	$ 266,402	$ 269,506	$ 244,342	$ 185,735
Earnings for common stock	$ 140,357	$ 132,332	$ 121,410	$ 112,644	$ 118,566	$ 134,972
BALANCE SHEET ITEMS						
Property, plant and equipment-net	$3,015,694	$3,035,115	$3,040,562	$3,053,978	$3,065,922	$3,098,897
Total assets	$3,797,568	$3,885,096	$3,879,777	$3,901,751	$3,881,424	$4,151,615
Capitalization:						
Common stockholder's equity	$1,107,609	$1,064,104	$1,035,059	$1,033,826	$1,070,575	$1,217,361
Non-redeemable preferred and preference stock	123,430	121,906	151,346	154,030	154,073	156,137
Redeemable preferred and preference stock	8,579	15,437	37,747	65,961	90,743	104,768
Long-term debt	1,413,001	1,420,726	1,501,295	1,540,329	1,550,231	1,690,600
Total capitalization	$2,652,619	$2,622,173	$2,725,447	$2,794,146	$2,865,622	$3,168,866

GLOSSARY OF TERMS

Following are explanations of certain financial and operating terms used in our report, some of which are unique to our business.

Allowance for Funds Used During Construction (AFC)

An amount recorded on the books of a utility during the period of construction of plant or facilities to represent the estimated cost of both debt and equity used to finance the construction.

Capital Lease

A lease that transfers substantially all of the benefits and risks incidental to the ownership of property, and thus is accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee.

Central Area Power Coordination Group (CAPCO)

Duquesne Light, Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company. The companies joined together in 1967 to jointly develop power generation and transmission facilities.

Construction Work In Progress (CWIP)

This amount represents utility plant in process of construction but not yet placed in service and is shown as a component of property, plant and equipment.

Deferred Taxes

Income taxes resulting from the recognition of certain items of revenue and expense in the tax return in a different period than they are recorded on the books of the company.

FASB Statement No. 106

An accounting standard, issued in 1990, which will require companies to change from the current practice of accounting for postretirement benefits on a "pay-as-you-go" basis to accruing the actuarially determined cost of providing these benefits to employees.

FASB Statement No. 109

An accounting standard, issued in 1987 as Statement No. 96 and revised in February 1992 as Statement No. 109, which will require the liability method of accounting for income taxes.

Federal Energy Regulatory Commission (FERC)

An independent five-member commission within the U.S. Department of Energy which has responsibility for setting rates and charges for the wholesale transportation and sale of natural gas and electricity, and the licensing of hydroelectric power projects, among other things.

Energy Cost Rate (ECR)

A provision in a utility tariff which provides for rate changes to customers due to increases or decreases in fuel costs incurred by the utility. Duquesne Light recovers the cost of fuel consumed at its generating plants, as well as the cost of purchased power, and passes through the ECR to its customers the profits of short-term power sales to other utilities.

Kilowatt

A kilowatt (kW) is a unit of power or capacity. A kilowatt hour (kWh) is a unit of energy or kilowatts times the length of time the kilowatts are used. For example, a 100-watt bulb has a demand of .1 kW and, if burned continuously, will consume 1 kWh in ten hours. One thousand kWs is a megawatt (mW). One thousand kWhs is a megawatt hour (mWh).

Operating Lease

These leases do not transfer the benefits or risks of ownership.

Peak Load

Peak load is the amount of electricity required during periods of highest demand. Peak periods fluctuate by season, generally occurring in the morning hours in winter and in late afternoon during the summer.

Pennsylvania Public Utility Commission (PUC)

The Pennsylvania governmental body that regulates all utilities (electric, gas, telephone, water, etc.) is made up of five members (one a chairman) appointed by the governor.

Regulatory Asset

Costs that the Company would otherwise have charged to expense that are capitalized or deferred because it is probable that the PUC will allow their recovery in rates.

Duquesne Light Company and Subsidiary

Calculation of Ratio of Earnings to Fixed Charges
(Thousands of Dollars)

	Year Ended December 31, 1988	1989	1990	1991	1992
FIXED CHARGES:					
Interest on long-term debt	$149,045	$140,623	$135,850	$127,606	$119,179
Other interest	6,157	12,332	6,148	2,339	2,464
Amortization of debt discount, premium and expense-net	3,648	4,010	4,039	3,892	4,223
Portion of lease payments representing an interest factor	67,040	64,854	64,586	64,189	60,721
Total Fixed Charges	$225,890	$221,819	$210,623	$198,026	$186,587
EARNINGS:					
Income from continuing operations	$137,422	$129,437	$135,456	$143,133	$149,768
Income taxes	61,782	75,151	84,478	101,073	107,999
Fixed charges as above	225,890	221,819	210,623	198,026	186,587
Total Earnings	$425,094	$426,407	$430,557	$442,232	$444,354
RATIO OF EARNINGS TO FIXED CHARGES	1.88	1.92	2.04	2.23	2.38

The Company's share of the fixed charges of an unaffiliated coal supplier, which amounted to approximately $4.3 million for the year ended December 31, 1992, have been excluded from the computation of the ratio.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-46990 and 33-52782 of Duquesne Light Company on Form S-3 of our report dated January 26, 1993, appearing in the Annual Report on Form 10-K of Duquesne Light Company for the year ended December 31, 1992.

/s/ Deloitte & Touche
DELOITTE & TOUCHE
Pittsburgh, Pennsylvania
March 30, 1993