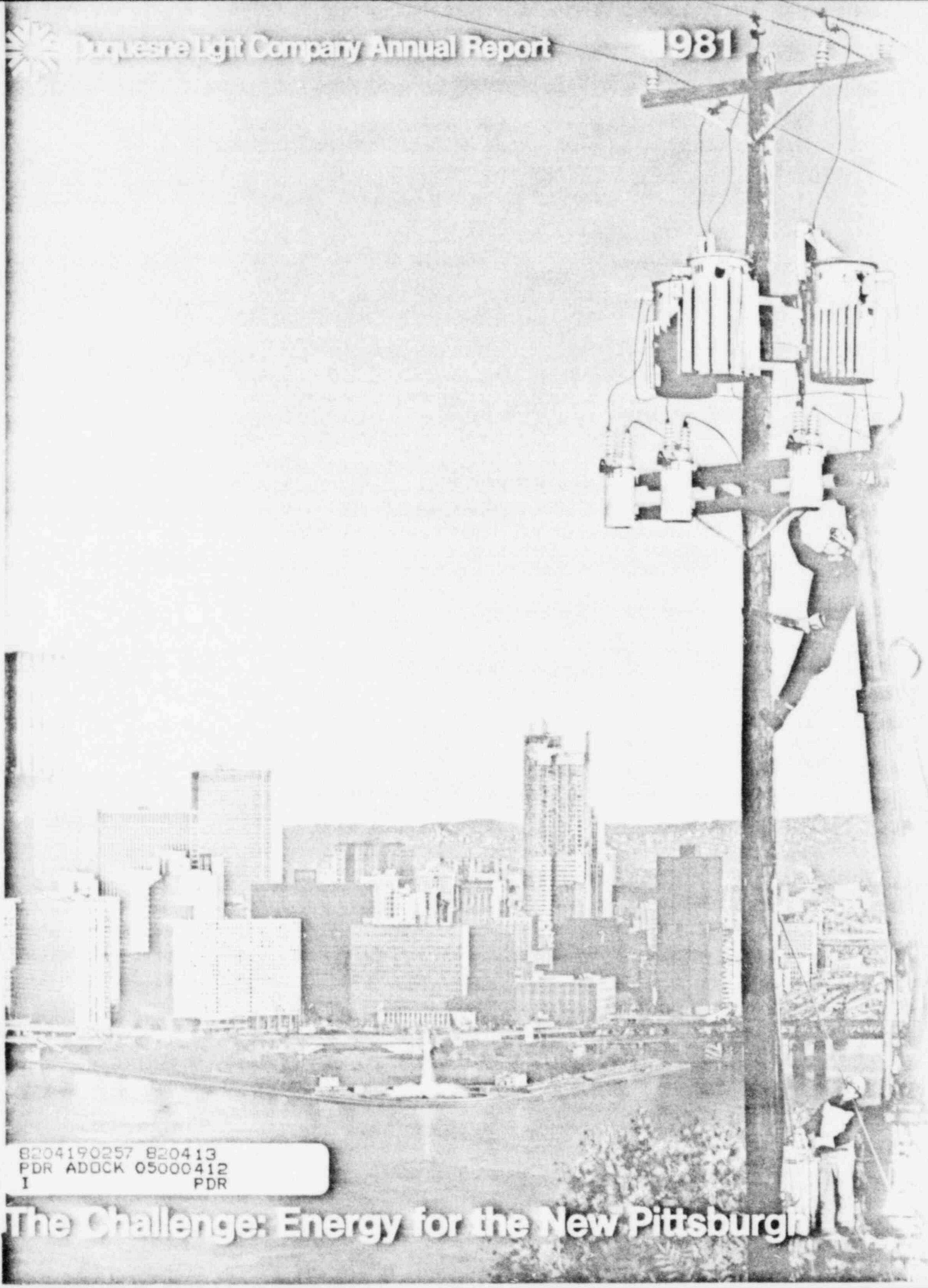
Duquesne Light Company Annual Report 1981



The Challenge: Energy for the New Pittsburgh

The Challenge: Energy for the New Pittsburgh

On the cover is Pittsburgh, the heart of Duquesne Light's service area. Ranked as one of the most liveable cities in the country, Pittsburgh is in the midst of Renaissance II, a massive program of new construction and renovation. This huge urban redevelopment activity is indicative of the vitality of Duquesne's service area and its increasing demand for electric energy.

Contents

Board of Directors

John M. Arthur ‡
Chairman of the Board and Chief Executive Officer of the Company

Stanley G. Schaffer
President of the Company

Charles M. Atkinson
Vice President—Fiscal of the Company

Henry G. Allyn, Jr.*† A
President and Chief Executive Officer of The Pittsburgh and Lake Erie Railroad Company

Doreen E. Boyce*‡
Director, The Buhl Foundation

John H. Demmler ‡
Partner, Reed Smith Shaw & McClay Attorneys-at-Law

Sigo Falk*
Associate Director, Health Systems Agency of Southwestern Pennsylvania

Philip A. Fleger † B
Retired Chairman of the Board and Chief Executive Officer of the Company

William H. Knoell †
President and Chief Executive Officer of Cyclops Corporation (principally a producer of steel and fabricated steel products)

G. Christian Lantzsch*‡
Vice Chairman of Mellon Bank, N.A. and Mellon National Corporation

Eric W. Springer †
Partner, Horty, Springer and Mattern Attorneys-at-Law

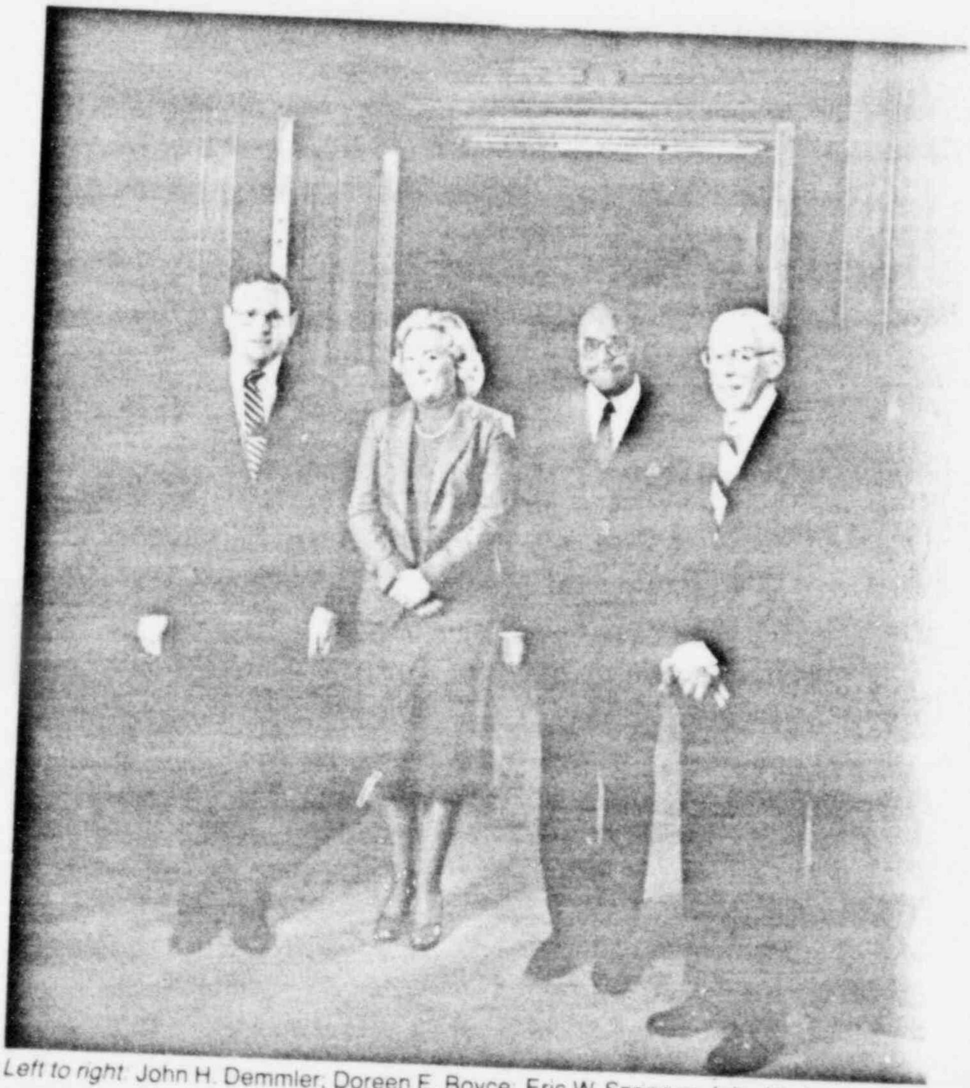
* Member of Audit Committee
† Member of Compensation Committee
‡ Member of Nominating Committee
A New Director
B Retired as Director on August 19, 1981

New Director

At the Company's April 21, 1981 Stockholders' Meeting, Mr. Henry G. Allyn, Jr. was elected to the Board of Directors. Mr. Allyn is President and Chief Executive Officer of The Pittsburgh and Lake Erie Railroad Company.

Director Retires

On August 19, 1981, Philip A. Fleger resigned as a Director of the Company. Mr. Fleger was Chairman of the Board and Chief Executive Officer of the Company from 1950 to 1968 and was a Director of the Company for 42 years. The employees, Directors and officers of the Company appreciate the many years that Mr. Fleger so capably served the Company.



Left to right: John H. Demmler; Doreen E. Boyce; Eric W. Springer; John M. Arthur

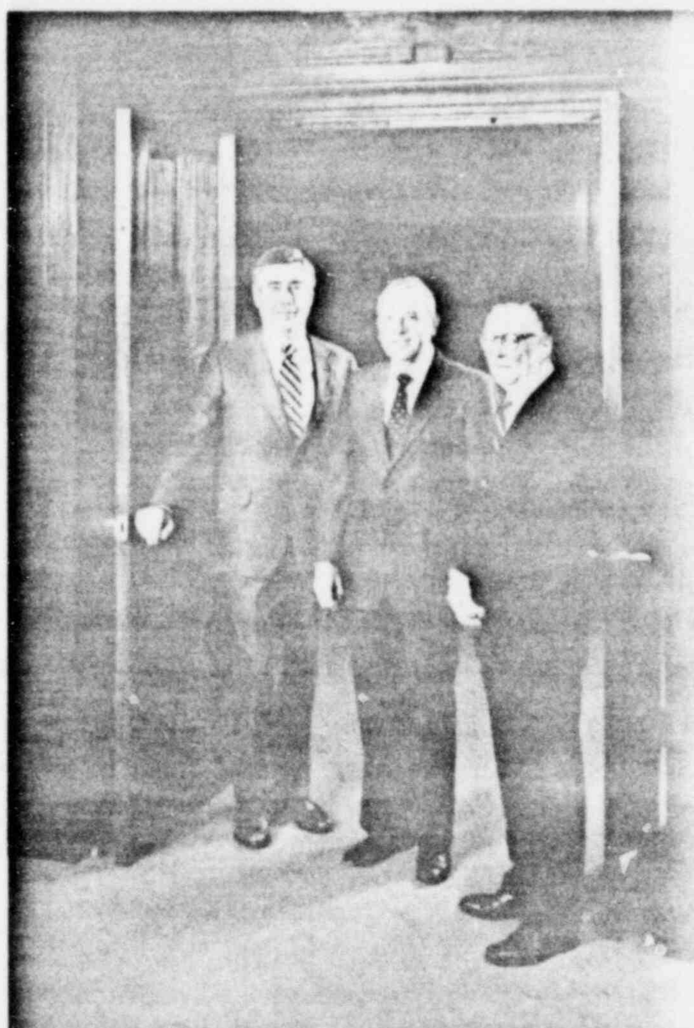
Financial Highlights—1981

Duquesne Light Company

Financial	1981	1980	Percent Increase
Total Operating Revenues (000)	**$796,847**	$689,465	15.6
Net Income (000)	**$108,871**	$92,962	17.1
Earnings Per Share of Common Stock	**$2.06**	$1.82	13.2
Dividends Per Share of Common Stock	**$1.85***	$1.80	2.8
Shares of Common Stock Outstanding at Year End	**45,302,520**	40,166,083	12.8
Operating			
Utility Plant (000)	**$ 2,809,753**	$ 2,604,333	7.9
MWH Sales	**13,630,269**	13,297,453	2.5
Peak Load Megawatts	**2,522**	2,474	1.9
Cost of Fuel Per Million BTU	**159.7¢**	149.8¢	6.6
Average BTU Per KWH Output	**10,931**	10,811	1.1
Annual System Output MWH	**14,323,618**	14,026,435	2.1

*The quarterly dividend was raised from 45¢ to 47½¢ per share payable October 1, 1981. This is an indicated annual rate of $1.90.

Left to right: Charles M. Atkinson; Henry G. Allyn, Jr.; Sigo Falk



Left to right: William H. Knoell; Stanley G. Schaffer; G. Christian Lantzsch

To Our Stockholders

Despite high interest rates, continuing inflation and a serious business recession which began in the fourth quarter, we are pleased to report that 1981 was a reasonably good year for your Company. Our earnings rose modestly from $1.82 in 1980 to $2.06 in 1981, a 13% increase. Higher sales and rate relief were the main reasons for the improvements.

In February, the Pennsylvania Public Utility Commission (PUC) approved a rate increase of $47.5 million and an additional increase of $64.2 million in June. While the total amount received was only 52% of the amount requested, this amount did make possible a mid-year dividend increase, which raised the indicated annual dividend rate from $1.80 to $1.90 per share.

The Company will file for additional rate relief within the next few months. The amount of the increase to be requested is under consideration.

Sales and Prospects

On July 9, 1981, your Company set a new record peak-hour load of 2,522,000 kilowatts. This was 48,000 kilowatts above the previous record, set in 1980. In addition, our output of 51,742,000 kilowatt-hours that day was 3% higher than on the previous record day.

We expect the pattern of new peak records to continue in future years. New electric steelmaking furnaces and 20 major commercial projects in the planning stage or under construction in the Pittsburgh area will have a positive impact on our sales over the next several years. Among the commercial projects are two high-rise office complexes scheduled for completion in 1982, and two more are scheduled for completion in 1983.

Nuclear Performance Comeback

Our Beaver Valley Power Station Unit No. 1 operated very well during 1981 and had an availability rate of 74%—the unit's best performance since its start-up six years ago. During the three-month coal strike in early 1981, Beaver Valley produced 17% of all the electricity used by our customers. In late December, Beaver Valley Unit No. 1 was removed from service for an estimated period of approximately five months for refueling and additional modifications required by the Nuclear Regulatory Commission (NRC).

Conservation Efforts

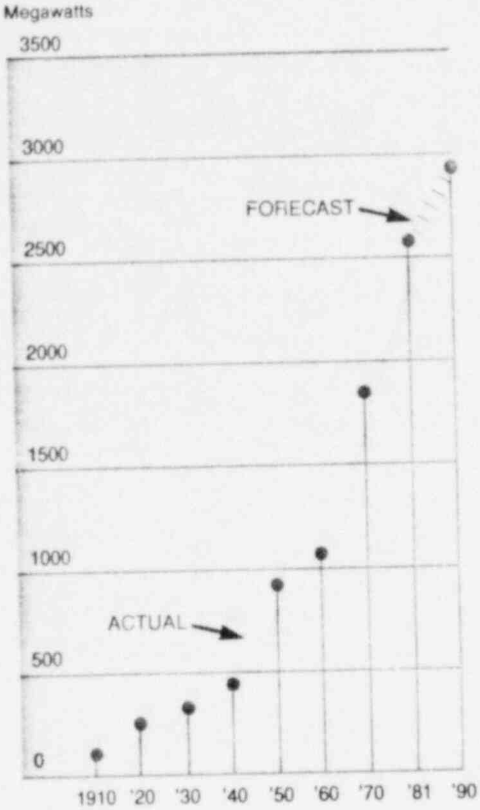
To assist homeowners in conservation efforts Duquesne Light, in cooperation with the state, initiated a Residential Conservation Service program. For a below-cost charge of $15, a certified energy auditor makes a basement-to-attic efficiency evaluation, recommends steps the homeowner can take to save energy, and estimates the savings for each action taken.

In October, the Company established a special rate for the purchase of electricity from customer-owned generating facilities using renewable energy resources such as solar, wind water or waste. We believe this new purchase rate will encourage the building of customer-owned generating facilities and may help to reduce the need for construction of additional Company-owned generating units in the future.

Cost Reductions

One of the bright spots of 1981 was a major step toward the ending of a serious cost threat. At this time last year, we were concerned that we might be forced to install "scrubbers" at our Cheswick Power Station. However, the Environmental Protection Agency approved revised air quality regulations for Allegheny County including a revised standard for sulfur oxide emissions applicable to the station. The revised standard will enable the Company to achieve compliance through the use of a blend of regular and low-sulfur coal. Over the life of the station, this alternative should save our customers an estimated one *billion* dollars.

ANNUAL SYSTEM PEAK LOAD



Environmental Auditing Program

Also on the environmental front, the Company developed a new Environmental Compliance Assurance Program designed to improve the information flow to management on the acceptability of all operations that affect the environment. The program will help our operating departments comply with changing environmental regulations and implement effective environmental control systems. We believe this coordinated effort will help minimize the cost of keeping all Company operations in compliance with local, state and federal environmental regulations.

Management Audit

During the year a management audit, mandated by the PUC, was conducted by the Boston firm of Temple, Barker and Sloane, Inc. While we believe that the audit, when completed, will give Duquesne Light good marks on overall management, supervision and employee competence, we expect and will welcome constructive criticism that will help us make our operations even more efficient.

A Future Concern

Looking ahead, our most pressing concern is our ability to finance the construction necessary to meet this community's future electrical needs as reliably as in the past. The area's economic future, including the creation of much-needed jobs, depends on an adequate supply of electric energy. We anticipate that electrical consumption in our territory will continue to grow although conservation efforts will keep the rate of growth at a moderate level.

Our ability to cope with the increasing demand for energy is directly related to the rates we are permitted to charge for the service we provide. Therefore, for the continued growth and economic stability of our community, we must continue to seek reasonable rate relief.

With your help we expect to provide the energy necessary to meet the aspirations of those we serve.

John M. Arthur

John M. Arthur
Chairman of the Board
and Chief Executive Officer

Stanley G. Schaffer

Stanley G. Schaffer
President

February 18, 1982

Stanley G. Schaffer and John M. Arthur at the construction site of the Company's new headquarters.

1981 in Review

Increased Revenues

Revenues for 1981 increased by $107 million over 1980. Approximately 90% of the increase resulted from rate relief and the energy cost rate. The remaining 10% came from increased customer sales and the Pennsylvania tax surcharge.

Customer Consumption Increased

Electric kilowatt-hour sales were up 2½% over last year. The two new 170-ton electric arc furnaces at Colt Industries' Crucible Stainless and Alloy Steel Division at Midland, Pa., as well as a number of new or expanded business customers, contributed significantly to the increased sales.

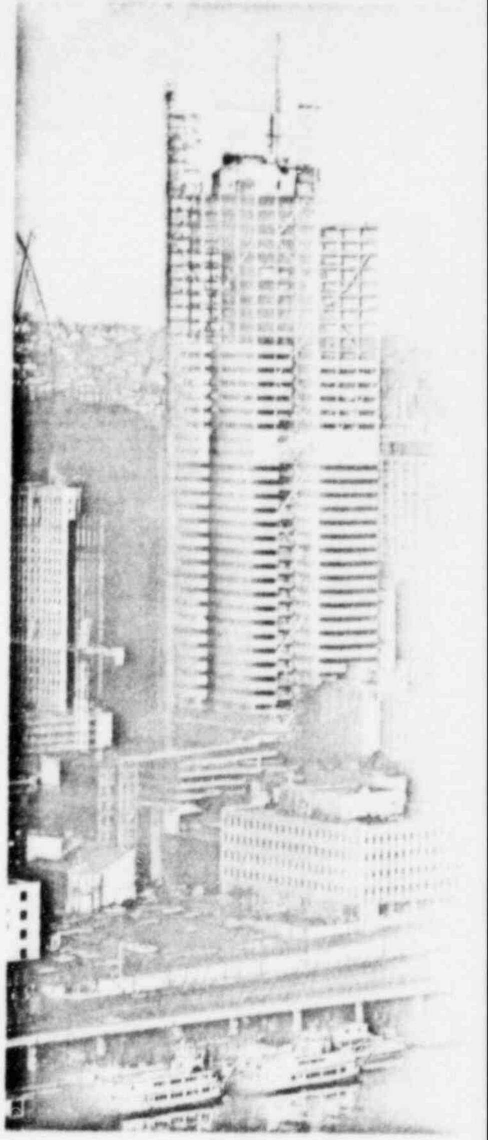
About 29% of electric revenues came from residential customers, 31% from commercial customers and 38% from industrial customers. The remaining 2% came from such other sources as street lighting and sales to other utilities.

Pittsburgh's Renaissance II is well underway. New construction and building rehabilitation projects throughout the entire downtown area are contributing to the economic vitality of the Pittsburgh region as well as providing future revenues for the Company.

More than 20 major construction projects are in progress or in the final planning stage for Pittsburgh's Golden Triangle. Among those new buildings scheduled for occupancy in 1982 are the 20-story National Steel Building, the 10-story Comstock Center and the 46-story One Oxford Centre (the Company's future corporate headquarters). Scheduled for 1983 occupancy are the 54-story Dravo Building and the 40-story PPG Place.

In addition to the present downtown construction programs, the Pittsburgh area continues to make significant strides in diversifying employment opportunities. Major gains in the non-manufacturing job market have resulted in area unemployment percentages below both state and national levels.

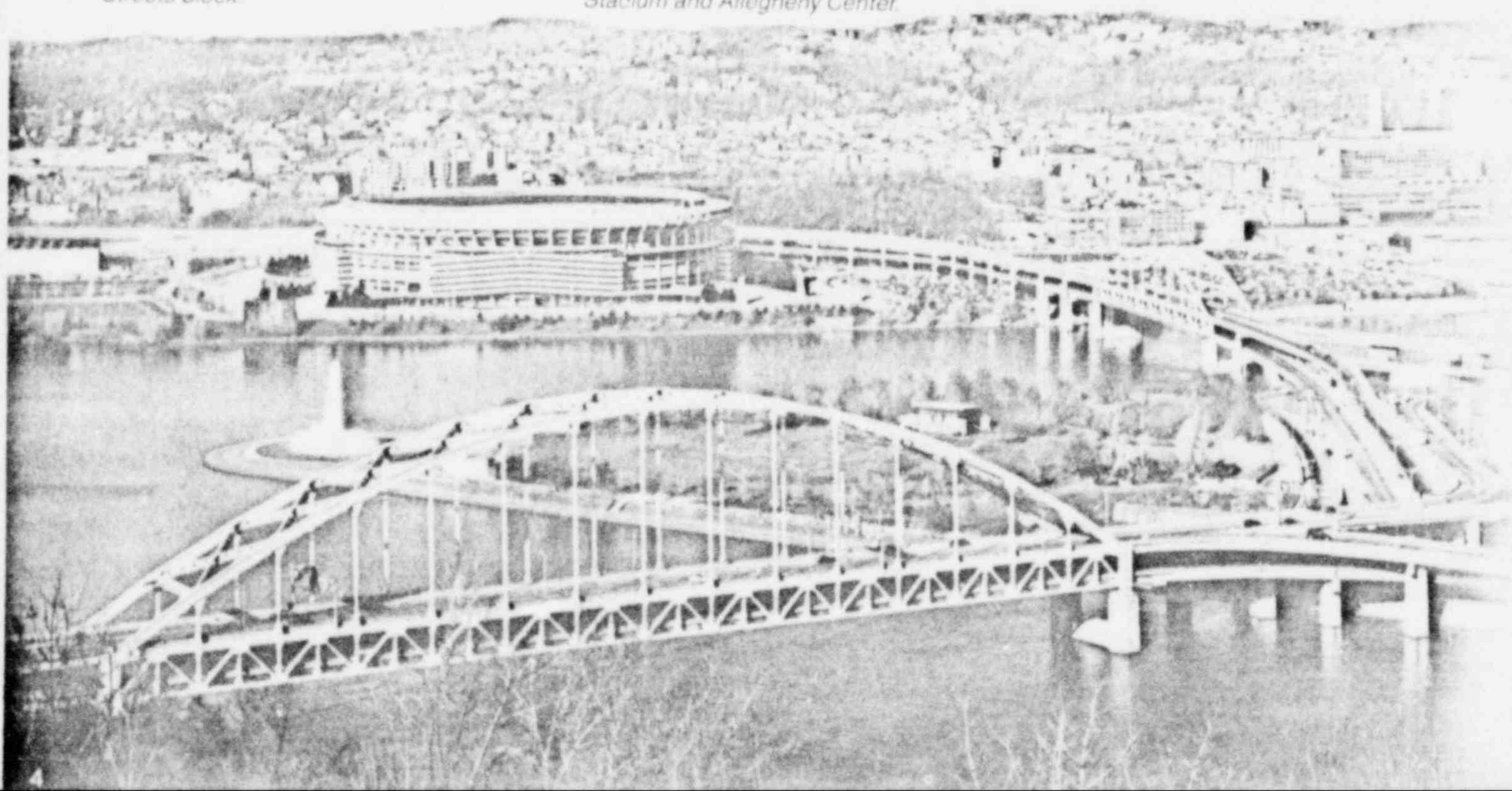
Duquesne Light will relocate its corporate headquarters to One Oxford Centre during the fall of 1982. By choosing to remain in downtown Pittsburgh, the Company was able to take advantage of the extremely competitive development situation and use its negotiating strength as a major tenant to secure an unusually attractive long-term lease. This will assure the Company of reasonable space costs over the next 20 years.



Roberto Clemente Park on the North Shore of the Allegheny River will extend to the 7th Street Bridge and will include a public plaza in the Federal-Sandusky Streets block.

The North Shore Development, due within the decade, will feature a new waterfront with one or two first-class restaurants within walking distance of Three Rivers Stadium and Allegheny Center.

The Blockhouse, a pre-Revolutionary structure at the Point, is one of many historic landmarks that the City has preserved as an important part of its heritage.



During the year, the Company began offering an energy audit to residential customers. For a modest $15 fee, the customer receives a thorough, basement-to-attic home survey. At the conclusion of the survey, the homeowner is given a list of energy conservation measures.

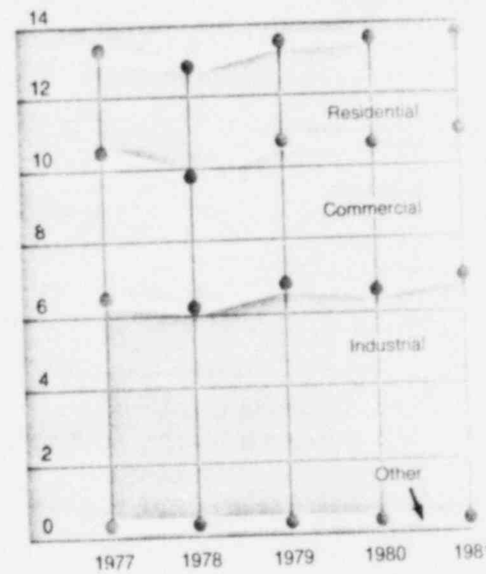
Customer Conservation Activities

Most of the Company's residential customers are reached through effective mass media methods. Every opportunity is taken to provide conservation of energy messages via bill stuffers, brochures and booklets, radio and TV talk shows and newspaper ads. Group presentations and a telephone answering service covering appliance and homemaking matters are used to convey conservation information to customers on an individualized basis.

Company engineers continued to work closely with industrial and commercial customers, helping them plan and implement economical ways to save energy and dollars. In addition, the Company conducted an Industrial Load Management Seminar in cooperation with the Smaller Manufacturers Council, a local organization with 1,400 member companies. The purpose of the seminar was to inform the smaller manufacturers of advances in energy-saving technology, and of the variety of related services that are available to them.

In 1981, the Company presented National Energy Watch awards to 22 large commercial and industrial customers.

5-YEAR GROWTH KWH SALES



The Light Rail Transit system's main terminal—one of four downtown—will be in Gateway Center. The new system will run the 10.5 miles from the City to South Hills Village.

PPG Place, a complex of gothic-style buildings, will provide over one million square feet of office space for an estimated 6,000 people. A 40-story reflective-glass tower will be the centerpiece of PPG Place, which will also include a 14-story tower, four six-story structures, a 15,000-square feet Grand Plaza, and a glass-enclosed Winter Garden.

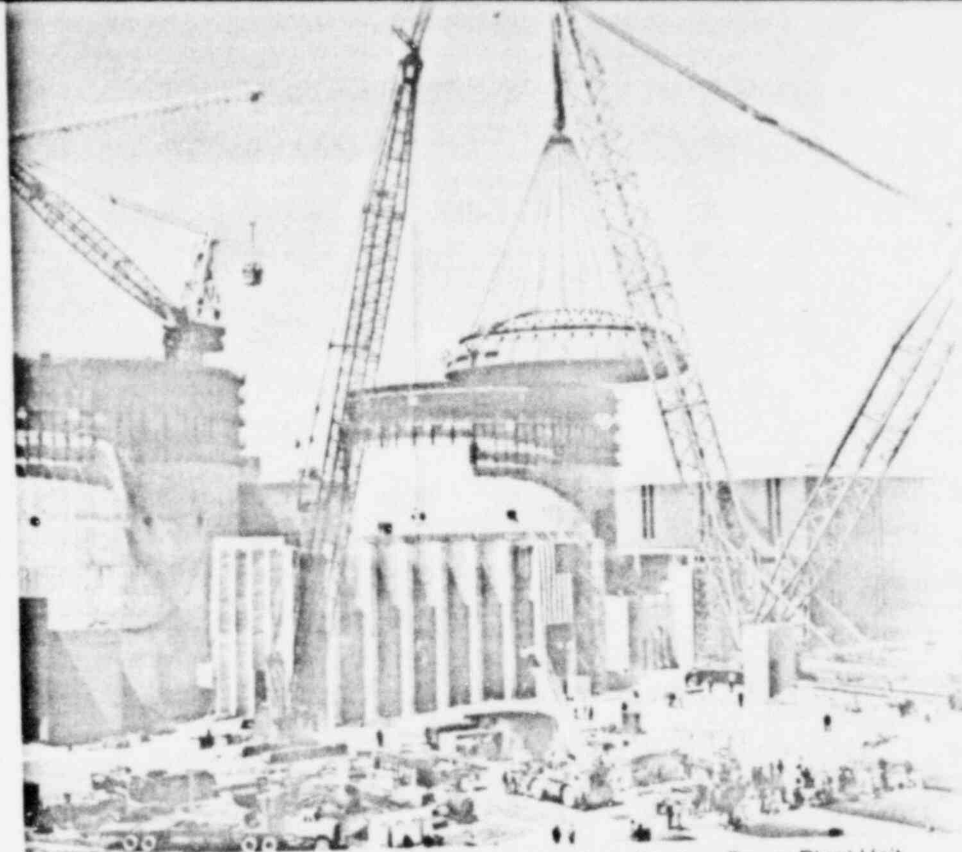
Nuclear Operations

In March 1981, the Board of Directors of the Company established a new Division, the Nuclear Division, and named Mr. John J. Carey, Vice President. The new Division was established to ensure the maximum efficiency of the Company's nuclear organization and activities through closer management control and optimum utilization of personnel. The new Division is responsible for nuclear operations, licensing, support services and engineering.

The Beaver Valley Power Station Unit No. 1 (a CAPCO facility—see page 35) is the Company's lowest fuel cost generating station. Beaver Valley Unit No. 1 operated at a 74% availability rate during 1981, well above the national average for nuclear power stations.

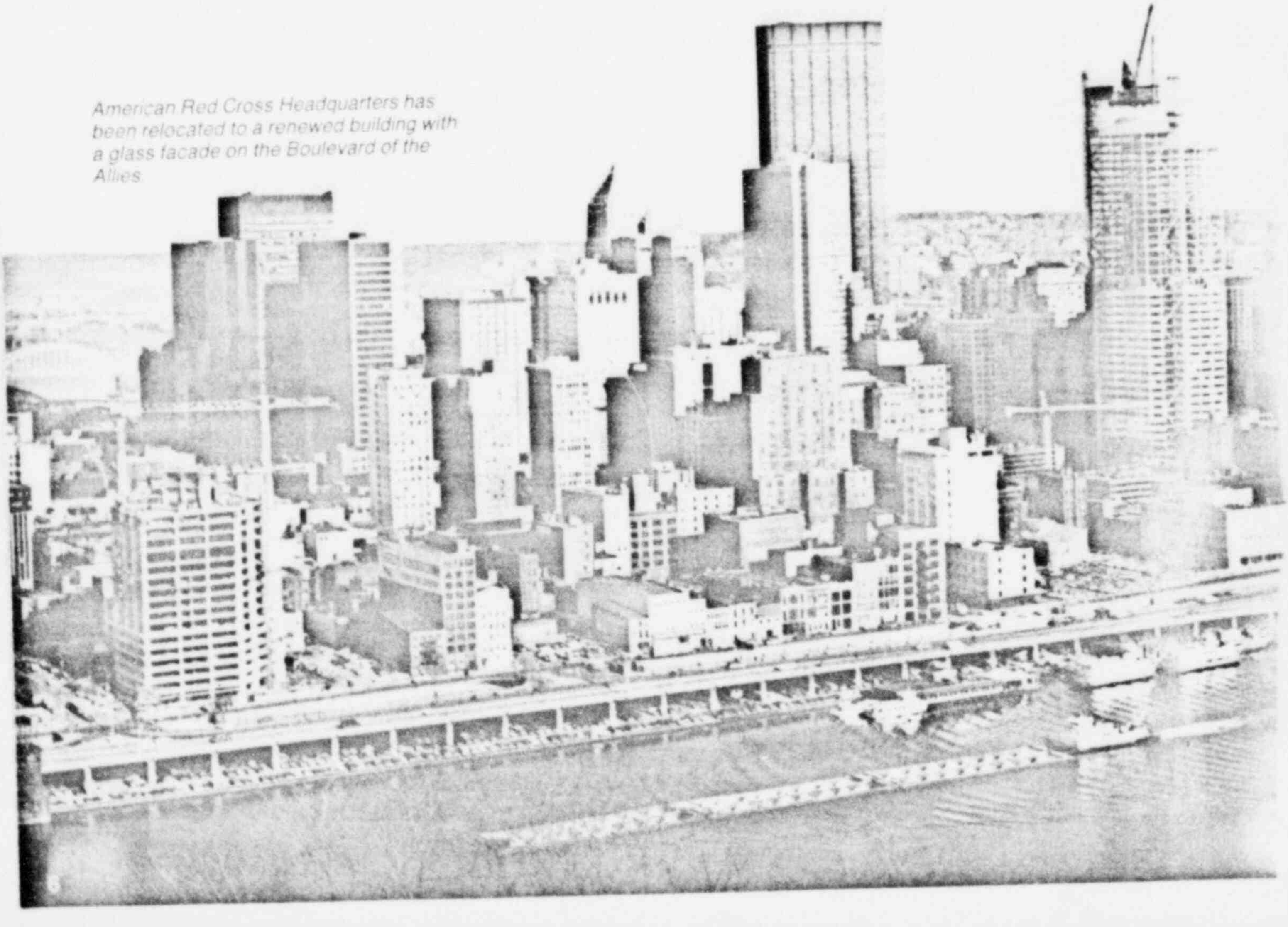
New Nuclear Construction

Beaver Valley Power Station Unit No. 2 was approximately 50% completed at year end. Scheduled for commercial operation in 1986, the 833,000 kilowatt unit will provide 114,454 kilowatts to the Duquesne Light system as a 13.74% owner.



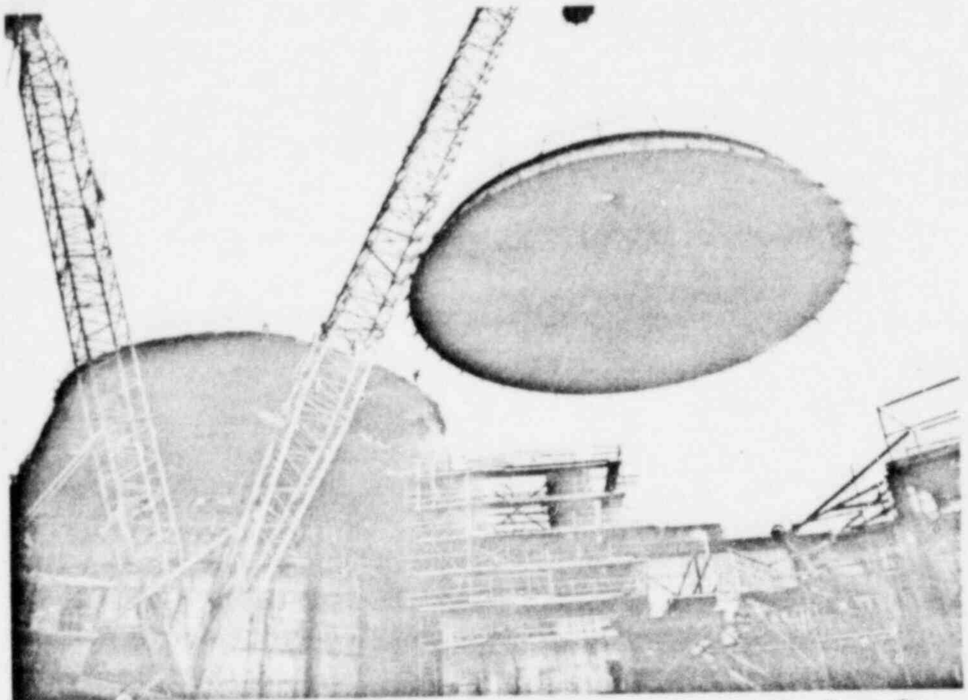
Shown is the dome setting on the reactor building of Perry Nuclear Power Plant Unit No. 1. This jointly-owned, 1,205 MW unit is scheduled to begin commercial operation in 1984. Duquesne Light's share is 165 MW and represents the Company's next block of generation capacity.

American Red Cross Headquarters has been relocated to a renewed building with a glass facade on the Boulevard of the Allies.



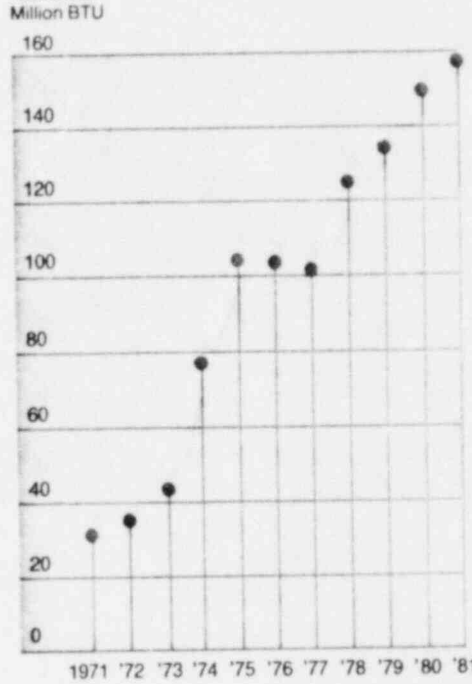
Fuel Mix

The Company relies principally on coal for generating electricity. During the year, approximately 79.3% of the electricity distributed by the Company was produced in coal-fired plants. Of the remaining electricity sold by the Company, about 17.6% was generated by nuclear facilities, 0.3% came from oil-fired peaking units, and approximately 2.8% was purchased from other utilities.



In July the 270-ton containment cap was lifted into position at Beaver Valley Power Station Unit No. 2. The cap was fabricated on the ground and lifted into place because it was the least expensive method of construction. At year end, Beaver Valley Unit No. 2 was 50% completed with commercial operation scheduled for 1986.

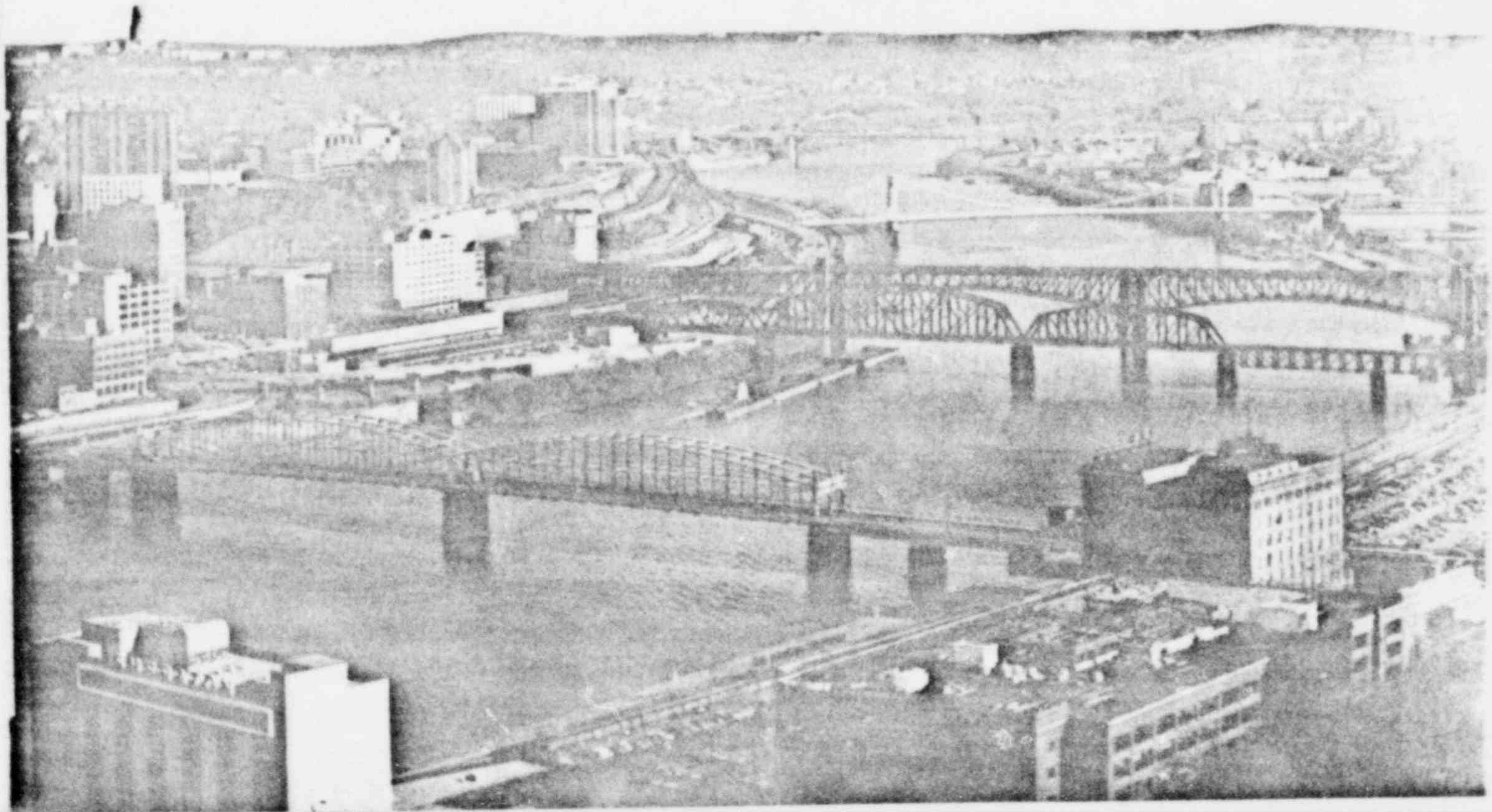
COST OF FOSSIL AND NUCLEAR FUEL



One Oxford Centre will be a 46-story retail and office structure. The Oxford Centre development involves four blocks of new construction between Grant and Smithfield Streets.

Steel Plaza's key element, the Dravo Building, will be a 54-story tower with over 1.5 million square feet of office space. When completed in Spring 1983, it will be the City's second-tallest office building.

The National Steel Building is located in the First Side area between the Blvd. of the Allies and Fort Pitt Blvd. It will be a mixture of historic preservation and new construction.

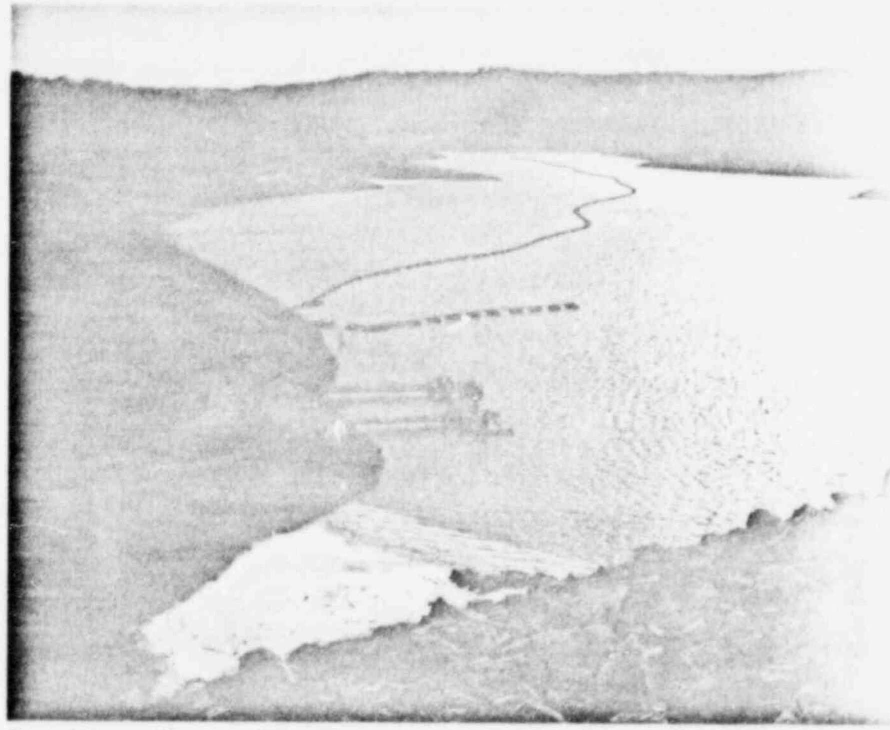


environmental awards, is an advocate of a healthful environment. During 1981, the Company invested $28 million in pollution control facilities bringing the total investment in environmental control to $453 million at a current annual operating cost of $115 million representing over 14% of customer revenues. Nevertheless, the Company believes that there should be economic as well as other justifications for environmental programs and that such programs should be based on realistic and balanced considerations founded on scientific fact.

Of particular interest was the October 1981 Environmental Protection Agency approval of revisions to the Pennsylvania State Implementation Plan for Allegheny County which includes a revised sulfur dioxide emission standard for the Company's Cheswick Power Station. Although one party has started a court proceeding with regard to another part of the regulations, the revised standard applicable to Cheswick is presently effective. The revised standard will enable the Company to comply with the environmental regulations by using a blend of low sulfur and regular

ultimately cost the ratepayer more

life of the station.

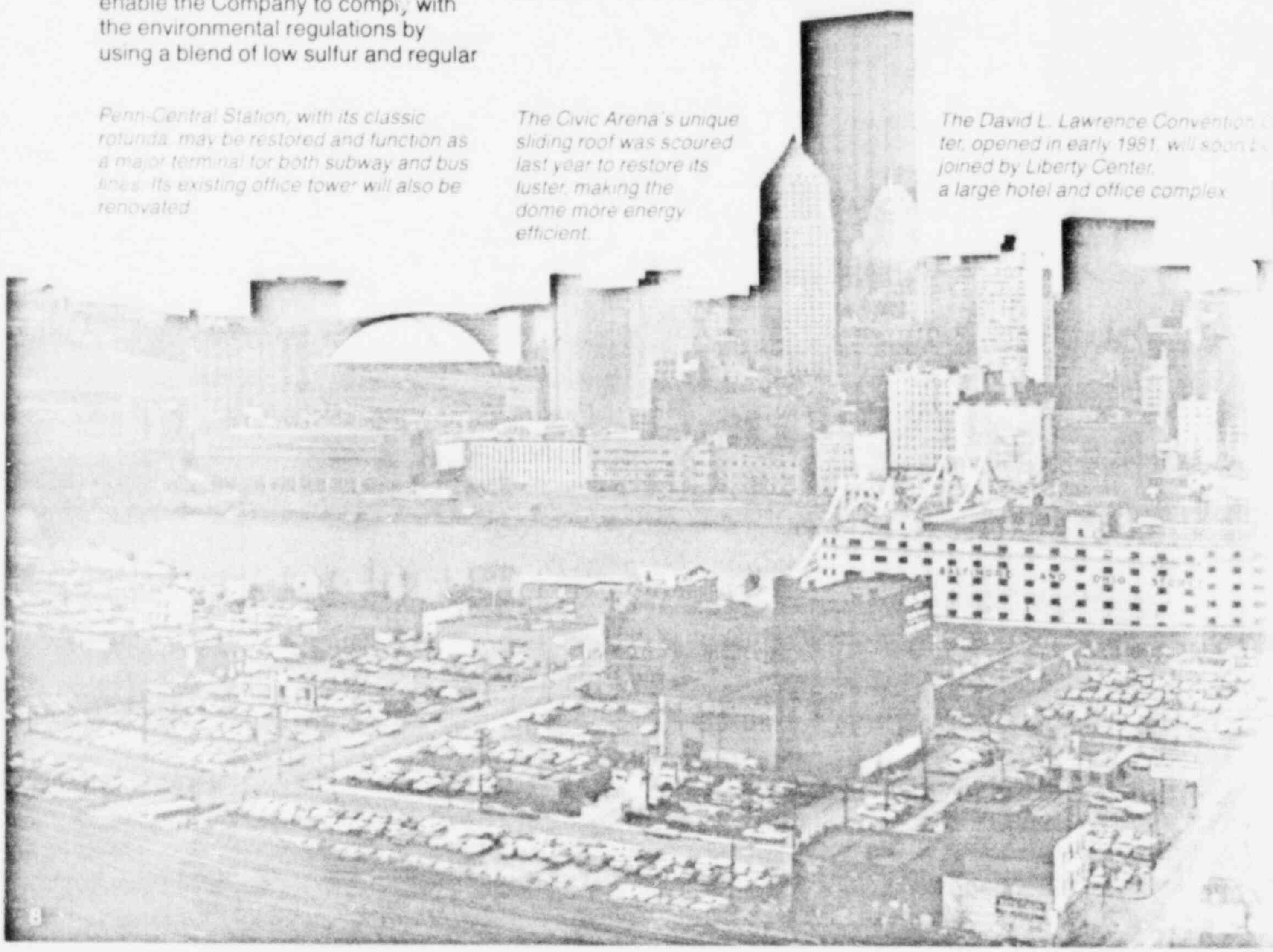


Over the next 25 years, 200 million tons of sludge from the pollution control scrubbers the Bruce Mansfield Plant (a jointly-owned CAPCO facility) will be disposed of behind the Little Blue Run disposal dam.

Penn-Central Station, with its classic rotunda, may be restored and function as a major terminal for both subway and bus lines. Its existing office tower will also be renovated.

The Civic Arena's unique sliding roof was scoured last year to restore its luster, making the dome more energy efficient.

The David L. Lawrence Convention Center, opened in early 1981, will soon be joined by Liberty Center, a large hotel and office complex

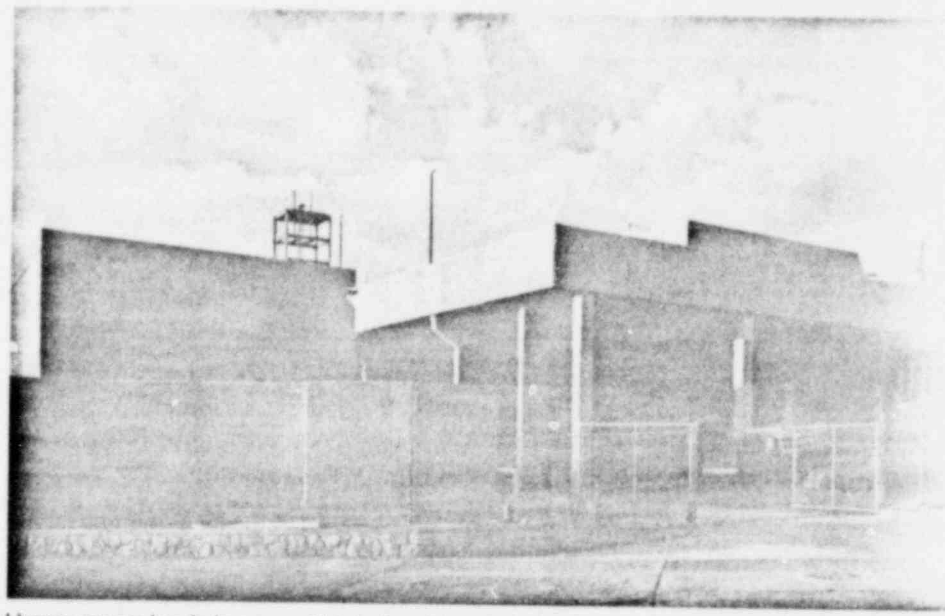


Rate Increases

On February 20, 1981, the Pennsylvania Public Utility Commission (PUC) entered a final Order regarding the Company's $113 million rate increase filed in April 1980. The Order granted only $47.5 million of the amount requested. The Company has filed an appeal with respect to certain issues raised by the final Order. On April 30, 1981, the Company filed with the PUC a new rate schedule estimated to increase annual revenues based on levels of business at December 31, 1980 by approximately $100.4 million or about 15%. On June 29, 1981 the PUC entered an Order instituting an investigation into the rate request and granting the Company the option to place a rate increase of approximately $64.2 million or about 10% into effect pending the outcome of the investigation if the Company reduced the requested increase to that amount. On June 30, 1981 the Company filed a new rate schedule in accordance with the option granted by the PUC. On July 17, 1981 the PUC approved the new rate schedule, thereby permitting the new rates to become effective for service rendered on and after July 15, 1981 subject to refund with interest if the PUC investigation results in approval of a smaller rate increase. A final decision on the option rate increase of $64.2 million is expected early in 1982.

Dividend Increase

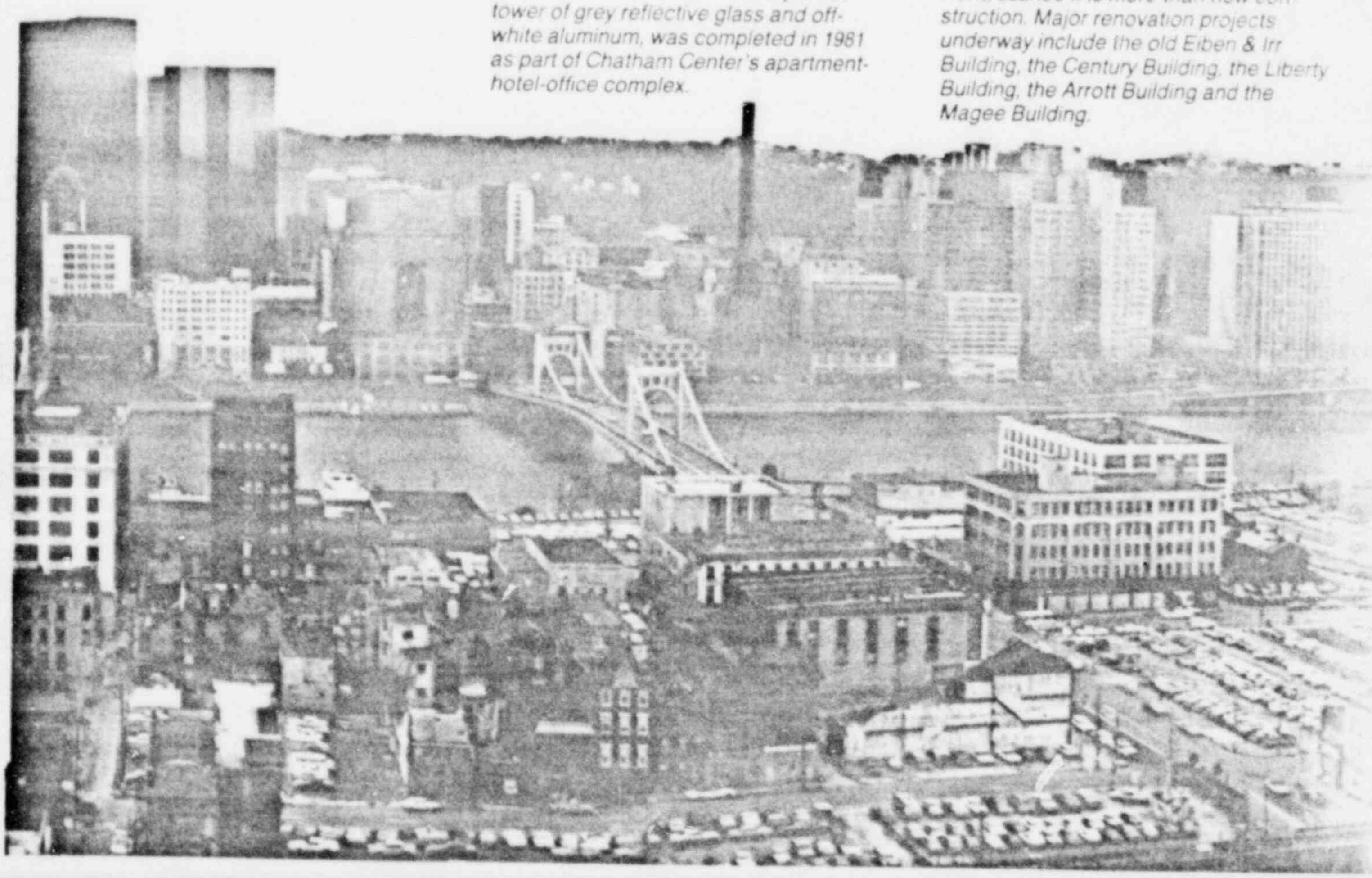
On August 18, 1981, the Company placed the Common Stock on an indicated $1.90 annual dividend rate by raising its quarterly dividend on Common Stock from 45¢ to 47½¢ per share beginning with the dividend payable October 1, 1981.



Heavy power loads in several high-density population areas of Allegheny County will be relieved when the new Arsenal Substation comes on line in 1982. While the new substation can perform the same basic functions as a conventional substation, it requires less land area than a substation of the same rating. The Arsenal project was the first installation of this type in the Duquesne Light system.

Two Chatham Center, a 16-story office tower of grey reflective glass and off-white aluminum, was completed in 1981 as part of Chatham Center's apartment-hotel-office complex.

Renaissance II is more than new construction. Major renovation projects underway include the old Eiben & Irr Building, the Century Building, the Liberty Building, the Arrott Building and the Magee Building.



Financing

About 54% of the Company's total capital expenditures of $179 million during 1981 was raised through outside financing which included:

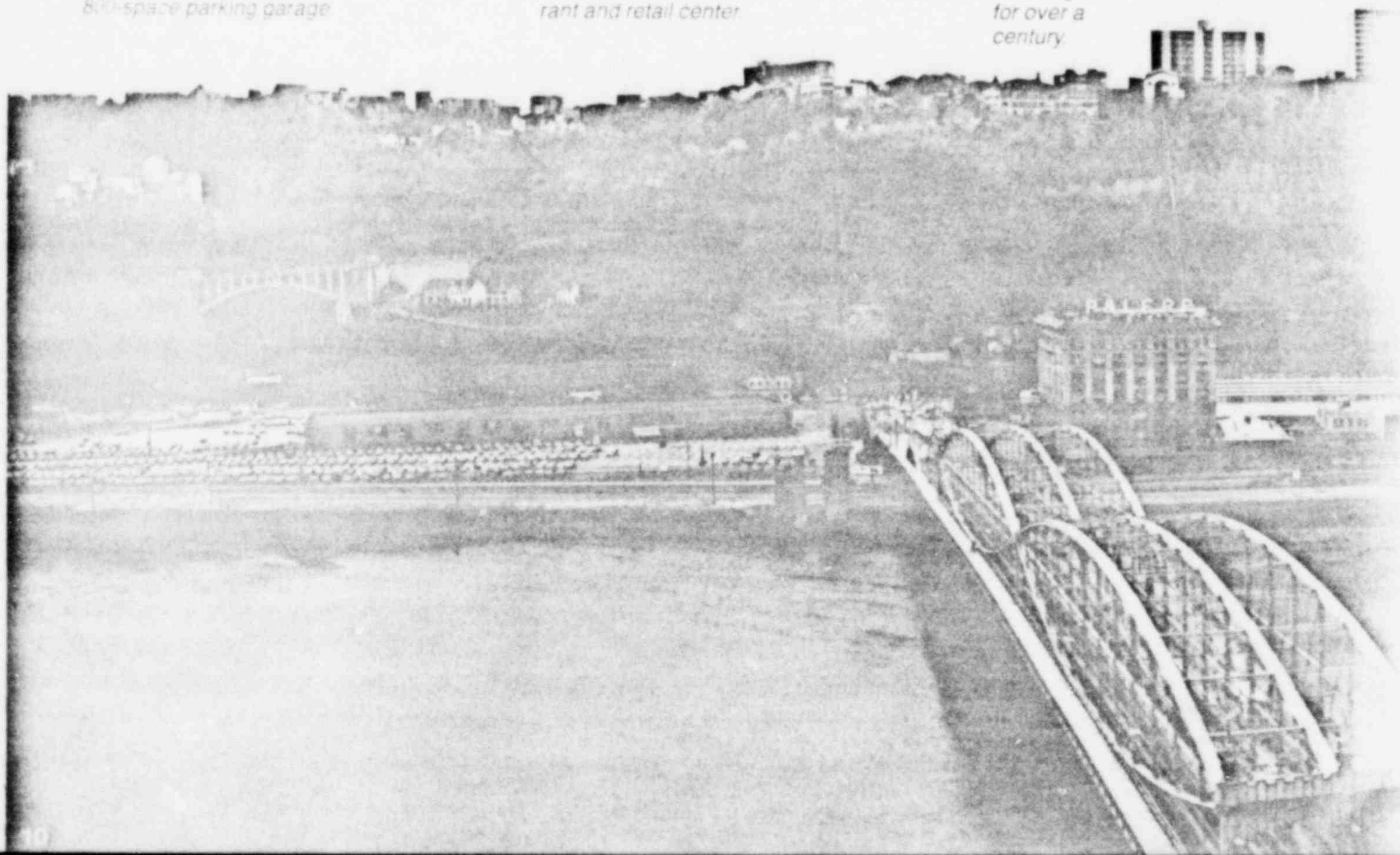
1. On March 24, 1981 the Allegheny County Industrial Development Authority issued $50,000,000 principal amount of pollution control revenue bonds to reimburse the Company for funds expended to complete air pollution control facilities at the Company's Phillips and Elrama Power Stations. The bonds have an interest rate of 12%, and payments of principal and interest on the bonds will be funded by the Company. The Company received from the Authority net proceeds of $48.7 million from the sale of the bonds.
2. On June 25, 1981, the Company issued $80,000,000 principal amount of 16% First Mortgage Bonds, Series due June 1, 2011. Net proceeds to the Company were approximately $78.7 million.
3. The Company issued 4,100,000 shares of Common Stock on September 29, 1981. Net proceeds to the Company were approximately $48.6 million.
4. Also, 902,977 shares of Common Stock were issued in 1981 pursuant to the Company's Dividend Reinvestment Plan and 133,460 shares of Common Stock were issued pursuant to the Company's Employee Stock Ownership Plan. The aggregate dollar value of Common Stock issued through these plans was $12,706,000.

Communicating with customers takes many forms. The role of the news media in that communication is increasing every day. Duquesne Light recognizes that fact, and has always strived to work with local and national media to help keep customers informed. Here, an employee is being interviewed for a segment of the ABC-TV news show "20/20" featuring women in non-traditional jobs.

The South Shore of the Monongahela River will soon have a large, recreational-boat marina complex as well as a new 800-space parking garage.

Station Square, originally a terminal for the P & LE Railroad, has been completely renovated. It now houses a major restaurant and retail center.

The Monongahela Incline has climbed up and down Mount Washington for over a century.



Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan is available to holders of the Company's Preferred, Preference and Common Stock. The Plan was amended in 1981 to provide a 5% discount from market price on Common Stock purchased under the Plan.

Effective January 1,1982, the Plan was further amended to permit eligible participants to elect to exclude from current income for federal income tax purposes up to $1,500 on a joint return and $750 on an individual return of dividends received in the form of Common Stock under the Plan.

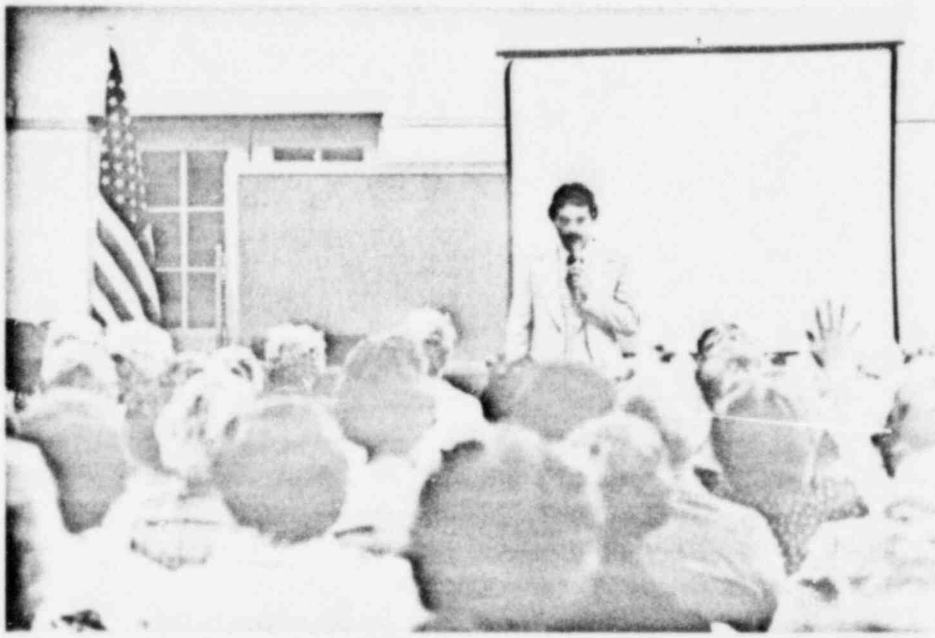
For a free Prospectus which fully describes the Plan and an authorization form for participation in the Plan, write: *Duquesne Light Company, Stockholder Relations Section, 435 Sixth Ave., Pittsburgh, PA 15219.*

Customer Communications

The Company has a number of communications programs designed to keep the public informed about energy-related matters.

In order to educate customers in efficient energy use, the Company has developed and distributed informative booklets including tips on insulation, "do-it-yourself" conservation measures, understanding electric rates, and special bill payment programs.

In addition to the traditional advertising media such as direct mail and newspapers, the Company's Speakers' Team was actively involved in communicating with customers. During the year the Team made 361 presentations to over 15,000 members of important civic organizations in our service area.

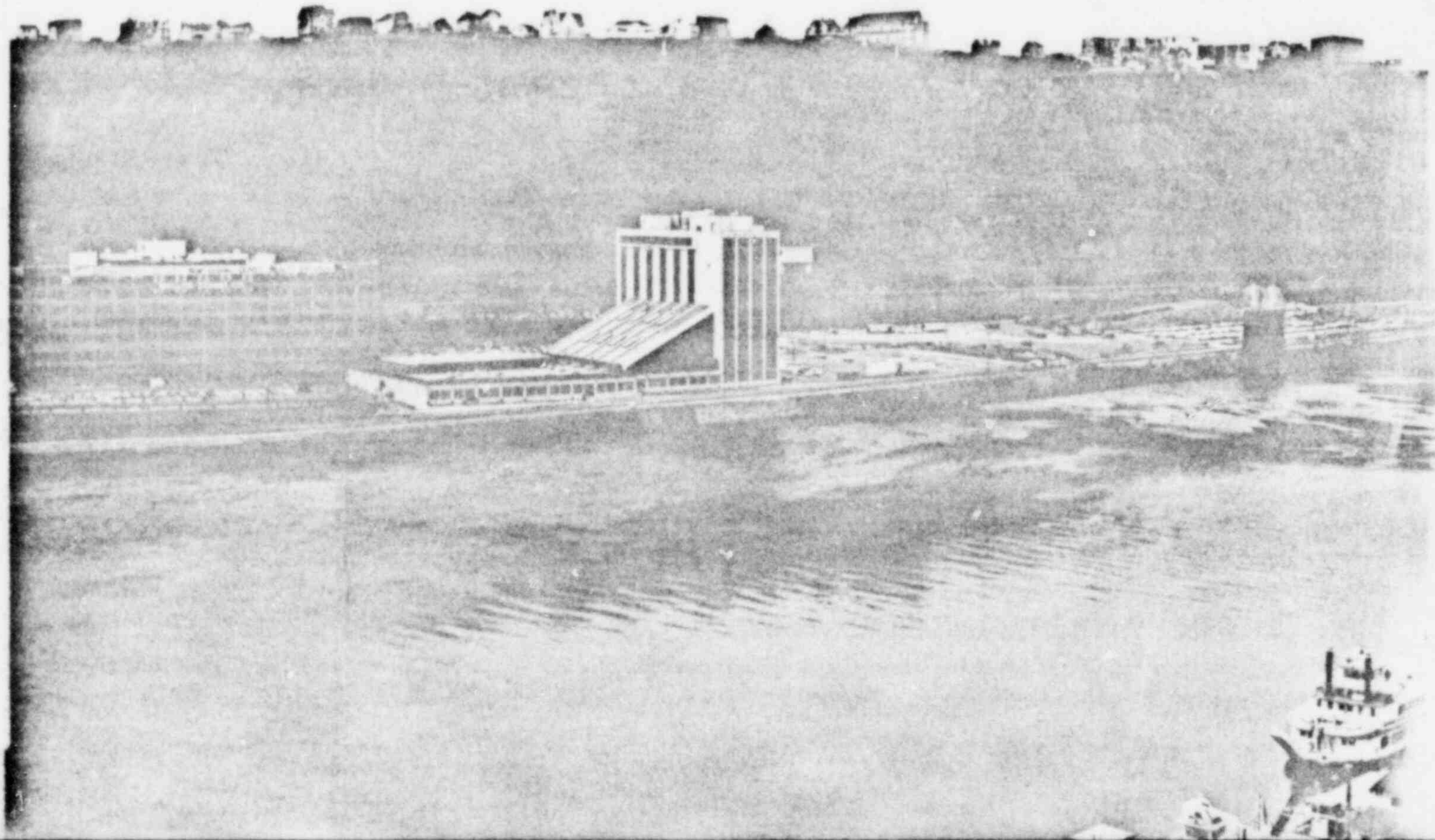


In September the Company's Speakers' Team made their 1,000th presentation. Formed in 1974, the volunteer Team has presented the Company's views to over 52,000 area opinion leaders.

Commerce Court, a former warehouse, is being extensively rebuilt as a 7-story 440,000 square-foot office building.

The Sheraton Inn, a 14-story, 297-room hotel, opened in 1981, is the first of several new hotels planned for the downtown area.

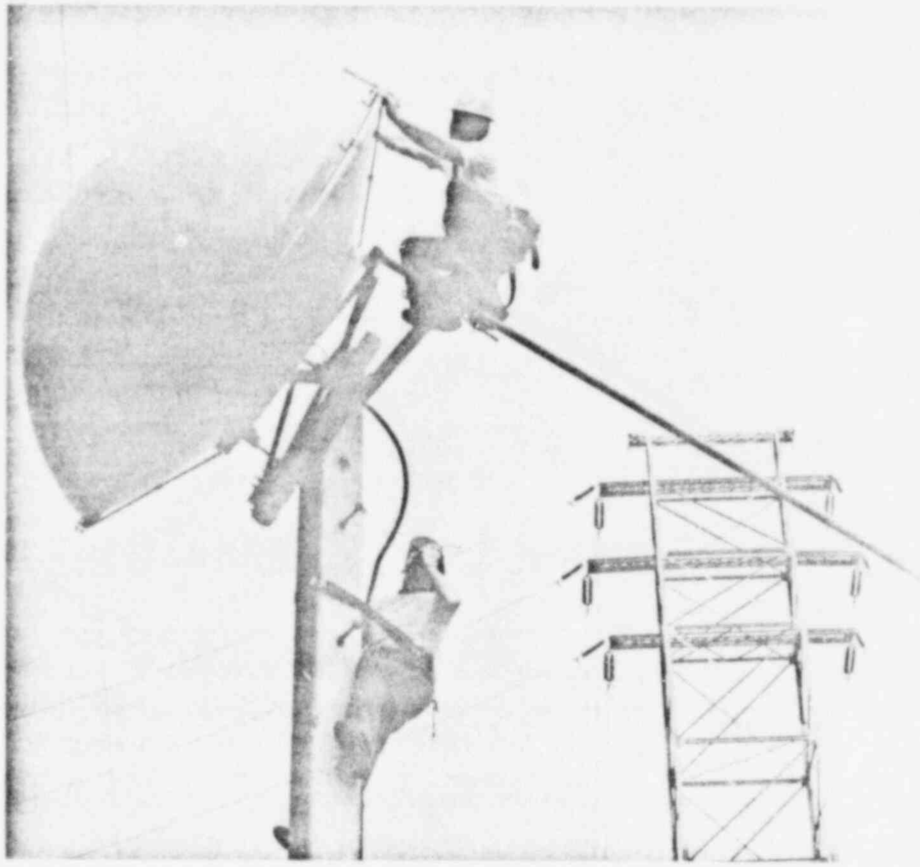
Pittsburgh's Gateway Clipper Fleet will have a new dock and mooring facility near Station Square.



Record Peak Load

On July 9, 1981, the Company experienced a record peak load of 2,522,000 kilowatts which exceeded the previous system peak established in 1980 by 48,000 kilowatts or about 2%.

Duquesne Light reached a new system peak load of 2,522,000 kilowatts at approximately 2 p.m. on July 9. The new peak is 48,000 kilowatts higher than the previous peak and 87,000 kilowatts higher than the peak load forecast for 1981.

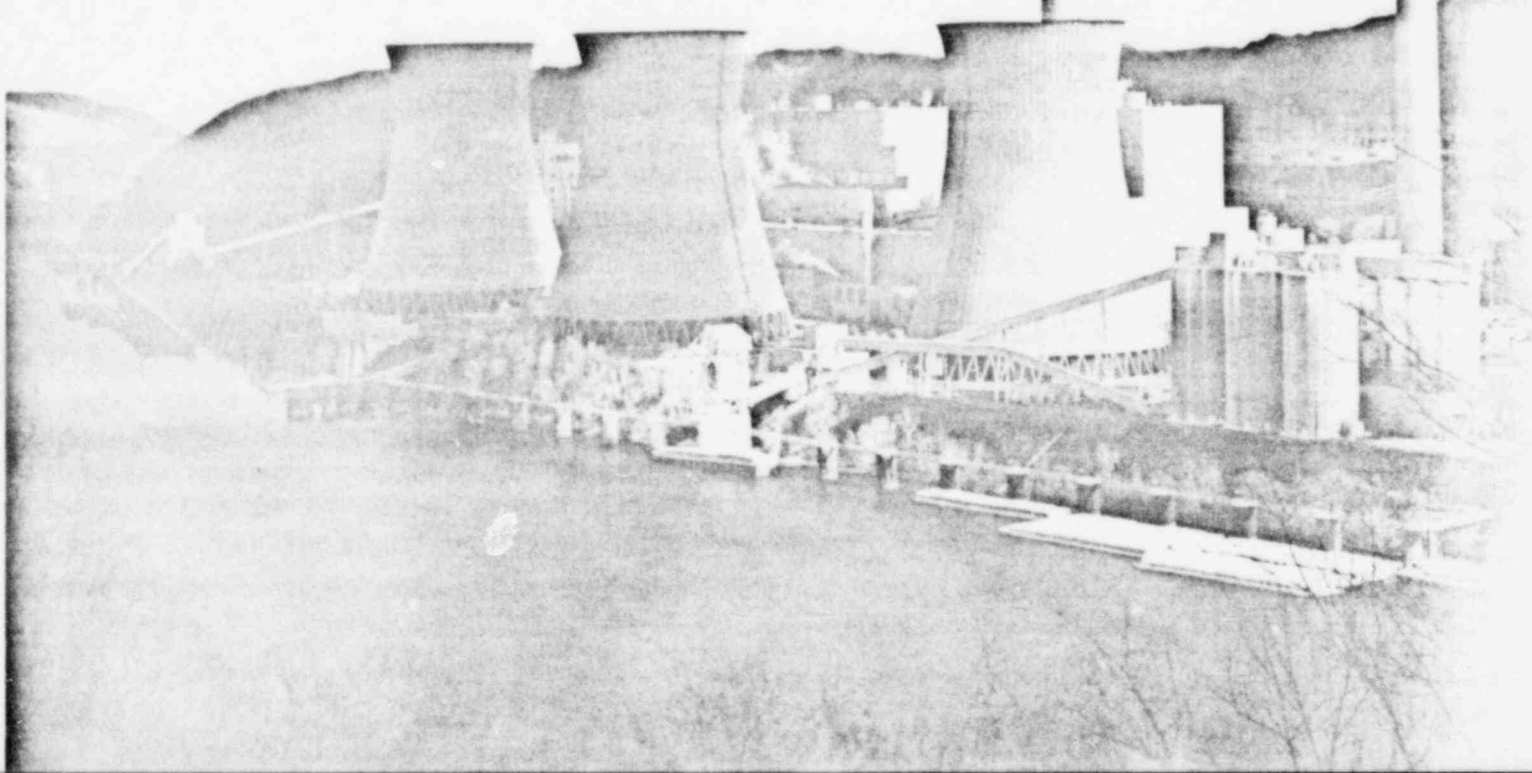


Company personnel are shown adjusting the alignment of a microwave antenna. Microwave towers are used throughout the Company's system to provide communications channels for protective relays, telemetering, supervisory control, data processing and the Company's telephone system.

Duquesne Light, a CAPCO member, feels that uranium and coal are the only abundant and economical domestic fuels available for electric power generation.

Use of these fuels will reduce the nation's dependence on foreign oil and help reduce America's balance of payments deficit.

The Bruce Mansfield Plant (below) comprises three coal-burning power units and is operated by the Pennsylvania Power Company.



Steam Heating Discontinuance

The Company's steam heating subsidiary, Allegheny County Steam Heating Company, filed an application with the PUC in August 1981, requesting approval to discontinue steam heating service to the public on June 1, 1982. In its application, the Steam Company cited, among other reasons for its action, financial problems, the continuing loss of customers, a deteriorating distribution system and the high cost of fuel. A number of steam customers have filed protests to the application.

Union Relations

The Company and the International Brotherhood of Electrical Workers (IBEW) reached an agreement on a two-year contract effective October 1, 1981. The agreement maintained the Company's relative wage position with other electric utilities.

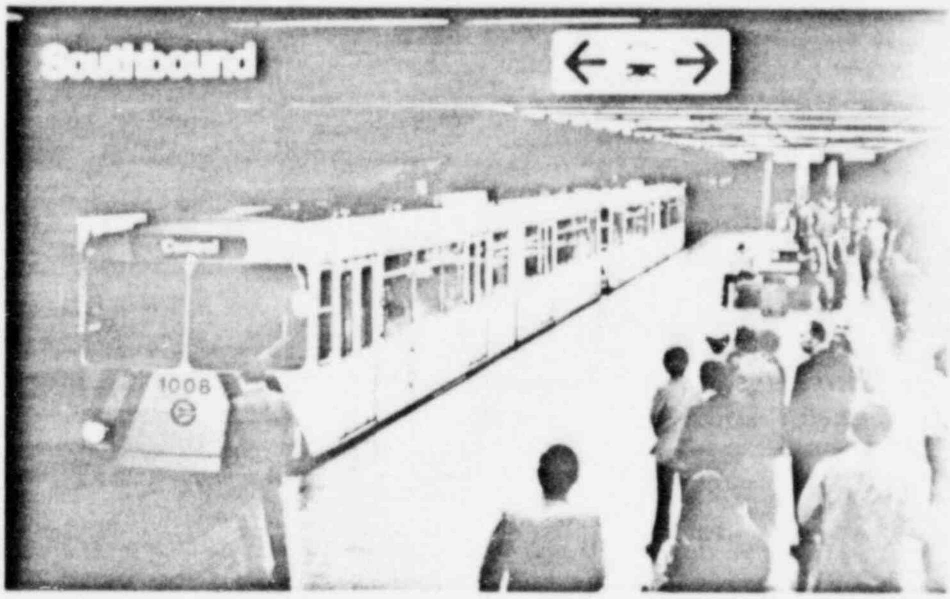
Employees of the Company's coal mine are represented by the United Mine Workers of America (UMWA) and are covered by the industry-wide Bituminous Coal Wage Agreement. After a 90-day strike by the UMWA, a three-year contract was reached effective June 7, 1981.

Employees

The number of employees at year end was 4,603, about 3% higher than in 1980. During the year, about 26% of our employees received additional training through Company-sponsored courses or by attending local schools or universities.

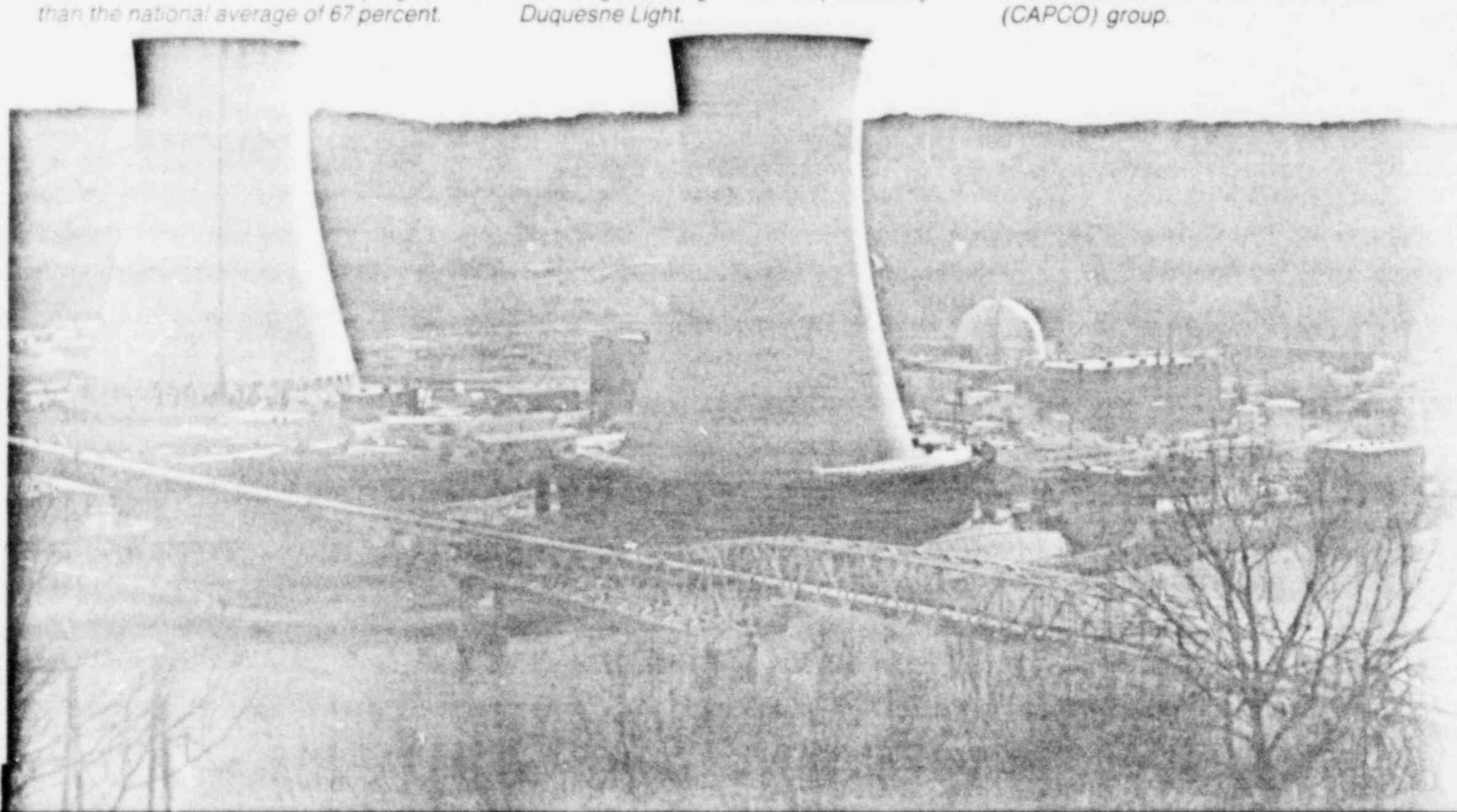
Professional and Supervisory Employees

Most of Duquesne Light's supervisory employees have spent years learning their skills. In fact, the typical Duquesne Light non-union employee is 43 years old and has 18 years of service with the Company.



Electrically-powered vehicles, similar to those shown, will be part of the Port Authority of Allegheny County's new Light Rail Transit System. The $480 million project is scheduled for completion in 1984.

Unit No. 1 of the Beaver Valley Power Station (right) attained an availability rate of 74 percent in 1981—considerably higher than the national average of 67 percent. Unit No. 2, now under construction, is expected to go on-line in 1986. Both nuclear generating units are operated by Duquesne Light. These stations, Bruce Mansfield and Beaver Valley, are jointly-owned by members of the Central Area Power Coordination (CAPCO) group.



Company Report on Financial Statements

The Company is responsible for the financial information and representations contained in the financial statements and other sections of this Annual Report. The Company believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect, in all material respects, the substance of events and transactions that should be included and that the other information in the Annual Report is consistent with those statements. In preparing the financial statements, the Company makes informed judgments and estimates based on currently available information of the effects of certain events and transactions.

The Company maintains a system of internal accounting control designed to provide reasonable assurance that the Company's assets are safeguarded and that transactions are executed and recorded in accordance with established procedures. There are limits inherent in any system of internal control based on the recognition that the cost of such a system should not exceed the benefits to be derived. The system of internal accounting control is supported by written policies and guidelines and is supplemented by a staff of internal auditors. The Company believes that the internal accounting control system provides reasonable assurance that assets are safeguarded and financial information is reliable.

The accompanying consolidated financial statements have been audited by Deloitte Haskins & Sells, independent certified public accountants, whose appointment was approved at the 1981 Annual Meeting of Stockholders. Their examination was made in accordance with generally accepted auditing standards and included a review of the system of internal accounting controls and tests of transactions to the extent they considered necessary to provide reasonable assurance that the financial statements are not misleading and do not contain material errors.

The Board of Directors has an Audit Committee composed of four non-officer directors which met four times in 1981. The Audit Committee has the following duties and responsibilities: (1) recommend the independent public accountants; (2) review the planned scope and results of their audit and other services to be performed; (3) review the financial statements and the related report of the independent public accountants; (4) review with the officers, internal auditors and the independent public accountants the adequacy of the Company's system of internal accounting control, including their recommendations with respect thereto; and (5) review the planned scope and results of the internal audit function. The independent public accountants have full and free access to the Audit Committee and meet with it, with and without management being present, to discuss internal accounting controls, auditing and financial reporting matters.

C. M. Atkinson   John M. Arthur

C. M. Atkinson
Vice President
Fiscal

John M. Arthur
Chairman of the Board and
Chief Executive Officer

Opinion of Independent Certified Public Accountants

DELOITTE HASKINS & SELLS
Certified Public Accountants
Two Gateway Center
Pittsburgh, Pennsylvania 15222

TO THE DIRECTORS AND STOCKHOLDERS
OF DUQUESNE LIGHT COMPANY:

We have examined the consolidated balance sheets of Duquesne Light Company as of December 31, 1981 and 1980 and the related statements of consolidated income, retained earnings, capital surplus and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the consolidated financial position of Duquesne Light Company at December 31, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1979, in the method of billing and recognizing revenues as described in Note B to the financial statements.

Deloitte Haskins & Sells

February 18, 1982

Duquesne Light Company

Statement of Consolidated Income

For the Three Years Ended December 31, 1981
(Thousands of Dollars, Except Per Share Amounts)

	1981	1980	1979
OPERATING REVENUES:			
Electric	**$786,015**	$674,537	$611,346
Steam heating	**10,832**	14,928	11,194
Total Operating Revenues	**796,847**	689,465	622,540
OPERATING EXPENSES:			
Fuel	**249,547**	212,672	211,939
Purchased power	**16,189**	18,524	10,922
Other operation	**115,433**	101,549	87,682
Maintenance (Note N)	**64,026**	61,253	52,444
Depreciation	**61,464**	53,897	48,450
Taxes other than income taxes (Note N)	**58,218**	48,358	47,476
Income taxes (Note H)	**71,625**	60,343	49,095
Total Operating Expenses	**636,502**	556,596	508,008
OPERATING INCOME	**160,345**	132,869	114,532
OTHER INCOME:			
Allowance for equity funds used during construction	**24,579**	22,374	18,852
Income taxes—credit (Note H)	**14,272**	10,051	8,643
Other income and deductions—net	**2,643**	3,298	1,750
Total Other Income	**41,494**	35,723	29,245
INCOME BEFORE INTEREST CHARGES	**201,839**	168,592	143,777
INTEREST CHARGES:			
Interest on long-term debt	**97,404**	80,558	69,655
Other interest	**6,957**	4,268	3,475
Allowance for borrowed funds used during construction, net of income taxes	**(11,393)**	(9,196)	(7,715)
Total Interest Charges	**92,968**	75,630	65,415
INCOME BEFORE CUMULATIVE EFFECT OF THE CHANGE IN BILLING PRACTICE	**108,871**	92,962	78,362
CUMULATIVE EFFECT TO JANUARY 1, 1979 OF THE CHANGE IN BILLING PRACTICE, NET OF INCOME TAXES (Note B)	**—**	—	3,845
NET INCOME	**108,871**	92,962	82,207
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	**22,976**	23,353	23,721
EARNINGS FOR COMMON STOCK	**$ 85,895**	$ 69,609	$ 58,486
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	**41,764**	38,267	32,239
EARNINGS PER SHARE OF COMMON STOCK:			
Before Cumulative Effect of the Change in Billing Practice	**$ 2.06**	$ 1.82	$ 1.69
Cumulative Effect to January 1, 1979 of the Change in Billing Practice (Note B)	**—**	—	.12
Total	**$ 2.06**	$ 1.82	$ 1.81
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	**$ 1.85**	$ 1.80	$ 1.76

The accompanying Notes to Financial Statements are an integral part of these statements.

Duquesne Light Company

Consolidated Balance Sheet

December 31, 1981 and 1980
(Thousands of Dollars)

ASSETS	1981	1980
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant:		
In service	$2,202,613	$2,120,882
Construction work in progress	582,734	459,743
Held for future use	825	136
Total electric plant	2,786,172	2,580,761
Steam heating plant:		
In service	23,371	23,280
Construction work in progress	210	292
Total property, plant and equipment	2,809,753	2,604,333
Less accumulated depreciation	477,009	424,653
Property, Plant and Equipment—Net	2,332,744	2,179,680
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property (at original cost less accumulated depreciation of $278 at December 31, 1981 and $269 at December 31, 1980)	1,565	1,574
Miscellaneous investments	275	272
Total Other Property and Investments	1,840	1,846
CURRENT ASSETS:		
Cash	3,310	2,600
Temporary cash investments (at cost which approximates market)	47,345	950
Accounts receivable:		
Customers (less reserve for uncollectible accounts of $2,242 at December 31, 1981 and $2,144 at December 31, 1980)	71,089	69,016
Tax refund—principally investment tax credit carryback	2,875	2,416
Other	20,386	13,384
Materials and supplies (generally at average cost):		
Coal	53,111	54,411
Other operating and construction	30,767	27,738
Deferred fuel costs	2,212	21,007
Other current assets	9,788	8,736
Total Current Assets	240,883	200,258
DEFERRED DEBITS:		
Deferred costs of cancelled generating units (Note C)	31,443	31,286
Deferred coal costs (Notes G and M)	15,669	314
Unamortized debt expense	2,970	2,556
Other deferred debits	43,028	31,223
Total Deferred Debits	93,110	65,379
Total	$2,668,577	$2,447,163

The accompanying Notes to Financial Statements are an integral part of these statements.

LIABILITIES	1981	1980
CAPITALIZATION (Note D):		
Common Stock (authorized—60,000,000 and 45,000,000 shares, respectively; outstanding—45,302,520 and 40,166,083 shares, respectively)	$ 45,303	$ 40,166
Capital surplus	550,244	494,228
Retained earnings	167,149	158,546
Total Common Stockholders' Equity	762,696	692,940
Non-redeemable Preferred and Preference Stock	156,137	156,137
Redeemable Preferred and Preference Stock, less sinking fund and repurchase requirements	143,924	146,867
First mortgage bonds (less sinking fund requirements and current maturities)	983,870	918,230
Sinking fund debentures	10,682	10,981
Pollution control obligations	166,000	116,000
Unamortized debt discount and premium—net	(9,453)	(7,161)
Total Capitalization	2,213,856	2,033,994
CURRENT LIABILITIES:		
Notes payable—bank (Note E)	—	6,500
Notes payable—commercial paper (Note E)	—	28,500
First mortgage bonds maturing within one year	14,000	—
Accounts payable	80,010	66,292
Accrued federal income tax (Notes H and I)	135	2,037
Other accrued taxes	21,499	17,102
Deferred income taxes—deferred fuel costs	1,174	10,884
Accrued interest	24,342	21,005
Dividends declared	27,232	23,889
Sinking fund and repurchase requirements (Note D)	9,733	10,591
Total Current Liabilities	178,125	186,800
DEFERRED CREDITS:		
Investment tax credits	109,866	98,368
Accumulated deferred income taxes	158,463	120,357
Other deferred credits	8,267	7,644
Total Deferred Credits	276,596	226,369
COMMITMENTS AND CONTINGENT LIABILITIES (Notes C, G, I, L, M and O)		
Total	$2,668,577	$2,447,163

Duquesne Light Company

Statement of Changes in Consolidated Financial Position

For the Three Years Ended December 31, 1981
(Thousands of Dollars)

	1981	1980	1979
SOURCE OF FUNDS:			
Operations:			
Net income (1979 includes cumulative effect of change in billing practice of $3,845)	$108,871	$ 92,962	$ 82,207
Items not affecting working capital:			
Depreciation	64,170	56,737	51,428
Investment tax credit deferred—net	11,498	16,002	18,453
Income taxes deferred—net (noncurrent portion)	38,106	17,613	15,603
Allowance for equity and borrowed funds used during construction	(35,972)	(31,570)	(26,567)
Total	186,673	151,744	141,124
Sale of bonds	80,000	110,000	100,000
Issuance of Common Stock	61,332	65,309	50,730
Increase (decrease) in notes payable	(35,000)	24,000	(23,500)
Construction costs reimbursed by trustees from proceeds of pollution control financings	50,000	3,223	7,375
Decrease in working capital (exclusive of current maturities of long-term debt and notes payable) (a)	—	—	35,687
Total Source of Funds	$343,005	$354,276	$311,416
APPLICATION OF FUNDS:			
Construction expenditures (net of allowance for equity and borrowed funds used during construction)	$178,942	$209,778	$197,927
Dividends on capital stock	100,268	93,188	81,343
Payment of first mortgage bonds	—	12,000	15,000
Sinking fund and repurchase requirements	4,461	3,740	5,496
Deferred coal costs	15,355	314	—
Other—net	15,679	7,202	11,650
Increase in working capital (exclusive of current maturities of long-term debt and notes payable) (a)	28,300	28,054	—
Total Application of Funds	$343,005	$354,276	$311,416
(a) The components of working capital (exclusive of current maturities of long-term debt and notes payable) were as follows:			
Current assets:			
Cash and temporary cash investments	$ 50,655	$ 3,550	$ 4,449
Accounts receivable	94,350	84,816	77,404
Materials and supplies and other current assets	93,666	90,885	75,528
Deferred fuel costs	2,212	21,007	10,619
Total	240,883	200,258	168,000
Current liabilities:			
Accounts payable and accrued interest	104,352	87,297	82,354
Accrued and deferred taxes	22,808	30,023	33,211
Dividends declared	27,232	23,889	21,886
Sinking fund and repurchase requirements	9,733	10,591	10,145
Total	164,125	151,800	147,596
Working capital at close of year	76,758	48,458	20,404
Working capital at beginning of year	48,458	20,404	56,091
Increase (decrease) in working capital (exclusive of current maturities of long-term debt and notes payable)	$ 28,300	$ 28,054	$ (35,687)

The accompanying Notes to Financial Statements are an integral part of these statements.

Duquesne Light Company

Statement of Consolidated Retained Earnings

For the Three Years Ended December 31, 1981
(Thousands of Dollars)

	1981	1980	1979
BALANCE AT BEGINNING OF YEAR:			
As previously reported	**$158,546**	$158,772	$158,857
Less settlement of prior years' income taxes (Note I)	**—**	—	822
As restated			158,035
NET INCOME FOR THE YEAR	**108,871**	92,962	82,207
Total	**267,417**	251,734	240,242
DEDUCT:			
Cash Dividends Declared:			
Preferred Stock:			
4% Series	**1,100**	1,100	1,100
3.75% Series	**281**	281	281
4.15% Series	**291**	291	291
4.20% Series	**210**	210	210
4.10% Series	**246**	246	246
$2.10 Series	**336**	336	336
$8.64 Series	**2,323**	2,375	2,427
$7.20 Series	**2,520**	2,520	2,520
$8.375 Series	**2,512**	2,512	2,512
Preference Stock:			
$7.50 Series	**2,119**	2,195	2,283
$2.75 Series	**1,177**	1,426	1,689
$2.315 Series	**2,778**	2,778	2,778
$2.10 Series	**2,520**	2,520	2,520
$9.125 Series	**4,563**	4,563	4,560
Common Stock (Per Share: 1981—$1.85; 1980—$1.80; 1979—$1.76)	**77,292**	69,835	57,590
Total cash dividends	**100,268**	93,188	81,343
Loss on redemption of capital stock	**—**	—	127
BALANCE AT CLOSE OF YEAR	**$167,149**	$158,546	$158,772

Statement of Consolidated Capital Surplus

For the Three Years Ended December 31, 1981
(Thousands of Dollars)

	1981	1980	1979
BALANCE AT BEGINNING OF YEAR	**$494,228**	$433,984	$387,185
Premium on common stock issued	**56,196**	60,693	46,930
Expense of issuing capital stock (debit)	**(180)**	(449)	(131)
BALANCE AT CLOSE OF YEAR	**$550,244**	$494,228	$433,984

The accompanying Notes to Financial Statements are an integral part of these statements.

Notes to Financial Statements

A. SUMMARY OF ACCOUNTING POLICIES:

Consolidation

The consolidated financial statements include the Company and its wholly-owned steam heating subsidiary.

Property, Plant and Equipment

The properties of the Company and its subsidiary are carried at original cost. The Company's properties, with minor exceptions, are subject to a first mortgage lien. All maintenance and repairs and replacements of minor units of property are charged to income. Replacements of retirement units of property and betterments are charged to property. In connection with retirements, reserves are charged with the carrying value, plus dismantling charges, less salvage, of property retired.

Revenues

Customer meters are read monthly or bimonthly and bills are rendered on a monthly basis. Revenues are recorded when billed.

Allowance for Funds Used During Construction

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction (AFC) is included in construction work in progress and credited to other income for AFC attributable to equity funds and to interest charges for AFC attributable to borrowed funds, net of income taxes. AFC is a non-cash item and is computed using a composite rate, which is applied to the balance of construction work in progress and assumes that funds used for construction are provided by borrowings and by preferred, preference and common stock equity. The rate was 7.6%, 7.4% and 7.0% compounded semi-annually in 1981, 1980 and 1979, respectively. This accounting procedure results in the inclusion in property, plant and equipment of amounts considered by regulatory authorities as appropriate costs for the purpose of establishing rates for utility charges to customers.

Depreciation

The Company provides for depreciation of electric plant, exclusive of coal properties, on a straight-line basis determined in a manner consistent with applicable Pennsylvania law and with methods applied by the Pennsylvania Public Utility Commission in the determination of depreciation in rate proceedings. The Company provides for decontamination and dismantling costs for the Beaver Valley No. 1 nuclear generating unit on a straight-line basis over the life of the unit. Such costs are currently estimated to be approximately $30,000,000. The Company deposits certain revenues in a trust fund which has been established to pay for such costs. At December 31, 1981, $874,000 was included in this fund. Provisions for depreciation and depletion of other Company property and the steam heating subsidiary's property are made on various bases such as tons of coal mined for coal properties.

Income Taxes

Deferred income taxes are provided principally for differences between depreciation for income tax purposes and depreciation for accounting purposes to the extent permitted by the Pennsylvania Public Utility Commission for rate-making purposes, and for fuel and cancellation costs deferred for accounting purposes but deducted currently for income tax purposes. In compliance with regulatory accounting, income taxes are allocated between operating expenses and other income, principally with respect to interest charges related to construction work in progress. Investment tax credits are deferred and amortized over the lives of the related facilities.

Deferred Fuel Costs

The Company defers the difference between actual fuel costs and base fuel costs until the period in which such costs are billed to its customers through its energy cost rate. Effective May 1, 1981, the energy clause was revised from a historical cost basis to a projected cost basis, with provisions for subsequent adjustments to actual cost. This change reduced the time lag in the recovery of energy costs through revenues that existed in the previous net energy clause and significantly reduced deferred fuel costs.

Nuclear Fuel Costs

The Company's share of nuclear fuel costs under a non-capitalized financing lease agreement is charged to fuel expense based on the quantity of electric energy generated and reflects a zero net salvage value for the leased nuclear fuel. Since regulatory authorities have not determined whether spent fuel may be reprocessed, and therefore it may be necessary to store spent fuel for an indefinite period, no provision for final disposition costs of such fuel has been made.

Debt Discount, Premium and Expense

Debt discount or premium and related expenses are amortized over the lives of the issues to which they pertain.

Reclassifications

Certain minor reclassifications have been made to amounts reported in the 1980 Consolidated Balance Sheet to conform to the presentation used for 1981.

B. CHANGE IN BILLING PRACTICE:

Pursuant to an order by the Pennsylvania Public Utility Commission, the Company changed its method of billing and recognizing revenues for residential and certain commercial customers from a quarterly to a monthly basis, effective January 1, 1979. The $3,845,000 cumulative effect of the change on prior years (after reduction for income taxes of $7,353,000) is included in income for the year ended December 31, 1979. The additional effect of the change on the year ended December 31, 1979 was not significant.

C. CANCELLATION OF CAPCO GENERATING UNITS:

In January 1980, the Company and the other CAPCO companies cancelled the construction of four nuclear generating units. The Company's share of the accumulated construction costs applicable to these units was $31,443,000 as of December 31, 1981. The Company has received approval from the Federal Energy Regulatory Commission to defer and amortize the accumulated construction costs over a 10-year period beginning with the recovery of such costs from its customers. The Pennsylvania Public Utility Commission has not yet decided whether to approve such recovery.

Claims related to the termination of associated contracts have been filed, for which the Company's share could be substantial. No termination costs have been recorded at December 31, 1981 as the CAPCO companies have available to them and intend to assert legal claims and defenses. If any termination costs are incurred, the Company would seek approval from the Pennsylvania Public Utility Commission to recover such costs from its customers over a 10-year period.

If the Company is denied the right to recover these costs from its customers it would charge such costs to income in the year of disallowance. The Company believes that recovery of all such costs from its customers is proper, and that final resolution of the accumulated construction costs and the termination costs will not have a material adverse effect on the Company's financial position.

D. CAPITALIZATION:

Capital Stock:

	December 31, 1981		December 31, 1980	
	Shares Outstanding	Amount	Shares Outstanding	Amount
Common Stock—$1 par value (1)	45,302,520	$ 45,302,520	40,166,083	$ 40,166,083
Capital Surplus:				
Premium on Common Stock		$556,598,987		$500,403,359
Capital stock expense (debit)		(6,607,112)		(6,406,437)
Other		252,261		231,016
Total capital surplus		$550,244,136		$494,227,938
Non-redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
4% Series (2)	549,969	$ 27,498,450	549,969	$ 27,498,450
3.75% Series (2)	150,000	7,500,000	150,000	7,500,000
4.15% Series (2)	140,000	7,000,000	140,000	7,000,000
4.20% Series (2)	100,000	5,000,000	100,000	5,000,000
4.10% Series (2)	120,000	6,000,000	120,000	6,000,000
$2.10 Series (2)	160,000	8,000,000	160,000	8,000,000
$7.20 Series (3)	350,000	17,500,000	350,000	17,500,000
Preference Stock—$1 par value (cumulative) (1)				
$2.315 Series (4)	1,200,000	1,200,000	1,200,000	1,200,000
$2.10 Series (4)	1,200,000	1,200,000	1,200,000	1,200,000
		80,898,450		80,898,450
Premium on Non-redeemable Preferred and Preference Stock		75,238,760		75,238,760
Non-redeemable Preferred and Preference Stock		$156,137,210		$156,137,210
Involuntary liquidation value		$155,998,450		$155,998,450
Redeemable Preferred and Preference Stock:				
Preferred Stock—$50 par value (cumulative) (1)				
$8.64 Series (3)	268,872	$ 13,443,600	274,872	$ 13,743,600
$8.375 Series (3)	300,000	15,000,000	300,000	15,000,000
Preference Stock—$1 par value (cumulative) (1)				
$7.50 Series (3)	280,120	280,120	289,800	289,800
$2.75 Series (4)	385,100	385,100	488,850	488,850
$9.125 Series (3)	500,000	500,000	500,000	500,000
		29,608,820		30,022,250
Premium on Redeemable Preferred and Preference Stock		114,917,880		118,666,200
Repurchase and Sinking Fund Requirements		(602,500)		(1,821,250)
Redeemable Preferred and Preference Stock		$143,924,200		$146,867,200
Involuntary liquidation value		$143,924,200		$146,867,200

(1) Authorized shares: Common Stock—60,000,000 and 45,000,000 shares, respectively; Preferred Stock—4,000,000; and Preference Stock—8,000,000.

(2) $50 per share involuntary liquidation value.

(3) $100 per share involuntary liquidation value.

(4) $25 per share involuntary liquidation value.

The following summary indicates the changes in the number of shares of Common Stock outstanding during 1981, 1980 and 1979:

	Year Ended December 31,		
	1981	1980	1979
Common Stock:			
Shares outstanding at beginning of year	**40,166,083**	35,550,000	31,750,000
Issuances:			
Common Stock sales	**4,100,000**	4,000,000	3,800,000
Dividend Reinvestment Plan	**902,977**	446,172	—
Employee Stock Ownership Plan	**133,460**	169,911	—
Shares outstanding at end of year	**45,302,520**	40,166,083	35,550,000

The number of shares reserved at December 31, 1981 for issuance under the Dividend Reinvestment Plan and the Employee Stock Ownership Plan are 2,850,851 and 696,629, respectively.

The outstanding Preference Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: $7.50—redeemable at $112 through April 1, 1983; $105 through April 1, 1986; $103 through April 1, 1989; and $101 thereafter; $2.75—not redeemable prior to August 1, 1984 through certain refunding operations, otherwise redeemable at $27.75 through July 31, 1984; $26.50 through July 31, 1989; and $25.25 thereafter; $2.315—redeemable at $26.60 through March 31, 1986; $25.90 through March 31, 1991; and $25.25 thereafter; $2.10—not redeemable prior to April 1, 1982 through certain refunding operations, otherwise redeemable at $27.10 through March 31, 1982; $26.40 through March 31, 1987; $25.70 through March 31, 1992; and $25.00 thereafter; $9.125—not redeemable prior to January 1, 1989 through certain refunding operations, otherwise redeemable at $100 plus the applicable redemption premium decreasing from $7.68 in 1982 to $.48 in 1998.

The outstanding Preferred Stock of the Company is callable on not less than thirty days' notice at the following redemption prices plus accrued dividends: 4%—$51.50; 3.75%—$51.00; 4.15%—$51.73; 4.20%—$51.71; 4.10%—$51.75; $2.10—$51.84; $8.64—redeemable at $107 through September 30, 1984; $104 through September 30, 1989; and $101 thereafter; $7.20—redeemable at $105 through March 31, 1982; $102.50 through March 31, 1987; and $101 thereafter; $8.375—not redeemable prior to April 1, 1983 through certain refunding operations, otherwise redeemable at $112 through March 31, 1988, and thereafter at $100 plus the applicable redemption premium decreasing from $5.03 in 1988 to $.34 in 2003.

Redeemable Preferred and Preference Stock: The shares of $7.50 Preference Stock are entitled to a non-cumulative purchase fund under which the Company offers to repurchase annually at $100 per share up to 4% of the number of shares originally issued. The shares of $2.75 Preference Stock are subject to a cumulative sinking fund which will retire 55,000 shares by August 1 in each year at $25 per share. The Company may on a non-cumulative basis retire an additional 55,000 shares in each such year. The shares of $9.125 Preference Stock are subject to a cumulative sinking fund beginning with the year 1984 and continuing through 1997 inclusive which will retire 33,300 shares on January 1 in each year at $100 per share. The Company may, on a non-cumulative basis, retire an additional 33,300 shares in each such year, provided that the Company may not redeem through the exercise of this option more than an aggregate of 150,000 shares. The Preference Stock is entitled to quarterly cumulative dividends except that no dividends may be paid if dividends on any series of the Preferred Stock are accumulated and unpaid. In the event that six quarterly dividends on any series of Preference Stock are in default, the holders of the Preference Stock are entitled to elect two directors until all dividends in arrears have been paid.

The shares of $8.64 Preferred Stock are entitled to a non-cumulative purchase fund under which the Company offers to repurchase annually up to 6,000 shares at not more than $100 per share. The shares of $8.375 Preferred Stock are subject to a cumulative sinking fund beginning with the year 1984 which will retire 12,000 shares on April 1 in each year at $100 per share. The Company may on a non-cumulative basis retire an additional 12,000 shares in each such year. The Preferred Stock is entitled to quarterly cumulative dividends. In the event that four quarterly dividends on any series of Preferred Stock are in default, the holders of the Preferred Stock are entitled to elect a majority of the Board of Directors until all dividends in arrears and current dividends have been paid.

The combined aggregate sinking fund and mandatory purchase requirements for the next five years as of December 31, 1981 are as follows:

Year Ending December 31,	Sinking Fund and Mandatory Purchase Requirements
1982	$1,902,500
1983	3,275,000
1984	7,805,000
1985	7,805,000
1986	7,805,000

The following summary indicates the changes in the number of shares of Redeemable and Non-redeemable Preferred and Preference Stock outstanding during 1981, 1980 and 1979:

	Year Ended December 31,		
	1981	1980	1979
Preference Stock:			
Shares outstanding at beginning of year	**3,678,650**	3,751,360	3,788,600
Issuances —$9.125 Series	**—**	—	85,000
Purchases and redemptions —$2.75 Series	**(103,750)**	(61,150)	(110,000)
—$7.50 Series	**(9,680)**	(11,560)	(12,240)
Shares outstanding at end of year	**3,565,220**	3,678,650	3,751,360
Preferred Stock:			
Shares outstanding at beginning of year	**2,144,841**	2,150,841	2,156,841
Purchases—$8.64 Series	**(6,000)**	(6,000)	(6,000)
Shares outstanding at end of year	**2,138,841**	2,144,841	2,150,841

Indebtedness:

First Mortgage Bonds (amount authorized is unlimited by indenture):

	December 31,	
	1981	1980
Series due September 1, 1982 (3¼%)	**$ 14,000,000**	$ 14,000,000
Series due September 1, 1983 (3⅝%)	**12,000,000**	12,000,000
Series due July 1, 1984 (3⅛%)	**16,000,000**	16,000,000
Series due April 1, 1986 (3½%)	**20,000,000**	20,000,000
Series due April 1, 1988 (3¾%)	**15,000,000**	15,000,000
Series due March 1, 1989 (4¼%)	**10,000,000**	10,000,000
Series due February 1, 1996 (5⅛%)	**25,000,000**	25,000,000
Series due February 1, 1997 (5¼%)	**25,000,000**	25,000,000
Series due February 1, 1998 (6⅜%)	**35,000,000**	35,000,000
Series due January 1, 1999 (7%)	**30,000,000**	30,000,000
Series due July 1, 1999 (7¾%)	**30,000,000**	30,000,000
Series due March 1, 2000 (8¾%)	**30,000,000**	30,000,000
Series due March 1, 2001 (7⅞%)	**35,000,000**	35,000,000
Series due December 1, 2001 (7½%)	**35,000,000**	35,000,000
Series due June 1, 2002 (7½%)	**35,000,000**	35,000,000
Series due January 1, 2003 (7¼%)	**40,000,000**	40,000,000
Series due July 1, 2003 (7¾%)	**35,000,000**	35,000,000
Series due April 1, 2004 (8⅝%)	**45,000,000**	45,000,000
Series due March 1, 2005 (9½%)	**50,000,000**	50,000,000
Series due June 1, 2006 (9%)	**80,000,000**	80,000,000
Series due April 1, 2007 (8⅜%)	**100,000,000**	100,000,000
Series due February 1, 2009 (10⅛%)	**100,000,000**	100,000,000
Series due January 1, 2010 (12¼%)	**60,000,000**	60,000,000
Series due September 1, 2010 (14¼%)	**50,000,000**	50,000,000
Series due June 1, 2011 (16%)	**80,000,000**	—
Total	**1,007,000,000**	927,000,000
Less:		
Current maturities—Series due September 1, 1982 (3¼%)	**14,000,000**	—
Current sinking fund requirements	**9,130,000**	8,770,000
First Mortgage Bonds (less sinking fund requirements and current maturities)	**$ 983,870,000**	$918,230,000
5% Sinking Fund Debentures (authorized $20,000,000) due March 1, 2010	**$ 10,682,000**	$ 10,981,000

Pollution Control Obligations:

Date of Issuance	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	December 31, 1981	1980
September 21, 1972	5.49%	1983	2002	**$ 24,000,000**	$ 24,000,000
June 21, 1973	5.685%	1984	2003	**12,000,000**	12,000,000
October 25, 1973	5.755%	1984	2003	**16,000,000**	16,000,000
August 13, 1974	7.97%	1989	2004	**14,000,000**	14,000,000
April 2, 1975	7.50%	1993	2005	**17,000,000**	17,000,000
October 29, 1975	8.40%	1991	2005	**18,000,000**	18,000,000
September 29, 1976	6.90%	1994	2011	**15,000,000**	15,000,000
March 24, 1981	12.00%	2002	2011	**50,000,000**	—
Total Pollution Control Obligations				**$166,000,000**	$116,000,000

Sinking fund requirements and maturities for the next five years for long-term debt outstanding as of December 31, 1981 are as follows:

Year Ending December 31,	Sinking Fund Requirements	Maturities
1982	$ 9,930,000	$14,000,000
1983	9,810,000	12,500,000
1984	10,257,000	16,700,000
1985	10,375,000	700,000
1986	10,200,000	20,700,000

The sinking fund requirements in each year relate primarily to the First Mortgage Bonds, which requirements may be satisfied by the certification of property additions at 166⅔% of the Bonds required to be redeemed, and the pollution control obligations. The remaining sinking fund requirement relates to the 5% Debentures. At December 31, 1981, sinking fund requirements for the 5% Debentures had been satisfied for 1982 and 1983, and the 1984 sinking fund requirement had been partially satisfied in the amount of $118,000.

The pollution control obligations arise from arrangements between the Company and two local industrial development authorities whereby the construction of certain pollution control facilities has been financed through the sale of bonds by those authorities, and the Company is obligated to pay to the authorities amounts equal to the principal of and interest on the authorities' bonds relating to such facilities.

The Company's Restated Articles restrict the payment of cash dividends on, or the purchase of, its capital stock ranking junior to its Preferred Stock. Under this restriction, no retained earnings were restricted at December 31, 1981.

E. SHORT-TERM BORROWING ARRANGEMENTS:

At December 31, 1981 the Company had lines of credit with banks totaling $75,000,000, all of which was unused. At December 31, 1980 and 1979 the Company had lines of credit with banks totaling $70,000,000, of which $63,500,000 was unused at December 31, 1980, and all of which was unused at December 31, 1979. The range of interest rates under the lines of credit are from prime rate less one half of one percent to 105 percent of prime rate. The notes payable-bank and commercial paper outstanding at December 31, 1980 and 1979 had a weighted average daily interest rate of 18.61% and 12.76%, respectively. During the years ended December 31, 1981, 1980 and 1979 the maximum amount of short-term borrowings outstanding was $80,140,000, $63,500,000 and $64,500,000, the average daily short-term borrowings outstanding were $28,341,000, $23,408,000 and $20,993,000 and the weighted average daily interest rate applicable to such short-term borrowings was 17.50%, 12.47% and 11.28%, respectively.

F. BUSINESS SEGMENT INFORMATION:

The Company operates predominantly in the electric utility industry. In 1981 and 1980 no one customer provided 10% of total operating revenues. During the year ended December 31, 1979, approximately 11% of total operating revenues was derived from one customer.

G. DEFERRED COAL COSTS

The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto Mining Company (Quarto), an unaffiliated company, to supply coal for the Bruce Mansfield Units. In December 1980 the Pennsylvania Public Utility Commission instituted an investigation into the reasonableness of the cost of coal supplied by Quarto. By Interim Order entered January 12, 1981 the Commission directed that, pending conclusion of the investigation or further order of the Commission, the Company limit its recovery of the cost of Quarto coal through its energy cost rate to approximately the prevailing market price of similar coal rather than the actual cost of Quarto coal. At December 31, 1981 the unrecovered cost of Quarto coal reflected in the Company's records was approximately $15.4 million. As required by the Interim Order, the Company is deferring the excess of the actual cost of Quarto coal over the cost allowed to be recovered through its energy cost rate until recovery of the actual cost is permitted by the Commission. If recovery of such excess is disallowed, the amount deferred would be charged to income in the year of disallowance. Thereafter, any excess of actual cost over the amount permitted to be

recovered would be charged to income on a current basis. Management of the Company believes that the costs being deferred were prudently incurred and that the eventual outcome of the Commission's investigation will not have a material effect on the Company's financial position or results of operations. The CAPCO companies are continuing to evaluate the economics of the Quarto arrangements and are considering various means for reducing production costs. See Note M to the financial statements.

The Commission in its February 20, 1981 Order, relating to the Company's rate request, placed restrictions on the Company's recovery of the cost of coal from its Warwick mine. The cost of Warwick coal in excess of the average market prices of similar quality coal purchased by Pennsylvania utilities in the open market may not be passed through the energy cost rate, but may be deferred and recovered to the extent that the cost of Warwick coal falls below such market price. Such deferred costs amounted to $308,000 at December 31, 1981. The Company expects to recover these deferred costs through the energy cost rate in 1982.

H. INCOME TAXES:

Total income taxes in 1981, 1980 and 1979 were comprised of the following components:

	1981	1980	1979
	(Thousands of Dollars)		
Included in operating expenses:			
Currently payable:			
Federal	**$19,878**	$12,627	$ 9,196
State	**13,642**	5,343	8,312
Income taxes deferred—net:			
Federal	**26,146**	17,125	8,339
State	**(1,057)**	7,582	2,440
Investment tax credit deferred—net	**13,016**	17,666	20,808
Total	**71,625**	60,343	49,095
Included in other income (income taxes—credit):			
Currently payable:			
Federal	**(11,372)**	(8,007)	(6,887)
State	**(2,900)**	(2,044)	(1,756)
Total income tax expense	**$57,353**	$50,292	$40,452
Taxes currently payable—federal and state	**$19,248**	$ 7,919	$ 8,865
Taxes deferred—net	**25,089**	24,707	10,779
Investment tax credit deferred—net	**13,016**	17,666	20,808
Total income tax expense	**$57,353**	$50,292	$40,452

Total income tax expense for 1979 is exclusive of $5,890,000 federal and $1,463,000 state income taxes applicable to the change in billing practice. See Note B to the financial statements.

Sources of income taxes deferred and the tax effects were:

	1981	1980	1979
Excess of tax over accounting depreciation	**$12,739**	$18,312	$19,171
Fuel costs expensed on tax return and deferred on books	**(3,062)**	5,526	(4,913)
Investment tax credit carryforward recognized against income taxes deferred—net	**16,932**	(13,844)	(3,088)
Cancellation costs expensed on tax return and deferred on books	**81**	13,894	—
Other	**(1,601)**	819	(391)
Total income taxes deferred—net	**$25,089**	$24,707	$10,779

Total income taxes were less than the amount computed by applying the statutory federal income tax rate of 46% to income before income taxes. The reasons for this difference in each year were as follows:

	1981	1980	1979
	(Thousands of Dollars)		
Computed federal income tax at statutory rate	**$76,463**	$65,897	$56,423
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	**(16,547)**	(14,522)	(12,221)
Excess of tax over book depreciation	**(566)**	35	(1,116)
State income taxes, net of federal income tax benefit	**5,230**	5,875	4,840
Amortization of deferred investment tax credits	**(3,690)**	(3,117)	(2,718)
Other-net	**(3,537)**	(3,876)	(4,756)
Total income tax expense	**$57,353**	$50,292	$40,452

I. PRIOR YEARS' INCOME TAXES:

The Company's income tax returns are settled through 1970 with the exception of the percentage depletion issue discussed below. Income tax returns for 1971 through 1976 have been examined, the returns for 1977, 1978 and 1979 are being examined and the 1980 return is subject to review. The Internal Revenue Service assessed deficiencies regarding the Company's computation of percentage depletion on coal mined for 1956 through 1961 and proposed similar deficiencies for 1962 through 1972, as well as certain other issues of relatively minor importance for 1971 through 1976. The Company paid the assessments related to percentage depletion for the years 1956 through 1961 and instituted a suit for refund in Federal District Court. A recovery in 1979 of a major portion of such payment resulted in a net charge to retained earnings of $822,000. The proposed additional federal income taxes relating to percentage depletion for 1962 through 1972, together with interest and related state income tax effect, amount to $4,523,000 after deducting the related tax benefit of $1,780,000. The Company expects that the Court's decision in the 1956 through 1961 case will serve as the basis for settlement of the proposed deficiencies related to depletion for 1962 through 1972. Management of the Company believes that the settlement of federal and state taxes will not significantly affect the Company's financial position or results of operations.

J. EMPLOYEE BENEFITS:

The Company and its subsidiary have trusteed retirement plans to provide pensions for all employees, except coal mine employees who are covered under a plan administered by the United Mine Workers of America. Information concerning the plan covering coal mine employees is not determinable and is not included in the data below. Pension costs are funded as accrued and include amortization of prior service costs over 30 years. Pension costs charged to expense or construction for the years ended December 31, 1981, 1980 and 1979 were $10,083,000, $9,392,000 and $7,224,000, respectively. The increase in pension costs in 1981 and 1980 is principally due to a plan amendment, effective October 1, 1979, which moved forward the average salary period used in computing the past service portion of benefits and the date used in computing the future portion of benefits. The accumulated plan benefits and net assets available for benefits for the trusteed plans are presented as of the December 31 benefit information dates. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 5% for each year.

	December 31,		
	1980	1979	1978
	(Thousands of Dollars)		
Actuarial present value of accumulated plan benefits:			
Vested	**$135,345**	$126,308	$113,595
Nonvested	**10,750**	10,562	3,335
Total	**$146,095**	$136,870	$116,930
Net assets available for benefits (at market value)	**$107,798**	$ 91,167	$ 80,406

The Company is liable under the Federal Coal Mine Health and Safety Act, as amended, and similar state laws for the payment of benefits to coal mine employees disabled by black lung and to their survivors and dependents. The estimated costs of providing such benefits, including amortization of prior service costs over the remaining estimated life of the Warwick mine, are actuarially determined and accrued on the basis of mine payroll costs and are deposited with a trustee. Such costs were $1,524,000, $1,494,000 and $1,824,000 for the years ended December 31, 1981, 1980 and 1979, respectively. At July 31, 1981 (the date of the latest actuarial valuation), the unfunded prior service cost for these disability benefits was approximately $22,223,000.

K. JOINTLY-OWNED GENERATING UNITS:

The Company, together with other electric utilities, primarily the CAPCO companies, has an ownership interest in certain jointly-owned units. Information regarding the Company's share of such jointly-owned units as of December 31, 1981 is as follows (thousands of dollars):

	Company's Interest				
Unit	Utility Plant in Service	Accumulated Depreciation	Construction Work in Progress	Percentage Ownership	Megawatts
Fort Martin No. 1	$ 36,372	$12,161	$ 6,335	50.0	276
CAPCO Units:					
Eastlake No. 5	44,770	8,801	4,130	31.2	198
Sammis No. 7	40,358	10,107	9,999	31.2	187
Bruce Mansfield No. 1	72,074	10,934	188	29.3	228
Bruce Mansfield No. 2	20,155	2,362	94	8.0	62
Bruce Mansfield No. 3	70,968	2,732	63	13.74	110
Bruce Mansfield Common and Shared Facilities	55,953	8,920	3,653		
Beaver Valley No. 1	291,942	32,077	20,115	47.5	385
Beaver Valley No. 2	18	—	139,028	13.74	114
Beaver Valley Common Facilities	34,928	3,012	22,540		
Perry No. 1	—	—	143,248	13.74	165
Perry No. 2	—	—	128,848	13.74	165
Total	$667,538	$91,106	$478,241		

Under terms of the arrangements with the other owners of such jointly-owned units, the Company is required to provide its own share of financing the cost of such units. The Company's share of the direct expenses (fuel, maintenance and other operation expenses) of the jointly-owned units is included in the corresponding operating expenses in the Statement of Consolidated Income.

L. LEASES:

Rental payments in 1981, 1980 and 1979 amounted to $16,361,000, $10,383,000 and $9,844,000, respectively, of which $14,141,000, $4,772,000 and $6,049,000 were charged to operating expenses. The Company has an undivided interest in nuclear fuel lease agreements for three CAPCO generating units. Rental payments are made monthly during the terms of the leases based on the amount of nuclear fuel leased and the amount of nuclear fuel burned. The nuclear fuel leases may be terminated by the lessees or lessors with notice as defined in the agreements or by casualty or certain other contingencies, including default by the lessees. In certain situations involving a termination, the lessees may be required to purchase the leased nuclear fuel at the higher of fair market value or unamortized cost. At December 31, 1981, the Company's share of the lessor's unamortized cost of the leased nuclear fuel was $60,323,000 and the Company expects to lease an additional $13,171,000 of nuclear fuel under current leasing arrangements. The Company expects to finalize another nuclear fuel leasing arrangement early in 1982 which will provide an additional $75,000,000 of financing.

In 1982, the Company plans to move its corporate headquarters to One Oxford Centre under the terms of a twenty-year lease with options to renew for three additional five-year periods. The Company also has certain other buildings under lease, subject to purchase and renewal options.

At December 31, 1981 minimum rental payments, based principally on estimated usage of nuclear fuel under lease and building rentals, including the new One Oxford Centre lease, were as follows:

	(Thousands of Dollars)
1982	$ 16,293
1983	25,832
1984	30,632
1985	27,332
1986	21,331
1987-1991	55,583
After 1991	75,216
Total	$252,219

The Company accounts for all of its leases as operating leases in accordance with the manner in which the Company's rates have been established by the Pennsylvania Public Utility Commission. If the noncapitalized financing leases were capitalized as of December 31, 1981 and 1980, property, plant and equipment-net would have been increased by $78,798,000 and $66,948,000, respectively, with related increases in current liabilities and long-term debt of $4,722,000 and $74,463,000, respectively, in 1981 and $5,386,000 and $61,869,000, respectively, in 1980. The impact on net income of capitalizing such leases in each year would not be material.

M. COMMITMENTS AND CONTINGENT LIABILITIES:

Construction

The Company's current estimate of construction expenditures during the period 1982 through 1986 amounts to approximately $1.2 billion, principally related to CAPCO generating units. See Note C for information regarding accumulated construction costs and contract termination charges which could be incurred as a result of the cancellation of construction of four CAPCO nuclear generating units.

Quarto Mining Company (Quarto)

The Company and the other CAPCO companies have made long-term coal supply arrangements with Quarto, an unaffiliated company, to supply coal for the Bruce Mansfield Units. As part of these arrangements the individual CAPCO companies are severally, and not jointly, guaranteeing their proportionate shares of Quarto's debt and lease obligations incurred in connection with the development, equipping and operation of two mines from which the coal is supplied. At December 31, 1981 the Company had guaranteed the obligations of Quarto with respect to approximately $56,047,000 of indebtedness and had guaranteed lease obligations relating to approximately $31,527,000 of capital equipment for the mines. The Company expects that by 1984 it will have made further substantial guarantees with respect to additional indebtedness and leased capital equipment the amount of which will depend on the actual costs of further development of the two mines. In general, it is contemplated that the purchase prices to be paid for the coal to be received under the foregoing arrangements will include amounts sufficient to service the obligations so guaranteed.

Under the terms of the coal supply contracts, which expire December 31, 1999, the CAPCO companies must reimburse Quarto for their share of the costs of operating the Quarto mines, including those costs associated with mine construction, whether or not they receive coal from Quarto. The Company's total payment under these contracts amounted to $28,603,000 for the year ended December 31, 1981.

The Company's estimate of future obligations for fixed costs associated with the Quarto coal supply arrangements are:

1982	$ 9,156,000
1983	8,950,000
1984	8,743,000
1985	8,536,000
1986	8,329,000
After 1986	98,200,000

The current price of Quarto coal to the CAPCO companies is based principally on the actual current production costs plus amortization of certain produc-

tion expenses which were not included in the price of coal to the CAPCO companies during the development period, which ended on May 31, 1980. The current price of Quarto coal exceeds the current prevailing market price of coal. See Note G to the financial statements.

Beaver Valley Replacement Power

In connection with the February 20, 1981 rate order, the Pennsylvania Public Utility Commission found that the Company had not proven that the costs of replacement power during a 1979 outage of Beaver Valley Unit No. 1 were prudently incurred and directed the Commission's Bureau of Audits to address the subject in an audit and make a recommendation as to the amount to be refunded to customers.

Subsequently, the Commission granted petitions filed by the Company, the City of Pittsburgh and the Pennsylvania Consumer Advocate seeking reconsideration of the Order with respect to, among other things, the appropriateness, amount and timing of replacement power cost refunds, but did not rule on the merits of such petitions. On November 20, 1981 the Commission ordered that further hearings be held before an administrative law judge on the issues of the portion of the outage period for which the Company would be held responsible, the amount of replacement power cost refunds allocable to such period, the period of time over which the refunds should be made to the Company's customers and whether the Company should be ordered to pay interest on the outage refund and, if so, at what rate. The Order determined that a refund of some amount was due the Company's customers and that the liability issue had been resolved. The Company and outside counsel do not agree with either of these conclusions, and no provision has been recorded by the Company for any such refunds. While the Company is unable to predict what action the Commission may ultimately take and although the amount of such refunds could be substantial, the management of the Company believes that the replacement power costs were prudently incurred and that the eventual outcome of this matter will not have a material effect on the Company's financial position or results of operations.

Rate Matters

The Pennsylvania Public Utility Commission on June 29, 1981 entered an Order granting the Company the option of placing a rate increase of approximately $64.2 million into effect, of the $100.4 million requested by the Company in an April 30, 1981 filing with the Commission. The Order also instituted an investigation into the rate request. On June 30, 1981, the Company filed a new rate schedule based on the $64.2 million option which was approved by the Commission and became effective for service rendered on and after July 15, 1981. The new rates are, however, subject to refund with interest if the Commission's investigation results in approving a smaller increase. Revenues of $26.8 million from this Order were recorded during 1981. The administrative law judge assigned to the proceeding has recommended that the $64.2 million increase be approved, and management believes that the ultimate resolution of this rate matter will not have a material adverse effect on the Company's financial position or results of operations.

Other

The Company is involved in various other legal proceedings. In the opinion of management of the Company such legal proceedings will not have a material effect on the financial position or results of operations of the Company.

N. SUPPLEMENTARY INCOME STATEMENT INFORMATION:

	Year Ended December 31,		
	1981	1980	1979
	(Thousands of Dollars)		
Maintenance	**$73,949**	$72,549	$62,699
Taxes other than payroll and income taxes:			
Gross receipts	**35,309**	30,464	28,059
Property	**12,641**	11,439	11,333
State capital stock	**6,313**	2,846	7,033

Under the system of accounting followed by the Company, a portion of maintenance expenses and of taxes other than payroll and income taxes represents amounts charged to coal inventories. The inventory accounts are relieved and operations expense charged as the coal is used.

Charges for depreciation and amortization of intangible assets, royalties and advertising costs have not been shown as the individual amounts do not exceed 1% of total revenues.

O. DISPOSITION OF SUBSIDIARY:

The Company's wholly-owned steam heating subsidiary has experienced losses in recent years. The losses were not material in relation to the Company's consolidated financial position or results of operations. On August 19, 1981 the subsidiary filed with the Pennsylvania Public Utility Commission an application for approval to abandon steam heating service in mid-1982. Several of the subsidiary's customers have filed protests to the application. The Company is also exploring the possibility of sale of the subsidiary's assets, other than certain real estate, for a nominal amount. If approval to abandon service should be granted or such assets sold, the unrecovered amount of the Company's investment, estimated to be approximately $11 million net of related tax benefits at December 31, 1981, would be charged against earnings at that time.

P. QUARTERLY FINANCIAL INFORMATION (Unaudited):

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings Per Share
	(Thousands of Dollars)			
March 31, 1980	$174,023	$35,232	$25,835	$.56
June 30, 1980	160,763	30,360	20,841	.40
September 30, 1980	177,274	32,436	23,218	.44
December 31, 1980	177,405	34,841	23,067	.43
March 31, 1981	**192,126**	**37,348**	**24,539**	**.46**
June 30, 1981	**185,814**	**34,747**	**20,980**	**.38**
September 30, 1981	**215,822**	**45,151**	**32,037**	**.64**
December 31, 1981	**203,085**	**43,100**	**31,316**	**.57**

Q. SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (Unaudited):

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices. This Statement requires adjustments to historical costs to estimate the effects that general inflation (constant dollar) and changes in specific prices (current cost) have had on the Company's results of operations. The data provided are not intended as a substitute for earnings reported on a historical basis, but offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES

For The Year Ended December 31, 1981
(Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
Operating revenues	$796,847	$796,847	$796,847
Fuel	249,547	249,547	249,547
Purchased power	16,189	16,189	16,189
Other operation and maintenance expense	179,459	179,459	179,459
Depreciation expense	61,464	135,779	151,273
Taxes other than income taxes	58,218	58,218	58,218
Income taxes	71,625	71,625	71,265
Interest charges	92,968	92,968	92,968
Other income and deductions—net	(41,494)	(41,494)	(41,494)
	687,976	762,291	777,425
Net income (excluding reduction of property, plant and equipment to net recoverable cost)	$108,871	$ 34,556*	$ 19,422
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$399,773
Reduction of property, plant and equipment to net recoverable cost		$(121,823)	(100,451)
Effect of increase in general price level			(405,651)
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost			(106,329)
Gain from decline in purchasing power of net amounts owed		135,109	135,109
Net		$ 13,286	$ 28,780

*Including the reduction of property, plant and equipment to net recoverable cost, the net loss on a constant dollar basis would have been $87,267.

**At December 31, 1981, current cost of property, plant and equipment, net of accumulated depreciation, was $4,983,362, while historical cost or net cost recoverable through depreciation was $2,334,309.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In Thousands, Except Per Share Amounts)

	Year Ended December 31,				
	1981	1980	1979	1978	1977
Average 1981 dollars:					
Operating revenues	**$796,847**	$760,982	$779,678	$798,977	$729,766
Historical cost information adjusted for general inflation:					
Income before cumulative effect of accounting change (excluding reduction of property, plant and equipment to net recoverable cost)	**34,556**	37,082	40,156		
Income per common share before cumulative effect of accounting change (after dividend requirements on preferred and preference stock)	**$ .28**	$ .30	$ .33		
Net assets at year-end at net recoverable cost	**738,040**	730,483	744,457		
Current cost information:					
Income before cumulative effect of accounting change (excluding reduction of property, plant and equipment to net recoverable cost)	**19,422**	19,143	15,572		
Loss per common share before cumulative effect of accounting change (after dividend requirements on preferred and preference stock)	**$(.09)**	$(.18)	$(.44)		
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost	**106,329**	189,650	216,907		
Net assets at year-end at net recoverable cost	**738,040**	730,483	744,457		
General information:					
Gain from decline in purchasing power of net amounts owed	**135,109**	188,667	216,763		
Cash dividends declared per common share	**$ 1.85**	$ 1.99	$ 2.21	$ 2.40	$ 2.58
Market price per common share at year-end	**$13.25**	$13.94	$17.06	$20.56	$28.71
Average consumer price index	**272.4**	246.8	217.5	195.4	181.5
Historical basis:					
Operating revenues	**$796,847**	$689,465	$622,540	$573,128	$486,243
Cash dividends declared per common share	**$ 1.85**	$ 1.80	$ 1.76	$ 1.72	$ 1.72
Market price per common share at year-end	**$13.25**	$12.63	$13.63	$14.75	$19.13
Proven and probable coal reserves at beginning of year (tons)	**28,100**	29,900	30,650	31,650	33,751
Tons of coal mined	**680**	875	928	699	728
Average cost per ton of mined coal	**$35.10**	$31.14	$28.71	$30.72	$27.45

Constant dollar amounts represent historical costs stated in terms of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of property, plant and equipment, which includes land, land rights, intangible plant, property held for future use, construction work in progress and nuclear fuel in process, represents the estimated cost of replacing existing plant assets and was primarily determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. The current cost of coal properties was determined by indexing coal reserves and machinery and equipment by the Marshall-Stevens Mining and Milling Index. The current year's provision for depreciation and depletion on the constant dollar and current cost amounts of property, plant and equipment was determined by applying the Company's depreciation and depletion rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation and purchased power have not been restated from their historical cost in nominal dollars. Rate regulation limits the recovery of fuel and purchased power costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in Statement 33, income taxes were not adjusted.

The regulatory process limits the Company to the recovery of the historical cost of service in its rates. Therefore, any excess of the value of plant under constant dollars or current cost must be reduced to the net recoverable cost, which is historical cost. The amount of this excess that accumulated as a result of inflation in the current year must be reduced to net recoverable cost.

The Company, by holding assets such as receivables, prepayments and inventory, suffers a loss of purchasing power during periods of inflation because the amount of cash received in the future for these items will purchase less. Conversely, by owing monetary liabilities, primarily long-term debt, the Company benefits because the payment in the future will be made with nominal dollars having less purchasing power. The Company has significant amounts of long-term debt outstanding which will be paid back in dollars having less purchasing power and, therefore, for purposes of these calculations, has a net gain from holding monetary liabilities in excess of monetary assets.

As allowed by Statement 33, items in the income statement, other than depreciation expense, were not adjusted. The cost of fuel used in electric production was not adjusted because the effect on earnings was not material due to the relatively short turnover period between incurring these costs and their recovery through the energy cost rate.

The regulatory process limits the amount of depreciation expense included in the Company's revenue allowance and limits utility plant in rate base to original cost. Such amounts produce cash flows which are inadequate to replace such property in the future or preserve the purchasing power of Common equity capital previously invested. While this effect is partially mitigated by the benefit derived from holding long-term debt, the Company has a net purchasing power loss which is experienced by the Common shareholder and can only be overcome by adequate rate relief. However, the Company expects that it will be able to establish rates which will recover the increased costs of new plant when such costs are incurred.

Duquesne Light Company

Selected Financial Data and Statistical Summary

(Thousands of Dollars, Except Per Share Amounts)

	1981	1980	1979	1978	1977	1971
SUMMARY RESULTS OF OPERATIONS						
Residential revenues	**223,146**	196,400	176,744	167,338	143,299	66,197
Commercial revenues	**243,304**	209,686	185,701	173,768	147,433	62,278
Industrial revenues	**300,066**	250,295	232,389	205,149	171,174	59,209
Street lighting and other revenues	**12,383**	11,052	10,370	9,942	8,286	3,965
Miscellaneous revenues	**7,116**	7,104	6,142	5,917	5,054	1,310
Total electric revenues	**786,015**	674,537	611,346	562,114	475,246	192,959
Steam heating revenues	**10,832**	14,928	11,194	11,014	10,997	3,751
Total operating revenues	**796,847**	689,465	622,540	573,128	486,243	196,710
Operation and maintenance expenses	**445,195**	393,998	362,987	338,922	249,223	92,468
Depreciation	**61,464**	53,897	48,450	45,660	43,185	19,170
Taxes other than income taxes	**58,218**	48,358	47,476	41,997	40,238	15,126
Income taxes	**57,353**	50,292	40,452	37,255	43,944	14,588
Interest charges, net of allowance for borrowed funds used during construction	**92,968**	75,630	65,415	60,614	58,684	22,879
Other income, principally allowance for equity funds used during construction	**27,222**	25,672	20,602	17,043	16,498	7,267
Income before cumulative effect of the change in billing practice	**108,871**	92,962	78,362	65,723	67,467	39,746
Net income	**108,871**	92,962	82,207†	65,723	67,467	39,746
Dividends on Preferred and Preference Stock	**22,976**	23,353	23,721	18,915	16,677	5,054
Earnings for Common Stock	**85,895**	69,609	58,486	46,808	50,790	34,692
Average number of common shares outstanding	**41,764**	38,267	32,239	31,464	29,000	15,820
Earnings per share of Common Stock	**2.06**	1.82	1.81†	1.49	1.75	2.19
Dividends declared on Common Stock	**1.85**	1.80	1.76	1.72	1.72	1.66
PLANT						
Property, plant and equipment	**2,809,753**	2,604,333	2,380,805	2,201,805	2,017,774	1,085,645
Accumulated depreciation	**477,009**	424,653	386,479	349,668	320,332	231,386
Net property, plant and equipment	**2,332,744**	2,179,680	1,994,326	1,852,137	1,696,942	854,259
TOTAL ASSETS	**2,668,577**	2,447,163	2,222,537	2,068,753	1,862,945	912,343
CAPITALIZATION						
Common Stock	**45,303**	40,166	35,550	31,750	29,000	16,650
Capital surplus	**550,244**	494,228	433,984	387,185	341,817	142,185
Retained earnings	**167,149**	158,546	158,772	158,035	166,551	105,992
Non-redeemable Preferred and Preference Stock	**156,137**	156,137	156,137	156,137	156,137	61,137
Redeemable Preferred and Preference Stock	**143,924**	146,867	149,998	154,572	79,062	29,985
First mortgage bonds (less sinking fund requirements and current maturities)	**983,870**	918,230	808,830	721,710	736,560	469,610
Sinking fund debentures	**10,682**	10,981	11,436	12,358	12,436	15,189
Pollution control obligations	**166,000**	116,000	116,000	116,000	116,000	—
Unamortized debt discount and premium—net	**(9,453)**	(7,161)	(5,770)	(4,977)	(5,138)	—
Total capitalization	**2,213,856**	2,033,994	1,864,937	1,732,770	1,632,425	840,748

†Includes cumulative effect to January 1, 1979 of the change in billing practice, net of income taxes, of $3,845 or $.12 per share.

	1981	1980	1979	1978	1977	1971
RESIDENTIAL SERVICES						
Average use per customer (kilowatt-hours)	**5,698**	5,770	5,629	5,765	5,786	5,142
Average revenue per kilowatt-hour	**7.806¢**	6.828¢	6.363¢	5.924¢	5.094¢	2.768¢
SALES OF ELECTRICITY (millions of kilowatt-hours)						
Residential	**2,858**	2,876	2,778	2,825	2,813	2,391
Commercial	**4,065**	4,020	3,866	3,782	3,909	3,333
Industrial	**6,582**	6,272	6,546	5,908	6,182	4,855
Street lighting and other	**125**	129	131	130	130	100
Total	**13,630**	13,297	13,321	12,645	13,034	10,679

ENERGY SUPPLY AND PRODUCTION DATA	**1981**	1980	1979	1978	1977	1971
Energy supply (millions of kilowatt-hours)						
Generated in system plants	**13,914**	13,485	13,884	12,252	13,798	11,151
Purchased and net interchange	**410**	541	125	1,089	(125)	232
Losses and company use	**(694)**	(729)	(688)	(696)	(639)	(704)
Total	**13,630**	13,297	13,321	12,645	13,034	10,679
Generating capability (thousands of kilowatts)	**3,177**	3,179	3,294	3,289	3,289	2,335
Peak load (thousands of kilowatts)	**2,522**	2,474	2,296	2,379	2,371	2,015
Cost of fuel per million BTU	**159.660¢**	149.768¢	131.779¢	125.349¢	100.696¢	33.946¢
BTU per kilowatt-hour generated	**10,931**	10,811	10,924	11,031	10,855	11,204
Average production cost per kilowatt-hour	**2.354¢**	2.202¢	1.913¢	1.919¢	1.393¢	0.515¢
NUMBER OF ELECTRIC CUSTOMERS— At End of Year						
Residential	**503,044**	500,466	496,005	491,698	487,474	466,099
Commercial	**48,857**	48,306	47,976	47,679	47,154	45,476
Industrial	**2,016**	2,005	1,975	1,932	1,889	1,723
Street lighting and other	**1,713**	1,725	1,746	1,747	1,768	1,821
Total	**555,630**	552,502	547,702	543,056	538,285	515,119

Management's Discussion and Analysis of Financial Condition and Results of Operations

Capital Resources and Liquidity

Construction

During the five years ended December 31, 1981 gross additions to utility plant of the Company and its subsidiary aggregated approximately $1,022 million, exclusive of $31 million of accumulated construction costs applicable to cancelled generating units, and retirements were approximately $68 million. These additions represented a 51% net increase in utility plant.

As a result of the rate order entered on February 20, 1981 by the Pennsylvania Public Utility Commission, the Company reduced its original 1981 construction budget, exclusive of allowance for funds used during construction, from approximately $223 million to approximately $193 million. In October 1981 the Company further reduced its 1981 construction budget. Construction expenditures during 1981 were approximately $179 million, exclusive of allowance for funds used during construction. These expenditures were primarily for the construction of three CAPCO generating units in addition to improving and expanding production, transmission and distribution systems and pollution control equipment.

For planning purposes, the Company's current estimate of construction expenditures, exclusive of allowance for funds used during construction, is approximately $235, $248, $225, $250 and $225 million for each of the years 1982 through 1986, respectively. These estimates include an aggregate of approximately $298 million for the three jointly-owned generating units being constructed under the CAPCO arrangements, including related transmission facilities. See Note K to the financial statements. The balance of the estimated construction expenditures is for the improvement and expansion of production, transmission and distribution systems, for the addition of pollution control equipment at generating stations presently in operation and for new business construction and other projects. The foregoing estimates do not include the cost of nuclear fuel, which is expected to be leased rather than purchased. See Note L to the financial statements. Existing and anticipated lease agreements are expected to be sufficient to finance the cost of all nuclear fuel requirements through the third quarter of 1983, and the Company anticipates that the remaining nuclear fuel requirements will also be leased.

The amount which the Company must spend for its construction program is regularly under review and is subject to changes influenced by business and economic conditions and other factors, such as escalation of labor, material and equipment costs, rate of construction progress, the development of environmental and nuclear safety regulations, service reliability and system efficiencies. In addition, this review must also take into account difficulties in obtaining rate increases sufficient to generate adequate earnings, possible changes in load growth trends and, in the case of the CAPCO construction program, the ability of each of the CAPCO companies to finance its capital requirements.

Financing

The Company anticipates that funds required for planned construction expenditures in the next several years will be provided principally from the issuance of additional equity and debt securities and in part from cash becoming available from operations. On March 24, 1981, the Allegheny County Industrial Development Authority issued $50 million of pollution

control revenue bonds to reimburse the Company for the final portion of the cost of air pollution control facilities at the Company's Phillips and Elrama Power Stations. The bonds have an interest rate of 12%, and principal and interest on such bonds are funded by the Company. On June 25, 1981 the Company issued $80 million of First Mortgage Bonds with an interest rate of 16%. On September 29, 1981 the Company issued and sold 4,100,000 shares of Common Stock. Portions of the net proceeds from these three issues were used to pay short-term indebtedness incurred for construction purposes and the balance was or is being applied directly to construction expenditures. Outside financing provided approximately 54% of the funds required for construction expenditures during 1981 and the Company currently estimates that approximately 72% of funds required for its 1982 construction program will come from outside financing.

Interim financing will be through bank borrowings and sales of commercial paper. See Note E to the financial statements. Variable market and general economic conditions may affect the Company's selection of financing alternatives and adversely affect its ability to raise capital. In order to maintain earnings adequate to finance construction expenditures and refunding requirements, the Company requires rate increases sufficient to offset increased costs and provide a fair rate of return.

The Restated Articles of the Company require that for the issuance of Preferred Stock, earnings (after income taxes) available for interest charges be at least 1.5 times the sum of interest charges on all indebtedness and Preferred Stock dividend requirements. This restriction currently precludes the Company from issuing Preferred Stock. There is no similar restriction upon the issuance of the Company's Preference or Common Stock.

Rate Matters

On February 20, 1981 the Commission entered a final Order regarding the Company's $113 million rate increase filed in April 1980. The Order granted $47.5 million of which $38.8 million is reflected in the Company's 1981 revenues.

On April 30, 1981 the Company filed with the Pennsylvania Public Utility Commission a rate schedule requesting an annual increase of $100.4 million. On June 30, 1981 the Company filed a new rate schedule in accordance with an option granted by the Commission for a rate increase of $64.2 million annually pending the outcome of an investigation into the rate request. The Company's 1981 revenues increased by $26.8 million as a result of the Company accepting this option. See Note M to the financial statements. A final decision on the rate order for $64.2 million is expected early in 1982.

Effective May 1, 1981 the Company's energy cost rate was changed from a historical cost basis to a projected cost basis, with provisions for a subsequent adjustment to actual cost. This change reduces the time lag in the recovery of energy costs through revenues and thereby improves the Company's liquidity.

Cancelled Generating Units

In 1980 the CAPCO companies cancelled the construction of four nuclear generating units. The Company's share of the accumulated construction costs was $31.4 million at December 31, 1981. The Company has requested approval to amortize such costs over a 10-year period. Additional costs may be incurred due to termination claims which have been filed. See Note C to the financial statements. In its February 20, 1981 rate order the Pennsylvania Public Utility Commission deferred a decision on the Company's request to amortize and recover the accumulated construction costs from its customers pending the conclusion of a Commission investigation of the CAPCO construction program.

Deferred Coal Costs

The Commission also ordered that the Company's Warwick mine be excluded from rate base and placed restrictions on the Company's recovery of the cost of coal from that mine. See Note G to the financial statements. The Company expects to recover its Warwick coal production costs, including the balance of production costs deferred at December 31, 1981, and a partial return on its investment in the mine, through the energy cost rate in 1982.

In December 1980 the Commission ordered an investigation into the reasonableness of the costs of coal supplied by Quarto Mining Company. By Interim Order entered January 12, 1981 the Commission directed that the Company revert, pending completion of the Commission's investigation, to including in its energy cost rate the approximate prevailing market price of similar coal rather than the actual cost of Quarto coal. The Company is deferring the excess of the price of Quarto coal over market price until inclusion of the actual price of the Quarto coal in its energy cost rate is permitted by the Commission. If inclusion is disallowed, such difference would be charged to income in the year of disallowance. Such deferred costs amounted to approximately $15.4 million at December 31, 1981. See Note G to the financial statements. The cost of Quarto coal to be deferred in the future cannot currently be estimated because of uncertainties related to the rate and cost of future production and the prevailing market price of similar coal.

Other

The Economic Recovery Tax Act of 1981 provides federal income tax incentives for eligible individuals who participate in the dividend reinvestment plans of qualified public utilities. The Company's Dividend

Reinvestment Plan has been amended in accordance with the Act to provide eligible individual participants an election to exclude from current income for federal income tax purposes for each tax year from 1982 through 1985 up to $750 ($1,500 for spouses who file a joint return) of the dividends received in the form of the Company's Common Stock under the Plan. This provision is expected to encourage stockholders to reinvest dividends and thereby ease the cash requirements of the Company.

The Company has generated in each year funds from operations sufficient to meet its operating expenses, pay dividends and finance a portion of its capital needs. The demands and commitments detailed in Note M to the financial statements and those noted above are not expected to materially affect the Company's ability to finance its operations or its construction program.

Results of Operations

Operating revenues increased in the years 1979 through 1981 over the respective preceding years, for the following reasons:

	1981	1980	1979
	(Millions of Dollars)		
General rate increases	**$ 65.6**	$35.2	$25.4
Increase in electrical consumption	**9.2**	5.2	16.3
Energy cost rate revenues	**31.2**	23.1	17.4
State tax adjustment	**1.5**	2.5	2.1
Temporary surcharge	**—**	—	(12.2)
Other	**(.1)**	.9	.4
	$107.4	$66.9	$49.4

The operating revenues of the Company are based on rates authorized by the Pennsylvania Public Utility Commission. These rates are designed to recover the Company's operating expenses, plus a rate of return on the investment in utility rate base. The Company also has an energy cost rate which allows it to recover the difference between actual fuel costs and fuel costs included in base rates.

Operating expenses, other than income taxes, have increased substantially in all three years and continuing increases are expected in the cost of coal and oil and other operating expenses due to inflation and higher depreciation expense resulting from increases in utility plant and increased depreciation rates. In September 1980, the CAPCO companies placed Mansfield Unit No. 3 in full commercial operation, which increased the various operating expenses in 1981. Additionally, fuel expense increased in 1981 compared to 1980 due primarily to increased generation, higher fuel costs and increases in deferred energy expense. Purchased power expense decreased in 1981 compared to 1980 due primarily to increased sales of power to other utilities, the availability of Mansfield Unit No. 3 as noted above and the above average performance of the Beaver Valley Unit No. 1. These increases in available generation were partially offset by the United Mine Workers of America coal strike during the period March 27, 1981 to June 17, 1981. Other operation expenses increased in 1981 compared to 1980 due to expenses at Bruce Mansfield Unit No. 3, the effects of inflation and increased general and administrative expenses. Maintenance expenses increased substantially in 1980 compared to 1979 due primarily to modification work at the Beaver Valley Power Station, which was required by the Nuclear Regulatory Commission (the "NRC"), and increased distribution maintenance expenses related to storm damage. In late December 1981 Beaver Valley Unit No. 1 was removed from service for an estimated period of approximately five months for refueling and additional NRC required modifications. The Company is unable to predict the nature or the cost of additional modification work that will be required by the NRC in future years.

Taxes other than income taxes increased in each year primarily due to increased Pennsylvania gross receipts taxes, which vary in direct relationship to revenues and, additionally, in 1979 and 1981 as a result of increased capital stock tax expense. The effective income tax rate for the three years ended December 31, 1981, 1980 and 1979 was 35%, 35%, and 34%, respectively.

The increases in allowance for equity and borrowed funds used during construction (AFC) were primarily due to the increased cost of construction and an increase in the AFC rate from 7.0% in 1979 to 7.4% in 1980 and to 7.6% in 1981. Interest expense for each of the years 1981, 1980 and 1979 was higher than the prior year amount as a result of an increase in total short and long-term borrowings and higher average interest rates. The weighted average interest on all debt for 1981 was 8.8%, compared with 7.8% in 1980 and 7.6% in 1979. The increases in total borrowings were due to the issuance of additional debt to finance the Company's capital expenditures.

Earnings for Common Stock and earnings per share in 1979 include $3.8 million and $.12 per share, respectively, as a result of a nonrecurring change in billing practice. See Note B to the financial statements. Earnings per share of Common Stock for 1981, 1980 and 1979 were adversely affected by increases in the average number of shares outstanding, which reduced earnings per share by $.18, $.34 and $.05, respectively.

The Company has prepared information on the effects of inflation and changing prices in accordance with the Financial Accounting Standards Board's Statement No. 33. Such information is in Note Q to the financial statements.

Business of the Company

Duquesne Light Company is engaged principally in the production, transmission, distribution and sale of electric energy. The Company serves an area of approximately 800 square miles in Allegheny and Beaver Counties. This area, which includes the City of Pittsburgh, is located in Southwestern Pennsylvania and has a population of about 1,430,000. Allegheny County Steam Heating Company, a wholly-owned subsidiary of Duquesne Light Company, provides steam heating service in the principal business section of the City of Pittsburgh.

The executive offices of
Duquesne Light Company
are located at
435 Sixth Avenue,
Pittsburgh, Pennsylvania 15219.

Duquesne Light Company is an Equal Opportunity Employer.

Company Officers

John M. Arthur
Chairman of the Board and Chief Executive Officer

Stanley G. Schaffer
President

Charles M. Atkinson
Vice President—Fiscal

Roger D. Beck
Vice President—Engineering & Construction

John J. Carey
Vice President—Nuclear

Clifford N. Dunn
Vice President—Operations

William F. Gilfillan, Jr.
Vice President—Customer Services

George I. Rifendifer
Vice President—General Services

Earl J. Woolever
Vice President—Nuclear Construction

James O. Ellenberger
Controller

Ronald G. Males
Treasurer

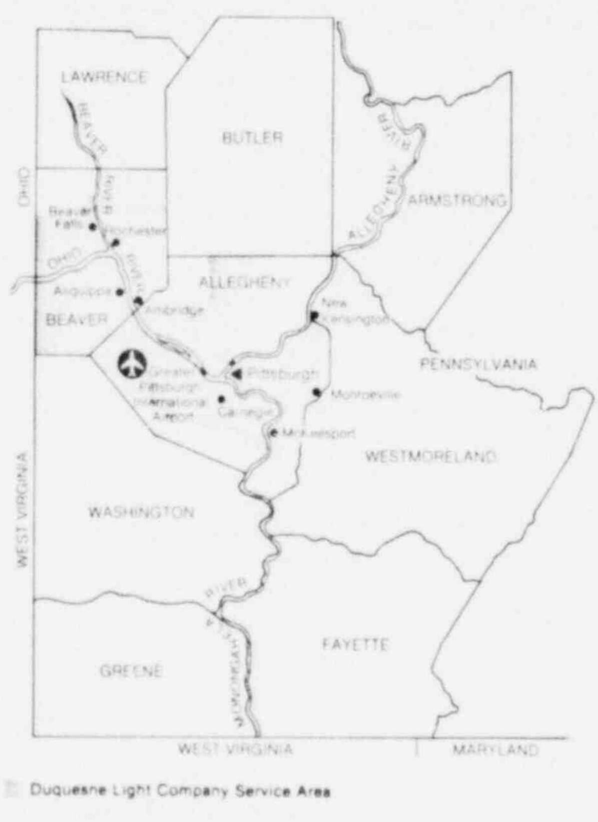
Thomas Welfer, Jr.
Secretary

Richard J. Ciora
Assistant Treasurer

Lawrence P. Galie
Assistant Treasurer

Joan S. Senchyshyn
Assistant Secretary

Duquesne Light Company Service Area



Duquesne Light Company Service Area

Management Changes

New Divisions

On March 24, 1981, the Board of Directors authorized the formation c a new Nuclear Division and elected John J. Carey as Vice President-Nuclear. This new Division is respor sible for nuclear operations, nuclear safety and licensing, nuclear suppor services and nuclear engineering.

On December 22, 1981, the Boarc of Directors authorized the formatio of a new Nuclear Construction Division and elected Earl J. Woolever th Vice President. This new Division is responsible for the construction of Beaver Valley Unit No. 2.

New Vice President

At the January 1982 meeting of the Board of Directors, Roger D. Beck was elected Vice President—Engineering and Construction. Mr. Beck succeeded Earl J. Woolever. Since joining the Company in 1962, Mr. Beck has worked in the Enginee ing and Construction Division, Customer Services Division and the Pub lic Information Department.

New Officers

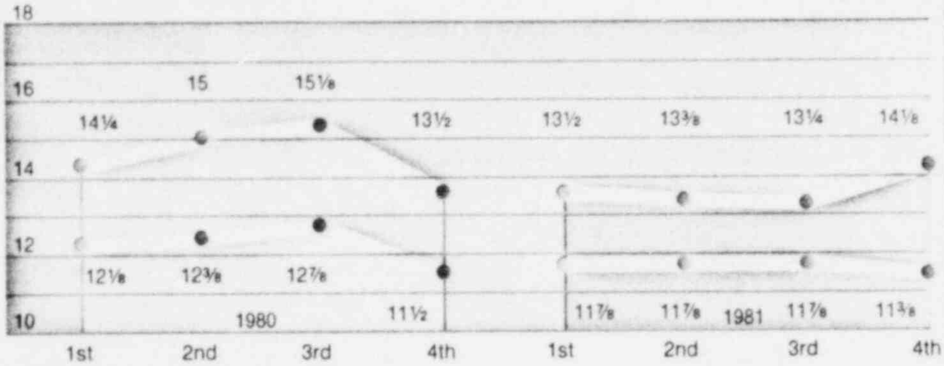
In addition, four other employees were elected officers in 1981 by the Board of Directors. They include James O. Ellenberger, Controller; Ronald G. Males, Treasurer; Richarc J. Ciora, Assistant Treasurer; and Lawrence P. Galie, Assistant Treasurer.

1971-1981 Dimensions Magazine

In mid-year 1982, the Company plans to publish Duquesne Light *Dimensions* containing in-depth informatior concerning the Company. *Dimensions* will include an 11-year statistical review and discussion of some of the important issues affecting Duquesne Light Company. For a copy of Dimensions write:

Duquesne Light Company
Public Information Department
435 Sixth Avenue
Pittsburgh, PA 15219

HIGH/LOW COMMON STOCK



Common Stock Dividends

The Company has paid cash dividends on its Common Stock in each year since 1913 and on a regular quarterly basis (January 1, April 1, July 1 and October 1) in each year beginning in 1953 after becoming publicly owned. Quarterly dividends related to the four quarters of 1980 and the first two quarters of 1981 were paid at the rate of 45¢ per share. Commencing October 1, 1981 the quarterly dividend rate was increased to 47½¢ per share. Future dividends will depend upon future earnings, the cash position of the Company, construction requirements, rate regulation and other relevant factors. The Company currently expects that dividends will continue to be paid in the future.

Dividends may be paid on the Common Stock to the extent permitted by law and as declared by the Board of Directors, subject to the provisions of the Company's Restated Articles which restrict the payment of cash dividends or other distributions on, or the purchase of, its capital stock ranking junior to the Preferred Stock (collectively referred to as "junior stock payments"). No dividends or distributions may be made on the Common Stock if dividends or sinking or purchase fund obligations on the Preferred Stock or Preference Stock are accumulated and unpaid. Furthermore, the aggregate amount of junior stock payments which may be made in any 12-month period are in general limited to (i) 50% of consolidated net income for any period of 12 consecutive calendar months within the 15 preceding months if the effect of such payments would be to reduce the ratio of common stock equity to total capitalization to less than 20% or (ii) 75% of such consolidated net income if the effect would be to reduce such ratio to 20% or more but less than 25%. No portion of the retained earnings at December 31, 1981 was restricted by virtue of this provision. The approximate number of holders of Common Stock as of the February 26, 1982 record date for the 1982 Annual Meeting was 138,000.

Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 10 a.m., Pittsburgh time, on Tuesday, April 20, 1982 in the second floor ballroom of the Hyatt Hotel at Chatham Center, Pittsburgh, Pennsylvania.

Form 10-K Offer

If you are a holder or beneficial owner of any class of the Company's stock as of February 26, 1982, the record date for the 1982 Annual Meeting, the Company will send you, upon request and at no charge, a copy of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year 1981 (including a list of exhibits). All requests must be made in writing to the Secretary, Duquesne Light Company, 435 Sixth Avenue, Pittsburgh, PA 15219.

Transfer Agents and Registrars

Common, Preference and Preferred Stock
Pittsburgh National Bank, Pittsburgh
Chemical Bank, New York

CAPCO

In 1967, Duquesne Light joined with four other electric utilities to form the Central Area Power Coordination (CAPCO) group.

Prior to 1980, ten generating units were committed under the CAPCO arrangements which provided for joint ownership interests based on individual requirements. Duquesne Light shares in nine of these units. To date, seven are in service. The three remaining units are to be placed in service in 1984, 1986 and 1988.

Since 1980 each CAPCO company has been responsible for establishing its own level of reserve and its own generating capacity needs beyond the jointly-owned units still under construction. Duquesne Light is now in the process of developing a program to meet its future capacity requirements.

Duquesne Light Company

Beaver Valley #1
Nuclear—1976
Capacity: 810,000 KW
D.L. Ownership: 47.5%
D.L. Share: 384,750 KW

Beaver Valley #2
Nuclear—1986
Capacity: 833,000 KW
D.L. Ownership: 13.74%
D.L. Share: 114,454 KW

Pennsylvania Power Company

Mansfield #1
Coal—1976
Capacity: 780,000 KW
D.L. Ownership: 29.3%
D.L. Share: 228,540 KW

Mansfield #2
Coal—1977
Capacity: 780,000 KW
D.L. Ownership: 8.0%
D.L. Share: 62,400 KW

Mansfield #3
Coal—1980
Capacity: 800,000 KW
D.L. Ownership: 13.74%
D.L. Share: 109,920 KW

Ohio Edison Company

Sammis #7
Coal—1971
Capacity: 600,000 KW
D.L. Ownership: 31.2%
D.L. Share: 187,200 KW

The Cleveland Electric Illuminating Company

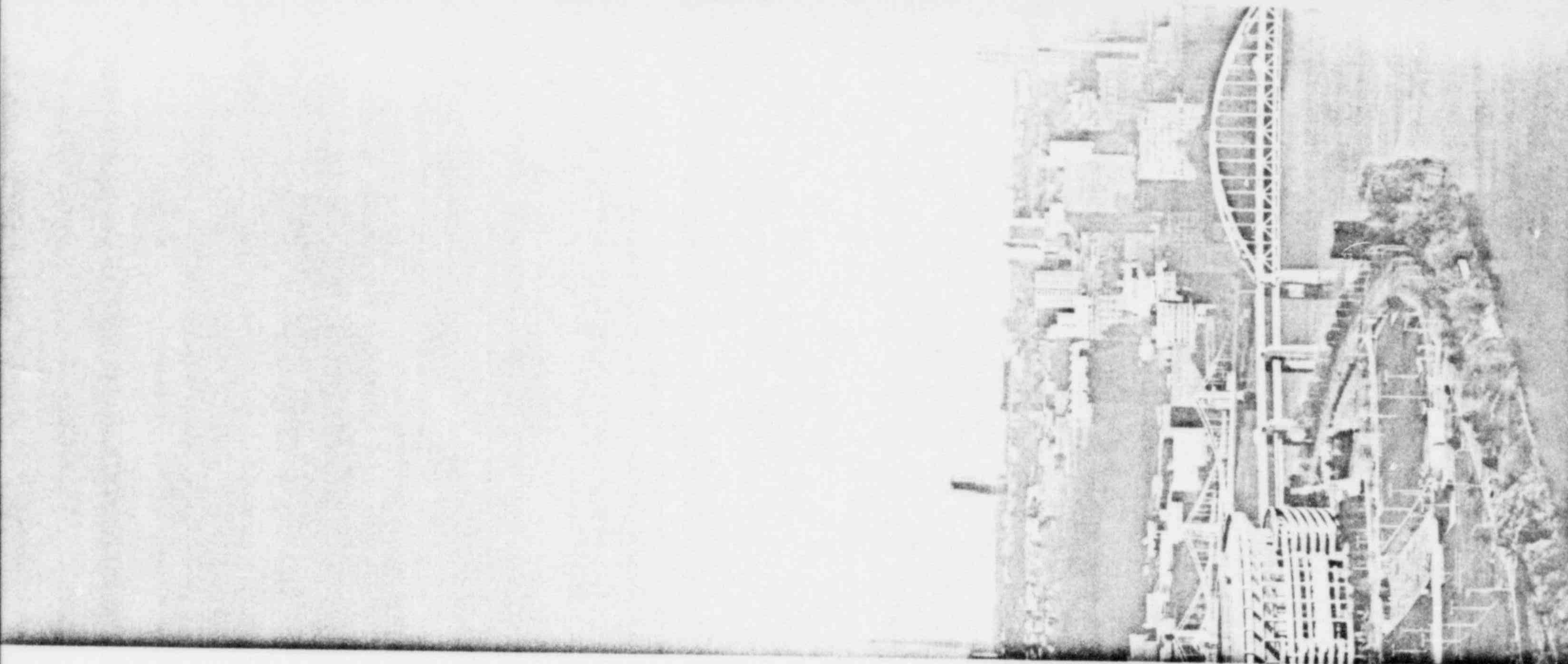
Perry #1
Nuclear—1984
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,567 KW

Perry #2
Nuclear—1988
Capacity: 1,205,000 KW
D.L. Ownership: 13.74%
D.L. Share: 165,567 KW

Eastlake #5
Coal—1972
Capacity: 635,000 KW
D.L. Ownership: 31.2%
D.L. Share: 198,120 KW

The Toledo Edison Company

Davis-Besse #1
Nuclear—1977
Capacity: 890,000 KW
D.L. Ownership: 0
D.L. Share: 0



Duquesne Light
435 Sixth Avenue
Pittsburgh, PA 15219