Duquesne Light Company

Annual Report 1982

People Power

1982 was a year like few others in the history of Duquesne Light Company. The severe economic climate brought with it added challenges that demanded the most dedicated and creative efforts by our employees. This annual report is dedicated to our employees—the real strength of the Company. On the following pages, we spotlight five of the many Duquesne Light people whose dedication extends to community service as well. Employees pictured on the cover are (left to right):

Top row: Donna Chappel, Professional Recruiter; Stephanie Cummings, Remittance Clerk; William F. Gilfillan, Jr., Vice President, Customer Services Division

Middle Row: William Whitworth, Hot Stick Crew Leader; Robert O'Hara, Environmental Engineer; Karen Parkhill, Senior Clerk

Bottom Row: Gary Brockman, Telephone Service Representative; Bob Scott, Residential Representative; Donald Lester, Statistical Accountant

Contents

The relocation of Duquesne Light's corporate headquarters was completed early in 1983. Because of the extremely competitive development situation in the downtown area, Duquesne Light was able to use its negotiating strength as a major tenant to secure an attractive 20-year lease at One Oxford Centre.

Financial and Operating Highlights—1982

Duquesne Light Company

	1982	1981	Percent Change
Financial			
Electric Operating Revenues (000)	**$746,462**	$786,229	− 5.1
Income From Continuing Electric Operations (000)	**$117,197**	$109,409	+ 7.1
Net Income (000)	**$116,882**	$108,871	+ 7.4
Earnings Per Share of Common Stock From Continuing Electric Operations	**$1.96**	$2.07	− 5.3
Dividends Per Share of Common Stock	**$1.90**	$1.85	+ 2.7
Shares of Common Stock Outstanding at Year End	**53,276,525**	45,302,520	+17.6
Operating			
Electric Plant (000)	**$ 3,024,554**	$ 2,786,172	+ 8.6
MWH Sales	**11,037,681**	13,633,742	−19.0
Peak Load Megawatts	**2,158**	2,522	−14.4
Cost of Fuel Per Million BTU	**167.9¢**	159.7¢	+ 5.1
Average BTU Per KWH Output	**10,853**	10,931	− .7
Annual System Output MWH	**11,662,379**	14,323,618	−18.6

Company Vice Presidents (left to right): Earl J. Woolever, Nuclear Construction Division; George I. Rifendifer, General Services Division; William F. Gilfillan, Jr., Customer Services Division; Charles M. Atkinson, Fiscal Division; Clifford N. Dunn, Operations Division; John J. Carey, Nuclear Division; and Roger D. Beck, Engineering and Construction Division.

To Our Stockholders

For the first time since 1958, Duquesne Light's revenues were less than in the previous year: $746,462,000 in 1982 compared to $786,229,000 in 1981. The national recession was magnified for us by a sharp drop in demand by the area's major steel producers.

Fighting the Recession
The continuing recession presents a challenge to your Company's management. Measures taken in 1982 to maintain the Company's financial health during this difficult period included cost savings programs which benefit both our stockholders and our customers.

Coal Profits
On February 20, 1981, the Pennsylvania Public Utility Commission (PUC) ruled that the Company's Warwick Mine should be taken out of rate base, so we considered selling the mine. However, the PUC also noted that if the Warwick mine is efficient enough to produce coal for less than the average price of comparable Pennsylvania coal, the Company may earn a reasonable return on its investment. Therefore, it makes good economic sense for Duquesne Light to retain ownership. Warwick Mine contributed about $2.5 million to earnings in 1982.

The price we charge our customers for Warwick coal is subject to an annual PUC audit.

Nuclear Unit Returns to Service
One development in our efforts to offset the effects of the economic downturn was the return to service of Beaver Valley Power Station Unit No. 1. The nuclear unit was out of service for the first half of 1982 for refueling and for modifications required by the Nuclear Regulatory Commission.

For most of the balance of the year, it operated at or close to 100 percent of its rated capacity. This nuclear unit generates power for less than one-third the fuel cost of our coal stations, saving substantial operating expenses.

Cost Savings Program
As in all good businesses, cost savings are an integral part of our day-to-day operation. Traditionally, each division and service department has been responsible for identifying and implementing ways to cut costs. In 1982, we initiated an experimental program that covers cost savings efforts by every employee in the Company.

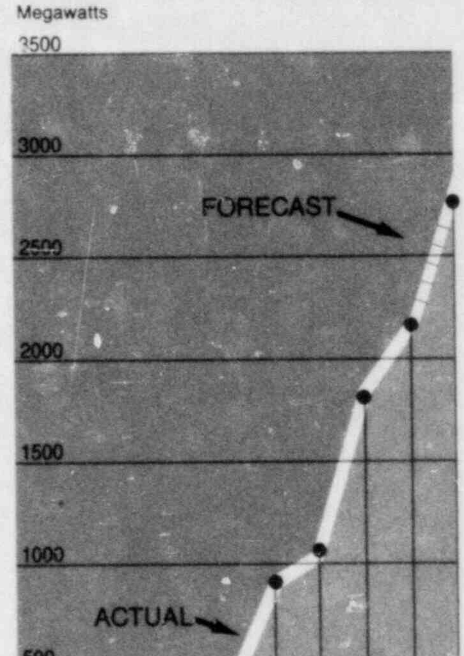
In the normal course of business, Company employees implement many cost savings measures throughout the year. The purpose of the new Cost Savings Program is to identify, document and record in a centralized place in the Company all of these cost savings actions and, in turn, provide encouragement for further cost reduction.

The program covers all Company activities and includes capital as well as operating and maintenance expenditures. Results are formally reported on a semiannual basis to the Chairman of the Board. In 1982, the results were gratifying: reductions during the year of $4.7 million in operating expenses and $3.6 million in capital expenditures.

Construction Reorganization
Early in the year, the Nuclear Construction Division was established to focus attention on our largest construction project, Beaver Valley Power Station Unit No. 2. The decision to establish this division was made because of the sizable investment the project represents and the desire to have personnel assigned to this project full-time.

This reassignment of responsibility preceded the reorganization of the Engineering and Construction Division. Project coordination and cost control in the E&C Division will be strengthened during 1983 through an expanded Project Management Department. This department will control and coordinate the division's projects from inception to completion, including functions such as scheduling, coordination among departments and budgeting.

ANNUAL SYSTEM PEAK LOAD
Megawatts



Management's decision to reorganize the E&C Division was later affirmed by a PUC mandated management audit which arrived at essentially the same conclusions in its recommendations. The PUC routinely orders such management audits so that utilities may have the opportunity to evaluate the opinions and recommendations of an experienced third party in conjunction with their continuing efforts to improve performance and cut costs.

Offsetting a Loss with a Gain
Although not caused by the recession, the decision to dispose of the major portion of the assets of our unprofitable subsidiary, Allegheny County Steam Heating Company (described on page 4), resulted in a $9.9 million after-tax loss. However, we were able to substantially offset this loss with a $9.6 million tax-free extraordinary gain.

The tax-free gain was made possible by taking advantage of an opportunity for a favorable exchange of equity for debt. Specifically, the Company exchanged 1,406,898 newly-issued shares of Common Stock for outstanding First Mortgage Bonds of various series with a face value of $29,852,000. The exchange resulted in an extraordinary gain of $9,609,000.

Inflation Moderates
On the brighter side of the country's gloomy economy was a significant reduction in the inflation rate during 1982. The benefits of reduced inflation are quickly felt in a capital-intensive industry such as ours in the prices we pay for equipment, vehicles and supplies.

Area Diversification
As we mentioned above, sales were depressed by the severe drop in demand by local industry, especially steel. However, the continuing diversification of the area's industrial base lessens the impact of this dramatic downturn.

While still working to revitalize our current industrial base, local area development groups have been attracting service businesses and high-technology companies in robotics, computers, microelectronics, instrumentation and optics. Pittsburgh, an important corporate headquarters center, ranks third among U.S. cities in total research and development expenditures.

Carry on the Tradition
"A new beginning" is a catchphrase that often is mentioned when a company relocates its headquarters. Not at Duquesne Light. Through our 100-plus years of operation, we have earned an excellent reputation for providing reliable service to customers. We see our relocation to One Oxford Centre as a means to build upon that already-strong foundation.

Scores of Duquesne Light employees worked long and hard to make our new headquarters a pleasant and efficient place to work. Early indications are that the new surroundings will enable all of us to do our jobs even better.

Another benefit for exempt employees is the recent introduction of a flexible 40-hour work week schedule. This plan will permit exempt employees some latitude to select their work hours while still meeting their job commitments and responsibilities.

Duquesne Light People
Credit for our longstanding record of reliability belongs to our Duquesne Light employees. They are an outstanding group, both personally and professionally. In the following pages you will see pictures of five Duquesne Light employees, and read about their activities, both on and off the job. In a way, this may tell you more about your Company than all the facts and figures of this report.

John M Arthur

John M. Arthur
Chairman of the Board and President

February 17, 1983

Perspective of 1982

I Financial Matters

Revenues, Sales and Earnings—a Change in the Pattern

During 1982, our industrial customers used approximately 41% less electricity than in the previous year. The primary reason was the recession, which has hit the basic steel industry harder than many industries. Total sales were 19% lower. Commercial sales ran against the recessionary tide and increased 2%. Sales to residential customers were about the same.

Revenues decreased $40 million for the year, although the reduction was moderated by the rate increase that went into effect in mid-1981, the tariff provision covering rates for large businesses and industry, and sales of power to other utilities. The 1981 rate increase contributed to our 7% improved earnings from continuing electric operations.

Pittsburgh currently is in the midst of Renaissance II—a multi-billion dollar project involving public and private construction work in the greater downtown area. PPG Place (foreground) the 40-story future home of PPG Industries, will dominate the city's new skyline, which will include six other skyscrapers by the mid-1980s.

Steam Heating Affects Earnings

Losses connected with the operation of our subsidiary, Allegheny County Steam Heating Company (ACSH), and the decision to dispose of the major portion of its assets reduced 1982 earnings by 21¢ per share. On August 30, 1982 the Public Utility Commission (PUC) entered an Order authorizing ACSH to discontinue steam heating service effective May 31, 1983 and to dispose of certain of its assets.

The estimated loss from discontinued steam heating operations of $9,924,000, net of related tax benefits, was recognized in 1982 and included operating losses for the nine months ended September 30, 1982 and estimated operating losses from October 1, 1982 through May 31, 1983, the date a new steam-user group will take over the major part of the ACSH system. This loss was substantially offset by an extraordinary gain of $9,609,000 resulting from an exchange on December 22, 1982 of 1,406,898 shares of the Company's common stock for $29,852,000 principal amount of the Company's outstanding First Mortgage Bonds of various series.

The discontinuance of steam heating service of ACSH is expected to strengthen Duquesne Light financially. ACSH losses over the previous five years, 1977 through 1981, totalled about $3,041,000, and such losses would have continued or increased in future years.

Albert Grimes
"I love children," said Albert "Shindles the Clown" Grimes. "Not just certain ones, but all children." Al, an equipment operator from the Central-North T&D District, shows that love by donating his own time and money to entertain at children's birthday parties and charitable events, especially Muscular Dystrophy backyard carnivals. A 36-year Company veteran, Al began his hobby as "Shindles" as the result of a not-too-serious suggestion by a co-worker that he should have a clown costume made. "It was just a joke, believe it or not," recalls Al with a chuckle. "But I gave it a try and my interest and involvement grew from there. Now it's actually become a part of me. In fact, I think my family gets peeved a little because it seems like I spend two-thirds of my time with make-up on."

Sreerupa Mitra

A project engineer in the System Planning Department, Sreerupa Mitra has been with Duquesne Light since 1975. For the past year and a half, the Calcutta, India native has been actively involved with the Company Speakers' Team. Sreerupa and 20 other co-workers, representing a cross-section of the Company's major operating areas, volunteer their time to speak before community organizations. A typical presentation involves a brief talk, the viewing of a Company-produced movie and a free-form question and answer session. The key element of a Speakers' Team presentation is that it is personal. It provides an opportunity for a customer to conduct a one-on-one dialogue with the Company.

Construction of the downtown subway section of the Port Authority of Allegheny County's new Light Rail Transit System continues on schedule towards its projected November 1984 start-up date. The system will feature electrically-powered vehicles that will be constructed in the Pittsburgh area.

Recession, Rates and Development

Duquesne Light was able to find a small silver lining in the current recession; it became possible for us to use only our most efficient generating units. As the industrial consumption of electricity dropped, we were able to generate electricity almost entirely with coal and nuclear fuel and hold our costlier oil-fired generating equipment in reserve. We were then able to pass the savings along to our customers by reducing our Energy Cost Rate. The savings for the average residential customer was approximately $1.50 per month for the last six months of the year.

Despite the recession, substantial commercial construction continued in the Duquesne Light service area. Large projects completed or underway at year end included four high-rise office buildings in downtown Pittsburgh and two large suburban shopping malls. Our Area Development Department helped attract new business to Duquesne Light's two-county service area, adding about 3,000 new jobs in the area.

Cost Savings Program Payoff

In 1982, Duquesne Light established a cost savings program to identify and encourage cost saving ideas initiated within the Company. Each department is responsible for identifying, analyzing and documenting all cost savings measures for its area. The 1982 goal was a savings of $500,000 in operating costs. Documented savings were $4.7 million in operating expenses and $3.6 million in capital expenditures.

Dividend Reinvestment Plan Growth

The number of stockholders who applied their dividends to buy more stock under the Company's dividend reinvestment plan, instead of taking cash, grew 46% in 1982—from 23,300 to 34,066.

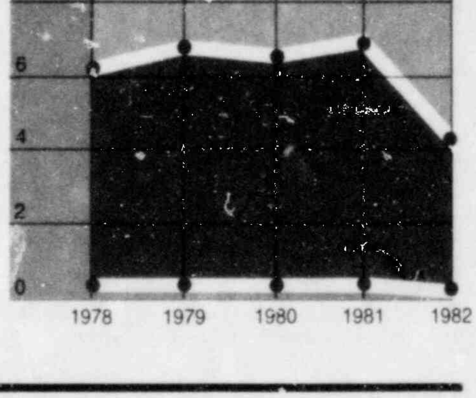
For an explanation of the plan, which was recently amended, and for necessary forms, write Duquesne Light Stockholder Relations Section, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279.

Construction and Financing

Capital expenditures for Duquesne Light totalled $231 million in 1982. Major projects included two large substations, a district operations headquarters building, special buildings for nuclear training and nuclear emergency response, and continued construction of Beaver Valley Power Station Unit No. 2 and Perry Units 1 and 2, in each of which the Company has a 13.74% ownership interest. About 22% of the money required to pay for such expenditures was generated internally; the remainder was raised by outside financing. This included:

1. On May 6, 1982, Duquesne Light issued $65,000,000 principal amount of 16¼% First Mortgage Bonds, Series due May 1, 2012. Net proceeds to the Company were approximately $64.4 million.
2. The Company issued 4,500,000 shares of Common Stock on August 10,1982. Net proceeds to Duquesne Light were approximately $59.5 million.
3. The Company issued 1,962,320 shares of Common Stock in 1982 pursuant to its Dividend Reinvestment Plan. In addition, 104,787 shares of Common

5-YEAR GROWTH KWH SALES

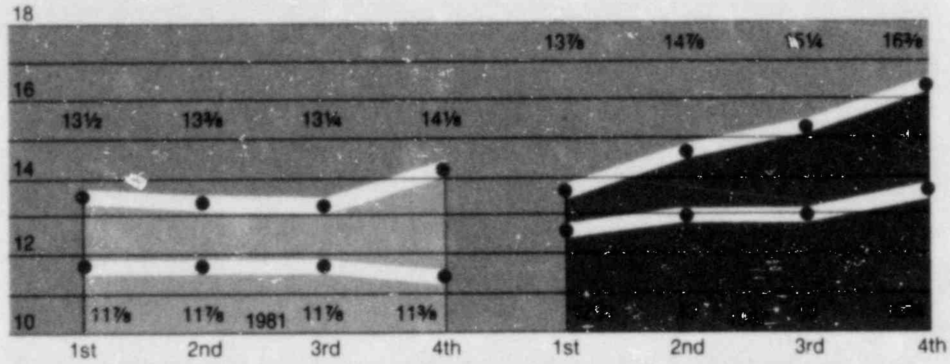


Stock were issued pursuant to the Company's Employee Stock Ownership Plan. Sales of Common Stock through these plans aggregated approximately $27.2 million.

The Rate Increase Picture

In 1981 we applied for a $100 million (15%) rate increase. On June 29 of that year, we accepted an option offered by the Pennsylvania Public Utility Commission (PUC) allowing us to put a $64.2 million rate increase into effect for service rendered on and after July 15, 1981. On April 15, 1982, the PUC gave its final approval to the increase. On April 30, 1982, the Company filed a new rate schedule that would increase revenues on an annual basis by $165 million, which was subsequently reduced to approximately $155 million. On January 28, 1983, the PUC entered an order allowing a total annual increase of $105.8 million.

HIGH/LOW COMMON STOCK

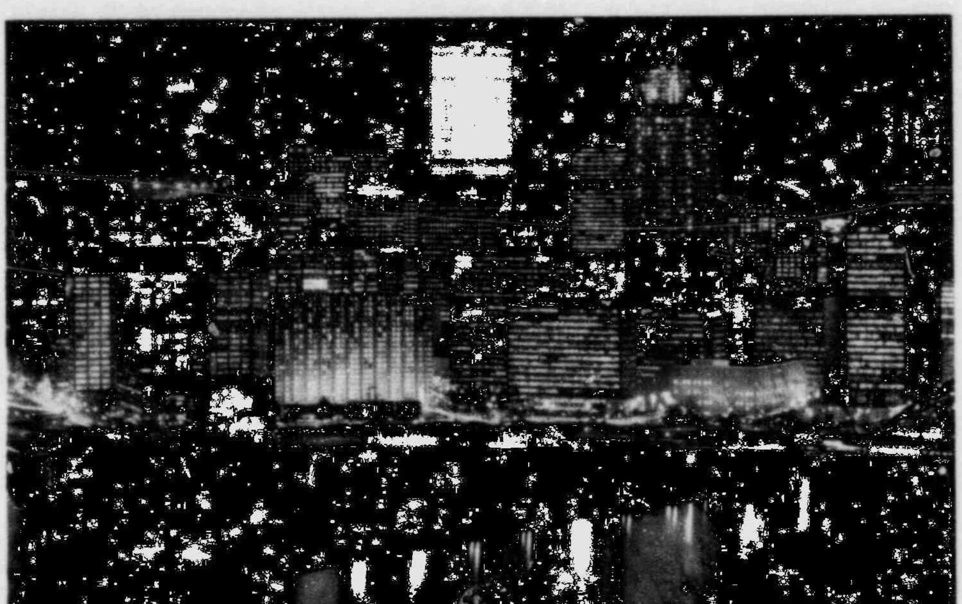


The principal trading market for the Company's Common Stock is the New York Stock Exchange. The stock is also listed on the Philadelphia Stock Exchange.

II Nuclear

An evaluation made in June by the Institute of Nuclear Power Operations (INPO) reaffirmed that the Beaver Valley Unit No. 1 is operated in a safe manner by qualified personnel. INPO is a nonprofit corporation created by the nuclear utility industry in 1979 to enhance the safe operation of the nation's nuclear power plants.

In February 1982, Beaver Valley Power Station held the first full-scale drill to test its Emergency Preparedness Plan. The station's performance was rated a success by both the Commonwealth of Pennsylvania and the Nuclear Regulatory Commission.



Light-Up Night returned November 8, after a 10-year absence. Corporations and businesses throughout the "Golden Triangle" left lights on in their buildings until midnight, providing photographers and the general public with a panoramic view of the city. Light-Up Night was initiated in 1957 as a means to help usher in the Christmas season. It was discontinued in 1973 due to the OPEC oil embargo.

Oldest Nuclear Power Station Retired

President Eisenhower launched the peaceful use of nuclear energy when he switched the Shippingport Atomic Power Station into service in 1957. Duquesne Light operated the plant under government contract until October 1, 1982, when, having generated 7 billion kilowatt-hours of electricity with an excellent safety record, Shippingport was shut down for the last time.

Next step: the U.S. Department of Energy will remove the fuel and decommission the station. Some employees will continue to work at the Shippingport station for the next 4 or 5 years. Other station employees will be transferred to other Company locations including Beaver Valley Units Nos. 1 and 2. Some will continue training as licensed operators; others will form the nucleus of the supervisory staff at Beaver Valley Unit No. 2.

New Nuclear Construction Division Formed

In order to provide better control of the design and construction of Beaver Valley Unit No. 2, Duquesne Light created a new

Harry Butler
During the day, Harry Butler is a hot stick crew leader in the Central-North District of the Transmission and Distribution Department. He's on a different type of "hot" crew during his off-the-job hours. Harry and his wife, Lois, serve as volunteers for the West Deer Fire Company. Men and women have been fighting fires side by side in West Deer since the mid-1970s. "The women handle the same chores as the men do and many of them have the added advantage of being able to respond to daytime fire alarms when many of the men are working," Harry said. "At our fire company, everyone shoulders an equal amount of responsibility."

Nuclear Construction Division. The Division Vice President, Earl Woolever, had previously been Vice President—Engineering and Construction. He picked up the construction project at a little over midpoint. Unit No. 2, expected to go on line in 1986, is now approximately 59% complete. Mr. Woolever's extensive nuclear experience goes back to the beginning of Duquesne Light's nuclear involvement when he helped design the Shippingport Atomic Power Station.

III Environment

Meeting Clean Air Goals

A new electrostatic precipitator was retrofitted on a power plant in West Virginia; work is in progress to replace another at a power plant in Ohio. Both plants are partly-owned by Duquesne Light; our share of the costs totalled $30 million.

Acid Rain: Will Haste Make $335 Million Waste?

Bills addressing "acid rain" were considered by Congress during 1982. Although none progressed past committee stage, if certain of these bills were to be reintroduced and passed by Congress, it could require coal-burning power plants, especially those located in the middle and eastern parts of the country, to install "scrubbers" to remove sulfur from the stack gases.

This could cost Duquesne Light as much as $335 million, require an increase of 6% to 12% in customers' electric bills and threaten thousands of coal and steel industry jobs in this region. The Company believes that "acid rain" legislation is premature at this time, and that extensive scientific research must be completed before the nature, causes and effects of acid rain can really be understood.

IV Personnel, Internal Operations and Customer Relations

President Retires

Stanley G. Schaffer retired as President and as a Director of the Company effective February 1, 1983. Mr. Schaffer served the Company for nearly 42 years in various positions. From 1958 through 1966, he held various supervisory positions in the Company's Power Stations Department. In 1966, he was elected Vice President of Operations and Director of the Company. This appointment was followed in June 1967 by his election as Executive Vice President. In July 1968 he was elected President of Duquesne Light. The employees, Directors and Officers of the Company appreciate the dedication and guidance provided by Mr. Schaffer during his many years of service.

Stanley G. Schaffer

Duquesne Light has long had a good reputation, both locally and nationally, for its environmental control programs. At Phillips Power Station, electrostatic precipitators and flue gas scrubbers collect 99 percent of the fly ash before it can enter the station's stack. The accumulated fly ash, shown here, is mixed with scrubber sludge, stabilized, and then trucked to a site for proper disposal. It is interesting to note that in 1982, about 15 percent of each dollar received in revenue by the Company was expended for environmental control expenses.

Management Audit

As part of the Pennsylvania Public Utility Commission's (PUC) Management Audit Program, the PUC routinely orders management audits of utilities.

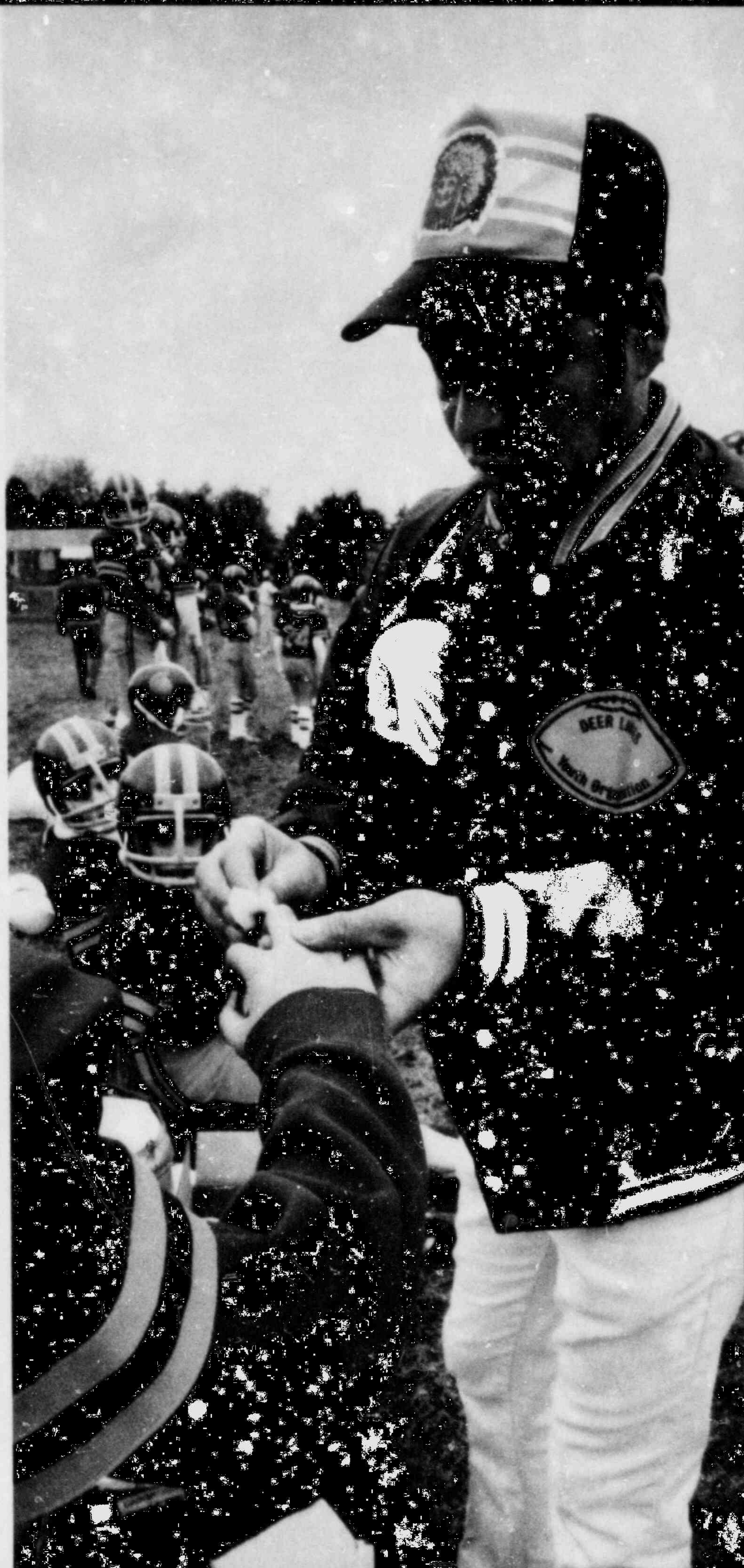
Duquesne Light Company's management audit was completed in the third quarter of 1982 by the consulting firm of Temple, Barker & Sloane, Inc. The 500 page audit report prepared by the consultant made many constructive recommendations, and the Company has decided to implement most of them.

Overall, the audit findings support the position that Duquesne Light is effectively managed by skilled and professional employees who provide reliable electric service at reasonable rates. The report gave our Company high marks for its record of service reliability (99.95%), sound financial management, effectiveness in coal buying, and the good performance of many departments.

Centrella Ziegler

Centrella (Cindy) Ziegler's daughter, Rita, had a problem. Her Junior Girl Scout group needed a troop leader. At the top of her likely list of candidates was good old mom. As all good moms do, Cindy, a file clerk/typist in the General Purchasing Department, "volunteered" her services. For the past three years she's been a special friend for a group of girls, ages 9-11, from the Hill District section of Pittsburgh. The group's many field trips included this visit to the Buhl Science Center.

Clemente Runas
On the job, Clemente "Clem" Runas is an equipment maintenance repairman, first class in the Substations and Shops Department Maintenance Shop. In his spare time, he serves as an emergency medical technician for the Deer Lakes Youth Organization. Clem's training for the Emergency Medical Technician certification involved 82 hours of classroom work and 20 hours of actual hospital procedure.



Data Processing Department

A new computer system with four times the capacity of the combined previously existing equipment was installed in November at the Company's Woods Run Computer Center. It gives the Data Processing Department the ability to better serve the operating departments and other service departments of the Company.

The Data Processing Department designed and implemented a new computerized system that records, stores and retrieves information on overtime hours, vacation time, and sick days for each department in the Company. The system greatly improves the accuracy and timeliness of this information for better management control.

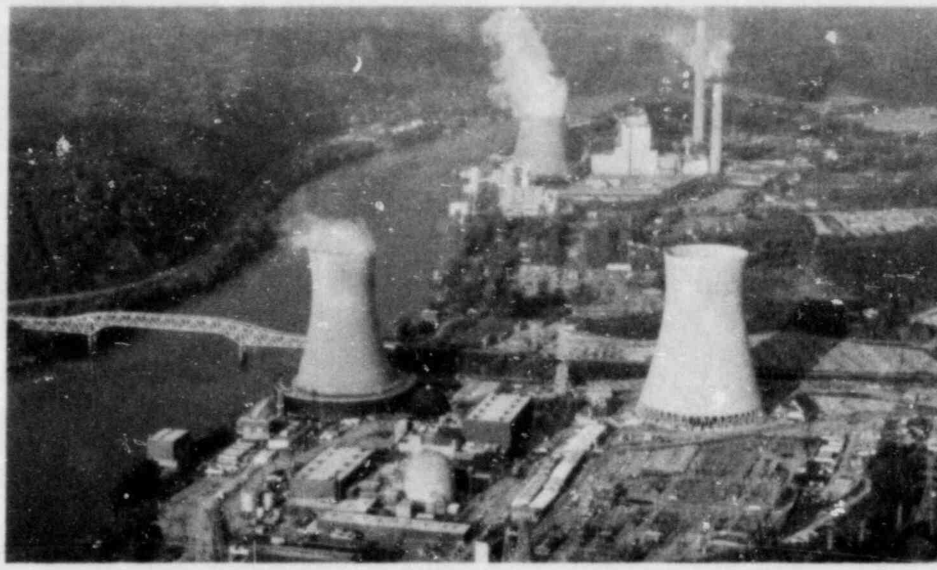
A systems plan, covering the next three to five years, has been developed and is being implemented by the department. The plan identifies potential systems projects, resources and manpower requirements, establishes priorities and designs implementation programs.

Employees and Union Contracts

Experience is an important factor behind the management audit's recognition of our employees' professionalism. The average Duquesne Light supervisory employee has 15 years experience with the Company (yet is only 40 years old).

Our union represented employees are members of the International Brotherhood of Electrical Workers, AFL-CIO or the UMWA. Our two-year contract with the IBEW runs until October 1, 1983. Our hourly coal mine employees are covered by the industry-wide Bituminous Coal Wage Agreement, which runs until September 30, 1984.

Duquesne Light had 4,960 employees at the end of 1982.

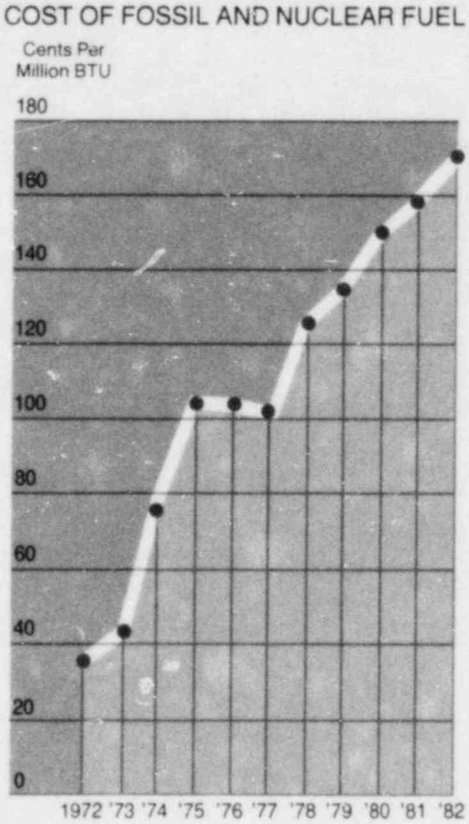


Construction of Beaver Valley Power Station Unit No. 2 (right) is approximately 59% complete. Duquesne Light owns 13.74 percent of Unit No. 2, which is scheduled to go on line in 1986. Like Unit No. 1 (left), Unit No. 2 is jointly owned by members of the Central Area Power Coordination (CAPCO) group but is being constructed and will be operated by Duquesne Light. For more information on CAPCO, see the inside back cover of this report.

Helping Customers Reduce Their Electric Bills

The desire to save on energy is much more widespread than the knowledge of how to do it cost-effectively. During 1982, Duquesne Light mailings offered residential customers a home energy audit that identifies the best opportunities for savings. We also conducted energy conservation seminars for residential customers and load management seminars for managers in business and industry. A Duquesne Light employee, Jane Cricks, serves as a radio hostess. Her weekly 90-minute question-and-answer show covers a wide range of energy conservation and homemaking topics.

COST OF FOSSIL AND NUCLEAR FUEL



New Headquarters Location

The recent relocation of Duquesne Light's headquarters into 13 floors of One Oxford Centre provides long-term relief from three problems: serious overcrowding in the old headquarters, high maintenance costs and low energy efficiency. (It would have been too costly to renovate our old headquarters.) Also, the new offices will give our employees a more productive, pleasant working environment. The downtown Pittsburgh office space market was extremely competitive at the time we were looking for space. We were able to negotiate a very favorable 20-year lease for our new corporate offices.

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 controls 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 its assets are safeguarded and the financial information is reliable.

The accompanying consolidated financial statements have been audited by Deloitte Haskins & Sells, independent public accountants, whose appointment was approved at the 1982 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 1982. 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 and internal auditors 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
President

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, 1982 and 1981 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, 1982. 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, 1982 and 1981 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, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells

February 17, 1983

Duquesne Light Company

Statement of Consolidated Income

For the Three Years Ended December 31, 1982
(Thousands of Dollars, Except Per Share Amounts)

	1982	1981	1980
ELECTRIC OPERATING REVENUES	**$746,462**	$786,229	$674,744
OPERATING EXPENSES:			
Fuel	**229,693**	242,871	202,797
Purchased power (sales)—net	**(23,172)**	16,189	18,524
Other operation	**126,151**	113,423	99,251
Maintenance (Note N)	**66,855**	63,106	60,401
Depreciation	**62,939**	60,854	53,316
Taxes other than income taxes (Note N)	**57,476**	57,694	47,637
Income taxes (Note H)	**71,213**	72,263	60,654
Total Operating Expenses	**591,155**	626,400	542,580
OPERATING INCOME	**155,307**	159,829	132,164
OTHER INCOME:			
Allowance for equity funds used during construction	**35,415**	24,619	22,325
Income taxes—credit (Note H)	**17,906**	14,462	10,011
Other income and deductions—net	**8,913**	3,467	4,424
Total Other Income	**62,234**	42,548	36,760
INCOME BEFORE INTEREST CHARGES	**217,541**	202,377	168,924
INTEREST CHARGES:			
Interest on long-term debt	**111,726**	97,404	80,558
Other interest	**3,471**	6,957	4,267
Allowance for borrowed funds used during construction, net of income taxes	**(14,853)**	(11,393)	(9,196)
Total Interest Charges	**100,344**	92,968	75,629
INCOME FROM CONTINUING ELECTRIC OPERATIONS BEFORE EXTRAORDINARY GAIN	**117,197**	109,409	93,295
DISCONTINUED STEAM HEATING OPERATIONS (Note C):			
Loss from operations of discontinued steam heating subsidiary	**(924)**	(538)	(333)
Loss on disposition of discontinued steam heating subsidiary	**(9,000)**	—	—
INCOME BEFORE EXTRAORDINARY GAIN	**107,273**	108,871	92,962
EXTRAORDINARY GAIN ON EARLY EXTINGUISHMENT OF BONDS (Note D)	**9,609**	—	—
NET INCOME	**116,882**	108,871	92,962
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	**22,701**	22,976	23,353
EARNINGS FOR COMMON STOCK	**$ 94,181**	$ 85,895	$ 69,609
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	**48,236**	41,764	38,267
EARNINGS PER SHARE OF COMMON STOCK:			
Income From Continuing Electric Operations	**$ 1.96**	$ 2.07	$ 1.83
Loss From Discontinued Steam Heating Operations (Note C)	**(.21)**	(.01)	(.01)
Extraordinary Gain (Note D)	**.20**	—	—
Net Income	**$ 1.95**	$ 2.06	$ 1.82
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	**$ 1.90**	$ 1.85	$ 1.80

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

Duquesne Light Company

Consolidated Balance Sheet

December 31, 1982 and 1981
(Thousands of Dollars)

	1982	1981
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant:		
In service	**$2,347,640**	$2,202,613
Construction work in progress	**675,621**	582,734
Held for future use	**1,293**	825
Total electric plant	**3,024,554**	2,786,172
Steam heating plant (Note C):		
In service	**—**	23,371
Construction work in progress	**—**	210
Total property, plant and equipment	**3,024,554**	2,809,753
Less accumulated depreciation	**504,680**	477,009
Property, Plant and Equipment—Net	**2,519,874**	2,332,744
OTHER PROPERTY AND INVESTMENTS:		
Nonutility property (at original cost less accumulated depreciation of $308 and $278, respectively)	**2,008**	1,565
Miscellaneous investments	**8,489**	275
Total Other Property and Investments	**10,497**	1,840
CURRENT ASSETS:		
Cash and temporary cash investments (at cost which approximates market)	**33,663**	50,655
Accounts receivable:		
Customers (less reserve for uncollectible accounts of $2,270 and $2,242, respectively)	**60,177**	71,089
Tax refund	**5,494**	2,875
Other	**21,284**	20,386
Materials and supplies (generally at average cost):		
Coal	**69,194**	53,111
Other operating and construction	**33,964**	30,767
Deferred income taxes	**7,265**	—
Other current assets	**13,851**	12,000
Total Current Assets	**244,892**	240,883
DEFERRED DEBITS:		
Extraordinary property losses (Note B)	**40,334**	31,443
Deferred coal costs (Notes G and M)	**18,338**	15,669
Other deferred debits	**49,476**	45,998
Total Deferred Debits	**108,148**	93,110
Total	**$2,883,411**	$2,668,577

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

	1982	1981
LIABILITIES		
CAPITALIZATION (Note E):		
Common Stock (authorized—60,000,000 shares; outstanding—53,276,525 and 45,302,520 shares, respectively)	**$ 53,277**	$ 45,303
Capital surplus	**649,376**	550,244
Retained earnings	**168,784**	167,149
Total Common Stockholders' Equity	**871,437**	762,696
Non-redeemable Preferred and Preference Stock	**156,137**	156,137
Redeemable Preferred and Preference Stock, less sinking fund and purchase requirements	**140,829**	143,924
First mortgage bonds (less sinking fund requirements and current maturities)	**1,006,637**	983,870
Other long-term debt (less current maturities)	**199,934**	176,682
Unamortized debt discount and premium—net	**(9,488)**	(9,453)
Total Capitalization	**2,365,486**	2,213,856
CURRENT LIABILITIES:		
Long-term debt maturing within one year	**12,500**	14,000
Accounts payable	**98,399**	80,010
Accrued income taxes (Note H)	**4,931**	4,427
Other accrued taxes	**13,658**	18,381
Energy cost rate refunds	**9,974**	—
Accrued interest	**27,497**	24,342
Dividends declared	**30,302**	27,232
Sinking fund and purchase requirements (Note E)	**10,987**	9,733
Reserve for loss on discontinued steam heating operations (Note C)	**2,698**	—
Total Current Liabilities	**210,946**	178,125
DEFERRED CREDITS:		
Investment tax credits	**126,447**	109,866
Accumulated deferred income taxes	**172,600**	158,463
Other deferred credits	**7,932**	8,267
Total Deferred Credits	**306,979**	276,596
COMMITMENTS AND CONTINGENT LIABILITIES (Notes G, I, L and M)		
Total	**$2,883,411**	$2,668,577

Duquesne Light Company

Statement of Changes in Consolidated Financial Position

For the Three Years Ended December 31, 1982

(Thousands of Dollars)

	1982	1981	1980
SOURCE OF FUNDS:			
Continuing electric operations:			
Income from continuing electric operations before extraordinary gain	**$117,197**	$109,409	$ 93,295
Items not affecting working capital:			
Depreciation	**66,303**	63,560	56,156
Investment tax credit deferred—net	**17,335**	11,524	16,021
Income taxes deferred—net (noncurrent portion)	**18,466**	38,040	17,550
Allowance for equity and borrowed funds used during construction	**(50,268)**	(36,012)	(31,521)
Total	**169,033**	186,521	151,501
Discontinued steam heating operations	**(9,924)**	(538)	(333)
Items not affecting working capital (including depreciation: 1982, $595; 1981, $610; 1980, $581)	**(349)**	690	576
Total From Operations (excluding extraordinary gain)	**158,760**	186,673	151,744
Extraordinary gain on early extinguishment of bonds	**9,609**	—	—
Sale of bonds	**65,000**	80,000	110,000
Issuance of Common Stock	**107,369**	61,332	65,309
Nuclear fuel obligations	**24,221**	—	—
Increase (decrease) in notes payable	**—**	(35,000)	24,000
Construction costs reimbursed by trustees from proceeds of pollution control financings	**—**	50,000	3,223
Decrease in working capital (exclusive of current maturities of long-term debt) (a)	**30,312**	—	—
Total Source of Funds	**$395,271**	$343,005	$354,276
APPLICATION OF FUNDS:			
Construction expenditures (net of allowance for equity and borrowed funds used during construction)	**$231,022**	$178,942	$209,778
Dividends on capital stock	**115,247**	100,268	93,188
Reduction of first mortgage bonds	**43,852**	—	12,000
Sinking fund and purchase requirements	**2,691**	4,461	3,740
Deferred coal costs	**2,669**	15,355	314
Other—net	**(210)**	15,679	7,202
Increase in working capital (exclusive of current maturities of long-term debt and notes payable) (a)	**—**	28,300	28,054
Total Application of Funds	**$395,271**	$343,005	$354,276

(a) The components of working capital (exclusive of current maturities of long-term debt and notes payable) were as follows:

	1982	1981	1980
Current assets:			
Cash and temporary cash investments	**$ 33,663**	$ 50,655	$ 3,550
Accounts receivable	**86,955**	94,350	84,816
Materials and supplies and other current assets	**117,009**	95,878	111,892
Deferred income taxes	**7,265**	—	—
Total	**244,892**	240,883	200,258
Current liabilities:			
Accounts payable and accrued interest	**125,896**	104,352	87,297
Accrued taxes	**18,589**	22,808	30,023
Energy cost rate refunds	**9,974**	—	—
Dividends declared	**30,302**	27,232	23,889
Sinking fund and purchase requirements	**10,987**	9,733	10,591
Reserve for loss on discontinued steam heating operations	**2,698**	—	—
Total	**198,446**	164,125	151,800
Working capital at close of year	**46,446**	76,758	48,458
Working capital at beginning of year	**76,758**	48,458	20,404
Increase (decrease) in working capital (exclusive of current maturities of long-term debt and notes payable)	**$(30,312)**	$ 28,300	$ 28,054

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, 1982
(Thousands of Dollars)

	1982	1981	1980
BALANCE AT BEGINNING OF YEAR	**$167,149**	$158,546	$158,772
NET INCOME FOR THE YEAR	**116,882**	108,871	92,962
Total	**284,031**	267,417	251,734
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	**2,271**	2,323	2,375
$7.20 Series	**2,520**	2,520	2,520
$8.375 Series	**2,512**	2,512	2,512
Preference Stock:			
$7.50 Series	**2,038**	2,119	2,195
$2.75 Series	**1,035**	1,177	1,426
$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	4,563
Common Stock (Per Share: 1982—$1.90; 1981—$1.85; 1980—$1.80)	**92,546**	77,292	69,835
Total cash dividends	**115,247**	100,268	93,188
BALANCE AT CLOSE OF YEAR	**$168,784**	$167,149	$158,546

Statement of Consolidated Capital Surplus

For the Three Years Ended December 31, 1982
(Thousands of Dollars)

	1982	1981	1980
BALANCE AT BEGINNING OF YEAR	**$550,244**	$494,228	$433,984
Premium on common stock issued	**99,395**	56,196	60,693
Expense of issuing capital stock (debit)	**(263)**	(180)	(449)
BALANCE AT CLOSE OF YEAR	**$649,376**	$550,244	$494,228

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. See Note C concerning disposition of the subsidiary.

Property, Plant and Equipment

The properties of the Company are carried at original cost and, 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. See Note C concerning disposition of the subsidiary's properties.

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, compounded semi-annually, was 8.5%, 7.6% and 7.4% in 1982, 1981 and 1980, 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 in accordance with the provisions of the orders of the Commission. The Company is allowed to recover annual decommissioning annuity payments to provide for the decommissioning of the nuclear related components. 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, 1982, $1,199,000 was included in the Decommissioning Trust Fund, which represents the aggregate value of revenue deposits and interest earned on investments made by the trustee. 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 extraordinary property losses 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. The energy cost rate is based on projected costs, with provisions for subsequent adjustments to actual cost. Any overcollections of revenues are refunded to customers.

Nuclear Fuel Costs

The Company's share of nuclear fuel costs under noncapitalized financing lease agreements 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. In 1982 the Company capitalized acquisitions of nuclear material through a trust arrangement that is intended to finance a portion of the Company's requirements for nuclear fuel. A new accounting pronouncement issued by the Financial Accounting Standards Board late in 1982 and becoming effective in 1984 will result in future capitalization of the Company's nuclear fuel leases.

The Nuclear Waste Policy Act of 1982 provides for the administration by the United States Department of Energy (DOE) of a nuclear waste disposal fund and an interim storage fund. The funds will be used to dispose of high-level radioactive waste and spent nuclear fuel from nuclear power reactors. Disposal costs will be borne by the owners and generators of such fuel and waste. Beginning on April 7, 1983 the Company will be required to provide for a fee of one mill per killowatt hour on electricity generated and sold by its nuclear power plants in addition to a one-time fee for nuclear fuel used prior to April 7, 1983. The amount of the one-time fee and other related matters are the subjects of proposed DOE regulations and the method of providing for such fees has not yet been determined. Although no provision for such costs has been made at December 31, 1982, management believes that such costs should be recoverable from its customers.

Debt Discount, Premium and Expense

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

B. EXTRAORDINARY PROPERTY LOSSES:

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 costs applicable to these units was $34,528,000 as of December 31, 1982. The Company has received approval from the Federal Energy Regulatory Commission (FERC) and the Pennsylvania Public Utility Commission (Commission) to amortize and recover from its customers these accumulated costs over a 10-year period beginning on January 29, 1983. A petition for reconsideration and modification has been filed by the Pennsylvania Consumer Advocate to the portion of the Commission's January 28, 1983 rate order allowing such recovery.

On October 1, 1982 the Shippingport Atomic Power Station was removed from commercial operation after notice from the United States Department of Energy that it was planning to terminate operation of the light water breeder reactor core at the station as of that date. The Company has requested approval from FERC to record the undepreciated cost of the station as an extraordinary property loss and to amortize such loss over a ten-year period beginning on the date that rates providing for the recovery of such costs first become effective. Consistent with this request, the Company reclassified the net amount to extraordinary property losses. The Company has received approval from the Commission to amortize and recover this amount, net of income taxes, from its customers over a ten-year period beginning on January 29, 1983.

The Commission did not allow any return on the unamortized costs of either of the property losses.

C. DISCONTINUED STEAM HEATING OPERATIONS:

On August 30, 1982 the Pennsylvania Public Utility Commission entered an order approving the application by the Company's steam heating subsidiary, Allegheny County Steam Heating Company, to discontinue steam service to the public effective May 31, 1983 and to transfer to Pittsburgh Allegheny County Thermal, Ltd. (PACT) a major portion of the subsidiary's assets for nominal consideration. The order became final on September 30, 1982. The transfer of the assets is expected to become effective on May 31, 1983. In addition, a lease to PACT of a steam generating plant for nominal consideration became effective on January 3, 1983 after completion by the subsidiary of certain demolition work at the plant.

The provision for loss on the disposition of the subsidiary's assets is estimated to be approximately $9,000,000 (net of income tax benefit of approximately $8,712,000) and the loss from operations is approximately $924,000 (net of income tax benefit of approximately $1,028,000) for the nine months ended September 30, 1982. The provision for loss on disposition includes estimated operating losses for the subsidiary of $1,100,000 (net of income tax benefit of approximately $970,000) for the period October 1, 1982 through May 31, 1983. The 1981 and 1980 operating results have been reclassified to present separately the results of discontinued steam heating operations from continuing electric operations.

At December 31, 1982 assets and liabilities included in the consolidated balance sheet applicable to the discontinued steam heating subsidiary were not material. Revenues from discontinued steam heating operations for 1982, 1981 and 1980 were approximately $8,845,000, $10,996,000 and $15,071,000, respectively.

D. EARLY EXTINGUISHMENT OF BONDS:

In December 1982, the Company exchanged 1,406,898 shares of Common Stock for approximately $29,852,000 principal amount of outstanding First Mortgage Bonds which were owned by an investment banking firm. The exchange resulted in a nontaxable extraordinary gain of approximately $9,609,000, or $.20 per share, which is the difference between the exchange value of the Common Stock and the net carrying amount of the bonds.

E. CAPITALIZATION:

Capital Stock:

	December 31, 1982		December 31, 1981	
	Shares Outstanding	Amount	Shares Outstanding	Amount
Common Stock—$1 par value (1)	53,276,525	$ 53,276,525	45,302,520	$ 45,302,520
Capital Surplus:				
Premium on Common Stock		$655,993,654		$556,598,987
Capital stock expense (debit)		(7,065,026)		(6,607,112)
Other		447,147		252,261
Total capital surplus		$649,375,775		$550,244,136
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)	262,872	$ 13,143,600	268,872	$ 13,443,600
$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)	268,920	268,920	280,120	280,120
$2.75 Series (4)	365,020	365,020	385,100	385,100
$9.125 Series (3)	500,000	500,000	500,000	500,000
		29,277,540		29,608,820
Premium on Redeemable Preferred and Preference Stock		113,027,160		114,917,880
Purchase and Sinking Fund Requirements		(1,475,500)		(602,500)
Redeemable Preferred and Preference Stock		$140,829,200		$143,924,200
Involuntary liquidation value		$140,829,200		$143,924,200

(1) Authorized shares: Common Stock—60,000,000; 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 1982, 1981 and 1980:

	Year Ended December 31,		
	1982	1981	1980
Common Stock:			
Shares outstanding at beginning of year	45,302,520	40,166,083	35,550,000
Issuances:			
Common Stock sales	4,500,000	4,100,000	4,000,000
Dividend Reinvestment Plan	1,962,320	902,977	446,172
Employee Stock Ownership Plan	104,787	133,460	169,911
Exchanged for outstanding First Mortgage Bonds	1,406,898	—	—
Shares outstanding at end of year	53,276,525	45,302,520	40,166,083

The number of shares reserved at December 31, 1982 for issuance under the Dividend Reinvestment Plan and the Employee Stock Ownership Plan are 888,531 and 591,842, respectively. In January 1983, an additional 3,000,000 shares were registered for the Dividend Reinvestment Plan.

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—redeemable at \$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 \$7.20 in 1983 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 \$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 purchase 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 purchase 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, 1982 are as follows:

Year Ending December 31,	Sinking Fund and Mandatory Purchase Requirements
1983	\$2,775,500
1984	7,805,000
1985	7,805,000
1986	7,805,000
1987	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 1982, 1981 and 1980:

	Year Ended December 31, 1982	1981	1980
Preference Stock:			
Shares outstanding at beginning of year	**3,565,220**	3,678,650	3,751,360
Purchases and redemptions —\$2.75 Series	**(20,080)**	(103,750)	(61,150)
—\$7.50 Series	**(11,200)**	(9,680)	(11,560)
Shares outstanding at end of year	**3,533,940**	3,565,220	3,678,650
Preferred Stock:			
Shares outstanding at beginning of year	**2,138,841**	2,144,841	2,150,841
Purchases—\$8.64 Series	**(6,000)**	(6,000)	(6,000)
Shares outstanding at end of year	**2,132,841**	2,138,841	2,144,841

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

	December 31, 1982	December 31, 1981
Series due September 1, 1982 (3¼%)	$ —	$ 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%)	22,800,000	25,000,000
Series due February 1, 1997 (5¼%)	24,600,000	25,000,000
Series due February 1, 1998 (6⅜%)	34,700,000	35,000,000
Series due January 1, 1999 (7%)	30,000,000	30,000,000
Series due July 1, 1999 (7¾%)	28,947,000	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%)	26,461,000	35,000,000
Series due June 1, 2002 (7½%)	28,470,000	35,000,000
Series due January 1, 2003 (7¼%)	32,670,000	40,000,000
Series due July 1, 2003 (7¾%)	35,000,000	35,000,000
Series due April 1, 2004 (8⅝%)	44,100,000	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%)	97,400,000	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	80,000,000
Series due May 1, 2012 (16¼%)	65,000,000	—
Total	1,028,148,000	1,007,000,000
Less:		
Current maturities—Series due September 1, 1982 (3¼%)	—	14,000,000
Current maturities—Series due September 1, 1983 (3⅝%)	12,000,000	—
Current sinking fund requirements	9,511,480	9,130,000
First Mortgage Bonds (less sinking fund requirements and current maturities)	$1,006,636,520	$ 983,870,000

Other Long-Term Debt:

Pollution Control Obligations:

Date of Issuance	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	December 31, 1982	December 31, 1981
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	50,000,000
Total				166,000,000	166,000,000
Less: Current maturities				500,000	—
Pollution Control Obligations (less current maturities)				165,500,000	166,000,000
Nuclear Fuel Obligations				24,221,187	—
5% Sinking Fund Debentures (authorized $20,000,000) due March 1, 2010				10,213,000	10,682,000
Total Other Long-Term Debt				$199,934,187	$176,682,000

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 nuclear fuel obligations result from a trust arrangement providing a financing vehicle for the procurement of a portion of the Company's requirements for nuclear fuel. Interest amounts applicable to the trust are capitalized and included in construction work in progress, at rates ranging from 1⅛% to 1½% over the trustee's commercial paper rate. Trust obligations will be paid by the Company as the related nuclear fuel is withdrawn from the trust.

Sinking fund requirements and maturities for the next five years for long-term debt outstanding, exclusive of the nuclear fuel obligations, as of December 31, 1982 are as follows:

Year Ending December 31,	Sinking Fund Requirements	Maturities
1983	$10,161,480	$12,500,000
1984	10,326,480	16,700,000
1985	10,539,480	700,000
1986	10,551,480	20,700,000
1987	10,576,480	800,000

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% Sinking Fund Debentures. At December 31, 1982, sinking fund requirements for the 5% Debentures had been satisfied for 1983 and 1984, and the 1985 sinking fund requirement had been partially satisfied in the amount of $187,000.

Total interest costs incurred during 1982, 1981 and 1980 were $125,004,000, $111,331,000 and $91,091,000, respectively, of which $60,075,000, $42,982,000 and $37,788,000, respectively, were capitalized or deferred, including allowance for funds used during construction.

F. SHORT-TERM BORROWING ARRANGEMENTS:

At December 31, 1982 the Company had lines of credit with two banks totaling $15,000,000, all of which was unused. The range of interest rates under these lines of credit are from prime rate less one half of one percent to the prime rate. There are no commitment fees or compensating balances associated with these lines of credit. In addition, the Company has a $60,000,000 revolving credit agreement available to December 15, 1986, all of which was unused at December 31, 1982. Borrowings outstanding at December 15, 1986 may be converted to term notes payable in six equal semi-annual installments commencing June 15, 1987 and concluding December 15, 1989. Interest rates fluctuate during the revolving and term periods, depending on the period of borrowings, at percentages in excess of prime, Euro-Rate or CD rates. During the revolving period there is a commitment fee of ½% per annum on the average unborrowed commitment. There is no commitment fee during the term period.

During the years ended December 31, 1982, 1981 and 1980 the maximum amount of short-term borrowings outstanding was $37,000,000, $80,140,000 and $63,500,000, the average daily short-term borrowings outstanding were $1,559,000, $28,341,000 and $23,408,000 and the weighted average daily interest rate applicable to such short-term borrowings was 15.39%, 17.50% and 12.47%, respectively.

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 (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, 1982 the unrecovered cost of Quarto coal reflected in the Company's records was approximately $18,338,000, including $1,486,000 applicable to Quarto coal in inventory. 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. The deferrals and methods of ultimately recovering such deferrals were the subject of discussions between representatives of the Company and the Commission staff. Such discussions resulted in the filing with the Commission of a Stipulation Agreement, which sets forth a method intended to permit the eventual recovery of the accumulated deferrals of the excess of Quarto coal costs over market price. The administrative law judge assigned to the investigation entered an order, subject to review by the Commission, approving the Stipulation Agreement. On November 19, 1982 the Commission remanded the Stipulation Agreement to the administrative law judge for hearings. Management of the Company believes that the deferred costs 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.

H. INCOME TAXES:

Total income taxes in 1982, 1981 and 1980 were comprised of the following components:

	1982	1981	1980
		(Thousands of Dollars)	
Included in operating expenses:			
Currently payable:			
Federal	**$25,257**	$20,519	$12,990
State	**12,694**	13,680	5,335
Income taxes deferred—net:			
Federal	**13,997**	26,080	17,063
State	**(228)**	(1,057)	7,581
Investment tax credit deferred—net	**19,493**	13,041	17,685
Total	**71,213**	72,263	60,654
Included in other income (income taxes—credit):			
Currently payable:			
Federal	**(14,267)**	(11,523)	(7,977)
State	**(3,639)**	(2,939)	(2,034)
Total income tax expense	**$53,307**	$57,801	$50,643
Taxes currently payable—federal and state	**$29,045**	$19,737	$ 8,314
Taxes deferred—net	**13,769**	25,023	24,644
Investment tax credit deferred—net	**19,493**	13,041	17,685
Total income tax expense	**$53,307**	$57,801	$50,643

Total income tax expense is exclusive of income taxes applicable to discontinued steam heating operations. See Note C to the financial statements.

Sources of income taxes deferred and the tax effects were:

	1982	1981	1980
Excess of tax over book depreciation	**$14,490**	$12,672	$18,249
Fuel costs expensed on tax return and deferred on books	**(3,552)**	(3,062)	5,526
Investment tax credit carryforward recognized against income taxes deferred—net	**—**	16,932	(13,844)
Extraordinary property losses expensed on tax return and deferred on books	**3,019**	81	13,894
Other	**(188)**	(1,600)	819
Total income taxes deferred—net	**$13,769**	$25,023	$24,644

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

	1982	1981	1980
Computed federal income tax on continuing electric operations at statutory rate	**$78,432**	$76,917	$66,211
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	**(23,123)**	(16,565)	(14,500)
Excess of tax over book depreciation	**1,131**	(577)	22
State income taxes, net of federal income tax benefit	**4,766**	5,229	5,876
Amortization of deferred investment tax credits	**(4,251)**	(3,663)	(3,090)
Other-net	**(3,648)**	(3,540)	(3,876)
Total income tax expense	**$53,307**	$57,801	$50,643

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 1979 have been examined, and the 1980 and 1981 returns are being examined. 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 1979, as well as certain other issues of relatively minor importance for 1971 through 1979. The Company expects that an earlier court decision in favor of the Company concerning percentage depletion for the years 1956 through 1961 will serve as the basis for settlement of the issue for the years 1962 through 1979. 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 has 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, 1982, 1981 and 1980 were $12,313,000, $10,083,000 and $9,392,000, respectively. The increase in pension costs in 1982 and 1981 is due principally to a plan amendment effective May 1, 1981, increasing pension payments to employees retired prior to October 1, 1979. 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,		
	1981	1980	1979
	(Thousands of Dollars)		
Actuarial present value of accumulated plan benefits:			
Vested	**$151,756**	$135,345	$126,308
Nonvested	**11,566**	10,750	10,562
Total	**$163,322**	$146,095	$136,870
Net assets available for benefits (at market value)	**$111,013**	$107,798	$ 91,167

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 $1,417,000, $1,524,000 and $1,494,000 for the years ended December 31, 1982, 1981 and 1980, respectively. At July 31, 1982 (the date of the latest actuarial valuation), the unfunded prior service cost for these disability benefits was approximately $23,670,000.

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, 1982 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	$ 45,833	$ 13,185	$ 187	50.0	276
CAPCO Units:					
Eastlake No. 5	49,900	9,861	582	31.2	198
Sammis No. 7	41,577	10,579	21,570	31.2	187
Bruce Mansfield No. 1	72,115	13,042	261	29.3	228
Bruce Mansfield No. 2	20,200	2,960	502	8.0	62
Bruce Mansfield No. 3	70,956	4,952	455	13.74	110
Bruce Mansfield Common and Shared Facilities	57,969	10,809	3,301		
Beaver Valley No. 1	321,339	41,576	15,522	47.5	385
Beaver Valley No. 2	18	—	186,437	13.74	114
Beaver Valley Common Facilities	43,847	3,999	35,366		
Perry No. 1	—	—	181,722	13.74	165
Perry No. 2	—	—	163,664	13.74	165
Total	$723,754	$110,963	$609,569		

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 1982, 1981 and 1980 amounted to $17,679,000, $16,389,000 and $10,388,000, respectively, of which $15,393,000, $14,169,000 and $4,778,000 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, 1982, the Company's share of the lessor's unamortized cost of the leased nuclear fuel was $106,968,000 and the Company expects to lease an additional $41,016,000 of nuclear fuel under current leasing arrangements. The Company finalized a nuclear fuel trust arrangement in 1982 which will provide an alternative method of financing nuclear fuel.

The Company has certain buildings under lease, including its new corporate headquarters, subject to renewal options and in certain cases purchase options.

At December 31, 1982 minimum rental payments, based principally on estimated usage of nuclear fuel under lease and building rentals were as follows:

	(Thousands of Dollars)
1983	$ 29,474
1984	30,743
1985	24,307
1986	23,470
1987	19,646
1988-1992	80,229
After 1992	69,975
Total	$277,844

The Company accounts for all of its leases (exclusive of the nuclear fuel trust arrangement described above) 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, 1982 and 1981, property, plant and equipment-net would have been increased by $117,538,000 and $64,978,000, respectively, with related increases in current liabilities and long-term debt of $12,154,000 and $105,820,000, respectively, in 1982 and $4,722,000 and $60,644,000, respectively, in 1981. 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, exclusive of nuclear fuel and allowance for funds used during construction, during the period 1983 through 1987 amounts to approximately $974 million, principally related to CAPCO 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, 1982 the Company had guaranteed the obligations of Quarto with respect to approximately $57,209,000 of indebtedness and had guaranteed lease obligations relating to approximately $28,999,000 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 continue until December 31, 1999 with options to extend for ten additional years, 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 $24,292,000 and $28,603,000 for the years ended December 31, 1982 and 1981, respectively.

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

1983	$ 9,228,000
1984	9,021,000
1985	8,814,000
1986	8,608,000
1987	8,401,000
After 1987	86,245,000

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

On November 19, 1982 the Commission adopted an order nisi which ordered refunds of $12.5 million over a two-year period. The Company expects to appeal this order if it becomes final. The Company and outside counsel do not agree with the Commission's order, and no provision has been recorded by the Company for any such refunds. While the Company is unable to predict what action the Commission or an appellate court may ultimately take and although the amount of such refunds could be substantial, 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.

Nuclear Insurance

The Company has coverage with American Nuclear Insurers ("ANI") and Mutual Atomic Energy Liability Underwriters ("MAELU") to provide primary property insurance coverage for Beaver Valley Power Station Units Nos. 1 and 2 in the amount of $500 million. The Company's interests in Perry Nuclear Power Plant Units Nos. 1 and 2 are also covered under policies issued by ANI and MAELU which are administered by The Cleveland Electric Illuminating Company, the CAPCO company which is constructing those units.

The Company is a member of Nuclear Electric Insurance Limited ("NEIL"), a mutual insurer established by the utility industry to provide Decontamination Liability and Excess Property Insurance in excess of $500 million for members' nuclear generating facilities. NEIL presently provides such excess coverage in the amount of $345 million plus 14% of the amount of the loss in excess of $500 million up to $1 billion. Under this policy the Company is subject to a retrospective premium assessment of approximately $2.8 million per year for a period of seven years in the event of accidents at nuclear plants of member companies if losses exceed premiums, reserves and other NEIL resources.

Damages in excess of the primary $500 million coverage are also covered by an excess property insurance policy issued by ANI and MAELU which presently provides $68 million of coverage. The ANI/MAELU and NEIL policies provide quota sharing coverage for losses in excess of $500 million up to $1 billion.

In addition, NEIL also provides insurance coverage for the extra expense of replacement power during prolonged accidental outages of nuclear plants. Coverage is provided for the Company's interest in Beaver Valley Power Station Unit No. 1 and, after a deductible period of 26 weeks, weekly payments of up to $1,187,500 are provided for one year and up to $593,750 for an additional year. If losses exceed accumulated funds available to NEIL, the Company could be assessed approximately $3,400,000 for payment of NEIL's obligations.

The Price-Anderson Amendments to the Atomic Energy Act limit liability to third parties to $560 million for each nuclear incident. Coverage of the first $160 million of such liability is provided through ANI and Mutual Atomic Energy Liability Underwriters ("MAELU"). The next $400 million is provided by retroactive assessments of up to a limit of $5 million per operating nuclear reactor per incident, but not more than $10 million per operating reactor in any calendar year. Based on its present ownership interest in one operating nuclear reactor, the Company's maximum potential assessment under these provisions would be $2.4 million per incident but not more than $4.8 million per calendar year.

Rate Matters

Effective July 15, 1981 the Company increased its rates by about $64.2 million annually in accordance with an option order of the Pennsylvania Public Utility Commission. On April 15, 1982 the Commission adopted its final order in the rate proceeding which determined that the option rate increase of $64.2 million annually was just and reasonable. The final order has been appealed to the Pennsylvania Commonwealth Court by the Pennsylvania Consumer Advocate and certain other complainants. 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.

On April 30, 1982 the Company filed with the Pennsylvania Public Utility Commission a new rate schedule affecting all classes of customers and estimated to increase annual revenues based on projected levels of business at December 31, 1982 by approximately $165 million (subsequently reduced to approximately $155 million). On January 28, 1983 the Commission entered a final order allowing an increase of $105.8 million beginning on January 29, 1983.

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,		
	1982	1981	1980
	(Thousands of Dollars)		
Maintenance	**$78,431**	$73,029	$71,697
Taxes other than income taxes:			
Gross receipts	**3[illegible]**	34,9[illegible]0	30,012
Property	**14,139**	12,583	11,149
State capital stock	**6,601**	6,301	2,816

Under the system of accounting followed by the Company, a portion of maintenance expenses and of taxes other than 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.

The above amounts are exclusive of discontinued steam heating operations.

O. QUARTERLY FINANCIAL INFORMATION (Unaudited):

The following is a summary of selected quarterly financial data (in thousands of dollars, except per share amounts):

	1982 Quarter Ended				1981 Quarter Ended			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**	March 31	June 30	Sept. 30	Dec. 31
Electric Operating Revenues (a)	**$207,398**	**$186,628**	**$181,720**	**$170,716**	$185,787	$184,928	$215,250	$200,264
Operating Income (a)	**41,662**	**38,480**	**40,223**	**34,942**	36,212	35,117	45,535	42,966
Income from Continuing Electric Operations Before Extraordinary Gain	**32,296**	**28,990**	**30,845**	**25,066**	23,717	21,599	32,655	31,440
Discontinued Steam Heating Operations (b)	**371**	**(484)**	**(9,811)**	**—**	823	(619)	(618)	(124)
Extraordinary Gain (c)	**—**	**—**	**—**	**9,609**	—	—	—	—
Net Income	**32,667**	**28,506**	**21,034**	**34,675**	24,540	20,980	32,037	31,316
Earnings Per Share:								
Income from Continuing Electric Operations Before Extraordinary Gain	**$.58**	**$.51**	**$.51**	**$.37**	$.44	$.39	$.66	$.57
Discontinued Steam Heating Operations (b)	**.01**	**(.01)**	**(.20)**	**—**	.02	(.01)	(.02)	—
Extraordinary Gain (c)	**—**	**—**	**—**	**.19**	—	—	—	—
Net Income	**.59**	**.50**	**.31**	**.56**	.46	.38	.64	.57

(a) Certain amounts previously reported as Operating Revenues and Operating Income for 1981 and the first two quarters of 1982 have been reclassified to set forth separately the results of the steam heating subsidiary as discontinued steam heating operations.

(b) See Note C to the financial statements for a discussion of discontinued steam heating operations.

(c) See Note D to the financial statements for a discussion of the extraordinary gain from early extinguishment of bonds.

P. 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, 1982
(Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1982 Dollars	Current Cost Average 1982 Dollars
Electric operating revenues	$746,462	$746,462	$746,462
Fuel	229,693	229,693	229,693
Purchased power (sales)—net	(23,172)	(23,172)	(23,172)
Other operation and maintenance expenses	193,006	193,006	193,006
Depreciation expense	62,939	143,093	157,314
Taxes other than income taxes	57,476	57,476	57,476
Income taxes	71,213	71,213	71,213
Other income and deductions—net	(62,234)	(62,234)	(62,234)
Interest charges	100,344	100,344	100,344
	629,265	709,419	723,640
Income from continuing electric operations (excluding reduction of property, plant and equipment to net recoverable cost)	$117,197	$ 37,043*	$ 22,822
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$259,022
Reduction of property, plant and equipment to net recoverable cost		$(13,991)	(68,120)
Effect of increase in general price level			(190,672)
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost			230
Gain from decline in purchasing power of net amounts owed		62,109	62,109
Net		$ 48,118	$ 62,339

*Including the reduction of property, plant and equipment to net recoverable cost, the net income on a constant dollar basis would have been $23,052.

**At December 31, 1982, current cost of property, plant and equipment, net of accumulated depreciation, was $5,252,097, while historical cost or net cost recoverable through depreciation was $2,521,882.

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

(In Thousands, Except Per Share Amounts)

	Year Ended December 31,				
	1982	1981	1980	1979	1978
Average 1982 dollars:					
Electric operating revenues	**$746,462**	$834,430	$790,391	$812,865	$831,951
Historical cost information adjusted for general inflation:					
Income from continuing electric operations (1) (excluding reduction of property, plant and equipment to net recoverable cost)	**37,043**	38,306	40,718	43,474	
Income per share from continuing electric operations (1) (after dividend requirements on preferred and preference stock)	**$ .30**	$ .33	$ .35	$ .37	
Net assets at year-end at net recoverable cost	**861,602**	783,287	775,267	790,097	
Current cost information:					
Income from continuing electric operations (1) (excluding reduction of property, plant and equipment to net recoverable cost)	**22,822**	22,695	22,497	20,777	
Loss per share from continuing electric operations (1) (after dividend requirements on preferred and preference stock)	**—**	$(.04)	$(.13)	$(.33)	
Excess of increase in general price level over increase in specific prices after reduction of property, plant and equipment to net recoverable cost	**230**	116,736	228,030	230,381	
Net assets at year-end at net recoverable cost	**861,602**	783,287	775,267	790,097	
General information:					
Gain from decline in purchasing power of net amounts owed	**62,109**	143,392	200,234	230,052	
Cash dividends declared per share of common stock	**$ 1.90**	$ 1.96	$ 2.11	$ 2.35	$ 2.55
Market price per share of common stock at year-end	**$14.75**	$14.06	$14.79	$18.11	$21.82
Average consumer price index	**289.1**	272.4	246.8	217.5	195.4
Historical basis:					
Electric operating revenues	**$746,462**	$786,229	$674,744	$611,547	$562,308
Cash dividends declared per share of common stock	**$ 1.90**	$ 1.85	$ 1.80	$ 1.76	$ 1.72
Market price per share at year-end	**$14.75**	$13.25	$12.63	$13.63	$14.75
Proven and probable coal reserves at beginning of year (tons)	**26,300**	28,100	29,900	30,650	31,650
Tons of coal mined	**942**	680	875	928	699
Average cost per ton of mined coal	**$31.62**	$35.10	$31.14	$28.71	$30.72

(1) Amounts for 1982 are before extraordinary gain. Amounts for 1979 are before cumulative effect of accounting change.

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 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.

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.

Duquesne Light Company

Selected Financial Data and Statistical Summary

(Thousands of Dollars, Except Per Share Amounts)

	1982	1981	1980	1979	1978	1972
SUMMARY RESULTS OF OPERATIONS						
Residential revenues	**238,496**	223,146	196,400	176,744	167,338	72,490
Commercial revenues	**263,374**	243,501	209,871	185,880	173,940	67,952
Industrial revenues	**225,292**	300,066	250,295	232,389	205,149	68,392
Street lighting and other revenues	**13,240**	12,383	11,052	10,370	9,942	4,389
Miscellaneous revenues	**6,060**	7,133	7,126	6,164	5,939	1,939
Total electric revenues	**746,462**	786,229	674,744	611,547	562,308	215,162
Operation and maintenance expenses	**399,527**	435,589	380,973	351,731	328,955	98,757
Depreciation	**62,939**	60,854	53,316	47,885	45,104	20,726
Taxes other than income taxes	**57,476**	57,694	47,637	46,956	41,471	17,073
Income taxes	**53,307**	57,801	50,643	41,592	37,802	16,666
Interest charges, net of allowance for borrowed funds used during construction	**100,344**	92,968	75,629	65,414	60,613	26,586
Other income, principally allowance for equity funds used during construction	**44,328**	28,086	26,749	21,587	17,868	10,109
Income from continuing electric operations before extraordinary gain	**117,197**	109,409	93,295	79,556	66,231	45,463
Loss (income) from discontinued steam heating operations	**9,924**	538	333	1,194	508	(530)
Income before extraordinary gain	**107,273**	108,871	92,962	78,362	65,723	45,993
Extraordinary gain	**9,609**	—	—	—	—	—
Net income	**116,882**	108,871	92,962	82,207†	65,723	45,993
Dividends on Preferred and Preference Stock	**22,701**	22,976	23,353	23,721	18,915	7,014
Earnings for Common Stock	**94,181**	85,895	69,609	58,486	46,808	38,979
Average number of common shares outstanding	**48,236**	41,764	33,267	32,239	31,464	16,691
Earnings per share of Common Stock:						
Income from continuing electric operations	**1.96**	2.07	1.83	1.73	1.50	2.30
Net income	**1.95**	2.06	1.82	1.81†	1.49	2.34
Dividends declared on Common Stock	**1.90**	1.85	1.80	1.76	1.72	1.66

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

	1982	1981	1980	1979	1978	1972
PLANT						
Property, plant and equipment	**3,024,554**	2,809,753	2,604,333	2,380,805	2,201,805	1,255,726
Accumulated depreciation	**504,680**	477,009	424,653	386,479	349,668	247,162
Net property, plant and equipment	**2,519,874**	2,332,744	2,179,680	1,994,326	1,852,137	1,008,564
TOTAL ASSETS	**2,883,411**	2,668,577	2,447,163	2,222,537	2,068,753	1,082,412
CAPITALIZATION						
Common Stock	**53,277**	45,303	40,166	35,550	31,750	18,150
Capital surplus	**649,376**	550,244	494,228	433,984	387,185	174,955
Retained earnings	**168,784**	167,149	158,546	158,772	158,035	117,332
Non-redeemable Preferred and Preference Stock	**156,137**	156,137	156,137	156,137	156,137	96,134
Redeemable Preferred and Preference Stock	**140,829**	143,924	146,867	149,998	154,572	29,985
First mortgage bonds (less sinking fund requirements and current maturities)	**1,006,637**	983,870	918,230	808,830	721,710	503,910
Other long-term debt (less current maturities)	**199,934**	176,682	126,981	127,436	128,358	38,765
Unamortized debt discount and premium—net	**(9,488)**	(9,453)	(7,161)	(5,770)	(4,977)	—
Total capitalization	**2,365,486**	2,213,856	2,033,994	1,864,937	1,732,770	979,231
RESIDENTIAL SERVICES						
Average use per customer (kilowatt-hours)	**5,668**	5,698	5,770	5,629	5,765	5,297
Average revenue per kilowatt-hour	**8.361¢**	7.806¢	6.828¢	6.363¢	5.924¢	2.928¢
SALES OF ELECTRICITY (millions of kilowatt-hours)						
Residential	**2,853**	2,858	2,876	2,778	2,825	2,475
Commercial	**4,163**	4,069	4,024	3,870	3,786	3,460
Industrial	**3,902**	6,582	6,272	6,546	5,908	5,445
Street lighting and other	**120**	125	129	131	130	111
Total	**11,038**	13,634	13,301	13,325	12,649	11,491

ENERGY SUPPLY AND PRODUCTION DATA	1982	1981	1980	1979	1978	1972
Energy supply (millions of kilowatt-hours)						
Generated in system plants	**12,352**	13,914	13,485	13,884	12,252	12,136
Purchased and net interchange	**(689)**	410	541	125	1,089	150
Losses and company use	**(625)**	(690)	(725)	(684)	(692)	(795)
Total	**11,038**	13,634	13,301	13,325	12,649	11,491
Generating capability (thousands of kilowatts)	**3,144**	3,177	3,179	3,294	3,289	2,453
Peak load (thousands of kilowatts)	**2,158**	2,522	2,474	2,296	2,379	2,075
Cost of fuel per million BTU	**167.865¢**	159.660¢	149.768¢	131.779¢	125.349¢	36.844¢
BTU per kilowatt-hour generated	**10,853**	10,931	10,811	10,924	11,031	10,647
Average production cost per kilowatt-hour	**2.575¢**	2.354¢	2.202¢	1.913¢	1.919¢	0.522¢
NUMBER OF ELECTRIC CUSTOMERS— At End of Year						
Residential	**503,987**	503,044	500,466	496,005	491,698	468,425
Commercial	**49,320**	48,859	48,308	47,978	47,681	45,717
Industrial	**1,999**	2,016	2,005	1,975	1,932	1,727
Street lighting and other	**1,647**	1,713	1,725	1,746	1,747	1,794
Total	**556,953**	555,632	552,504	547,704	543,058	517,663

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

Capital Resources and Liquidity

Construction

Construction expenditures during 1982, exclusive of allowance for funds used during construction, were approximately $231 million. These expenditures were primarily for the construction of three CAPCO generating units in addition to improving and expanding production, transmission and distribution systems, pollution control equipment and some of the Company's nuclear fuel requirements. Additional nuclear fuel is being leased.

The Company currently estimates that it will spend, exclusive of nuclear fuel and allowance for funds used during construction, approximately $214, $234, $208, $174 and $144 million for each of the years 1983 through 1987, 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 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. The Company issued $65 million of 16¼% First Mortgage Bonds on May 6, 1982. Funds provided to the Company under its Dividend Reinvestment Plan in 1982 amounted to approximately $25.7 million and an additional $7.4 million was reinvested on January 1, 1983. On August 10, 1982 the Company issued and sold 4.5 million shares of Common Stock. Net proceeds from the sale of the Common Stock were approximately $59.5 million. Portions of the net proceeds from these issues were used to pay short-term indebtedness and the balance was applied to construction expenditures. In addition, the Company intends to file a registration statement in March 1983 for the sale of up to $60 million First Mortgage Bonds. The exact timing and amount of this sale will depend on market conditions. The Company currently estimates that approximately 65% of the funds required for its 1983 construction program will come from outside financing.

In addition to the funds required for the construction program, $14 million of long-term debt matured in 1982, and $12.5 million will be required for maturities of long-term debt in 1983.

Interim financing will be through bank borrowings and sales of commercial paper. In addition, the Company has available a revolving credit agreement with two banks which allows the Company to borrow up to an aggregate of $60 million through 1986 and to convert the revolving loans to term loans for an additional

three years. See Note F 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

Effective July 15, 1981 the Company increased its rates by $64.2 million annually in accordance with an option order of the Pennsylvania Public Utility Commission. The final order which approved this amount has been appealed to the Pennsylvania Commonwealth Court by the Pennsylvania Consumer Advocate and certain other complainants.

On April 30, 1982 the Company filed with the Commission a new rate schedule affecting all classes of customers and estimated to increase annual revenues based on projected levels of business at December 31, 1982 by approximately $165 million (subsequently reduced to approximately $155 million). The Commission's final order allowed an increase of $105.8 million beginning on January 29, 1983. This rate filing used a future test year which should help reduce regulatory lag and improve liquidity.

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 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. Any overcollections of revenues are refunded to customers.

Extraordinary Property Losses

In 1980 the CAPCO companies cancelled the construction of four nuclear generating units. In January 1983, the Commission approved the recovery of the accumulated costs from the Company's customers. See Note B to the financial statements.

On October 1, 1982 the Shippingport Atomic Power Station was removed from commercial operation after notice from the United States Department of Energy that it was planning to terminate operation of the light water breeder reactor core at the station as of that date. The Company has received approval from the Commission to amortize and to recover the net undepreciated cost from its customers over a ten-year period. See Note B to the financial statements.

No return was allowed on either of the property loss amounts.

Deferred Coal Costs

By Interim Order entered January 12, 1981 the Commission directed that 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. 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. See Note G to the financial statements.

Beaver Valley Replacement Power

In connection with a February 20, 1981 rate order, the 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. Further hearings in the Beaver Valley refund proceedings have been held, and on November 19, 1982 the Commission adopted an order nisi which ordered refunds of $12.5 million over a two-year period. The Company expects to appeal this order if it becomes final. See Note M to the financial statements.

Allegheny County Steam Heating Company

On August 30, 1982 the Commission entered an order which became final on September 30, 1982 approving the discontinuance of steam service by the Company's steam heating subsidiary effective May 31, 1983 and the transfer of a major portion of the assets of the subsidiary to Pittsburgh Allegheny County Thermal, Ltd. for nominal consideration. See Note C to the financial statements. Since the subsidiary has been losing money over the past few years, the disposition should improve the Company's financial condition and results of operations.

Other

Under provisions of the Economic Recovery Tax Act of 1981 eligible individuals who are participants in the Company's Dividend Reinvestment Plan may elect to exclude from current income for federal income tax purposes for each tax year from 1982 through 1985 the fair market values of Common Stock received by reason of reinvestment of dividends to the extent the aggregate fair market value of such shares does not exceed $750 ($1,500 for spouses who file a joint return). This provision has provided incentive for 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 from continuing electric operations increased (decreased) in the years 1980 through 1982 over the respective preceding years, for the following reasons:

	1982	1981	1980
	(Millions of Dollars)		
General rate increases	**$ 43.0**	$ 65.6	$34.3
Electrical consumption	**(62.3)**	10.5	5.5
Energy clause revenues	**(19.0)**	33.9	20.0
State tax adjustment and other	**(1.5)**	1.5	3.4
	$(39.8)	$111.5	$63.2

The above comparisons do not include revenues from discontinued operations of the Company's steam heating subsidiary. See Note C to the financial statements.

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. Any overcollections of revenues are refunded to customers.

Sales of electricity decreased by approximately 19% for the year 1982 compared to 1981 due primarily to the severe economic recession in the Company's service area. Almost all of the decrease pertains to sales to industrial customers, particularly the steel industry, which decreased by approximately 41%. The economic recession is expected to continue to adversely affect sales through the first quarter of 1983 and beyond.

The decreases in operation (fuel, purchased power and other operation) and maintenance expenses in 1982 compared to 1981 were due to substantial reductions in fuel and purchased power expenses. The significant reductions in kilowatt-hour sales to industrial customers resulted in a surplus capacity situation. This available capacity and the requirements of neighboring utilities resulted in substantial net sales of power. Other operation expense increased in 1982 compared to 1981 due to a scheduled outage for refueling and modification work at Beaver Valley Unit No. 1 and increased customer, general and administrative expenses. In September 1980, the CAPCO companies placed Mansfield Unit No. 3 in commercial operation which increased operation, maintenance and depreciation 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 expenses. 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 Beaver Valley Unit No. 1. These increases in available generation were partially offset by the strike of the United Mine Workers of America in the second quarter of 1981. Other operation expenses increased in 1981 compared to 1980 due to expenses at Mansfield Unit No. 3, the effects of inflation and increased general and administrative expenses.

Taxes other than income taxes increased in 1981 primarily due to increased Pennsylvania gross receipts taxes, which vary in direct relationship to revenues, and as a result of increased capital stock tax expense. Fluctuations in income taxes are due primarily to changes in taxable income. See Note H to the financial statements. The effective income tax rate for the year ended December 31, 1982 was 31% and was 35% for both 1981 and 1980.

The increases in allowance for equity and borrowed funds used during construction (AFC) were primarily due to the increased cost of construction and increases in the AFC rate from 7.4% in 1980 to 7.6% in 1981 and to 8.5% in 1982. Return on investment in Warwick mine (which is permitted to be recovered through the energy cost rate to the extent that the actual cost per ton is less than the prevailing market price of similar Pennsylvania coal) and increased interest income resulting from increases in cash available for temporary investments were primarily responsible for the increase in other income and deductions-net in 1982 compared to 1981. Interest expense for each of the years 1982, 1981 and 1980 was higher due to increased total borrowings and higher average interest rates. The weighted average interest on all debt for 1982 was 9.6%, compared with 8.8% in 1981 and 7.8% in 1980. The increases in total borrowings were due to the issuance of additional debt to finance the Company's capital expenditures.

The adverse effect of the discontinued steam heating operations is reflected in the Statement of Consolidated Income. See Note C to the financial statements.

A non-taxable extraordinary gain of approximately $9.6 million, or $.20 per share, in December 1982 resulted from the exchange with an investment banking firm of newly issued common shares for certain First Mortgage Bonds having market values substantially lower than the face value of the bonds. See Note D to the financial statements.

Earnings per share of Common Stock for 1982, 1981 and 1980 were adversely affected by increases in the average number of shares outstanding, which reduced earnings per share by $.31, $.18 and $.34, 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 P to the financial statements.

Business of the Company

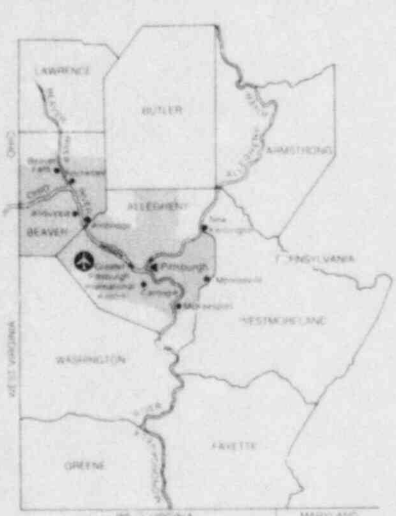
Duquesne Light Company is engaged principally in the production, transmission, distribution and sale of electric energy. The Company serves an area of approximately 800 square miles in Allegheny and Beaver Counties. This area, which includes the City of Pittsburgh, is located in Southwestern Pennsylvania 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. (See Note C to the financial statements for details regarding the discontinuance of steam service and the disposition of certain assets of the Steam Heating Company.)

The executive offices of
Duquesne Light Company
are located at
One Oxford Centre
301 Grant Street
Pittsburgh, Pennsylvania 15279.

Duquesne Light Company is an Equal Opportunity Employer.

Service Area



Duquesne Light Company Service Area

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 and was increased to 50¢ per share commencing April 1, 1983. Future dividends will depend upon future earnings, the cash position of the Company, construction requirements, rate regulation and other relevant factors. The Company 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 (1) 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 (2) 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 retained earnings at December 31, 1982 was restricted by virtue of this provision. The approximate number of holders of Common Stock as of the February 25, 1983 record date for the 1983 Annual Meeting was 138,000.

Federal Income Tax Status of Common Stock Dividends

The Company estimates that portions of the Common Stock dividends paid in 1982 represent a return of capital and are not taxable as dividend income as follows:

Payment Dates	Taxable As Dividend Income	Not Taxable As Dividend Income
Jan. 1	86.56%	13.44%
Apr. 1	74.13%	25.87%
July 1	74.13%	25.87%
Oct. 1	74.13%	25.87%

These estimates are subject to audit by the Internal Revenue Service.

Form 10-K Offer

If you are a holder or beneficial owner of any class of the Company's stock as of February 25, 1983, the record date for the 1983 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 1982 (including a list of exhibits). All requests must be made in writing to the Secretary, Duquesne Light Company, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279.

Board of Directors

John M. Arthur ‡
Chairman of the Board and President

Charles M. Atkinson
Vice President—Fiscal of the Company

Henry G. Allyn, Jr.*†
Retired President and Chief Executive Officer, 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

William H. Knoell †
President and Chief Executive Officer of Cyclops Corporation

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

Company Officers

John M. Arthur*
Chairman of the Board and President

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

*Stanley G. Schaffer retired as President and as a Director of the Company effective February 1, 1983. At the January 18 Board of Directors meeting, John M. Arthur was appointed to the position of President effective February 1, 1983, in addition to his present responsibility as Chairman.

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; three will be placed in service, one each 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 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: 880,000 KW
D.L. Ownership: 0
D.L. Share: 0

1972-1982 Dimensions Magazine

In mid-year 1983, the Company plans to publish *Duquesne Light Dimensions* containing in-depth information concerning the Company. *Dimensions* will include an 11-year statistical review and a discussion of some of the important issues affecting Duquesne Light Company. For a copy of *Dimensions* write:

Duquesne Light Company
Public Information Department
One Oxford Centre
301 Grant Street
Pittsburgh, Pennsylvania 15279

Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 10 A.M., Pittsburgh time, on Tuesday, April 26, 1983 in the second floor ballroom of the Hyatt Hotel at Chatham Center, Pittsburgh, Pennsylvania.

Transfer Agents and Registrars

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