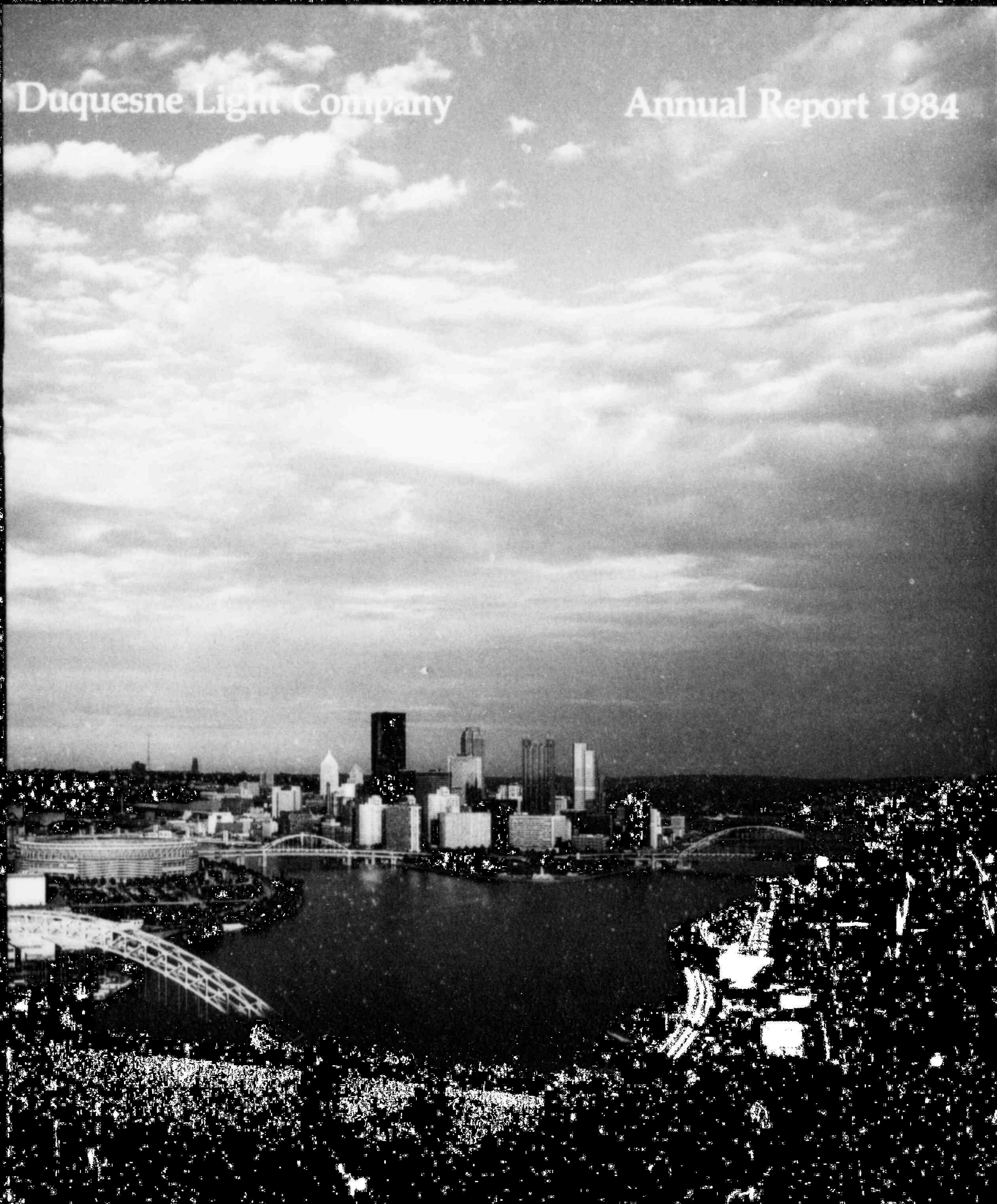
Duquesne Light Company

Annual Report 1984



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Duquesne Light Company Financial	1984	1983	Percent Change
Electric Operating Revenues (000)	**$ 861,775**	$ 800,345	+ 7.7
Net Income (000)	**$ 156,794**	$ 145,226	+ 8.0
Earnings Per Share of Common Stock	**$2.21**	$2.20	+ 0.5
Dividends Paid Per Share of Common Stock	**$2.045**	$1.975	+ 3.5
Shares of Common Stock Outstanding at Year End	**64,774,591**	58,419,659	+10.9

Operating			
Electric Plant (000)	**$ 3,799,499**	$ 3,293,481	+15.4
MWH Sales	**11,562,846**	10,990,239	+ 5.2
Peak Load Megawatts	**2,172**	2,184	— 0.5
Cost of Fuel Per Million BTU	**165.9¢**	167.1¢	— 0.7
Average BTU Per KWH Output	**10,682**	10,635	+ 0.4
Annual System Output MWH	**12,179,795**	11,736,037	+ 3.8

During the early Eighties, when many U.S. cities were holding back until the recession went away, Pittsburgh contracted a case of Building Fever. Builders, entrepreneurs and other people with new ideas changed the town. Transformed it, you might say.

The cover photo shows one aspect of the change. If you haven't seen downtown Pittsburgh in a while, you might not recognize the skyline. Four large office towers completed since the spring of 1982—and more started since this picture was taken. For those of you who are interested in the new Pittsburgh, we have a limited number of lithographs of our cover photograph available. If you would like one, write: Duquesne Light Company, Pittsburgh Photo, One Oxford Centre (30-4), Pittsburgh, PA 15279.

You can see more new sides of our community on pages 5 to 15.

Corporate Management Group

*Seated, from left, Walter T. Wardzinski, John M. Arthur and Charles M. Atkinson.
Standing, from left, Roger D. Beck, Clifford N. Dunn, William F. Gilfillan Jr., Earl J. Woolever, John J. Carey and Wesley W. von Schack.*

To Our Stockholders

Despite a drop in industrial sales in the fourth quarter, our total kilowatt-hour sales in 1984 were 5.2% higher than in 1983. Revenues also were up 7.7%, from $800 million to $862 million, and earnings rose from $2.20 per share to $2.21 per share.

In 1984 we took a one-time write-off of approximately $5 million, or 4¢ per share, to pay for an early retirement incentive program that helped us accomplish the objectives of our on-going, Companywide reorganization. Three hundred twenty-four employees elected to take early retirement.

Economy

The economy of our service territory is rapidly changing from an industrial base to a research and service base. Today more than 80 percent of the work force is employed outside of the traditional manufacturing environment, and despite a seven percent regional population decline during the past 20 years, 180,000 new jobs have been created in our service area and the surrounding seven county southwestern Pennsylvania region.

In 1984, the growing segment of our "commercial" market was medical and research facilities, fast-food restaurants, and new office buildings.

We are particularly pleased that Carnegie-Mellon University was chosen by the federal government as the site of the new $103 million Software Engineering Institute, a computer software research center. More than 400 advanced technology companies, employing nearly 40,000 people are now located in the Pittsburgh region, and it is predicted that a growing number of these types of businesses will locate in our area in the near future.

Tartan Laboratories, Inc. which is automating the process of compiling computer software, is one of many examples of local advanced technology success stories. Formed in 1981 by three Carnegie-Mellon professors, the firm now employs 50. Tartan executives project sales of $70 million and employment to leap to 250 by 1986.

The production of steel in Pittsburgh is about half of what it was three years ago. However, agreements being negotiated by the Reagan administration with foreign producers could help to stabilize the domestic steel industry and possibly increase steel production in and around Pittsburgh.

During late February 1985, LTV Steel Co. restarted one of two 100 megawatt electric arc furnaces and the blooming mill at its Southside facility, resulting in the recall of about 275 workers. Both units had been idle for most of 1984.

Our Economic Development Department continues to work with many local businessmen and government officials to expand and diversify the region's economic base.

A source of added business in 1984 was the sale of bulk power to other utilities. Revenues from the sale of bulk power to such companies as Allegheny Power, Cleveland Electric, Ohio Edison and Toledo Edison amounted to $27 million in 1984 versus $7 million the prior year.

Rate Changes

In April, your Company filed for a 4.8% ($42 million) rate increase. On January 24, 1985, the Public Utility Commission approved an increase of $31.4 million. This rate adjustment, which went into effect January 26, 1985, should allow earnings to show further improvement in 1985.

Early in 1985, we expect to file for an additional increase in rates.

Reorganization

Throughout 1984, all areas of the Company were involved in our extensive reorganization program. We are concentrating responsibility for running the Company in five major functional groups plus a legal and corporate communications organization, reducing the number of departments from 44 to 25. The overall goals of the reorganization plan are to strengthen our planning and control functions, to reduce management costs, and to further enhance our ability to manage future changes.

Cost Containment

Several years ago we formalized our on-going cost containment program. In 1984, the documented savings amounted to $3.5 million. Since the inception of the program in late 1981, we have documented savings of approximately $26 million.

Our Community

Local basic industry remained depressed in 1984, and unemployment was higher than the national average. Growth in other areas of the economy is helping to relieve the impact on our community; nevertheless, unemployment remained a grave concern, and some of our customers have found themselves unable to cope with their utility bills.

Duquesne Light is committed to help the poor, the unemployed and the elderly cope with their utility bills. The Dollar Energy Fund, a non-profit agency we helped launch and continue to support, paid all or part of the electric bills of 642 Duquesne Light residential customers in 1984. In a remarkable demonstration of community spirit, 20,000 of our customers voluntarily added an extra $1 to their electric bills each month as their contribution to the Fund.

Deserved Praise

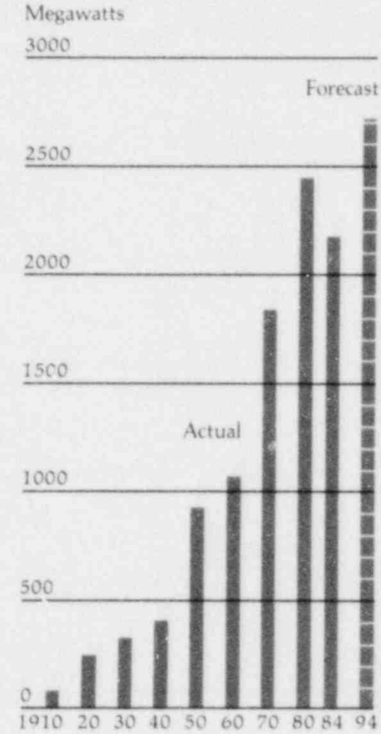
We especially want to salute our fellow Duquesne Light employees, who joined together to go the extra mile in 1984 when friends and neighbors needed help. One small example: 2,400 Duquesne Light employees gave more than $57,000 to the Salvation Army Food Fund.

The Company also wishes to thank its stockholders for their support through the difficulties of the year. Speaking for all members of management, we pledge our continued efforts to earn your support and confidence.

John M Arthur

John M. Arthur
Chairman of the Board and President

February 14, 1985



Annual System Peak Load

Perspective on 1984

REVENUES/EARNINGS/ CUSTOMER SERVICES

Operating Revenues Post 7.7 Percent Gain

Duquesne Light's revenues rose 7.7 percent —from $800 million in 1983 to $862 million in 1984. A rate increase approved in the fall of 1983, an adjustment to the energy cost rate in April 1984, and improved sales to certain customer groups were the principal reasons for the increase.

Earnings per share of common stock were $2.21 in 1984 compared to $2.20 with a lower average number of shares outstanding in 1983.

Sales Increase 5.2 Percent

A drop in fourth quarter industrial sales and cooler-than-average summer temperatures combined to moderate sales gains made in the first half of the year. Overall, sales increased 5.2 percent—from 10,990 million kilowatt-hours in 1983 to 11,563 million kilowatt-hours in 1984.

The commercial market remains strong, with the continuing expansion of medical and office facilities leading the way. Currently, six medical facilities totalling more than 10 megawatts of new load and $2.5 million in revenues are in the design stage or are under construction in our territory.

Several major projects also are planned for the downtown area. Construction is expected to begin in the spring of 1985 on a 32-story, 1.3 million square foot corporate headquarters building for Allegheny International, Inc. In a related project, work has begun on the $36 million renovation of a nearby theater into a second major performing arts center. A few blocks away, directly across the street from the David L. Lawrence Convention Center, ground has been broken for Liberty Center, a 1.5 million square-foot hotel/office/parking complex.

Advanced Technology Makes Gains

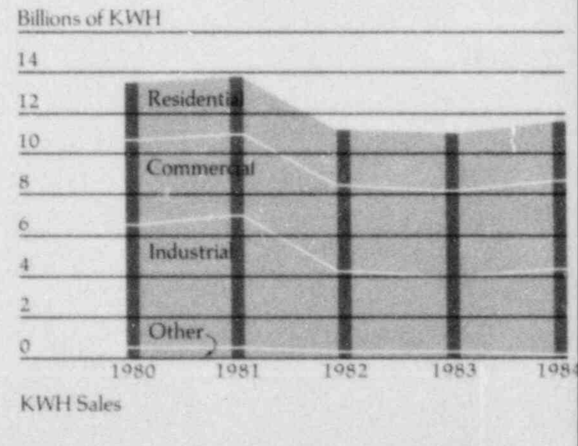
While still working to revitalize our traditional industrial base, Duquesne Light has been an active participant in the continued efforts to diversify our service area. Our Third Quarter Report to Stockholders detailed the emergence of advanced technology industries in our service area over the past five years. That diversification movement received a major boost in November when the U.S. Department of Defense announced that Carnegie-Mellon University had been selected as the site for the Software Engineering Institute, a $103 million computer software research center which is expected to employ up to 250 people and to attract related firms that will employ many more.

Helping Those in Need

The continued steel industry slump has caused hardship in pockets of our service area. The Company has supported economic development groups throughout our service territory in their efforts to publicize positive development features, to encourage inquiries from prospective new companies and to improve employment. Duquesne Light Company and its employees have a long tradition of taking an active role in the community. For example, in 1984, employees donated $363,000 to the local United Way campaign and $57,000 to a Salvation Army food bank. The Company pledged an additional $318,000 to the local United Way.

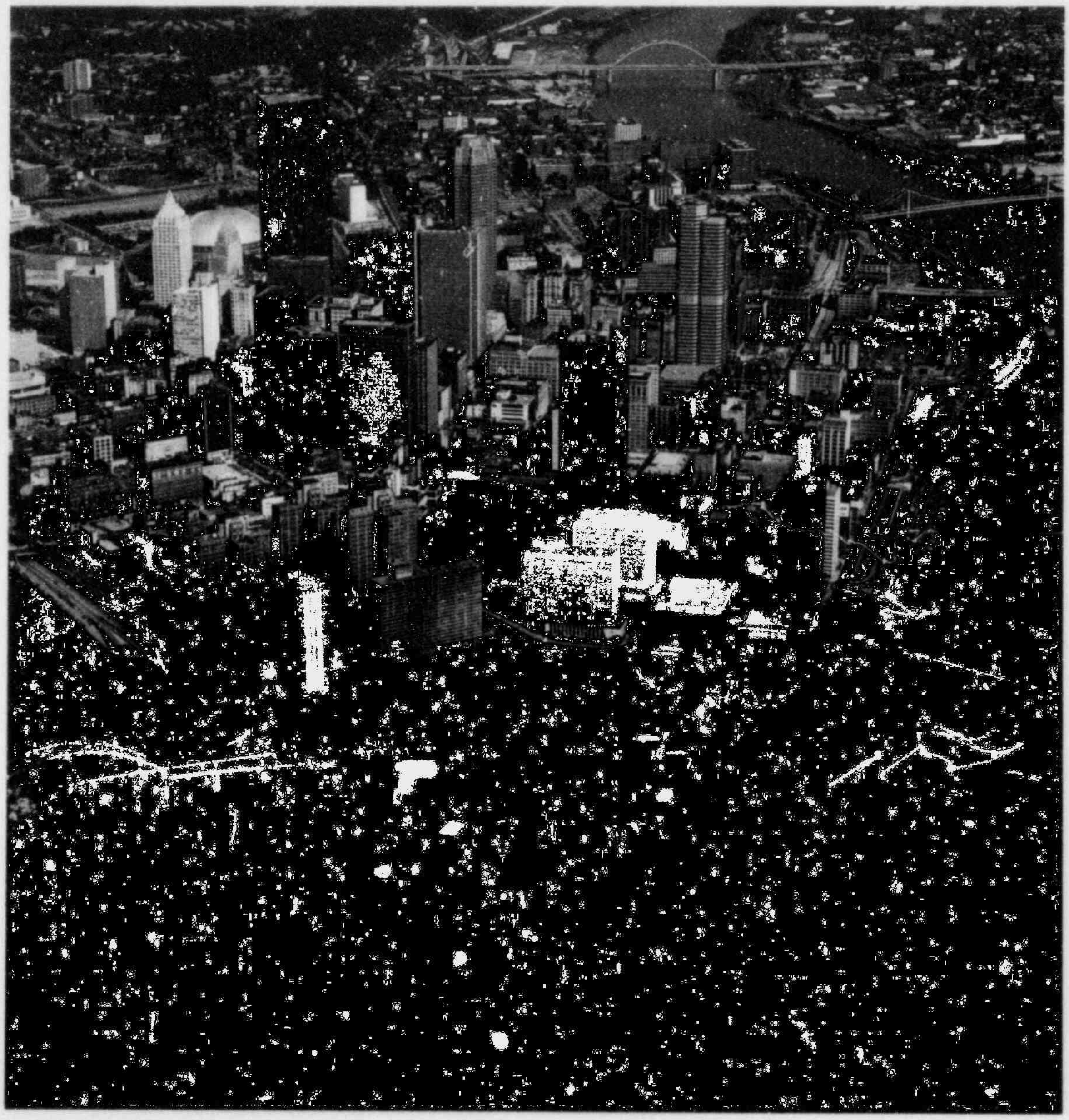
The Dollar Energy Fund, a non-profit energy assistance program Duquesne Light helped to establish and continues to support, was honored by a governor's task force as one of 25 model programs in Pennsylvania. For its efforts, Duquesne Light was a recipient of the Keystone Award. Customers are encouraged to voluntarily add $1 to their monthly bills in support of the program to help those who legitimately have a verified inability to pay their utility bills.

The Company also worked to simplify eligibility standards for the state's energy assistance program. In the past, grant



KWH Sales

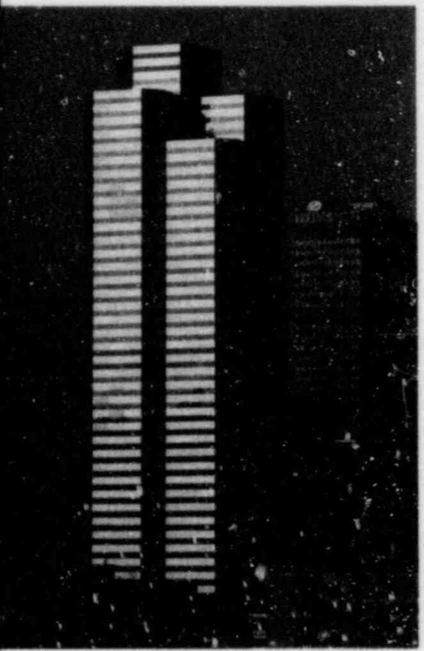
Suddenly new. Perhaps more than any other U. S. city, Pittsburgh changed during the recession. The most conspicuous changes occurred downtown. Confined by hill and river, downtown tends to grow upward: three of the four tallest buildings seen here are new.



money could be paid only to the supplier of the primary heat source. We successfully sought a modification of this provision to include the secondary heat source, since virtually all sources of home heat rely on electricity to operate.

For the fourth year, Duquesne Light honored 30 of its commercial, industrial and governmental customers for their implementation of conservation measures that resulted in significant energy savings as part of the Edison Electric Institute's National Energy Watch program. Energy Watch is a voluntary program to meet national energy conservation objectives through local and individual initiatives.

Complementary combination. One Oxford Centre combines a 46-story office tower with a public urban plaza into a single flowing structure. Duquesne Light, Westinghouse Credit Corporation and Joy Manufacturing Company are all headquartered there. The five-story atrium is home to a variety of shops and restaurants.



OPERATIONS

Power Sales
Successful negotiations resulted in the sale of 100 megawatts of power to the Michigan Power Pool from December 1983 through April 1, 1984, and to The Cleveland Electric Illuminating Company from April 23, 1984 through October 21, 1984. In addition to these long-term arrangements, other power sales were negotiated for weekly and daily periods.

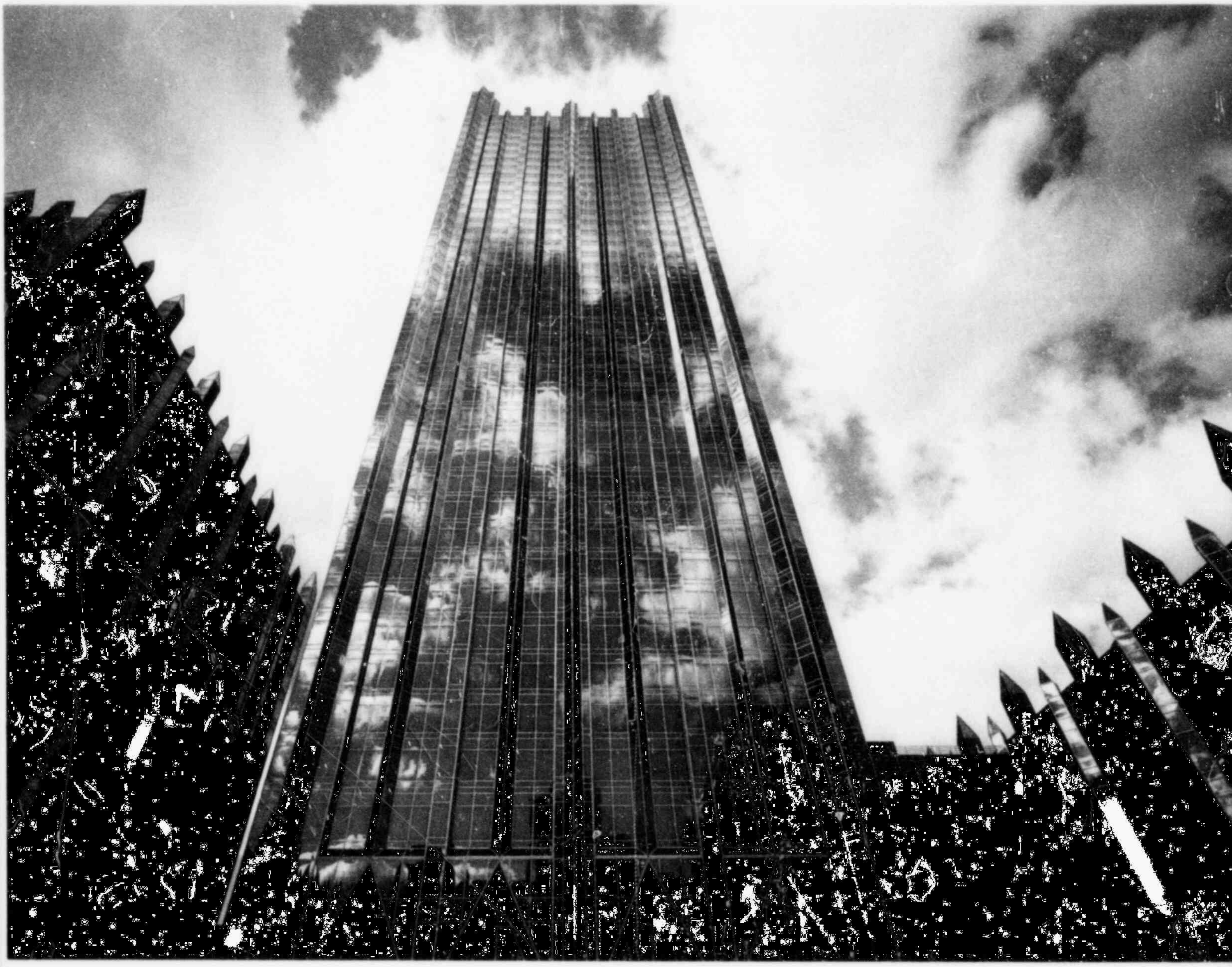
UMWA Coal Contract
A 40-month labor agreement between the United Mine Workers of America and the Bituminous Coal Operators of America (of which the Company is a member) was signed in September. This is the first time in 20 years that such a labor agreement was signed without a national coal strike.

Test Scrubber at Elrama
Elrama Power Station is the site of a wet scrubber research project designed to improve the efficiency of sulfur dioxide removal and the reliability of the equipment, thus reducing operating costs. The new system could have advantages in terms of improved use of lime, higher sulfur dioxide removal, use of less costly additives, better sludge dewatering characteristics and decreased power usage. The testing, which is expected to cover a one-year period, is being conducted by our Environmental Affairs and Fossil Generation units.

Renewable Resources
Duquesne Light currently has contracts with four renewable resource electric generating facilities located within our service area. These include a small hydroelectric plant and three windmills. During 1984, the hydro facility supplied about 7.4 million kilowatt-hours of electricity to the Company's system, and two of the windmills supplied 423 kilowatt-hours. The combined total from all of the sources was approximately .06 percent of the Company's total generation, or enough to supply energy to over 1,000 homes for a year.

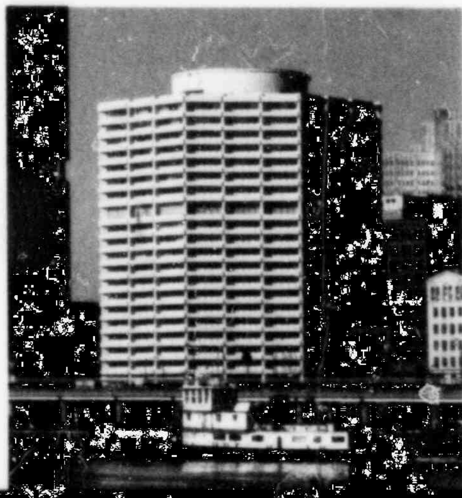
Research and Development
Duquesne Light pools its research dollars with more than 450 other electric utilities across the country to fund the Electric Power Research Institute's (EPRI) development of technology options for better production, transmission, distribution and utilization of electric power. During 1984 we contributed $2,437,000 to EPRI's research

Financial hub. The 54-story One Mellon Bank Center is the focal point of a four-building financial complex, and headquarters of the state's largest bank.



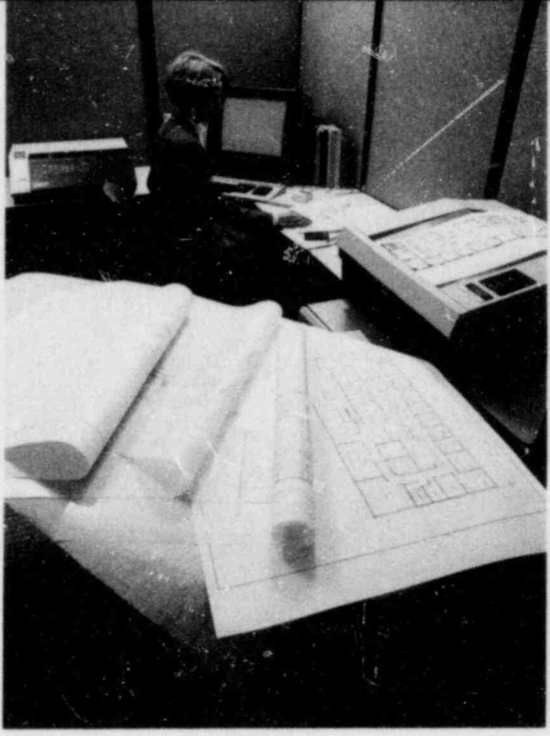
The skyscraper as palace. PPG Place is that rare modern building that is fanciful and fun to look at. The walls are faceted mirrors, sheathed with almost 50 acres of reflective glass. The structures are topped with spires, 231 of them. The six buildings of the complex surround a block-sized public square.

Topped by a heliport, National Intergroup Inc.'s new headquarters looks south across the Monongahela River. The first building on the site was Samuel Semple's tavern; in 1770, George Washington wined and dined local dignitaries there.



Computer U. By the beginning of the 1986 school year, every student, professor and administrator at Carnegie-Mellon University (CMU) will have a personal computer with the ability to link up with any of the other 7,500 personal computers, and the university mainframes. CMU recently contracted to run the new Software Engineering Institute for the Department of Defense.

High-tech immigrant. American Robot moved its five employees from North Carolina to be handy to Pittsburgh's research concentration. Two years later it has more than 130 employees, is shipping production robots, and—exceptional in its industry—has broken into the black.



University spinoff. Formative Technologies offers a computer-powered design system that can link scores or even hundreds of engineers and handle the largest projects. Most new Pittsburgh companies of the "high tech" variety are spinoffs of local industrial or university research, and Formtek is typical—it was founded by a pair of professors.

and development efforts. Through membership in EPRI, Duquesne Light maximizes its return on every R&D dollar, avoids costly duplication of research, and allows for extensive projects far beyond the financial capability of any one utility.

NUCLEAR

BVPS Unit No. 1 Has Good Year

Prior to its October 11, 1984 shutdown for refueling, maintenance and modification work, the nuclear Beaver Valley Power Station Unit No. 1 attained an on-line operating availability of 92.3 percent for 1984. The unit's annual availability for 1984 was 71.8 percent. During this refueling, the fourth in the 810-megawatt unit's eight-year history, the reactor core was upgraded to an 18-month refueling cycle, which should increase its availability in 1985. The unit was returned to service on January 5, 1985.

CAPCO Reviews Construction

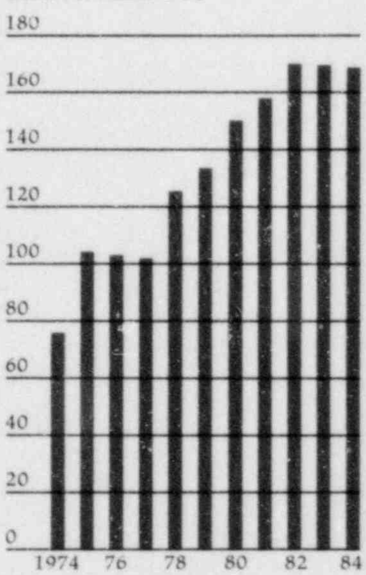
On January 28, 1985, the CAPCO companies announced a delay in the completion date of Beaver Valley Unit No. 2, which is about 83% complete, from late 1986 to about the end of 1987. The new schedule recognizes the need for more time to complete the unit in light of regulatory and safety requirements adopted since the unit was designed, as well as the decision of the CAPCO companies to concentrate on the completion of Perry Unit No. 1. This delay is expected to increase the total estimated cost of the unit from about $3.5 billion to approximately $3.9 billion, including allowance for funds used during construction. Duquesne Light's share of the increase is $55 million, bringing our total commitment in the unit to about $536 million.

The estimated completion date of Perry Unit No. 1, which is about 97% complete, remains unchanged—around the end of 1985—and the cost estimate for this unit remains unchanged. The schedule required to meet this target has little, if any, margin to accommodate the unexpected problems that can arise during this stage of the construction of a nuclear generating unit.

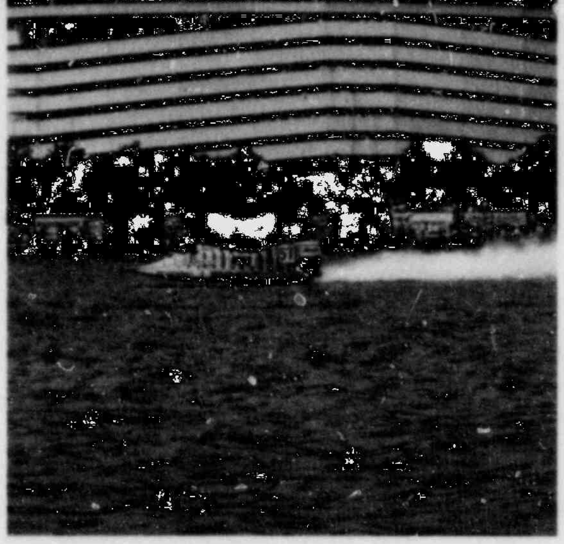
The estimated cost and completion timetable for Perry Unit No. 2 remain under review. And, as announced previously, the CAPCO companies are considering all options with respect to this unit, including cancellation. Duquesne Light owns 13.74% of each of the three units under construction.

Last Fuel Removed from Shippingport

The final shipment of spent nuclear fuel from the historic, and now closed, Shippingport Atomic Power Station (SAPS) was completed on September 6, 1984. This ended the defueling of the plant and for-



Cost of Fossil and Nuclear Fuel



Watery weekend. During the Three Rivers Regatta, half a million spectators flock to riverbanks and downtown buildings to watch them race: sternwheelers, 100-mph Formula One hydroplanes, leather boats, crew shells, Anything That Floats. Between races there are sky shows, stage shows and a boat show. Dessert, of course, is fireworks.

Classics in the park. The Pittsburgh Symphony has its summer home in 36-acre Point State Park, at the tip of downtown. For a dozen performances during July, music lovers need bring only lawn chairs and picnic baskets; the concerts are free.

Racers in the park. Bugatti, Morgan Three Wheeler, Frazier-Nash, Turner, Elva—and other makes of yore. Pittsburgh's Vintage Grand Prix is an annual weekend-long event.

mally terminated the contract for operation of the station between Duquesne Light and the Naval Reactors branch of the U.S. Department of Energy (DOE). Responsibility for decommissioning of the plant was transferred from Naval Reactors to the Richland Operations Office of the DOE that same day.

The decommissioning of SAPS once again will focus the world's attention on Shippingport, Pa. Within 20 to 30 years, over 100 nuclear units could be decommissioned as their useful lives end. It is predicted that engineers from as many as 19 foreign countries and 50 domestic utilities may visit SAPS during the decommissioning period. When the job is completed in 1988, it is expected that the level of residual background radiation remaining on the property will be low enough to allow unrestricted use of the property. Present plans call for using the land for facilities needed by the adjacent Beaver Valley Power Station.

Nuclear Fuel Savings

The CAPCO companies have renegotiated contracts with the U.S. Department of Energy to provide nuclear fuel enrichment services on a requirements basis at a price lower than previous arrangements. The new contracts also provide for accelerated liquidation of anticipated future inventories plus additional flexibility features, all of which will provide significant cost savings for nuclear fuel processing.

Successful Emergency Drill

Beaver Valley Power Station and 27 surrounding communities, along with emergency agencies from Pennsylvania, Ohio and West Virginia, participated in a full-scale emergency exercise on June 27, 1984. Nuclear Regulatory Commission (NRC) evaluators did not find any deficiencies in meeting on-site emergency planning requirements during this exercise. The Federal Emergency Management Agency (FEMA) evaluated the performance of state and local governments during the drill.

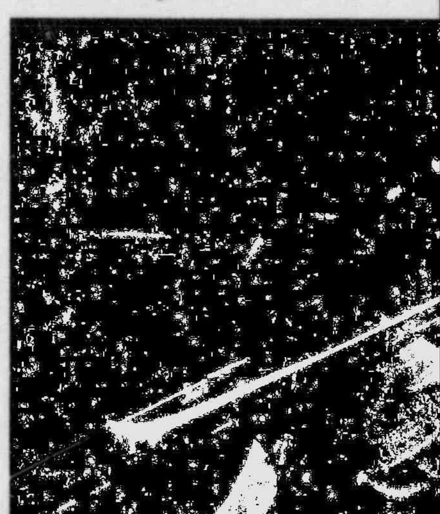
INTERNAL OPERATIONS

Reorganization Making Progress

The reorganization implementation plan, which was started late last year, continues to make good progress. The purpose of the reorganization is to develop an organizational structure which focuses attention on the Company's external marketplace and to provide efficient, cost-effective service to the community.

The new organization has brought about the consolidation of 44 departments into 25 departments through the integration of related functions. This provides for maximum operating efficiency within functional groups by expanding responsibility and

Pittsburgh's own annual Jazz Festival starred Lionel Hampton, George Shearing, Roy Eldridge, Maxine Sullivan, Stan Getz and too many other Hall-of-Famers to list here. The finale, on Labor Day, was a free concert by Sarah Vaughan and her Trio.



avoiding duplication. The structural reorganization phase of the implementation process is expected to be completed in early 1985. However, the reorganization process will continue throughout 1985, with emphasis on developing and expanding management information and planning and control systems to support the new organization.

Safety Record Best in State

For the second consecutive year, Duquesne Light Company is the recipient of safety awards from the Pennsylvania Electric Association (PEA) and the Edison Electric Institute (EEI). The PEA award honored the Company for achieving the best results in accident prevention in 1983 among those Pennsylvania electric utilities with more than one million work-hours annually. It marks the first time in Duquesne Light history that this honor has been achieved two years in a row.

The EEI award, also received for the second year in a row, recognizes electric utility companies in the United States which achieve a 25 percent or greater reduction in injuries as compared with the preceding three years.

BVPS Computer System

A major new computer system to process the scheduling and project management system for the nuclear refueling outage at Beaver Valley Unit No. 1 has been installed to reduce outside expenditures and improve operational control. The fourth refueling just completed at Unit No. 1 was successfully accomplished using this computer system.

Management Audit Completed

The Company completed its program to implement a series of recommendations aimed at improving its operating efficiency and performance resulting from a 1982

Formerly a warehouse. Commerce Court was a monumental turn-of-the-century building that stood empty for many years. Now it is 380,000 square feet of shops and offices located just a five-minute walk across the bridge from downtown.

Pennsylvania Public Utility Commission (PUC) mandated management audit. In August 1984, a final implementation report documenting the Company's progress was submitted to, and accepted by, the PUC.

Equal Employment

In August 1984, the Office of Federal Contract Compliance Programs conducted a review of Duquesne Light's equal employment opportunity policies and practices and found the Company to be in compliance with federal requirements.

On July 10, Duquesne Light and the Western Pennsylvania Branches of the National Association for the Advancement of Colored People (NAACP) joined together to formally declare their support for the Fair Share Principles endorsed by the Edison Electric Institute and the national office of the NAACP. The declaration sets forth mutually beneficial goals that the Company has supported in the past and will continue to support as part of its commitment to the community. Duquesne Light was the first utility company in Pennsylvania to achieve such an agreement with the NAACP.

Supervisory Training/Management Development

In January 1984, a new supervisory training program for first-line supervisors and a management development program for mid-level managers were initiated. Supervisors receive skills training in handling everyday supervisory situations. Mid-level managers learn techniques to increase productivity, through and with their staffs, by using a participative management style when appropriate. One-third of the Company's mid-level management and supervisors completed the two programs during 1984. All supervisors and managers are scheduled to complete the programs by the first quarter of 1986.

Formerly a freight house. In the old days, freight trains pulled in here to be loaded. Now, still called The Freight House, it shelters 10 restaurants and 55 shops that sell mostly out-of-the-ordinary things. Some are housed in old (but shiny) freight cars.

CONSTRUCTION AND FINANCING

Capital Expenditures

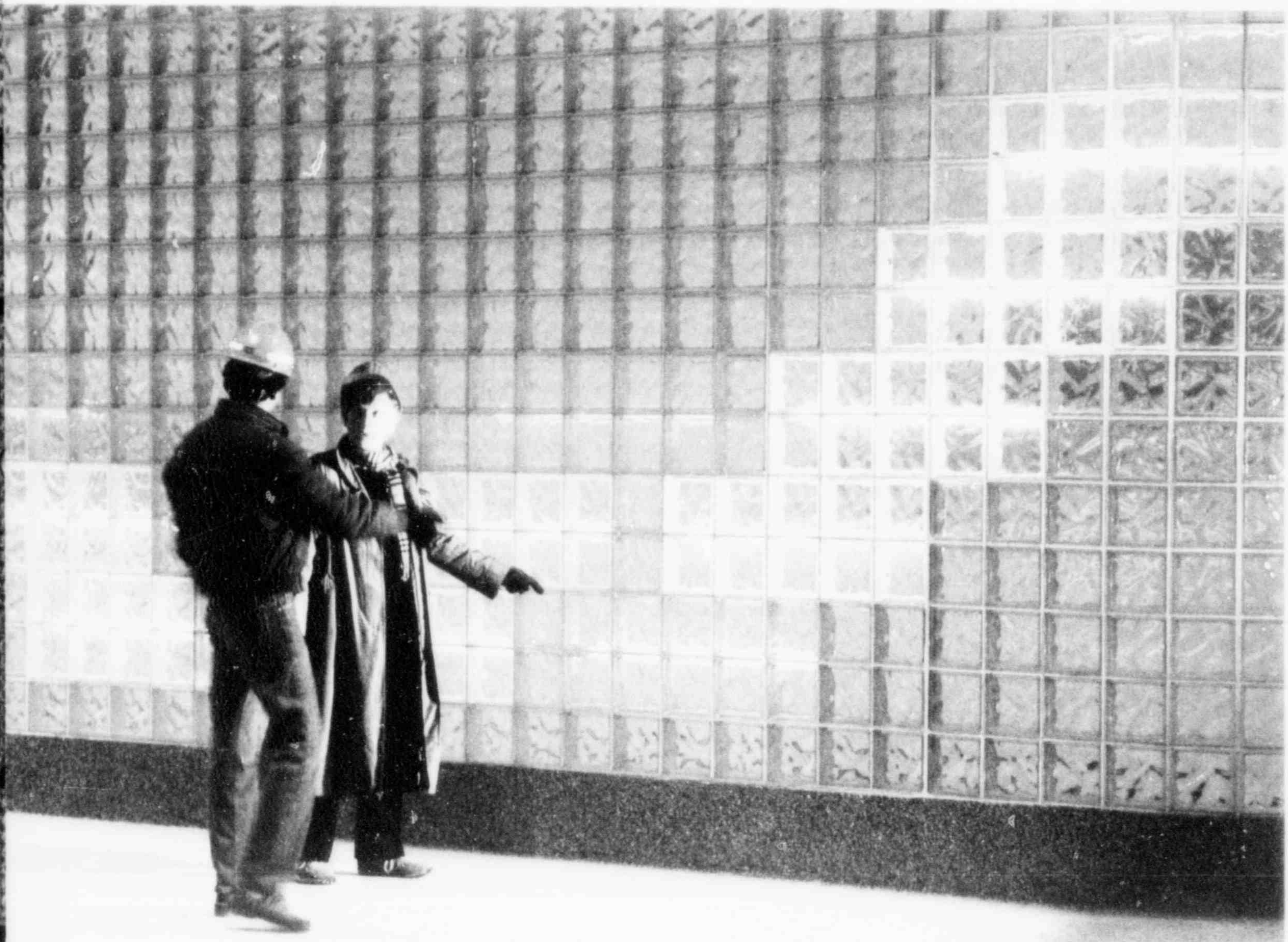
Our net capital expenditures for the year came to $251 million. About 26 percent of this was generated internally. The balance was raised by outside financing. This included the following:

1. On March 27, 1984, the Company issued $50,000,000 principal amount of 13⅜% First Mortgage Bonds, Series due March 1, 1991. Net proceeds to the Company were approximately $49.6 million.
2. On November 14, 1984, the Company issued 2,500,000 shares of Common Stock. Net proceeds to the Company were approximately $37.4 million.
3. On December 19, 1984, the Beaver County Industrial Development Authority issued $51 million of 11⅝% tax-exempt pollution control revenue bonds, Series due December 1, 2014, to finance the Company's share of the costs of certain pollution control facilities at the nuclear Beaver Valley Power Station. Net proceeds made available for payment of such costs amounted to approximately $49.7 million.
4. The Company issued 3,793,836 shares of Common Stock in 1984 pursuant to its Dividend Reinvestment Plan. Issuances of Common Stock through this Plan aggregated approximately $48 million. In addition, 61,096 shares of Common Stock were issued pursuant to employee stock ownership plans.

Standby Credit

The Company completed arrangements for an increase in its existing revolving credit agreement with two banks from $60 million to $100 million. In addition, the Company

Formerly a grand hotel. Teddy Roosevelt and Woodrow Wilson stayed here. So did Caruso and Carnegie, Sarah Bernhardt and Lillian Russell. The renovators restored the best of the old grandeur and completely rebuilt everything else. Now it's the University of Pittsburgh student union.



recently reached agreement with several banks on the basic terms and conditions for an additional standby credit facility of $125 million. The detailed documentation for the agreement currently is being finalized, but is not yet complete. The main purpose of the expanded credit facilities is to assure all investors, including stockholders, that the Company has the financial capabilities to complete its major construction projects currently underway.

Rates

On January 25, 1985, the Pennsylvania Public Utility Commission entered a final order concerning the Company's request for a $42 million increase in annual rates which was filed on April 27, 1984. The order allowed $31.4 million of the rate increase requested.

SHAREHOLDER RELATIONS/ COMMUNICATIONS

New Transfer Agent, Registrar

The First Jersey National Bank of Jersey City, N.J., has been named by the Board of Directors as the Company's sole transfer agent and registrar, effective February 1, 1985. This change was initiated by the announcement by Chemical Bank of New York, the Company's previous major transfer agent, that it would discontinue stock transfer services. First Jersey, one of six potential transfer agents invited to submit proposals to the Company, is expected to provide excellent service. The change to one transfer agent and registrar will result in significant cost savings to the Company.

Dividend Reinvestment Plan

The Shareholder Relations Department continues to improve its administration of the Dividend Reinvestment Plan, which was brought in-house late last year at a significant cost savings to the Company. The current annual cost savings are approximately $175,000.

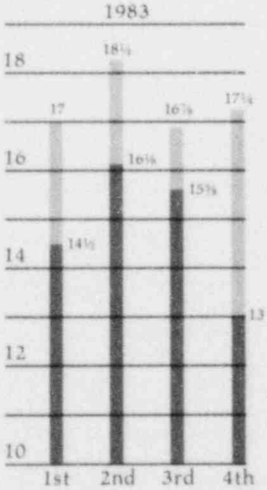
Toll-Free Numbers

Two toll-free numbers have been established for Duquesne Light stockholders. A major advantage will be the expediting of stockholder inquiries. The following numbers should be used for calling Shareholder Relations: Outside Pennsylvania (1-800-247-0400); Pennsylvania, except Pittsburgh (1-800-367-6400); Pittsburgh (393-6167).

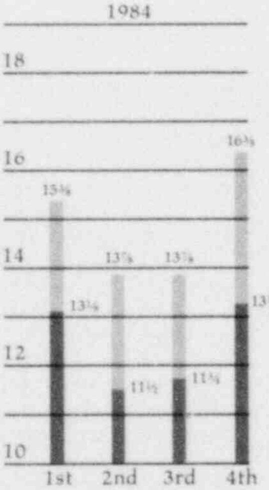
Film Receives National Award

In December, the Company was awarded a CINE Golden Eagle Certificate by the Council on International Nontheatrical Events for its film "The Changing Nuclear Neighborhood." The new public service film, used by our Company's Speakers' Team, deals with the controversial issue of nuclear energy—how it affects and is accepted by people living near a nuclear plant. This award is made annually for films judged suitable to represent American cinematography in international film festivals. This is the second time the Company has won the award. In 1980, the film "Pittsburgh—an American Industrial City" also was honored. Both films were produced by the Corporate Communications Unit.

Downtown keeps changing. A new headquarters for Allegheny International (model shown here) is about to start construction. Half a block away, a huge old movie palace is being transformed into a Center for the Performing Arts. (It's the second one downtown, but the first, Heinz Hall, houses symphony, dance and opera companies, and can no longer meet the increasing scheduling demands of the performing arts community.) A few blocks away, across the street from the Convention Center, the double towers of a hotel-plus-office building will soon rise.



High/Low Common Stock



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.

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 on 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 certified public accountants, whose appointment was approved at the 1984 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 1984. 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 certified 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.

Wesley W. von Schack

Wesley W. von Schack
Vice President-Finance Group
and Chief Financial Officer

John M. Arthur

John M. Arthur
Chairman of the
Board and President

Opinion of Independent Certified Public Accountants

DELOITTE HASKINS & SELLS
Certified Public Accountants
2400 One PPG Place
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, 1984 and 1983 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, 1984. 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, 1984 and 1983 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, 1984, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1984 in the method of accounting for leases as described in Note L to the financial statements.

Deloitte Haskins & Sells

February 14, 1985

Duquesne Light Company

Statement of Consolidated Income

For the Three Years Ended December 31, 1984
(Thousands of Dollars, Except Per Share Amounts)

	1984	1983	1982
ELECTRIC OPERATING REVENUES	**$861,775**	$800,345	$746,462
OPERATING EXPENSES:			
Fuel	**234,910**	192,512	229,693
Purchased power (sales)—net	**(26,637)**	(7,330)	(23,172)
Other operation	**149,477**	136,188	126,151
Maintenance (Note N)	**73,214**	65,016	66,855
Depreciation	**77,532**	73,682	62,939
Taxes other than income taxes (Note N)	**70,279**	60,651	57,476
Income taxes (Note H)	**97,266**	92,954	71,213
Total Operating Expenses	**676,041**	613,673	591,155
OPERATING INCOME	**185,734**	186,672	155,307
OTHER INCOME:			
Allowance for equity funds used during construction	**60,133**	50,709	35,415
Income taxes—credit (Note H)	**22,666**	16,760	17,906
Other income and deductions—net	**4,594**	246	8,913
Total Other Income	**87,393**	67,715	62,234
INCOME BEFORE INTEREST CHARGES	**273,127**	254,387	217,541
INTEREST CHARGES:			
Interest on long-term debt	**133,431**	118,813	111,726
Other interest	**3,611**	5,736	3,471
Allowance for borrowed funds used during construction, net of income taxes	**(20,709)**	(15,388)	(14,853)
Total Interest Charges	**116,333**	109,161	100,344
INCOME FROM CONTINUING ELECTRIC OPERATIONS BEFORE EXTRAORDINARY GAIN	**156,794**	145,226	117,197
LOSS FROM DISCONTINUED STEAM HEATING OPERATIONS (Note C)	**—**	—	(9,924)
INCOME BEFORE EXTRAORDINARY GAIN	**156,794**	145,226	107,273
EXTRAORDINARY GAIN ON EARLY EXTINGUISHMENT OF BONDS (Note D)	**—**	—	9,609
NET INCOME	**156,794**	145,226	116,882
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	**21,955**	22,411	22,701
EARNINGS FOR COMMON STOCK	**$134,839**	$122,815	$ 94,181
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	**61,054**	55,883	48,236
EARNINGS PER SHARE OF COMMON STOCK:			
Income from continuing electric operations	**$2.21**	$2.20	$1.96
Loss from discontinued steam heating operations (Note C)	**—**	—	(.21)
Extraordinary gain (Note D)	**—**	—	.20
Earnings for common stock	**$2.21**	$2.20	$1.95
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	**$2.06**	$2.00	$1.90

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

Duquesne Light Company

Consolidated Balance Sheet

December 31, 1984 and 1983
(Thousands of Dollars)

	1984	1983
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant in service	**$2,537,398**	$2,436,715
Construction work in progress	**1,077,992**	856,766
Property held under capital leases (Note L)	**184,109**	—
Total	**3,799,499**	3,293,481
Less accumulated depreciation and amortization	**659,745**	555,641
Property, Plant and Equipment—Net	**3,139,754**	2,737,840
OTHER PROPERTY AND INVESTMENTS	**32,358**	14,474
CURRENT ASSETS:		
Cash and temporary cash investments (at cost which approximates market)	**50,416**	73,751
Accounts receivable:		
Customers (less reserve for uncollectible accounts of $2,976 and $2,652, respectively)	**70,467**	69,822
Other	**32,094**	19,797
Materials and supplies (generally at average cost):		
Coal	**55,708**	59,205
Other operating and construction	**37,528**	34,983
Deferred income taxes	**—**	3,121
Other current assets	**12,291**	13,028
Total Current Assets	**258,504**	273,707
DEFERRED DEBITS:		
Extraordinary property losses (Note B)	**32,526**	36,565
Deferred coal costs (Notes G and M)	**22,635**	22,343
Other deferred debits	**44,533**	60,882
Total Deferred Debits	**99,694**	119,790
Total	**$3,530,310**	$3,145,811

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

	1984	1983
LIABILITIES		
CAPITALIZATION (Note E):		
Common Stock (authorized—75,000,000 shares; outstanding—64,774,591 and 58,419,659 shares, respectively)	$ 64,775	$ 58,420
Capital surplus	804,377	724,147
Retained earnings	184,313	175,938
Total Common Stockholders' Equity	1,053,465	958,505
Non-redeemable Preferred and Preference Stock	156,137	156,137
Redeemable Preferred and Preference Stock	127,414	134,979
First mortgage bonds	1,149,547	1,100,147
Other long-term debt	278,384	234,019
Unamortized debt discount and premium—net	(10,896)	(10,967)
Total Capitalization	2,754,051	2,572,820
OBLIGATIONS UNDER CAPITAL LEASES (Note L)	119,335	—
CURRENT LIABILITIES:		
Long-term debt maturing within one year (Note E)	700	16,700
Lease obligations due within one year (Note L)	25,582	—
Accounts payable	113,487	95,030
Accrued income taxes (Note H)	3,139	5,778
Other accrued and deferred income taxes	17,363	19,430
Energy cost rate refunds	2,775	—
Accrued interest	35,131	40,390
Dividends declared	38,808	34,771
Sinking fund and purchase requirements (Note E)	16,423	13,391
Spent nuclear fuel (Note E)	9,131	—
Reserve for loss on discontinued steam heating operations (Note C)	—	3,181
Total Current Liabilities	262,539	228,671
DEFERRED CREDITS:		
Investment tax credits	165,802	143,764
Accumulated deferred income taxes	222,633	193,649
Other deferred credits	5,950	6,907
Total Deferred Credits	394,385	344,320
COMMITMENTS AND CONTINGENT LIABILITIES (Notes B, G, I, L and M)		
Total	$3,530,310	$3,145,811

Duquesne Light Company
Statement of Changes in Consolidated Financial Position

For the Three Years Ended December 31, 1984 (Thousands of Dollars)	1984	1983	1982
SOURCE OF FUNDS:			
Continuing electric operations:			
Income from continuing electric operations before extraordinary gain	**$156,794**	$145,226	$117,197
Items not affecting working capital:			
Depreciation and amortization	**92,810**	79,800	66,303
Investment tax credit deferred—net	**22,038**	17,317	17,335
Income taxes deferred—net (noncurrent portion)	**28,984**	21,049	18,466
Allowance for equity and borrowed funds used during construction	**(80,842)**	(66,097)	(50,268)
Total	**219,784**	197,295	169,033
Discontinued steam heating operations	**—**	—	(9,924)
Items not affecting working capital (including depreciation: 1982, $595)	**—**	—	(349)
Total From Operations (excluding extraordinary gain)	**219,784**	197,295	158,760
Extraordinary gain on early extinguishment of bonds	**—**	—	9,609
Sale of bonds	**50,000**	110,000	65,000
Issuance of Common Stock	**86,466**	80,485	107,369
Obligations under capital leases	**155,805**	—	—
Nuclear fuel obligations	**4,269**	6,125	24,221
Construction costs reimbursed by trustees from proceeds of pollution control financings	**35,453**	19,680	—
Decrease in working capital (exclusive of current maturities of long-term debt and lease obligations) (a)	**39,489**	—	30,312
Total Source of Funds	**$591,266**	$413,585	$395,271
APPLICATION OF FUNDS:			
Construction expenditures (net of allowance for equity and borrowed funds used during construction)	**$250,522**	$224,280	$231,022
Dividends on capital stock	**148,419**	134,628	115,247
Property held under capital leases	**155,805**	—	—
Reduction of bonds	**16,700**	12,500	43,852
Reduction of obligations under capital leases	**10,888**	—	—
Sinking fund and purchase requirements	**6,417**	4,696	2,691
Deferred coal costs	**292**	4,005	2,669
Other—net	**2,223**	14,742	(210)
Increase in working capital (exclusive of current maturities of long-term debt and lease obligations) (a)	**—**	18,734	—
Total Application of Funds	**$591,266**	$413,585	$395,271

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

	1984	1983	1982
Current assets:			
Cash and temporary cash investments	**$ 50,416**	$ 73,751	$ 33,663
Accounts receivable	**102,561**	89,619	86,968
Materials and supplies and other current assets	**105,527**	107,216	117,009
Deferred income taxes	**—**	3,121	7,265
Total	**258,504**	273,707	244,905
Current liabilities:			
Accounts payable and accrued interest	**148,618**	135,420	127,881
Accrued taxes	**20,502**	25,208	20,061
Energy cost rate refunds	**2,775**	—	9,974
Dividends declared	**38,808**	34,771	30,302
Sinking fund and purchase requirements	**16,423**	13,391	10,987
Spent nuclear fuel	**9,131**	—	—
Reserve for loss on discontinued steam heating operations	**—**	3,181	2,698
Total	**236,257**	211,971	201,903
Working capital at close of year	**22,247**	61,736	43,002
Working capital at beginning of year	**61,736**	43,002	73,314
Increase (decrease) in working capital (exclusive of current maturities of long-term debt and lease obligations)	**$(39,489)**	$ 18,734	$(30,312)

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

Statement of Consolidated Retained Earnings

For the Three Years Ended December 31, 1984
(Thousands of Dollars)

	1984	1983	1982
BALANCE AT BEGINNING OF YEAR	**$175,938**	$165,340	$163,705
NET INCOME FOR THE YEAR	**156,794**	145,226	116,882
Total	**332,732**	310,566	280,587
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	**2,168**	2,219	2,271
$7.20 Series	**2,520**	2,520	2,520
$8.375 Series	**2,437**	2,512	2,512
Preference Stock:			
$7.50 Series	**1,859**	1,944	2,038
$2.75 Series	**646**	891	1,035
$2.375 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: 1984—$2.06; 1983—$2.00; 1982—$1.90)	**126,464**	112,217	92,546
Total Cash Dividends	**148,419**	134,628	115,247
BALANCE AT CLOSE OF YEAR	**$184,313**	$175,938	$165,340

Statement of Consolidated Capital Surplus

For the Three Years Ended December 31, 1984
(Thousands of Dollars)

	1984	1983	1982
BALANCE AT BEGINNING OF YEAR	**$724,147**	$649,376	$550,244
Premium on Common Stock issued	**80,111**	75,342	99,395
Other	**119**	(571)	(263)
BALANCE AT CLOSE OF YEAR	**$804,377**	$724,147	$649,376

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 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 capitalized. In connection with retirements, reserves are charged with the carrying value, plus dismantling charges, less salvage, of property retired.

Revenues

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

Allowance for Funds Used During Construction

In accordance with the uniform system of accounts prescribed by regulatory authorities, an allowance for funds used during construction (AFC) is included in construction work in progress and credited to other income for AFC attributable to equity funds and to interest charges for AFC attributable to borrowed funds, net of income taxes. AFC is a non-cash item and is computed using a composite rate, which is applied to the balance of construction work in progress and assumes that funds used for construction are provided by borrowings and by preferred, preference and common stock equity. The rates were 9.4%, 9.6% and 8.5% in 1984, 1983 and 1982, 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 (Commission) in the determination of depreciation in rate proceedings. Provisions for depreciation, amortization and depletion of other Company property are made on various bases such as amount of nuclear fuel burned and tons of coal mined.

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 from its customers annual decommissioning annuity payments to provide for the decommissioning of radioactive components only. Such recoverable costs are currently estimated to be approximately $31,000,000. The Company deposits applicable revenues in a trust fund which has been established to pay for such costs. At December 31, 1984, $1,971,000 was included in the Decommissioning Trust Fund.

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 Commission for ratemaking 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.

At December 31, 1984 the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided was approximately $168 million. These timing differences relate primarily to accelerated depreciation on assets which was flowed through for ratemaking purposes and other flow-through tax deductions, which are deductible currently for tax purposes but capitalized for accounting and ratemaking purposes, including certain taxes, the debt portion of AFC, pensions and certain other employee benefits.

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 with interest.

Nuclear Fuel Costs

The Company's share of nuclear fuel costs under lease agreements is charged to fuel expense based on the quantity of electric energy generated. In 1982 the Company began capitalizing acquisitions of nuclear material through a trust arrangement that is intended to finance a portion of the Company's requirements for nuclear fuel. In 1984 all nuclear fuel leases were capitalized. See Note L concerning the capitalization of leases.

Under the Nuclear Waste Policy Act of 1982 (the Act), the United States Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from reactors. Under the Act the Company is required to pay a quarterly fee to DOE of one mill per kilowatt-hour on nuclear generation after April 6, 1983 and a one-time fee for nuclear generation through April 6, 1983. The one-time fee of approximately $8,921,000 is expected to be paid in June 1985. The Company began recovering the one-time fee in rates in February 1983 and has established a fund for the deposit of the amounts recovered. The balance of the Spent Nuclear Fuel Fund was $2,896,000 at December 31, 1984. The Company also is recovering the fees for generation after April 6, 1983 and is making payments to DOE on a quarterly basis.

Other

Other property and investments are stated principally at cost, less accumulated depreciation where applicable. Other operating and construction inventories are stated at average cost and include certain general and administrative costs related to operating the storerooms. General and administrative costs remaining in inventory at December 31, 1984 and 1983 were $3,985,000 and $3,316,000, respectively. 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. On October 1, 1982 the Shippingport Atomic Power Station was removed from commercial operation. The Company received approval from the Federal Energy Regulatory Commission (FERC) and the Pennsylvania Public Utility Commis-

sion (Commission) to amortize and recover from its customers its share of the accumulated construction costs and a portion of the undepreciated cost of the Shippingport station, over a ten-year period which began January 29, 1983. The unrecovered costs as of December 31, 1984 were $32,526,000. The Commission's order approving the amortization and recovery of the accumulated construction costs has been appealed by the Pennsylvania Consumer Advocate to the Pennsylvania Commonwealth Court.

The Company is not earning any return on the unamortized costs of either of the property losses.

C. DISCONTINUED STEAM HEATING OPERATIONS

The Company's steam heating subsidiary, Allegheny County Steam Heating Company, discontinued steam service to the public effective May 31, 1983 and transferred to Pittsburgh Allegheny County Thermal, Ltd. (PACT) a major portion of the subsidiary's assets for nominal consideration.

The provision for loss on the disposition of the subsidiary's assets was $9,000,000 (net of income tax benefit of approximately $8,712,000) and the loss from operations was $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 included 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. These losses were charged against 1982 income and no additional loss was incurred due to the disposition. At December 31, 1984 assets and liabilities included in the consolidated balance sheet applicable to the subsidiary were not material.

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 $9,609,000, or $.20 per share, which was the difference between the exchange value of the Common Stock and the net carrying amount of the bonds.

E. CAPITALIZATION

	December 31, 1984		December 31, 1983	
	Shares Outstanding	Amount	Shares Outstanding	Amount
Common Stock—$1 par value (1)	64,774,591	$ 64,774,591	58,419,659	$ 58,419,659
Capital Surplus				
Premium on Common Stock		$811,446,733		$731,335,853
Capital stock expense		(7,536,995)		(7,622,344)
Other		467,941		433,442
Capital surplus		$804,377,679		$724,146,951
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)	250,872	$ 12,543,600	256,872	$ 12,843,600
$8.375 Series (3)	288,000	14,400,000	300,000	15,000,000
Preference Stock—$1 par value (cumulative) (1)				
$7.50 Series (3)	245,320	245,320	255,920	255,920
$2.75 Series (4)	192,665	192,665	270,570	270,570
$9.125 Series (3)	500,000	500,000	500,000	500,000
		27,881,585		28,870,090
Premium on Redeemable Preferred and Preference Stock		105,354,240		109,173,360
Purchase and Sinking Fund Requirements		(5,821,625)		(3,064,250)
Redeemable Preferred and Preference Stock		$127,414,200		$134,979,200
Involuntary liquidation value		$127,414,200		$134,979,200

(1) Authorized shares: Common Stock—75,000,000; 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 1984, 1983 and 1982:

	Year Ended December 31,		
	1984	1983	1982
Common Stock:			
Shares outstanding at beginning of year	**58,419,659**	53,276,525	45,302,520
Issuances:			
Common Stock sales	**2,500,000**	2,475,000	4,500,000
Dividend Reinvestment Plan	**3,793,836**	2,524,407	1,962,320
Employee Stock Ownership Plans	**61,096**	143,727	104,787
Exchanged for outstanding First Mortgage Bonds	—	—	1,406,898
Shares outstanding at end of year	**64,774,591**	58,419,659	53,276,525

The number of shares of Common Stock reserved at December 31, 1984 for issuance under the Dividend Reinvestment Plan and the Employee Stock Ownership Plans are 2,570,288 and 737,019, respectively.

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. If 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 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 $105 through April 1, 1986; $103 through April 1, 1989; and $101 thereafter; $2.75—redeemable at $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 $6.24 in 1985 to $.48 in 1997.

The Preferred Stock is entitled to quarterly cumulative dividends. If 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 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 $104 through September 30, 1989; and $101 thereafter; $7.20—redeemable at $102.50 through March 31, 1987; and $101 thereafter; $8.375—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 1985 and continuing through 1997 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 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 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 combined aggregate sinking fund and mandatory purchase requirements for the next five years as of December 31, 1984 are as follows:

Year Ending December 31,	Sinking Fund and Mandatory Purchase Requirements
1985	$7,121,625
1986	7,805,000
1987	7,805,000
1988	7,805,000
1989	6,430,000

The following summary indicates the changes in the number of shares of Redeemable and Non-redeemable Preferred and Preference Stock outstanding during 1984, 1983 and 1982:

	Year Ended December 31, 1984	1983	1982
Preference Stock:			
Shares outstanding at beginning of year	**3,426,490**	3,533,940	3,565,220
Purchases and redemptions—$2.75 Series	**(77,905)**	(94,450)	(20,080)
—$7.50 Series	**(10,600)**	(13,000)	(11,200)
Shares outstanding at end of year	**3,337,985**	3,426,490	3,533,940
Preferred Stock:			
Shares outstanding at beginning of year	**2,126,841**	2,132,841	2,138,841
Purchases—$8.375 Series	**(12,000)**	—	—
—$8.64 Series	**(6,000)**	(6,000)	(6,000)
Shares outstanding at end of year	**2,108,841**	2,126,841	2,132,841

Gains on the redemption of capital stock are recorded in capital surplus; losses, to the extent they exceed cumulative gains, are charged to retained earnings.

First Mortgage Bonds (amount authorized is unlimited by indenture)

	December 31, 1984	1983
Series due July 1, 1984 (3⅛%)	**$ —**	$ 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 March 1, 1991 (13⅜%)	**50,000,000**	—
Series due February 1, 1996 (5⅛%)	**22,800,000**	22,800,000
Series due February 1, 1997 (5¼%)	**24,600,000**	24,600,000
Series due February 1, 1998 (6⅜%)	**34,700,000**	34,700,000
Series due January 1, 1999 (7%)	**30,000,000**	30,000,000
Series due July 1, 1999 (7¾%)	**28,947,000**	28,947,000
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**	26,461,000
Series due June 1, 2002 (7½%)	**28,470,000**	28,470,000
Series due January 1, 2003 (7¼%)	**32,670,000**	32,670,000
Series due July 1, 2003 (7¾%)	**35,000,000**	35,000,000
Series due April 1, 2004 (8⅝%)	**44,100,000**	44,100,000
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**	97,400,000
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**	65,000,000
Series due April 1, 2013 (12⅛%)	**60,000,000**	60,000,000
Series due December 1, 2013 (13%)	**50,000,000**	50,000,000
Total	**1,160,148,000**	1,126,148,000
Less: Current maturities—Series due July 1, 1984 (3⅛%)	**—**	16,000,000
Current sinking fund requirements	**10,601,480**	10,001,480
First Mortgage Bonds	**$1,149,546,520**	$1,100,146,520

Other Long-Term Debt

Pollution Control Obligations:

Date of Issuance	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	December 31, 1984	December 31, 1983
September 21, 1972	5.49%	1983	2002	$ 23,000,000	$ 23,500,000
June 21, 1973	5.685%	1984	2003	11,800,000	12,000,000
October 25, 1973	5.755%	1984	2003	15,000,000	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
November 1, 1983	10.50%	—	2013	20,500,000	20,500,000
December 19, 1984	11.625%	—	2014	51,000,000	—
Total				235,300,000	186,000,000
Less: Current maturities				700,000	700,000
Current sinking fund requirements				—	325,000
Pollution Control Obligations				234,600,000	184,975,000
Nuclear Fuel Obligations				34,614,888	30,345,499
Spent Nuclear Fuel Liability				—	8,920,790
5% Sinking Fund Debentures (authorized $20,000,000) due March 1, 2010				9,169,000	9,778,000
Total Other Long-Term Debt				$278,383,888	$234,019,289

The pollution control obligations arise from arrangements between the Company and governmental 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 such bonds.

The nuclear fuel obligations result from a trust arrangement 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.

The spent nuclear fuel liability results from a requirement to provide for payment of a one-time fee to the United States Department of Energy for ultimate storage and disposal of spent nuclear fuel used in the generation of electricity through April 6, 1983 and was reclassified to current liabilities in 1984. See Note A to the financial statements.

Sinking fund requirements and maturities for the next five years for long-term debt outstanding, exclusive of nuclear fuel obligations, as of December 31, 1984 are as follows:

Year Ending Dec. 31,	Sinking Fund Requirements	Maturities
1985	$11,601,480	$ 700,000
1986	11,401,480	20,700,000
1987	11,776,480	800,000
1988	11,995,480	15,800,000
1989	12,251,480	10,900,000

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, 1984, sinking fund requirements for the 5% Debentures had been satisfied for 1985, 1986 and 1987, and the 1988 sinking fund requirement had been partially satisfied in the amount of $31,000.

Total interest costs incurred during 1984, 1983 and 1982 were $152,251,000, $131,248,000 and $125,004,000, respectively, of which $96,676,000, $73,310,000 and $60,075,000 were capitalized or deferred, including allowance for funds used during construction.

F. SHORT-TERM BORROWING ARRANGEMENTS

At December 31, 1984, the Company had lines of credit with three banks totaling $33,500,000, all of which were unused. Effective January 1, 1985 one of these lines, in an amount of $20,000,000, expired. The range of interest rates under these lines of credit is from prime rate less one half of one percent to prime rate or basic rate or a special rate as may be offered from time to time by the banks. There are no commitment fees or compensating balances associated with the existing lines of credit. In addition, the Company has a $100,000,000 revolving credit agreement available to December 15, 1988. At December 31, 1984, no loans were outstanding under the revolving credit agreement. Borrowings outstanding at December 15, 1988 may be converted to term notes payable in six equal semiannual installments commencing June 15, 1989 and concluding December 15, 1991. Interest rates fluc-

tuate during the revolving and term periods, depending on the period of borrowings, at fluctuating prime rate and at percentages in excess of prime, Euro-Rate, certificate of deposit or component cost of funds rates. There is a commitment fee of ⅜ % per annum on the average daily unborrowed amount of the commitment.

During the years ended December 31, 1984, 1983 and 1982 the maximum amount of short-term borrowings outstanding, consisting principally of commercial paper borrowings, was $25,500,000, $48,020,000 and $37,000,000, the average daily short-term borrowings outstanding were $4,631,000, $12,251,000 and $1,559,000 and the weighted average daily interest rate applicable to such short-term borrowings was 11.46%, 9.40% and 15.39%, respectively.

G. DEFERRED COAL COSTS

The Company and the other CAPCO companies have 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. 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. At December 31, 1984 the unrecovered cost of Quarto coal paid by the Company was approximately $22,155,000. 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.

A Stipulation Agreement between the Company and the Commission staff which set forth a method intended to permit the eventual recovery of the unrecovered cost of Quarto coal was the subject of hearings during 1983 in which the Consumer Advocate and the Commission staff participated. On February 3, 1984 the administrative law judge issued a recommended decision, subject to the Commission's approval, concluding that the Company was prudent in initiating and continuing the Quarto project and that the Stipulation Agreement was in the public interest and was a fair and reasonable resolution of the investigation into the reasonableness of the cost of Quarto coal. The administrative law judge recommended that the Stipulation Agreement and its methodology for recovering the cost of the Quarto coal be approved and the Commission's investigation terminated. Exceptions to the recommended decision were filed by the Commission staff and the Consumer Advocate. On March 30, 1984 the administrative law judge denied the exceptions and the Commission staff and Consumer Advocate appealed such denial to the Commission. The Commission took action on May 25, 1984 to adopt the administrative law judge's recommended decision subject to the Commission staff's exceptions which included revising the methodology set forth in the Stipulation Agreement effective January 1, 1984. On September 11, 1984 the Commission entered its final order reflecting this action. While certain aspects of the final order are unclear, the Company believes that the final order (a) should allow the Company to apply the methodology of the Stipulation Agreement as originally approved by the administrative law judge retroactively to the period June 1980 through December 1983 and (b) will require the Company to apply the revised methodology approved by the Commission in its final order to Quarto coal costs commencing on January 1, 1984. At December 31, 1984, the Company estimates the deferred Quarto costs would have been $12.4 million had the final order been implemented and approved in a new energy cost rate.

On September 26, 1984 the Company filed with the Commission a petition for clarification, rehearing and reconsideration, including a request that the Commission stay the effectiveness of the final order as it applies to the period commencing January 1, 1984. On December 10, 1984 the Commission entered an order denying the Company's petition in all material respects.

The Company believes that the revised methodology provided in the Commission's final order may not, under certain circumstances, permit full recovery of the deferred coal costs by the scheduled expiration dates of the Quarto coal sales agreements in the year 1999. Fluctuations in the deferred coal costs may result during this period depending on actual Quarto costs, market price of other coal, amount of Quarto coal burned and other factors. On January 8, 1985 the Company appealed the Commission's order to the Pennsylvania Commonwealth Court. On January 30, 1985 the Company filed a new energy cost rate with the Commission which reflects the application of the methodology of the Stipulation Agreement to the period June 1980 through December 1983 and the revised methodology commencing on January 1, 1984. If approved by the Commission, the new rate will permit the Company to recover about $9.7 million of the accumulated deferred Quarto coal costs. With respect to the balance of such costs and any additional deferred costs, the Company believes that the deferred coal costs were prudently incurred and that it is probable that all or substantially all of such costs ultimately will be recovered. See Note M to the financial statements.

In accordance with the Commission's February 20, 1981 rate order, the cost of coal mined at the Company's wholly-owned Warwick Mine in excess of the average market prices of similar quality coal purchased by Pennsylvania utilities may not be passed through the energy cost rate, but may be deferred and recovered to the extent that the cost of Warwick coal falls below such market price. Such deferred costs amounted to $480,000 at December 31, 1984. Additionally, the Commission eliminated the Warwick mine from the Company's rate base for ratemaking purposes. The exclusion from rate base is approximately $48,000,000.

H. INCOME TAXES

Total income taxes in 1984, 1983 and 1982 were comprised of the following components:

	1984	1983	1982
		(Thousands of Dollars)	
Included in operating expenses:			
Currently payable:			
Federal	$ 38,004	$ 33,931	$ 25,257
State	16,042	14,295	12,694
Income taxes deferred—net:			
Federal	16,577	22,955	13,997
State	4,893	5,555	(228)
Investment tax credit deferred—net	21,750	16,218	19,493
Total	97,266	92,954	71,213
Included in other income (income taxes—credit):			
Currently payable:			
Federal	(18,060)	(13,354)	(14,267)
State	(4,606)	(3,406)	(3,639)
Total income tax expense	$ 74,600	$ 76,194	$ 53,307
Taxes currently payable—federal and state	$ 31,380	$ 31,466	$ 20,045
Taxes deferred—net	21,470	28,510	13,769
Investment tax credit deferred—net	21,750	16,218	19,493
Total income tax expense	$ 74,600	$ 76,194	$ 53,307

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:

	1984	1983	1982
Excess of tax over book depreciation	$ 24,281	$ 20,920	$ 14,490
Fuel costs expensed on tax return and deferred on books	(3,683)	9,786	(3,552)
Extraordinary property losses expensed on tax return and deferred on books	(1,703)	(1,562)	3,019
Other	2,575	(634)	(188)
Total income taxes deferred—net	$ 21,470	$ 28,510	$ 13,769

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:

	1984	1983	1982
Computed federal income tax on continuing electric operations at statutory rate	$106,441	$101,853	$ 78,432
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	(37,187)	(30,405)	(23,123)
Excess of book over tax depreciation	4,979	3,246	1,131
State income taxes, net of federal income tax benefit	8,828	8,880	4,766
Amortization of deferred investment tax credits	(5,750)	(5,266)	(4,251)
Other-net	(2,711)	(2,114)	(3,648)
Total income tax expense	$ 74,600	$ 76,194	$ 53,307

I. PRIOR YEARS' INCOME TAXES

The Company's income tax returns are settled through 1970. Income tax returns for 1971 through 1981 have been examined, and the 1982 and 1983 returns are being examined. The Internal Revenue Service assessed deficiencies regarding the Company's computation of percentage depletion on coal mined for 1956 through 1979, as well as certain other issues of relatively minor importance for 1971 through 1979. A settlement of the depletion issue for the years 1962 through 1970 occurred in June 1983 based on an earlier court decision which was generally in favor of the Company concerning percentage depletion for the years 1956 through 1961. The Company expects that this court decision will serve as the basis for settlement of the depletion issue for the years 1971 through 1979. Management of the Company believes that the settlement of federal and state taxes will not have a material effect on 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. Since it is a multi-employer plan, 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 most prior service costs over 30 years and prior service costs related to the early retirement program over 15 years. Pension costs charged to expense or construction for the years ended December 31, 1984, 1983 and 1982 were $14,188,000, $10,803,000 and $12,313,000, respectively. The increase in pension costs in 1984 was due principally to the impact of the refund of employee contributions in 1983 and the early retirement program supplemental benefits. In 1983 the Company adopted an early retirement program under which certain benefits will be paid from the assets of the retirement plans. The decrease in pension costs in 1983 resulted principally from an increase in the actuarial interest assumption.

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 5½% for 1983 and 1982 and 5% for 1981.

	December 31,		
	1983	1982	1981
	(Thousands of Dollars)		
Actuarial present value of accumulated plan benefits:			
Vested	**$189,312**	$159,956	$151,756
Nonvested	**11,945**	11,494	11,566
Total	**$201,257**	$171,450	$163,322
Net assets available for benefits (at fair value)	**$141,235**	$135,571	$111,013

The Company is liable under federal and 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 $1,658,000, $1,574,000 and $1,417,000 for the years ended December 31, 1984, 1983 and 1982, respectively. At July 31, 1984 (the date of the latest actuarial valuation), the unfunded prior service cost for these disability benefits was approximately $18,777,000.

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, 1984 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	$ 46,131	$ 15,830	$ 4,054	50.0	276
CAPCO Units:					
Eastlake No. 5	51,280	12,666	1,392	31.2	202
Sammis No. 7	69,428	14,251	3,843	31.2	187
Bruce Mansfield No. 1	72,390	17,295	847	29.3	228
Bruce Mansfield No. 2	20,251	4,120	113	8.0	62
Bruce Mansfield No. 3	71,123	9,432	558	13.74	110
Bruce Mansfield Common and Shared Facilities	62,748	14,365	466		
Beaver Valley No. 1	347,572	63,299	14,961	47.5	385
Beaver Valley No. 2	18	—	316,262	13.74	114
Beaver Valley Common Facilities	69,689	6,945	65,548		
Perry No. 1, Including Common Facilities	—	—	374,101	13.74	165
Perry No. 2, Including Common Facilities	—	—	215,178	13.74	165
Total	$810,630	$158,203	$997,323		

Under terms of the arrangements with the other owners of such jointly-owned units, the Company is required to provide its 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

In accordance with Statement of Financial Accounting Standards No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation," capital leases entered into in 1983, as well as such leases executed prior to 1983, have been capitalized. This change had no impact on 1984 net income.

Leased property consists of the following:

	December 31, 1984 (Thousands of Dollars)
Nuclear fuel	$164,001
Electric plant (principally buildings and data processing equipment)	20,108
	184,109
Accumulated amortization	(39,192)
Property held under capital leases—net	$144,917

In accordance with SFAS 71, leased property is amortized in conjunction with the amortization of the related lease obligation. The leased nuclear fuel is amortized as the fuel is burned. The amortization of electric plant is based on the rental payments made. Amortization of leased property amounted to $10,888,000 for the year ended December 31, 1984. If the noncapitalized financing leases had been capitalized at December 31, 1983, property, plant and equipment-net would have been increased by approximately $143,547,000, with related increases in current liabilities and long-term debt of $24,271,000 and $119,761,000.

Lease payments in 1984, 1983 and 1982 amounted to $26,203,000, $30,028,000 and $17,679,000, respectively, of which $34,976,000, $31,994,000 and $15,393,000 were charged to operating expenses. The Company has an undivided interest in nuclear fuel lease agreements. 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 increase in 1984 and 1983 amounts charged to operating expenses resulted from higher building rentals and an increased amount of nuclear fuel being 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, 1984, the Company's share of the lessors' unamortized cost of the leased nuclear fuel was $126,863,000, and the Company expects to finance an additional $51,226,000 of such costs under current leasing arrangements.

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

At December 31, 1984 future minimum lease payments for capital leases are based principally on estimated usage of nuclear fuel and building leases, and minimum lease payments for operating leases are based principally on the corporate headquarters lease, as follows:

	Capital Leases	Operating Leases
	(Thousands of Dollars)	
1985	$ 28,270	$10,819
1986	30,334	8,663
1987	29,118	8,037
1988	34,230	7,040
1989	30,598	6,835
1990 and thereafter	95,426	85,989
Total minimum lease payments	247,976	$127,383
Less amount representing interest	68,444	
Present value of net minimum lease payments	$179,532	

M. COMMITMENTS AND CONTINGENT LIABILITIES

Construction

The Company presently estimates that it will spend on construction, exclusive of nuclear fuel and allowance for funds used during construction, between $794 million and $898 million during the period 1985 through 1989, depending on the construction schedule for Perry Unit No. 2. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity—Construction.

Perry Unit No. 2

In September 1983, the Ohio Office of the Consumers' Counsel, the City of Cleveland, the Board of County Commissioners of Geauga County, Ohio and three citizen groups filed a petition with the Public Utilities Commission of Ohio (Ohio Commission) and the Power Siting Board of Ohio (Board) against The Cleveland Electric Illuminating Company, Ohio Edison Company and The Toledo Edison Company (respondents) requesting that the Ohio Commission and the Board jointly and/or individually investigate the public need for the Perry Nuclear Power Plant Unit No. 2 (Unit) presently under construction by the CAPCO companies. The petition also requests that the Ohio Commission and the Board order the cessation of construction of the Unit and of the accrual by the respondents of allowance for funds used during construction (AFC) with respect to the Unit and a declaration that the issuance of securities by the respondents, the proceeds of which will be used to finance construction of the Unit, will not be approved. The respondents have filed a motion to dismiss the petition filed with the Board and an answer to the petition filed with the Ohio Commission requesting that the petition be dismissed. While the Company is not a party to the proceedings, it has a 13.74% ownership interest in the Unit.

The Unit, exclusive of common facilities required for the operation of Perry Unit No. 1, is about 45% complete. The Company's investment in the Unit, including AFC and excluding common facilities required for the operation of Perry Unit No. 1, was approximately $152 million at December 31, 1984. An order in the proceeding requiring that construction of the Unit be terminated could have the effect of cancelling the Unit. In such event, the Company would seek regulatory approval for the recovery from its customers of its

then investment in the Unit, together with any related cancellation costs. Based on its present knowledge of the proceedings, management of the Company has no reason to believe that the proceedings will result in decisions adverse to the CAPCO companies, and the Company believes that the ultimate resolution thereof will not have a material effect on the Company's financial position.

The CAPCO companies presently are reviewing their options with respect to the Unit. The alternatives include resumption of construction, with a new estimated cost and completion date, or cancellation. It is not certain how soon this review will be completed. In the meantime, the principal work being performed on the Unit is that necessary to enable Perry Unit No. 1 to be placed in service. This reduced effort will result in only minimal expenditures for construction on the Unit during 1985. The Company has been accruing AFC during the construction period, and such AFC accruals on the Unit are expected to be about $14.4 million in 1985. If the CAPCO companies do not decide during 1985 to increase construction significantly on the Unit, a reserve will be provided against subsequent accruals of AFC on the Unit until construction is resumed. A deferral of AFC would not affect cash flow, but it would cause an equal reduction in reported earnings from what they otherwise would be.

If it ultimately is determined to cancel the Unit, the Company would seek to recover its investment therein and related cancellation costs as discussed above.

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, 1984 the Company had guaranteed the obligations of Quarto with respect to approximately $51,074,000 of indebtedness and lease obligations relating to approximately $25,257,000 of capital equipment for the 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 guaranteed obligations.

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 payments under these contracts amounted to $30,729,000 and $28,512,000 for the years ended December 31, 1984 and 1983, respectively.

The Company's estimated future minimum payments under the coal supply contracts related to mine construction and equipment costs are:

Year Ending December 31,	
1985	$ 8,402,000
1986	8,195,000
1987	7,989,000
1988	7,782,000
1989	7,579,000
After 1989	65,942,000
Total	$105,889,000

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 incurred during the development period. 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. On November 19, 1982 the Commission adopted an order nisi which ordered refunds of $12.5 million plus interest over a two-year period less a $1 million offset from another proceeding. The order nisi became final on June 10, 1983. The Company filed an appeal with the Pennsylvania Commonwealth Court and filed with the Commission a petition for an extension of time in which to file a refund plan together with an application for a stay of the final order. On August 24, 1983 the Commission denied the application for a stay but granted the petition for an extension of time in which to file a refund plan. Subsequently, the Company filed an application with the Commonwealth Court for a stay of the final order, and on September 28, 1983 the Commonwealth Court granted the application. The Company does 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 appellate courts 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 the eventual outcome of this matter will not have a material effect on the Company's financial position or results of operations.

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 (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 was appealed to the Pennsylvania Commonwealth Court by a commercial customer. On November 29, 1983 the Court affirmed the Commission's final order. The Court's order was appealed to the Pennsylvania Supreme Court by the commercial customer.

On December 19, 1984 the Supreme Court ruled that the Commission's June 29, 1981 option order was invalid under the applicable provisions of the Pennsylvania Public Utility

Code on the basis that the $64.2 million rate increase was a prohibited temporary rate. The Supreme Court remanded the case to the Commission for proceedings consistent with the Supreme Court's opinion. The Company has filed an application for reargument with the Supreme Court.

Since the Supreme Court's opinion did not provide any guidance as to what action might be appropriate for the Commission to take on remand, the Company is unable to determine what effect the Supreme Court's decision will ultimately have. The Company believes that the most adverse effect that might result would be an order by the Commission requiring the Company to refund to its customers amounts collected under the option rates in excess of amounts which it otherwise would have been entitled to collect as just and reasonable. While the Company estimates that such refund, after reflecting possible offsetting credits, could amount to as much as $13 million, it believes that additional credits might be available which could further offset any such refund either in whole or in part.

On April 30, 1982 the Company filed with the Commission a new rate schedule estimated to increase annual revenues 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. The Commission's order was appealed to the Pennsylvania Commonwealth Court by both the Pennsylvania Consumer Advocate and the Company. Except for the Consumer Advocate's appeal with respect to the Commission's allowance of the recovery of the cancellation costs of four nuclear generating units (see Note B to the financial statements), both appeals have been discontinued.

Management believes that the ultimate resolution of these rate matters will not have a material adverse effect on the Company's financial position or results of operations.

Nuclear Insurance

The CAPCO companies have 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 aggregate amount of $500 million.

The CAPCO companies are members 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 $475 million. Under this policy the CAPCO companies are subject to a retrospective premium assessment of approximately $9.5 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. The Company's share of any such retrospective premium assessment would be approximately $2.9 million a year.

Damages in excess of the primary $500 million coverage also are covered by excess property insurance policies issued to the CAPCO companies by ANI and MAELU which provide $85 million of coverage. The ANI/MAELU and NEIL policies provide coverage for losses in excess of $500 million up to $1.06 billion.

The property insurance policies described above provide the CAPCO companies with $1.06 billion of coverage on an investment in the two Beaver Valley Units at December 31, 1984 of about $3.5 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 $729,000 are provided for one year and up to $364,000 for an additional year. If losses exceed accumulated funds available to NEIL, the Company could be assessed approximately $1.9 million a year for payment of NEIL's obligations.

The Price-Anderson Amendments to the Atomic Energy Act limit liability to third parties to $595 million for each nuclear incident. Coverage of the first $160 million of such liability is provided through ANI and MAELU. The next $435 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.

Other

In connection with coal supply arrangements for its wholly-owned generating units the Company has contracted with an unaffiliated coal supplier to purchase a minimum of 750,000 tons of coal per year through December 31, 1986. In 1983 the contract was amended to provide that if the Company requests deliveries in 1983 and 1984 below the minimum annual tonnage, the Company will make up the shortfall (plus a 63,000 ton shortfall in 1982) by purchasing additional tons during the remaining term of the contract or by extending the term of the contract. The contract also provides that any shortfall can be sold to purchasers other than the Company. The total shortfall under the contract at December 31, 1984 was approximately 463,000 tons.

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,		
	1984	1983	1982
	(Thousands of Dollars)		
Maintenance	**$83,914**	$75,947	$78,431
Amortization of extraordinary property losses	**4,033**	6,099	—
Taxes other than payroll and income taxes:			
Gross receipts	**38,349**	35,576	33,186
Property	**16,604**	14,374	14,139
State capital stock	**8,901**	5,501	6,601

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

O. QUARTERLY FINANCIAL INFORMATION (Unaudited)

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

Quarter Ended	Electric Operating Revenues	Operating Income	Net Income	Earnings Per Share
March 31, 1983	$185,848	$43,918	$32,975	$.51
June 30, 1983	198,666	45,287	34,883	.54
September 30, 1983	215,141	49,491	39,392	.60
December 31, 1983	200,690	47,976	37,977	.56
March 31, 1984	**213,485**	**50,989**	**42,611**	**.63**
June 30, 1984	**214,045**	**45,301**	**37,473**	**.53**
September 30, 1984	**223,488**	**49,773**	**42,919**	**.61**
December 31, 1984	**210,757**	**39,671**	**33,790**	**.45**

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 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, 1984
(Thousands of Dollars)

	Conventional Historical Cost	Current Cost Average 1984 Dollars
Electric operating revenues	$861,775	$861,775
Fuel	234,910	234,910
Purchased power (sales)—net	(26,637)	(26,637)
Other operation and maintenance expenses	222,691	222,691
Depreciation expense	77,532	185,937
Taxes other than income taxes	70,279	70,279
Income taxes	97,266	97,266
Other income and deductions—net	(87,393)	(87,393)
Interest charges	116,333	116,333
	704,981	813,386
Income from continuing electric operations (excluding adjustment of property, plant and equipment to net recoverable cost)	$156,794	$ 48,389
Increase in specific prices (current cost) of property, plant and equipment held during the year*		$216,023
Adjustment of property, plant and equipment to net recoverable cost		32
Effect of increase in general price level		(212,822)
Excess of increase in specific price level over increase in general prices after adjustment of property, plant and equipment to net recoverable cost		3,233
Gain from decline in purchasing power of net amounts owed		72,125
Net		$ 75,358

*At December 31, 1984, current cost of property, plant and equipment (exclusive of capitalized leases), net of accumulated depreciation, was $5,985,993, while historical cost or net cost recoverable through depreciation was $2,996,867.

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

(In Thousands, Except Per Share Amounts)	Year Ended December 31,				
	1984	1983	1982	1981	1980
Current cost information:					
Income from continuing electric operations (excluding adjustment of property, plant and equipment to net recoverable cost) (1)	**$ 48,389**	$46,702	$24,567	$24,430	$24,216
Income (loss) per share from continuing electric operations (after dividend requirements on preferred and preference stock) (1)	**.43**	.42	—	(.04)	(.14)
Excess of increase in general price level over increase in specific prices after adjustment of property, plant and equipment to net recoverable cost	**(3,233)**	2,767	(247)	125,660	245,461
Net assets at year-end at net recoverable cost	**1,039,107**	999,286	934,346	867,398	869,413
General information:					
Gain from decline in purchasing power of net amounts owed	**72,125**	70,614	66,856	154,353	215,541
Cash dividends declared per share of common stock	**$2.06**	$2.09	$2.04	$2.11	$2.27
Market price per share of common stock at year-end	**$15.125**	$14.07	$15.88	$15.14	$15.92
Average consumer price index	**311.2**	298.5	289.1	272.4	246.8
Historical basis:					
Electric operating revenues	**$861,775**	$800,345	$746,462	$786,229	$674,744
Cash dividends declared per share of common stock	**$2.06**	$2.00	$1.90	$1.85	$1.80
Market price per share at year-end	**$15.125**	$13.50	$14.75	$13.25	$12.63
Proven and probable coal reserves at beginning of year (tons)	**23,200**	25,100	26,300	28,100	29,900
Tons of coal mined	**860**	785	942	680	875
Average cost per ton of mined coal	**$34.65**	$36.59	$31.62	$35.10	$31.14

(1) Amounts for 1982 are before extraordinary gain.

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 cost of property, plant and equipment does not include capitalized leases. The current year's provision for depreciation and depletion on the 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 at 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 limts 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.

Selected Financial Data and Statistical Summary

(Thousands of Dollars, Except Per Share Amounts)

	1984	1983	1982	1981	1980	1979
SUMMARY RESULTS OF OPERATIONS						
Residential revenues	**280,647**	267,110	238,496	223,146	196,400	176,744
Commercial revenues	**314,129**	290,370	263,374	243,501	209,871	185,880
Industrial revenues	**244,970**	221,107	225,292	300,066	250,295	232,389
Street lighting and other revenues	**14,689**	14,357	13,240	12,383	11,052	10,370
Miscellaneous revenues	**7,340**	7,401	6,060	7,133	7,126	6,164
Total electric revenues	**861,775**	800,345	746,462	786,229	674,744	611,547
Operation and maintenance expenses	**430,964**	386,386	399,527	435,589	380,973	351,731
Depreciation	**77,532**	73,682	62,939	60,854	53,316	47,885
Taxes other than income taxes	**70,279**	60,651	57,476	57,694	47,637	46,956
Income taxes	**74,600**	76,194	53,307	57,801	50,643	41,592
Interest charges, net of allowance for borrowed funds used during construction	**116,333**	109,161	100,344	92,968	75,629	65,414
Other income, principally allowance for equity funds used during construction	**64,727**	50,955	44,328	28,086	26,749	21,587
Income from continuing electric operations before extraordinary gain	**156,794**	145,226	117,197	109,409	93,295	79,556
Loss from discontinued steam heating operations	—	—	9,924	538	333	1,194
Income before extraordinary gain	**156,794**	145,226	107,273	108,871	92,962	78,362
Extraordinary gain	—	—	9,609	—	—	—
Net income	**156,794**	145,226	116,882	108,871	92,962	82,207†
Dividends on Preferred and Preference Stock	**21,955**	22,411	22,701	22,976	23,353	23,721
Earnings for Common Stock	**134,839**	122,815	94,181	85,895	69,609	58,486
Average number of common shares outstanding	**61,054**	55,883	48,236	41,764	38,267	32,239
Earnings per share of Common Stock:						
Income from continuing electric operations	**2.21**	2.20	1.96	2.07	1.83	1.73
Earnings for Common Stock	**2.21**	2.20	1.95	2.06	1.82	1.81†
Dividends declared on Common Stock	**2.06**	2.00	1.90	1.85	1.80	1.76

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

	1984	1983	1982	1981	1980	1979
PLANT						
Property, plant and equipment	**3,799,499**	3,293,481	3,024,554	2,809,753	2,604,333	2,380,805
Accumulated depreciation and amortization	**659,745**	555,641	504,680	477,009	424,653	386,479
Property, plant and equipment—net	**3,139,754**	2,737,840	2,519,874	2,332,744	2,179,680	1,994,326
TOTAL ASSETS	**3,530,310**	3,145,811	2,883,424	2,668,577	2,447,163	2,222,537

Notes (continued)

	1984	1983	1982	1981	1980	1979
CAPITALIZATION						
Common Stock	**64,775**	58,420	53,277	45,303	40,166	35,550
Capital surplus	**804,377**	724,147	649,376	550,244	494,228	433,984
Retained earnings	**184,313**	175,938	165,340	163,705	155,102	155,328
Non-redeemable Preferred and Preference Stock	**156,137**	156,137	156,137	156,137	156,137	156,137
Redeemable Preferred and Preference Stock	**127,414**	134,979	140,829	143,924	146,867	149,998
First mortgage bonds	**1,149,547**	1,100,147	1,006,637	983,870	918,230	808,830
Other long-term debt	**278,384**	234,019	199,934	176,682	126,981	127,436
Unamortized debt discount and premium—net	**(10,896)**	(10,967)	(9,488)	(9,453)	(7,161)	(5,770)
Total capitalization	**2,754,051**	2,572,820	2,362,042	2,210,412	2,030,550	1,861,493
AVERAGE REVENUE PER KILOWATT-HOUR—ALL CUSTOMERS	**7.389¢**	7.215¢	6.708¢	5.715¢	5.019¢	4.546¢
SALES OF ELECTRICITY						
Average annual residential kilowatt-hour use	**5,768**	5,752	5,668	5,698	5,770	5,629
Electric energy sales billed (millions of kilowatt-hours)						
Residential	**2,918**	2,905	2,853	2,858	2,876	2,778
Commercial	**4,393**	4,257	4,163	4,069	4,024	3,870
Industrial	**4,148**	3,717	3,902	6,582	6,272	6,546
Street lighting and other	**104**	111	120	125	129	131
Total	**11,563**	10,990	11,038	13,634	13,301	13,325
ENERGY SUPPLY AND PRODUCTION DATA						
Energy supply (millions of kilowatt-hours)						
Generated in system plants	**12,983**	11,900	12,352	13,914	13,485	13,884
Purchased and net interchange	**(803)**	(164)	(689)	410	541	125
Losses and Company use	**(617)**	(746)	(625)	(690)	(725)	(684)
Total	**11,563**	10,990	11,038	13,634	13,301	13,325
Generating capability (thousands of kilowatts)	**3,148**	3,148	3,144	3,177	3,179	3,294
Peak load (thousands of kilowatts)	**2,172**	2,184	2,158	2,522	2,474	2,296
Cost of fuel per million BTU	**165.868¢**	167.140¢	167.865¢	159.660¢	149.768¢	131.779¢
BTU per kilowatt-hour generated	**10,682**	10,635	10,853	10,931	10,811	10,924
Average production cost per kilowatt-hour	**2.559¢**	2.541¢	2.575¢	2.354¢	2.202¢	1.913¢
NUMBER OF ELECTRIC CUSTOMERS—At End of Year						
Residential	**506,883**	505,781	503,987	503,044	500,466	496,005
Commercial	**49,837**	49,493	49,320	48,859	48,308	47,978
Industrial	**1,990**	1,984	1,999	2,016	2,005	1,975
Street lighting and other	**1,588**	1,633	1,647	1,713	1,725	1,746
Total	**560,298**	558,891	556,953	555,632	552,504	547,704

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

Capital Resources and Liquidity

Construction

Construction expenditures during 1984, exclusive of allowance for funds used during construction and nuclear fuel, were approximately $251 million. These expenditures were primarily for the construction of three CAPCO generating units in addition to improving and expanding production, transmission and distribution systems and pollution control equipment.

On January 28, 1985, the CAPCO companies announced a delay in the completion date of Beaver Valley Unit No. 2, which is about 83% complete, from late 1986 to about the end of 1987. This delay is expected to increase the total estimated cost of the unit from about $3.5 billion to approximately $3.9 billion, including allowance for funds used during construction. The Company's share of the increase is $55 million, bringing its total commitment in the unit to $536 million. The new schedule recognizes the need for more time to complete the unit in light of regulatory and safety requirements adopted since the unit was designed, as well as the decision of the CAPCO companies to concentrate on the completion of Perry Unit No. 1.

The Company currently estimates that it will spend, exclusive of allowance for funds used during construction (AFC) and nuclear fuel, approximately $229, $173, $186, $169 and $141 million for each of the years 1985 through 1989, respectively. These estimates assume a severely restricted construction schedule for Perry Unit No. 2 in 1985 and resumption of construction in 1986.

Estimated Construction Program
($ in millions)

	1985	1986	1987	1988	1989
Including AFC	$329	$240	$247	$203	$180
Excluding AFC	$229	$173	$186	$169	$141

If Perry Unit No. 2 construction does not resume until 1989, construction expenditures for the years 1986 through 1989 are estimated to be $155, $144, $124 and $142 million, respectively, in each case exclusive of AFC and nuclear fuel. See Note M 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 also must take into account difficulties in obtaining rate increases sufficient to generate adequate earnings, possible changes in load growth trends and, in the case of the CAPCO construction program, the ability of each of the CAPCO companies to finance its capital requirements.

Financing

The Company anticipates that funds required for planned construction expenditures in the next several years will be provided principally from the issuance of additional equity and debt securities and in part from cash becoming available from operations. On March 27, 1984 the Company issued $50 million of 13⅜% First Mortgage Bonds, Series due March 1, 1991. On November 14, 1984 the Company issued and sold 2.5 million shares of Common Stock. Net proceeds from the sale of the Common Stock were approximately $37.4 million. Funds provided to the Company under its Dividend Reinvestment Plan in 1984 amounted to approximately $48 million, and an additional $10.7 million was reinvested on January 1, 1985. On December 19, 1984 the Beaver County Industrial Development Authority issued $51 million of 11⅝% tax-exempt pollution control revenue bonds to reimburse the Company for its share of the cost of certain pollution control facilities at the Beaver Valley Nuclear Power Station. Principal and interest on the bonds will be funded by the Company. Portions of the net proceeds from these issues were used to pay short-term indebtedness incurred principally for construction purposes, and the balance was applied to construction expenditures. The Company currently estimates that approximately 79% of the funds required for its 1985 construction program will come from outside financing. The Company expects to complete a pollution control financing in the first quarter of 1985 for the Perry Nuclear Power Station through the issuance of $39 million State of Ohio Pollution Control Revenue Bonds secured by First Mortgage Bonds. The exact timing of this sale will depend on market conditions.

The Company finances its nuclear fuel requirements primarily by leasing and other arrangements pursuant to which it may finance up to $208 million of nuclear fuel. As of December 31, 1984 the Company's share of the cost of nuclear fuel financed under these arrangements was about $157 million, including interest, storage and other miscellaneous costs.

In addition to the funds required for the construction program, $23.1 million was required in 1984 for maturities of long-term debt and sinking fund and purchase requirements, and $7.8 million will be required in 1985 for such purposes.

Interim financing will be through bank borrowings and sales of commercial paper. See Note F to the financial statements for short-term borrowing arrangements. 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 as a condition to 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.

Perry Unit No. 2

The CAPCO companies are presently reviewing their options with respect to completion of the Perry Nuclear Power Plant Unit No. 2 (Unit). The alternatives include resumption of construction, with a new estimated cost and completion date, or cancellation. It is not certain how soon this review will be completed. In the meantime, the principal work being performed on the Unit is that necessary to enable Perry Unit No. 1 to be placed in service. This reduced effort will result in only minimal expenditures for construction on the Unit during 1985. The Company has been accruing AFC during the construction period, and such AFC accruals on the Unit are expected to be about $14.4 million in 1985. If the CAPCO companies do not decide during 1985 to increase construction significantly on the Unit, a reserve will be provided against subsequent accruals of AFC on the Unit until construction is resumed. A deferral of AFC would not affect cash flow, but it would cause an equal reduction in reported earnings from what they otherwise would be. The Unit is about 45% complete. The Company's investment in the Unit, including allowance for funds used during construction and excluding common facilities required for the operation of Perry Unit No. 1, was approximately $152 million at December 31, 1984. If it is ultimately determined to cancel the Unit, the Company would seek regulatory approval for the recovery from its customers of its then investment in the Unit, together with any related cancellation costs. See Note M to the financial statements.

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 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 was appealed to the Pennsylvania Commonwealth Court by a commercial customer. On November 29, 1983 the Court affirmed the Commission's final order. The Court's order was appealed to the Pennsylvania Supreme Court by the commercial customer. On December 19, 1984 the Supreme Court ruled that the Commission's June 29, 1981 option order was invalid under the applicable provision of the Pennsylvania Public Utility Code. The Company has filed an application for reargument with the Supreme Court. The Company believes that the most adverse effect that might result would be an order by the Commission requiring the Company to refund to its customers amounts collected under the option rates in excess of amounts which it otherwise would have been entitled to collect as just and reasonable. While the Company estimates that such refund, after reflecting possible offsetting credits, could amount to as much as $13 million, it believes that additional credits might be available which could further offset any such refund either in whole or in part. See Note M to the financial statements.

On April 27, 1984 the Company filed a request for a $42 million annual rate increase with the Commission. The Commission's final order allowed an increase of $31.4 million beginning on January 26, 1985. This rate increase should result in improved earnings in 1985.

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 but did not allow any return on these costs. The Commission's order has been appealed by the Pennsylvania Consumer Advocate to the Pennsylvania Commonwealth Court. See Note B to the financial statements.

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 being 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 were held, and on November 19, 1982 the Commission adopted an order nisi which ordered refunds of $12.5 million plus interest over a two-year period. The order nisi became final on June 10, 1983, and the Company filed an appeal with the Commonwealth Court. See Note M to the financial statements.

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 federal taxable income each tax year from 1982 through 1985 the fair market value of shares of Common Stock received from the 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.

In 1984 the Company capitalized all of its nuclear fuel leases and certain property leases. There was no impact on the Company's results of operations.

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 or to pay dividends.

Results of Operations

Operating revenues from continuing electric operations increased (decreased) in the years 1982 through 1984 over the respective preceding years, for the following reasons:

	1984	1983	1982
	(Millions of Dollars)		
General rate increases	**$26.9**	$88.4	$ 43.0
Electrical consumption	**12.8**	(10.0)	(62.3)
Energy clause revenues	**18.3**	(31.0)	(19.0)
State tax adjustment and other	**3.4**	6.5	(1.5)
	$61.4	$53.9	$(39.8)

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 generally allows it to recover the difference between actual fuel costs and fuel costs included in base rates. Any overcollections of revenues are refunded, with interest, to customers.

The Company was permitted two rate increases in 1983 effective January 29 and September 17. See Note M to the financial statements. The increases in electrical consumption and energy clause revenues in 1984 were due principally to increased sales to all significant customer groups and a higher average energy cost rate. The decreases in electrical consumption in 1982 and 1983 were due primarily to the severe impact of the economic recession in the Company's service area, particularly on steel and other industrial customers.

Total operation expenses (fuel, purchased power and other operation) increased in 1984 compared to 1983 primarily due to increases in deferred energy expenses, increased generation of electricity and increased administrative and general expenses which included a one-time charge of approximately $5 million to pay for an early retirement program. These increases were partially offset by increases in 1984 in net sales of power to other utilities due to favorable capacity situations and the requirements of neighboring utilities which resulted in increased power deliveries. Maintenance expenses increased in 1984 compared to 1983 due primarily to increased generating outage expenses. The decrease in operation and maintenance expenses in 1983 compared to 1982 was due primarily to a substantial reduction in fuel expenses resulting from higher generation from the Beaver Valley No. 1 nuclear unit, decreased deferred energy expenses and lower generation of electricity. Net sales of power to other utilities decreased as the market for such sales was not as favorable in 1983.

Depreciation expense increased in 1984 and 1983 as a result of increases in utility plant and changes in depreciation rates in 1983 to conform with the depreciation rates allowed by the Pennsylvania Public Utility Commission in its rate orders. Additionally, beginning in January 1983 depreciation expense includes the amortization of the cancelled nuclear generating units and Shippingport. See Note B to the financial statements.

Taxes other than income taxes increased in 1984 compared to 1983 due primarily to increased Pennsylvania gross receipts taxes, which vary in direct relationship to revenues, and as a result of increases in Pennsylvania capital stock taxes and Pennsylvania public utility realty taxes relating principally to legislative changes implemented in 1984. Fluctuations in income taxes are due primarily to changes in taxable income. The effective income tax rate for the three years ended December 31, 1984, 1983 and 1982 was 32%, 34% and 31%, respectively. See Note H to the financial statements.

The increases in allowance for equity and borrowed funds used during construction were primarily due to the increased cost of construction. Fluctuations in interest income resulted from changes in cash available for temporary investments. Interest expense for each of the years 1984, 1983 and 1982 was higher due to increased total borrowings to finance the Company's capital expenditures.

Earnings per share of Common Stock for 1984, 1983 and 1982 were adversely affected by increases in the average number of shares outstanding, which reduced earnings per share by $.20, $.35 and $.31, respectively.

The Company has prepared information on the effects of inflation and changing prices as prescribed by the Financial Accounting Standards Board. Such information is in Note P to the financial statements.

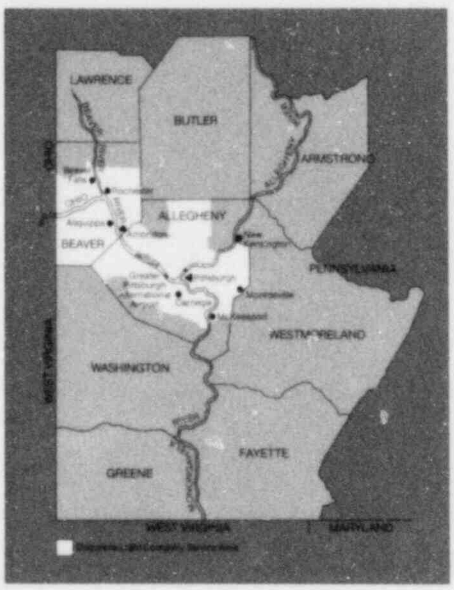
Business of the Company

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.

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

Duquesne Light Company is an Equal Opportunity Employer.

Service Area Map



1974-1984 Dimensions Magazine

In mid-year 1985, 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
Corporate Communications (30-5)
One Oxford Centre
301 Grant Street
Pittsburgh, Pennsylvania 15279

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. The quarterly dividend related to the first quarter of 1983 was paid at the rate of 47½¢ per share. Quarterly dividends related to the last three quarters in 1983 and the first quarter in 1984 were paid at the rate of 50¢ per share. Commencing April 1, 1984 the quarterly dividend rate was increased to 51½¢ per share. Future dividends will depend upon future earnings, the cash position of the Company, construction requirements, rate regulation and other relevant factors. The Company 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, 1984 was restricted by virtue of this provision. The approximate number of holders of Common Stock as of the March 1, 1985 record date for the 1985 Annual Meeting was 147,000.

Federal Income Tax Status of Common Stock Dividends

The Company estimates that portions of the Common Stock dividends paid in 1984 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
January 1	100.00%	0.00%
April 1	100.00%	0.00%
July 1	79.77%	20.23%
October 1	68.09%	31.91%

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 March 1, 1985, the record date for the 1985 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 1984 (including a list of exhibits). All requests must be made in writing to the Secretary, (29-7) Duquesne Light Company, One Oxford Centre, 301 Grant Street, Pittsburgh, Pennsylvania 15279.

CAPCO

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

Prior to 1980, 10 generating units were committed under the CAPCO arrangements, which provided for joint ownership interests based on individual requirements. To date, seven are in service, and three are under construction. Duquesne Light shares in nine of the CAPCO units.

Since 1980 each CAPCO company has been responsible for establishing its own level of reserves and 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	*Beaver Valley # 2*
Nuclear—1976	Nuclear—1987
Capacity: 810,000 KW	Capacity: 833,000 KW
D.L. Ownership: 47.5%	D.L. Ownership: 13.74%
D.L. Share: 385,000 KW	D.L. Share: 114,000 KW

***Pennsylvania Power Company**

Mansfield # 1	*Mansfield # 2*
Coal—1976	Coal—1977
Capacity: 780,000 KW	Capacity: 780,000 KW
D.L. Ownership: 29.3%	D.L. Ownership: 8.0%
D.L. Share: 228,000 KW	D.L. Share: 62,000 KW

Mansfield # 3
Coal—1980
Capacity: 800,000 KW
D.L. Ownership: 13.74%
D.L. Share: 110,000 KW

***Ohio Edison Company**

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

***The Cleveland Electric Illuminating Company**

Perry # 1	*Perry # 2*
Nuclear—1985	Nuclear—**
Capacity: 1,205,000 KW	Capacity: 1,205,000 KW
D.L. Ownership: 13.74%	D.L. Ownership: 13.74%
D.L. Share: 165,000 KW	D.L. Share: 165,000 KW

Eastlake # 5
Coal—1972
Capacity: 648,000 KW
D.L. Ownership: 31.2%
D.L. Share: 202,000 KW

***The Toledo Edison Company**

Davis-Besse # 1
Nuclear—1977
Capacity: 880,000 KW
D.L. Ownership: 0
D.L. Share: 0

*Constructing and operating company
**Construction schedule under review

Board of Directors

John M. Arthur ǂ‡°
Chairman of the Board and President

Charles M. Atkinson ǂ°
Executive Vice President

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

Daniel Berg* ǂ‡°
Acting President, Provost and Institute Professor, Rensselaer Polytechnic Institute

Doreen E. Boyce ǂ‡
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, Cyclops Corporation

G. Christian Lantzsch †‡°
Vice Chairman of Mellon Bank, and Vice Chairman and Treasurer of Mellon Bank Corporation

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

* Member of Audit Committee
† Member of Compensation Committee
ǂ Member of Employment and Community Relations Committee
‡ Member of Nominating Committee
° Member of Nuclear Review Committee

Transfer Agent and Registrar

Common, Preference and Preferred Stock
The First Jersey National Bank
Jersey City, New Jersey

Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 10 a.m., Pittsburgh time, on Tuesday, April 30, 1985 in the David L. Lawrence Convention Center, Pittsburgh, Pennsylvania.

Company Officers

John M. Arthur
Chairman of the Board and President

Charles M. Atkinson(1)
Executive Vice President

Roger D. Beck
Vice President—Administrative Services Group

John J. Carey
Vice President—Nuclear Group

Clifford N. Dunn
Vice President—Power Supply Group

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

Wesley W. von Schack(2)
Vice President—Finance Group

Walter T. Wardzinski
Vice President—Legal and Corporate Communications

Earl J. Woolever
Vice President—Nuclear Construction

Diane S. Eismont(3)
Secretary

James O. Ellenberger
Controller

Ronald G. Males
Treasurer

Richard J. Ciora
Assistant Treasurer

Lawrence P. Galie
Assistant Treasurer

Joan S. Senchyshyn
Assistant Secretary

A. William Stein(4)
Assistant Secretary

(1)On April 17, 1984, the Board of Directors elected Charles M. Atkinson Executive Vice President. Prior to his appointment, Mr. Atkinson was Vice President, Finance and Accounting Group.

(2)On August 21, 1984, the Board of Directors elected Wesley W. von Schack Vice President—Finance Group. In addition, on September 18, 1984 the Board assigned Mr. von Schack the duties of Chief Financial Officer. Prior to his appointment, Mr. von Schack was Senior Vice President—Finance and Administrative Services for Central Vermont Public Service Corporation.

(3)On April 17, 1984, the Board of Directors elected Diane S. Eismont Corporate Secretary. Prior to her appointment, Ms. Eismont was a Senior Attorney in the Company's Legal Unit.

(4)On June 19, 1984, the Board of Directors elected A. William Stein Assistant Secretary. In addition, Mr. Stein is an Attorney in the Company's Legal Unit.

Duquesne Light

One Oxford Centre
Pittsburgh, PA 15279