

Duquesne Light Company

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DONALD J. CLAYTON
Treasurer

March 29, 1996

U. S Nuclear Regulatory Commission
2120 L Street NW
Washington, DC 20555
Attn.: Director of Nuclear Reactor Regulation

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

Gentlemen:

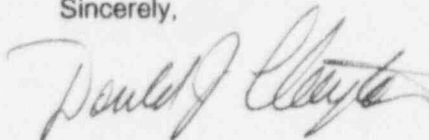
In accordance with NRC Regulation 10 CFR Section 140.21, regarding the Price-Anderson Act retrospective premium system guarantee requirements, you will find enclosed:

1. A copy of Duquesne Light Company's consolidated financial statements for the twelve-month period ended December 31, 1995;
2. An internal cash flow projection, including actual 1995 data and projections for 1996. This statement indicates that \$7.498 million, our portion of the \$30 million retrospective premiums for the three subject units, would be available for the payment of such premiums in 1995. Duquesne Light Company has a 47.5% ownership in Beaver Valley Unit No. 1, a 13.74% ownership in Perry Unit No. 1 and a 13.74% leasehold interest in Beaver Valley Unit No. 2.

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

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Sincerely,



cc:R. Duckworth - BV

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Source and Application of Funds

(In Million of Dollars)

	Actual 1995	Forecast 1996
Capital Requirements		
Construction Expenditures (Excluding AFUDC) (1)	\$79	\$80
Capital Additions Projected to be Leased (Principally nuclear fuel)	15	35
Maturities and Sinking Funds	56	50
Total Capital Requirements	\$150	\$165

Sources of Capital

Internal Sources (2)		
Deferred Taxes	(\$34)	(\$31)
Investment Tax Credit	(7)	(6)
Phase-In Plan Deferred Revenues	0	0
Other Non-Cash Operating Expenses	222	189
Total Internal Sources (excluding Retained Earnings)	\$181	\$152

- (1) Total AFUDC for 1996 is projected to be \$2 million.
 (2) Changes in retained earnings have not been reflected.

The above forecast information is based upon assumptions concerning many variables, and is subject to significant changes. Accordingly, such information represents estimates and will be updated periodically. This information is provided for general information purposes only and not for any specific use or reliance.

[CONFORMED]

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the Fiscal Year Ended December 31, 1995

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the Transition Period From _____ to _____

Commission File Number
1-956

Duquesne Light Company
(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

25-0451600
(I.R.S. Employer Identification No.)

411 Seventh Avenue
Pittsburgh, Pennsylvania 15219

Formerly:

One Oxford Centre, 301 Grant Street
Pittsburgh, Pennsylvania 15279
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (412) 393-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

DQE is the holder of all shares of outstanding common stock, \$1 par value, of Duquesne Light Company consisting of 10 shares as of February 21, 1996.

- ☒ Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Securities registered pursuant to Section 12(b) of the Act:

<u>Registrant</u>	<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Duquesne Light Company	Preferred Stock (par value \$50)	New York Stock Exchange

<u>Series</u>	<u>Involuntary Liquidation Value</u>
3.75%	\$50 per share
4.00%	\$50 per share
4.10%	\$50 per share
4.15%	\$50 per share
4.20%	\$50 per share
\$2.10	\$50 per share

Sinking Fund Debentures, due March 1, 2010 (5%) New York Stock Exchange

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PART I

ITEM 1. BUSINESS.

General

Part I of this Annual Report, Form 10-K (Report) should be read in conjunction with Duquesne's audited consolidated financial statements, which are set forth on pages 38 through 62 in Part IV of this Report. Explanations of certain financial and operating terms used in this Report are set forth in a glossary on page 37 of this Report.

Duquesne Light Company (Duquesne) is a wholly owned subsidiary of DQE, an energy services holding company formed in 1989. Duquesne is engaged in the production, transmission, distribution and sale of electric energy. Duquesne was formed under the laws of Pennsylvania by the consolidation and merger in 1912 of three constituent companies. Duquesne has one wholly owned subsidiary, Monongahela Light and Power, also a Pennsylvania corporation, which currently holds energy related lease investments.

Service Territory

Duquesne provides electric service to customers in Allegheny County, including the City of Pittsburgh, and Beaver County. This represents a service territory of approximately 800 square miles in southwestern Pennsylvania. The population of the area served by Duquesne, based on 1990 census data, is approximately 1,510,000, of whom 370,000 reside in the City of Pittsburgh. In addition to serving approximately 580,000 customers within this service area, Duquesne also sells electricity to other utilities beyond its service territory.

Regulation

Duquesne's operations are subject to regulation by the Pennsylvania Public Utility Commission (PUC), as well as to regulation by the Federal Energy Regulatory Commission (FERC) under the *Federal Power Act* with respect to rates for interstate sales, transmission of electric power, accounting and other matters.

Duquesne's operations are also subject to regulation by the Nuclear Regulatory Commission (NRC) under the *Atomic Energy Act of 1954*, as amended, with respect to the operation of its jointly owned/leased nuclear power plants, Beaver Valley Unit 1 (BV Unit 1), Beaver Valley Unit 2 (BV Unit 2) and Perry Unit 1. Duquesne is also subject to the accounting and reporting requirements of the United States Securities and Exchange Commission.

Duquesne's consolidated financial statements report regulatory assets and liabilities in accordance with *Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS No. 71)* and reflect the effects of the ratemaking process. In accordance with *SFAS No. 71*, Duquesne's consolidated financial statements reflect regulatory assets and liabilities based on current cost-based ratemaking regulations. The regulatory assets represent probable future revenue to Duquesne because provisions for these costs are currently included, or are expected to be included, in charges to electric utility customers through the ratemaking process.

Duquesne's operations currently satisfy the *SFAS No. 71* criteria. However, a company's utility operations or a portion of such operations could cease to meet these criteria for various reasons, including a change in the PUC or the FERC regulations. Should Duquesne's operations cease to meet the *SFAS No. 71* criteria, Duquesne would be required to write off any regulatory assets or liabilities for those operations that no longer meet these requirements. Management will continue to evaluate significant changes in the regulatory and competitive environment in order to assess Duquesne's overall consistency with the criteria of *SFAS No. 71*.

Results of Operations

Seasonality

Sales of electricity to customers by Duquesne tend to increase during the warmer summer and colder winter seasons because of greater customer use of electricity for cooling and heating.

In the near term, weather conditions and the overall level of business activity in Duquesne's service territory are expected to continue to be the primary factors affecting sales of electricity to customers. In the long-term, Duquesne's electric sales may also be affected by increased competition in the electric utility industry. (See "Competition" discussion on page 15.)

Sales of Electricity to Customers

Operating revenues are derived from Duquesne's sales of electricity to customers and are based on rates authorized by the PUC. These rates are cost-based and are designed to recover Duquesne's energy and other operating expenses and investment in electric utility assets and to provide a return on such investment. Sales to Duquesne's 20 largest customers accounted for 14.2 percent and 14.6 percent of customer revenues in 1995 and 1994, respectively. Sales to USX Corporation, Duquesne's largest customer, accounted for 3.7 percent and 3.8 percent of total 1995 and 1994 customer revenues, respectively. Total kilowatt-hour (KWH) sales to customers in 1995 increased 2.5 percent when compared to KWH sales to customers in 1994. In response to extreme 1995 summer and winter temperatures, residential and commercial KWH sales increased 4.9 percent and 3.0 percent, respectively. Industrial sales volume in 1995 declined when compared to the prior year because of temporary production facility outages experienced by some of Duquesne's large industrial customers. The severe weather conditions in 1995 also resulted in higher residential KWH sales volume when compared to 1993.

Components of Change in Operating Revenues from the Prior Year

	1995	1994
	(Amounts in Millions of Dollars)	
Revenues from Sales of Electricity:		
Net customer revenues	\$ 7.8	\$ 6.0
Utilities	(2.3)	7.6
Revenues from total sales of electricity	5.5	13.6
Other operating revenues	5.7	(5.7)
Total Operating Revenues	\$11.2	\$ 7.9

Customer revenues fluctuate as a result of changes in sales volume and changes in fuel and other energy costs.

Net customer revenues in 1995 when compared to 1994 increased by \$7.8 million, or 0.7 percent. The change is the net result of higher sales, partially offset by lower energy costs per megawatt hour (MWH), the benefits of which are passed through to the customers in the form of lower rates. The significantly hotter summer temperatures in 1995 resulted in increased sales of electricity to residential customers in particular. Revenues attributable to electric sales to residential customers in 1995 exceeded 1994 residential revenues by \$13.2 million, or 3.3 percent. *Net customer revenues* also increased \$6.0 million, or 0.6 percent, in 1994 when compared to 1993. The 1994 variation represented higher sales to commercial and industrial customers, driven in part by an expanded customer base.

Net customer revenues for 1994 and 1993 include *phase-in deferrals* that represented the deferral and subsequent recovery of revenues resulting from a \$232 million rate increase granted in early 1988. The PUC required Duquesne to phase this increase in during a six-year period, which ended in April 1994. During this phase-in period, the rate increase was recognized in *operating revenues*. (See "1987 Rate Case" discussion in Note F to the consolidated financial statements on page 48.)

Sales to Other Utilities

Short-term sales to other utilities are regulated by the FERC and are made at market rates. Short-term power sales to other utilities in 1995, 1994 and 1993 were 2,974,797 KWH, 3,212,110 KWH and 2,820,920

KWH, respectively. Fluctuations in electricity sales to other utilities are related to Duquesne's customer energy requirements, the energy market and transmission conditions and the availability of Duquesne's generating stations. Revenues from sales to other utilities were \$56.0 million, \$58.3 million and \$50.7 million in 1995, 1994 and 1993, respectively. Sales to other utilities were less prevalent in 1995 than in 1994 because severe weather conditions resulted in greater sales to Duquesne's customers. (See "Sales of Electricity to Customers" discussion on page 2.) Increased customer sales reduce power available to sell to other utilities. Future levels of short-term sales to other utilities will be affected by the resolution of Duquesne's proposed sale of its ownership interest in the Ft. Martin Power Station and by the outcome of Duquesne's FERC filings requesting firm transmission access. (See "Sale of Ft. Martin" and "Transmission Access" discussions on pages 9 and 16, respectively.)

Generally, Duquesne is permitted to recover (to the extent that such amounts are not included in base rates) fuel and other energy costs from its customers through an Energy Cost Rate Adjustment Clause (ECR), subject to the PUC review. This revenue adjustment also includes a credit to Duquesne's customers for profits from short-term sales to other utilities. The credit to Duquesne's customers for profits from short-term sales to other utilities was \$15.5 million in 1995, \$16.6 million in 1994 and \$12.1 million in 1993. Included in a petition currently before the PUC, Duquesne proposes a five-year annual \$5 million credit to the ECR to compensate Duquesne's customers for the lost profits from any reduced short-term power sales caused by the sale of its ownership interest in the Ft. Martin Power Station. (See "Energy Cost Rate Adjustment Clause (ECR)" and "Sale of Ft. Martin" discussions on pages 6 and 9, respectively.)

Other Operating Revenues

Duquesne's non-KWH revenues comprise *other* operating revenues in Duquesne's statement of consolidated income. *Other* operating revenues are primarily comprised of revenues from joint owners of BV Unit 1 and BV Unit 2 for their shares of the administrative and general costs of operating these units. *Other* operating revenues, therefore, fluctuate depending on the timing of scheduled refueling and maintenance outages at Beaver Valley Power Station (BVPS) when significant costs are incurred. Both BV Unit 1 and BV Unit 2 underwent refueling outages in 1995 and in 1993. There were no refueling outages in 1994; accordingly, *other* operating revenues increased \$5.7 million in 1995, when compared to the prior year. Conversely, *other* operating revenues decreased \$5.7 million in 1994 when compared to 1993.

Operating Expenses

Total operating expenses increased \$6.5 million in 1995 when compared to 1994. *Total operating expenses* increased from 1993 to 1994 by \$8.9 million. *Fuel* and *purchased power* expense fluctuations generally result from changes in the cost of fuel, the mix between coal and nuclear generation, the total KWHs sold and generating station availability. Because of the ECR, changes in fuel and purchased power cost normally do not impact earnings.

Components of Change in Fuel and Purchased Power Expense from the Prior Year

	1995	1994
	<i>(Amounts in Millions of Dollars)</i>	
Average unit cost of fuel	\$ (2.3)	\$(3.4)
Generation mix	(5.2)	(5.5)
Generation volume	(6.4)	7.6
Purchased power	1.7	7.7
<i>Total Energy Expense</i>	\$(12.2)	\$ 6.4

The average unit cost of fuel is based on fuel costs divided by generation. The average unit cost of fuel decreased in 1995 when compared to 1994 and 1993 largely because of lower nuclear fuel costs.

Generation mix impacts fuel expense as Duquesne's nuclear fuel cost per KWH is less than its fossil fuel cost per KWH. During 1993, compared to 1994 and 1995, Duquesne had more nuclear station outages, resulting in less nuclear generation and more fossil fuel and purchased power expense.

Generation volume during 1995 decreased 2.7 percent when compared to 1994 due to more generating station outages. Overall nuclear generation increased in 1995 due to strong performances at the nuclear units. (See "Beaver Valley Power Station (BVPS)" and "Perry Unit 1" discussions on page 9.) Major outages at coal stations, including an extended forced outage at the Ft. Martin Power Station, resulted in reduced coal generation which more than offset the increased nuclear generation. During 1994, generation increased 3.4 percent from 1993 due to fewer generating station outages.

Purchased power volume increased in 1995 when compared to 1994 primarily due to generating station outages during periods of extreme weather conditions. Purchased power volume increased in 1994 when compared to 1993 primarily due to the performance of Perry Unit 1.

Other operating expense continued to decrease in 1995. The \$7.8 million decrease from 1994 to 1995 and the \$18.9 million decrease from 1993 to 1994, are largely attributable to cost reduction measures instituted by Duquesne.

Maintenance expense fluctuations primarily result from the timing of scheduled generating station outages, the timing of scheduled transmission and distribution line maintenance and the effect of storms on overhead lines and transformers. Incremental *maintenance* expense incurred for scheduled refueling outages at Duquesne's nuclear units is deferred for amortization over the period between refueling outages (generally 18 months). Influenced by extreme weather conditions and the timing of outages at both fossil and nuclear stations, *maintenance* costs incurred by Duquesne in 1995 exceeded the prior year by \$2.0 million. During 1994 and 1993, amortization of deferred nuclear refueling outage expense increased, reflecting the higher costs of refueling outages. Offsetting this increase in 1994 was a decrease in transmission and distribution line *maintenance* expense.

Duquesne changed, as of January 1, 1993, its method of accounting for *maintenance* costs during scheduled major fossil generating station outages. Under the new accounting policy, Duquesne accrues, over the periods between outages, anticipated expenses for scheduled major fossil generating station outages. The cumulative effect (approximately \$5.4 million, net of income taxes of approximately \$3.9 million) of the change on prior years was included in *net income* in 1993. The effect of the change in 1993 was to reduce *income, before the cumulative effect of changes in accounting principles*, by approximately \$2.4 million and to reduce net income, after the cumulative effect of changes in accounting principles, by approximately \$7.8 million.

Depreciation and amortization expense increased \$25.9 million in 1995, primarily due to the change in Duquesne's composite depreciation rate from 3.0 percent to 3.5 percent effective January 1, 1995. *Depreciation and amortization* expense increased \$12.3 million in 1994 when compared to the prior year due to increases in depreciable property and nuclear decommissioning expense.

As part of Duquesne's plan to optimize generation capacity, a petition pending before the PUC proposes an annual increase in *depreciation and amortization* expense related to Duquesne's nuclear power investment of \$25 million for three years. Consistent with the 1995 increase in the composite depreciation rate, Duquesne is not seeking a rate increase to recover these additional costs. (See "Sale of Ft. Martin" discussion on page 9.)

Taxes other than income taxes were lower in 1993 compared to 1995 and 1994, primarily as a result of a favorable resolution of certain property tax assessments. In 1993, Duquesne recorded, on the basis of these revised assessments, the expected refunds for overpayments in prior years.

Income taxes were lower in 1993, when compared to 1995 and 1994, because of a favorable settlement with the Internal Revenue Service (related to Duquesne's 1988 federal income tax return and DQE's 1989 consolidated federal income tax return). The remaining fluctuations result from changes in taxable income. During 1994 the statutory Pennsylvania income tax rate was reduced from 12.25 percent to 9.99 percent.

This resulted in a net decrease of \$80.5 million in deferred tax liabilities and a corresponding reduction in the regulatory receivable.

Other Income and Deductions

Other income and deductions decreased \$4.9 million in 1995 when compared to 1994 primarily due to increases in *income taxes* related to *other income*. The \$5.4 million decrease in *other income and deductions* from 1993 to 1994 reflects the favorable corporate federal income tax settlements recorded in 1993 offset that year by a \$15.2 million long-term power sale write-off.

Capital Expenditures

Duquesne spent approximately \$78.7 million in 1995, \$94.3 million in 1994 and \$100.6 million in 1993 for construction. These amounts were expended to improve and/or expand electric production, transmission and distribution systems. Duquesne's capital expenditures for construction focus on extending service to new customers, providing for the replacement of utility property and modifying facilities consistent with the most current environmental and safety regulations. Duquesne estimates that it will spend, excluding the allowance for funds used during construction (AFC) and nuclear fuel, approximately \$90 million, \$90 million and \$100 million for construction during 1996, 1997 and 1998, respectively. Approximately \$5 million of capital expenditures for reliability enhancements to the simple cycle units located at Brunot Island (BI) contemplated in Duquesne's petition before the PUC are excluded from these estimates. (See "Sale of Ft. Martin" discussion on page 9.) Duquesne expects that funds generated from operations will continue to be sufficient to finance a large part of its capital needs.

Investing

Duquesne's *long-term investments* consist of Duquesne's holdings of DQE common stock, investments in affordable housing, leasehold and other investments, and Duquesne's nuclear decommissioning trusts. Investing activities increased in 1995, after staying relatively constant in 1994 when compared to 1993. Duquesne invested \$5.4 million and \$5.3 million in affordable housing funds during 1995 and 1994, respectively. In addition, Duquesne invested \$57.5 million in other leases and investments during 1995.

Liquidity and Capital Resources

Financing

Duquesne expects to meet its current obligations and debt maturities through the year 2000 with funds generated from operations and through new financings. At December 31, 1995, Duquesne was in compliance with all of its debt covenants.

Duquesne's 1947 first mortgage bond indenture was retired in the third quarter of 1995 following the maturity of the last bond series issued under the indenture. All of Duquesne's First Collateral Trust Bonds have been issued under a new mortgage indenture that was established in April 1992 (the 1992 Indenture). All First Collateral Trust Bonds became first mortgage bonds when the 1947 mortgage indenture was retired. The 1992 Indenture includes more flexible provisions and eliminates conventions such as mandatory sinking funds and formula-derived maintenance and replacement clauses.

On September 1, 1995, Duquesne redeemed all of its outstanding shares of \$7.20 Preferred Stock for \$29.9 million. On August 29, 1995, Duquesne repurchased \$7 million of its 8-3/8% First Collateral Trust Bonds maturing in 2024.

In May 1996, \$50.0 million of First Collateral Trust Bonds will mature. Duquesne expects to retire these bonds with internally generated funds or to refinance the bonds.

Short-Term Borrowings

At December 31, 1995, Duquesne had an extendible revolving credit agreements with a group of banks totaling \$150 million. This facility expires in October 1996. Interest rates on this credit agreement vary. Commitment fees are based on the unborrowed amount of the commitments. The credit facility contains a two-year repayment period for any amount outstanding at the expiration of the revolving credit period. At December 31, 1995 and 1994, there were no short-term borrowings outstanding.

Interest Charges

Duquesne achieved a \$3.8 million and a \$9.1 million reduction in *interest charges* in 1995 and 1994, respectively, primarily due to the retirement of long-term debt. Duquesne's *interest on long-term debt and dividends on preferred and preference stock* declined to \$100.7 million in 1995 from \$107.1 million in 1994 and \$117.7 million in 1993. Interest expense in 1996 will be influenced by fluctuations in short-term rates and any new financing.

Sale of Accounts Receivable

Duquesne and an unaffiliated corporation have an agreement that entitles Duquesne to sell, and the corporation to purchase, on an ongoing basis, up to \$50 million of accounts receivable. At December 31, 1995, Duquesne had sold \$7 million of receivables to the unaffiliated corporation. Duquesne had no receivables sold at December 31, 1994. The accounts receivable sales agreement, which expires in June 1996, is one of many sources of funds available to Duquesne. Duquesne may attempt to extend the agreement, or to replace the facility with a similar one or to eliminate it upon expiration.

Nuclear Fuel Leasing

Duquesne finances its acquisitions of nuclear fuel through a leasing arrangement under which it may finance up to \$75 million of nuclear fuel. As of December 31, 1995, the amount of nuclear fuel financed by Duquesne under this arrangement totaled approximately \$40.8 million. Duquesne plans to continue leasing nuclear fuel to fulfill its requirements at least through September 1998, the remaining term of the leasing arrangement.

Rate Matters

Electric rates charged by Duquesne to its customers are regulated by the PUC. Electric rates charged to the Borough of Pitcairn and rates charged for sales to other electric utilities are regulated by the FERC. These rates are designed to recover Duquesne's operating expenses, investment in utility assets, and to provide a return on those investments. Sales to other utilities are made at market rates. At this time, Duquesne has no pending base rate case and has no immediate plans to file a base rate case. In Duquesne's petition currently before the PUC for the sale of its ownership interest in the Ft. Martin Power Station, Duquesne proposes to freeze its base rates for a five-year period. (See "Sale of Ft. Martin" discussion on page 9.)

Energy Cost Rate Adjustment Clause (ECR)

Through the ECR, Duquesne recovers (to the extent that such amounts are not included in base rates) nuclear fuel, fossil fuel and purchased power expenses and, also through the ECR, passes to its customers the profits from short-term power sales to other utilities (collectively, ECR energy costs). Nuclear fuel expense is recorded on the basis of the quantity of electric energy generated and includes such costs as the fee imposed by the United States Department of Energy (DOE) for future disposal and ultimate storage and disposition of

spent nuclear fuel. Fossil fuel expense includes the costs of coal, natural gas and fuel oil used in the generation of electricity.

On Duquesne's statement of consolidated income, these ECR revenues are included as a component of *operating revenues*. For ECR purposes, Duquesne defers fuel and other energy expenses for recovery, or refunding, in subsequent years. The deferrals reflect the difference between the amount that Duquesne is currently collecting from customers and its actual ECR energy costs. The PUC annually reviews Duquesne's ECR energy costs for the fiscal year April through March, compares them to previously projected ECR energy costs and adjusts the ECR for over- or under-recoveries and for two PUC-established coal cost standards. (See "Deferred Coal Costs" and "Warwick Mine Costs" discussions in Note F to the consolidated financial statements on pages 49 and 50, respectively.)

Over- or under-recoveries from customers are recorded on the consolidated balance sheet as payable to, or receivable from, customers. At December 31, 1995, \$5.8 million was payable to customers and shown as *other current liabilities*. At December 31, 1994, \$5.9 million was receivable from customers and shown as *other current assets*.

Deferred Rate Synchronization Costs

In 1987, the PUC approved Duquesne's petition to defer initial operating and other costs of Perry Unit 1 and BV Unit 2. Duquesne deferred the costs incurred from November 17, 1987, when the units went into commercial operation, until March 25, 1988, when a rate order was issued. In its order, the PUC postponed ruling on whether these costs would be recoverable from Duquesne's customers. At December 31, 1995, these costs totaled \$51.1 million, net of deferred fuel savings related to the two units. Duquesne is not earning a return on the deferred costs. Duquesne believes that these costs are recoverable. In 1990 and 1995, the PUC permitted other Pennsylvania electric utilities rate recovery of such costs.

Property, Plant and Equipment (PP&E)

Investment in PP&E and Accumulated Depreciation

Duquesne's total investment in *property, plant and equipment* and the related *accumulated depreciation* balances for the following major classes of property at December 31, 1995 and 1994, are as follows:

PP&E and Related Accumulated Depreciation at December 31

	<i>(Amounts in Thousands of Dollars)</i>					
	1995			1994		
	Investment	Accumulated Depreciation	Net Investment	Investment	Accumulated Depreciation	Net Investment
Electric Production	\$2,501,974	\$ 885,389	\$1,616,585	\$2,474,032	\$ 796,338	\$1,677,694
Electric Transmission	296,953	110,242	186,711	295,512	105,217	190,295
Electric Distribution	1,143,111	347,399	795,712	1,119,247	323,922	795,325
Electric General	314,844	141,133	173,711	305,335	123,766	181,569
Property Held for Future Use	216,633	94,283	122,350	216,206	94,283	121,923
Property Held Under Capital Leases	133,381	74,874	58,507	161,775	91,376	70,399
Other	45,114	19,787	25,327	46,859	15,545	31,314
Total	\$4,652,010	\$1,673,107	\$2,978,903	\$4,618,966	\$1,550,447	\$3,068,519

Joint Interests in Generating Units

Duquesne has various contracts with The Potomac Edison Company, Monongahela Power Company, Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric Illuminating Company (CEI) and The Toledo Edison Company that include provisions for coordinated maintenance responsibilities, limited and qualified mutual back-up in the event of outages and certain capacity and energy transactions.

Under the agreements governing the operation of these jointly owned generating units, the day-to-day operating authority is assigned to a specific company. CEI has such authority for Perry Unit 1 and Eastlake Unit 5; Ohio Edison Company has authority for Sammis Unit 7; Pennsylvania Power Company has authority for Bruce Mansfield Units 1, 2 and 3; and Monongahela Power Company operates Ft. Martin Unit 1.

In September 1995, Duquesne served a demand for arbitration on CEI seeking, among other things, a partition of Eastlake Unit 5 through a sale of Duquesne's interest therein and a termination of its operating agreement with CEI for that unit. The demand alleges, among other things, the improper allocation by CEI of fuel and related costs between itself and Duquesne; the mismanagement by CEI of the closing of the Saginaw Mine, which historically supplied coal to the unit; and the concealment by CEI of information. In October 1995, CEI filed its own arbitration demand and asserted counterclaims seeking Duquesne's alleged share of costs relating to the unit. A panel of arbitrators has been appointed.

Duquesne has a joint interest in the following nuclear power stations with the following companies:

	<u>Beaver Valley</u>		<u>Perry</u>
	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 1</u>
Duquesne	* 47.50%	* 13.74% (c)	13.74%
Ohio Edison Company	35.00%	41.88%	30.00%
Pennsylvania Power Company (a)	17.50%	—	5.24%
CEI (b)	—	24.47%	* 31.11%
Toledo Edison Company (b)	—	19.91%	19.91%

*Denotes Operator

(a) Subsidiary of Ohio Edison Company

(b) Subsidiary of Centerior Energy Corporation

(c) In 1987, Duquesne sold and subsequently leased back its 13.74 percent interest in BV Unit 2; the sale was exclusive of transmission and common facilities. The total sales price of \$537.9 million was the appraised value of Duquesne's interest in the property. Duquesne leased back its interest in the unit for a term of 29.5 years. The lease provides for semiannual payments and is accounted for as an operating lease. Duquesne is responsible under the terms of the lease for all costs of its interest in the unit. (See "Property, Plant and Equipment," Note B to the consolidated financial statements on page 46.)

Duquesne has a joint interest in the following fossil plants with the following companies:

	<u>Sammis</u>	<u>Bruce Mansfield</u>			<u>Eastlake</u>	<u>Ft. Martin</u>
	<u>Unit 7</u>	<u>Unit 1</u>	<u>Unit 2</u>	<u>Unit 3</u>	<u>Unit 5</u>	<u>Unit 1</u>
Duquesne	31.20%	29.30%	8.00%	13.74%	31.20%	50.00%
Ohio Edison Company	*48.00%	60.00%	39.30%	35.60%	—	—
Pennsylvania Power Company (a)	20.80%	* 4.20%	* 6.80%	* 6.28%	—	—
CEI (b)	—	6.50%	28.60%	24.47%	* 68.80%	—
Toledo Edison Company (b)	—	—	17.30%	19.91%	—	—
Potomac Edison Company (c)	—	—	—	—	—	25.00%
Monongahela Power Company (c)	—	—	—	—	—	* 25.00%

*Denotes Operator

(a) Subsidiary of Ohio Edison Company

(b) Subsidiary of Centerior Energy Corporation

(c) Subsidiary of, and currently known as, Allegheny Power System

Beaver Valley Power Station

BVPS continues to demonstrate excellence in operating performance. During 1995, BV Unit 1 and BV Unit 2 both underwent scheduled refueling outages, which were completed in the shortest duration in both the units' history. Further exemplifying BVPS' accomplishments, both refueling outages were completed under budgeted cost. In spite of these scheduled refueling outages, the combined capacity factor for the units averaged 80 percent during 1995. Capacity factor is a key production measure and indicates how well the plant operated based on its design capacity. It is the ratio of the power actually generated by a facility to the facility's rated capacity during a given period of time. Also, BV Unit 2 achieved an unplanned capability loss factor of 0.7 percent, which is significantly better than the industry standard of 4.0 percent. This factor measures how much power production was lost due to unplanned outages.

In addition to optimizing generation and cost efficiency, BVPS management continues to emphasize safety in operations. During 1995, BVPS employees achieved the milestone of more than three million hours worked without incurring a single lost time accident.

Perry Unit 1

Duquesne has a 13.74 percent ownership interest in Perry Unit 1, a nuclear generating unit located in Ohio and operated by CEI. Perry Unit 1 experienced improved performance during 1995, a year without a refueling outage, and achieved a capacity factor of 87.5 percent. CEI has submitted to the NRC an action plan, called the Perry Course of Action (PCA). CEI management continues to represent to Duquesne that the PCA is on schedule and will be an effective program to ensure that Perry Unit 1 is in conformance with applicable industry standards. The PCA is scheduled to be completed by the end of Perry Unit 1's fifth refueling outage, presently scheduled for the spring of 1996. Duquesne cannot predict the effectiveness of the PCA. Duquesne will continue to monitor closely this situation.

Sale of Ft. Martin

On November 29, 1995, Duquesne and AYP Capital, Inc., an unregulated subsidiary of the Allegheny Power System (APS), entered into an agreement for the sale of Duquesne's 50 percent ownership interest in Unit 1 of the Ft. Martin Power Station, for the sum of \$169 million. The agreement is subject to all necessary regulatory approvals. On December 20, 1995, Duquesne filed a Petition for Declaratory Order with the PUC requesting approval for the sale in conjunction with a six-point plan to be financed in part by the proceeds of the Ft. Martin transaction.

Under the plan, Duquesne offers to freeze its base rates for a period of five years. If approved, the rate freeze is expected to produce a 14 percent reduction in the real price of electricity based on an average annual inflation rate of 2.7 percent. In addition, Duquesne proposes to record a one-time reduction of approximately \$130 million in the value of Duquesne's nuclear plant investment. Duquesne also proposes to use the proceeds from the sale to finance reliability enhancements to the simple cycle units located at BI, to retire debt and to reduce equity. The BI simple cycle units will provide 135 megawatts (MW) of summer peaking capacity and 168 MW of winter peaking capacity and permit Duquesne to achieve greater operational flexibility in meeting peak system demands. The plan also proposes an annual increase of \$25 million for three years in *depreciation and amortization* expense related to Duquesne's nuclear investment, as well as additional annual contributions to its nuclear plant decommissioning funds of \$5 million for five years, without any increase in existing electric rates. Lastly, Duquesne proposes a five-year annual \$5 million credit to the ECR to compensate Duquesne's customers for the lost profits from any reduced short-term power sales foregone by the sale of its ownership interest in the Ft. Martin Power Station. (See "Energy Cost Rate Adjustment Clause (ECR)" discussion on page 6.)

The PUC is currently reviewing Duquesne's petition.

Property Held for Future Use

In 1986, the PUC approved Duquesne's request to remove Phillips Power Station (Phillips) and a portion of BI from service and from rate base. Duquesne expects to recover its net investment in these plants through future electricity sales. Duquesne believes its investment in these plants will be necessary in order to meet future business needs outlined in Duquesne's plans for optimizing generation resources. (See "Generation Resource Optimization" discussion on page 17.) If business opportunities do not develop as expected, Duquesne will consider the sale of these assets. In the event that market demand, transmission access or rate recovery do not support the utilization or sale of the plants, Duquesne may have to write off part or all of their costs. A portion of the BI combustion turbine capacity currently held for future use may be returned to service pending the outcome of the sale of Duquesne's ownership interest in Ft. Martin. (See "Sale of Ft. Martin" discussion on page 9.) At December 31, 1995, Duquesne's net investment in Phillips and BI held for future use was \$77.4 million and \$44.9 million, respectively.

Employees

At December 31, 1995, Duquesne had 3,515 employees, including 1,178 employees at Duquesne-operated BVPS. The International Brotherhood of Electrical Workers (IBEW) union represents 2,086 of Duquesne's employees. The current collective bargaining agreement with the IBEW expires on September 30, 1998.

Electric Utility Operations

Approximately 69 percent of the electric energy generated by Duquesne's system during 1995 was produced by its coal-fired generating capacity and approximately 31 percent was produced by its nuclear generating capacity. Duquesne normally experiences its peak loads in the summer. The 1995 customer system peak of 2,666 MW, the highest system peak in Duquesne's history, occurred on August 16, 1995.

Duquesne's fossil plants operated at 76 percent availability in 1995 and 85 percent availability in 1994. Duquesne's nuclear plants operated at 83 percent availability in 1995 and 75 percent in 1994. The timing and duration of scheduled maintenance and refueling outages, as well as the duration of forced outages, affect the availability of power stations.

Duquesne determines the need for and timing of generation resource additions based on maintaining an adequate level of resources in reserve above the projected weather normalized annual peak demand. In addition, capacity resources throughout the region can supplement Duquesne's in-service generation resources, if required, through Duquesne's substantial transmission import capability, currently in excess of 4,000 MW. The North American Electric Reliability Council, of which Duquesne is a member, uses "capacity margin" to report generating capability when compared to customer demand. Capacity margin is one of the criteria used by Duquesne in assessing the need for future resources. Duquesne's capacity margin in 1995 was 11.7 percent. The capacity portfolio reflected in Duquesne's capacity margin includes in-service generating capacity, plus 21 MW capacity provided by non-utility generation contracts, plus a portion of the capacity from property held for future use available to meet customer needs during peaking or emergency conditions. The customer peak demand reflected in Duquesne's capacity margin is based on the actual peak demand experienced during the extraordinarily hot 1995 summer weather conditions, less 97 MW of interruptible load resources available from Duquesne's interruptible customers, but not actually interrupted during the peak period.

The successful resolution of Duquesne's proposed sale of its ownership interest in Ft. Martin will reduce in-service capacity by 276 MW. Duquesne expects to replace Ft. Martin capacity by (1) utilizing the 168 MW oil-fired combustion turbines at the BI combined cycle facility, which is *property held for future use*, and (2) acquiring seasonal peaking capacity from power marketplace resources, as required. These additional resources ensure that adequate capacity will be available to enable Duquesne to continue to maintain the expected level of power generation reliability.

Fossil Fuel

Duquesne believes that sufficient coal for its coal-fired generating units will be available from various sources to satisfy its requirements for the foreseeable future. During 1995, approximately 2.6 million tons of coal were consumed at Duquesne's two wholly owned coal-fired stations, Cheswick Power Station (Cheswick) and Elrama Power Station (Elrama).

Duquesne owns Warwick Mine, an underground mine located on the Monongahela River approximately 83 river miles from Pittsburgh. Warwick Mine has been excluded from rate base since 1981. Duquesne temporarily idled the mine in June 1988 due to excess coal inventories. In 1990, Duquesne restarted the mine and entered into an agreement under which an unaffiliated company will operate the mine until March 2000 and sell the coal produced. Production began in late 1990. The mine produced 1.1 million tons of coal in 1995. The Warwick Mine coal reserves include both high and low sulfur coal; the sulfur content averages in the mid-range at 1.7 percent to 1.9 percent. More than 60 percent of the coal mined at Warwick Mine currently is used by Duquesne. Duquesne receives a royalty on any sales of Warwick coal in the open market. These royalties are credited to Duquesne's ECR. The Warwick Mine currently supplies less than one-fifth of the coal used in the production of electricity at the plants owned or jointly owned by Duquesne. Duquesne estimates that, at December 31, 1995, its economically recoverable coal reserves at Warwick Mine were 9.0 million tons. Costs at Warwick Mine and Duquesne's investment in the mine are expected to be recovered through the cost of coal in the ECR. Recovery is subject to the system-wide coal cost standard. Duquesne also has an opportunity to earn a return on its investment in the mine through the cost of coal during the period of the system-wide coal cost standard. At December 31, 1995, Duquesne's net investment in the mine was \$14.9 million. The current estimated liability, including final site reclamation, mine water treatment and certain labor liabilities, for mine closing is \$34.1 million, and Duquesne has recorded a liability on the consolidated balance sheet of approximately \$15.9 million toward these costs. (See "Warwick Mine Costs" discussion in Note F to the consolidated financial statements on page 50.)

During 1995, 56 percent of Duquesne's coal supplies were provided by contracts including Warwick Mine, with the remainder satisfied through purchases on the spot market. Duquesne had four long-term contracts in effect at December 31, 1995, which, in combination with spot market purchases, are expected to furnish an adequate future coal supply. Duquesne does not anticipate any difficulty in replacing or renewing these contracts as they expire from 1996 through 2002. At December 31, 1995, Duquesne's wholly owned and jointly owned generating units had on hand an average coal supply of 45 days.

The PUC has established two market price coal cost standards. One applies only to coal delivered at the Bruce Mansfield Power Station (Bruce Mansfield). The other, the system-wide coal cost standard, applies to coal delivered to the remainder of Duquesne's system. Both standards are updated monthly to reflect prevailing market prices of similar coal. The PUC has directed Duquesne to defer recovery of the delivered cost of coal to the extent that such cost exceeds generally prevailing market prices for similar coal, as determined by the PUC. The PUC allows deferred amounts to be recovered from customers when the delivered costs of coal fall below such PUC-determined prevailing market prices.

The system-wide coal cost standard extends through March 2000. The unrecovered cost of Bruce Mansfield coal was \$8.4 million and the unrecovered cost of the remainder of the system-wide coal was \$4.4 million at December 31, 1995. Duquesne estimates that all deferred coal costs will be recovered. Duquesne's average cost per ton of coal consumed, including the cost of delivery, during the past three years at generating units which it operates or in which it has an ownership interest was \$38.86, \$39.12 and \$40.08 in 1995, 1994 and 1993, respectively. The cost of coal, which falls within the market price limitations, is recovered from Duquesne's customers through the ECR. (See "Rate Matters" discussion on page 6, and also see "Deferred Coal Costs" discussion in Note F to the consolidated financial statements on page 49.)

Nuclear Fuel

The cycle of production and utilization of nuclear fuel consists of (1) mining and milling of uranium ore and processing the ore into uranium concentrates, (2) converting uranium concentrates to uranium hex-

afluoride, (3) enriching the uranium hexafluoride, (4) fabricating fuel assemblies, (5) utilizing the nuclear fuel in the generating station reactor and (6) storing and disposing of spent fuel.

Adequate supplies of uranium and conversion services are under contract for Duquesne's requirements for its jointly owned/leased nuclear units through 1996. Enrichment services are supplied under a 1984 United States Enrichment Corporation Utility Services Contract entered into for a period of 30 years by Duquesne for joint interests in Perry Unit 1, BV Unit 1 and BV Unit 2. Under the terms and conditions of this contract, Duquesne is committed to 100 percent of its enrichment needs through 1998 and 70 percent in 1999; Duquesne has terminated, at zero cost, all of its enrichment services requirements for fiscal years 2000 through 2005 and continues to review the need for further services on an annual basis. Fuel fabrication contracts are in place to supply reload requirements for the next two cycles for BV Unit 1, the next two cycles for BV Unit 2 and the next sixteen cycles for Perry Unit 1. Duquesne will be required to make arrangements for uranium supply and related services as existing commitments expire.

Each utility company is responsible for financing its proportionate share of the costs of nuclear fuel for each nuclear unit in which it has an ownership or leasehold interest. (See "Nuclear Fuel Leasing" discussion on page 6.) Duquesne's nuclear fuel costs, which are amortized to reflect fuel consumed, are charged to fuel expense and are recovered through rates. Duquesne estimates that, over the next three years, the amortization of nuclear fuel consumed will exceed the expenditures for new fuel by approximately \$1.7 million. The actual nuclear fuel costs to be financed and amortized during the period 1996 through 1998 will be influenced by such factors as changes in interest rates; lengths of the respective fuel cycles; reload cycle design; and changes in nuclear material costs and services, the prices and availability of which are not known at this time. Such costs may also be influenced by other events not presently foreseen.

Duquesne's nuclear fuel costs related to BV Unit 1, BV Unit 2 and Perry Unit 1 under the fuel lease arrangement are charged to fuel expense based on the quantity of energy generated. Nuclear fuel costs for these units averaged .750, .903 and .918 cents per KWH, inclusive of charges associated with spent fuel, in 1995, 1994 and 1993, respectively. Duquesne is recovering from its customers the costs associated with the ultimate disposal of spent fuel.

Nuclear Decommissioning

The PUC ruled that recovery of the decommissioning costs for BV Unit 1 could begin in 1977, and that recovery for BV Unit 2 and Perry Unit 1 could begin in 1988. Duquesne expects to decommission BV Unit 1, BV Unit 2 and Perry Unit 1 no earlier than the expiration of each plant's operating license, 2016, 2027 and 2026, respectively. BV Unit 1 is expected to be placed in safe storage until the expiration of the BV Unit 2 operating license, at which time the units may be decommissioned together.

Based on site-specific studies finalized in 1992 for BV Unit 2, and in 1994 for BV Unit 1 and Perry Unit 1, Duquesne's share of the total estimated decommissioning costs, including removal and decontamination costs, currently being used to determine Duquesne's cost of service, are \$122 million for BV Unit 1, \$35 million for BV Unit 2 and \$67 million for Perry Unit 1.

In conjunction with an August 18, 1994, PUC Accounting Order, Duquesne has increased the annual contribution to its decommissioning trusts by approximately \$2 million to bring the total annual funding to approximately \$4 million per year. In collaboration with Duquesne and several other Pennsylvania utilities, the PUC Office of Special Assistants is evaluating various decommissioning issues, including funding methods. Duquesne expects that any action relating to any forthcoming PUC report will result in further increases in annual contributions to its decommissioning trusts. Consistent with these anticipated future PUC actions, Duquesne's petition before the PUC for the sale of its ownership interest in the Ft. Martin Power Station provides for additional annual contributions to its nuclear decommissioning funds of \$5 million for five years without any increase in existing electric rates. (See "Sale of Ft. Martin" discussion on page 9.)

Duquesne records decommissioning costs under the category of *depreciation and amortization* expense and accrues a liability, equal to that amount, for nuclear decommissioning expense. Such nuclear decommis-

sioning funds are deposited in external, segregated trust accounts. The funds are invested in a portfolio of municipal bonds, certificates of deposit and United States government securities having a weighted average duration of four to seven years. Trust fund earnings increase the fund balance and the recorded liability. The market value of the aggregate trust fund balances at December 31, 1995, totaled approximately \$28.5 million. On Duquesne's consolidated balance sheet, the decommissioning trusts have been reflected in *other long-term investments*, and the related liability has been recorded as *other non-current liabilities*.

Nuclear Insurance

All of the companies with an interest in BV Unit 1, BV Unit 2 and Perry Unit 1 maintain nuclear property insurance, which provides coverage for property damage, decommissioning and decontamination liabilities. Duquesne's share of this program provides for \$1.2 billion of insurance coverage for its net investment of \$407.8 million in the BVPS and \$565.5 million in Perry Unit 1, plus its interest in BV Unit 2 with lease commitments of \$405.2 million, at December 31, 1995. The lease commitments of \$405.2 million represent the net present value of future lease payments discounted at 10.94 percent, the return currently authorized Duquesne by the PUC. Duquesne would be responsible for its share of any damages in excess of insurance coverage. In addition, if the property damage reserves of Nuclear Electric Insurance Limited (NEIL), an industry mutual insurance company, are inadequate to cover claims arising from an incident at any United States nuclear site covered by that insurer, Duquesne could be assessed retrospective premiums totaling a maximum of \$10.9 million.

The *Price-Anderson Amendments* to the *Atomic Energy Act of 1954* limit public liability from a single incident at a nuclear plant to \$8.9 billion. Duquesne has purchased \$200 million of insurance, the maximum amount available, which provides the first level of financial protection.

Additional protection of \$8.3 billion would be provided by an assessment of up to \$75.5 million per incident on each nuclear unit in the United States. Duquesne's maximum total assessment, \$56.6 million, which is based on its ownership or leasehold interests in three nuclear generating units, would be limited to a maximum of \$7.5 million per incident per year. A further surcharge of 5 percent could be levied if the total amount of public claims exceeded the funds provided under the assessment program. Additionally, a state premium tax may be charged on the assessment and surcharge. Finally, the United States Congress could impose other revenue-raising measures on the nuclear industry if funds prove insufficient to pay claims.

Duquesne carries extra expense insurance which would pay the incremental cost of any replacement power purchased (in addition to costs that would have been incurred had the units been operating) and other incidental expense after the occurrence of certain types of accidents at its nuclear units in a limited amount for a limited period of time. The coverage provides for 100 percent of the estimated extra expense per week during the 52-week period starting 21 weeks after an accident and 80 percent of such estimate per week for the following 104 weeks, with no coverage thereafter. The amount and duration of actual extra expense could substantially exceed insurance coverage. NEIL also provides this insurance. If NEIL's reserves are inadequate to cover claims at any United States nuclear site covered by that insurer, Duquesne could be assessed retrospective premiums totaling a maximum of \$3.5 million.

Spent Nuclear Fuel Disposal

The *Nuclear Waste Policy Act of 1982* established a policy for handling and disposing of spent nuclear fuel and a policy requiring the established final repository to accept spent fuel. Electric utility companies have entered into contracts with the DOE for the permanent disposal of spent nuclear fuel and high-level radioactive waste in compliance with this legislation. The DOE has indicated that its repository under these contracts will not be available for acceptance of spent fuel before 2010 at the earliest. Existing on-site spent fuel storage capacities at BV Unit 1, BV Unit 2 and Perry Unit 1 are expected to be sufficient until 2016, 2010 and 2011, respectively.

Uranium Enrichment Decontamination and Decommissioning Fund

Nuclear reactor licensees in the United States are assessed annually for the decontamination and decommissioning of DOE uranium enrichment facilities. Assessments are based on the amount of uranium a utility had processed for enrichment prior to enactment of the *National Energy Policy Act of 1992* (NEPA) and are to be paid by such utilities over a 15-year period. At December 31, 1995, Duquesne's liability for contributions is approximately \$9.9 million (subject to an inflation adjustment). Contributions, when made, are recovered from electric utility customers through the ECR.

Environmental Matters

The *Comprehensive Environmental Response, Compensation and Liability Act of 1980* and the *Superfund Amendments and Reauthorization Act of 1986* (Superfund) established a variety of informational and environmental action programs. The United States Environmental Protection Agency (EPA) has informed Duquesne of its involvement or potential involvement in three hazardous waste sites. Duquesne has reached agreements to make minimal financial payments related to two of the three sites in order to resolve any associated liability. If Duquesne is ultimately determined to be a responsible party with respect to the remaining site, it could be liable for all or a portion of the cleanup costs. However, other solvent, potentially responsible parties that may bear all or part of any liability are also involved. In addition, Duquesne believes that available defenses, along with other factors (including overall limited involvement and low estimated remediation costs) will limit any potential liability that Duquesne may have for cleanup costs. Duquesne believes that it is adequately reserved for all known liabilities and costs and, accordingly, that this matter will not have a materially adverse effect on its financial position or results of operations.

In 1990, Congress approved amendments to the *Clean Air Act*, which established the Emission Allowance Trading System. Allowances are issued by the EPA to fossil-fired stations with generating capability of more than 25 MW that were in existence as of the passage of the 1990 amendments. Allowances are part of an innovative market-based approach to sulfur dioxide (SO₂) reduction. Emission allowances can also be obtained through purchases on the open market or directly from other sources. Excess allowances may be banked for future use or sold on the open market to other parties to offset their emissions.

Although Duquesne has satisfied all of the Phase I requirements of the *Clean Air Act*, Phase II requires significant additional reductions of SO₂ and oxides of nitrogen (NO_x) by the year 2000. Duquesne currently has 662 MW of nuclear capacity, 1,187 MW of coal capacity equipped with SO₂ emission reducing equipment (including 300 MW of *property held for future use* at Phillips) as well as 757 MW of capacity that meets the 1995 standards of the *Clean Air Act Amendments* through the use of low sulfur coal. Through the year 2000, Duquesne is considering a combination of compliance methods that include fuel switching; increased use of, and improvements in, SO₂ emission reducing equipment; low NO_x burner technology; and the purchase of emission allowances. Flue gas conditioning and post combustion NO_x reduction technologies may also be employed if economically justified. In addition, Duquesne is examining and developing innovative emissions technologies designed to reduce costs. Duquesne continues to work with the operators of its jointly owned stations to implement cost-effective compliance strategies to meet these requirements. NO_x reductions under *Title IV of the Clean Air Act* were required at Cheswick, and the work to achieve the reductions was completed in 1993. The ozone attainment provisions of *Title I of the Clean Air Act Amendments* also required NO_x reductions by mid-1995 at Cheswick, Elrama and Bruce Mansfield. Duquesne achieved such reductions using innovative combustion system modifications and low NO_x burner technology. Duquesne currently estimates that additional capital costs to comply with *Clean Air Act* requirements through the year 2000 will be approximately \$20 million. This estimate is subject to the finalization of federal and state regulations and the PUC approval of the sale of Duquesne's interest in the Ft. Martin Power Station. (See "Sale of Ft. Martin" discussion on page 9.)

Duquesne has developed, patented and installed low NO_x burner technology for the Elrama boilers. These cost-effective NO_x reduction systems installed on the Elrama roof fired boilers was specified as the benchmark for the industry for this class of boilers in the EPA's pending Group II rulemaking. Duquesne is also currently evaluating additional low cost, developmental NO_x reduction technologies at Cheswick and

Elrama. An Artificial Neural Network control system enhancement, co-sponsored by the Electric Power Research Institute and Duquesne, will be demonstrated at Cheswick. The Gas Research Institute and Duquesne are sponsoring a targeted natural gas reburn demonstration at Elrama. Both demonstrations will be completed in 1996.

As required by *Title V of the Clean Air Act Amendments*, Duquesne has filed comprehensive air operating permit applications for Cheswick, Elrama, BI and Phillips during the last half of 1995. Duquesne also filed its *Title IV Phase II Clean Air Act* compliance plan with the PUC on December 27, 1995.

Duquesne is closely monitoring other potential future air quality programs and air emission control requirements, including additional NO_x control requirements that were recommended for fossil fuel plants by the Ozone Transport Commission and the potential for more stringent ambient air quality and emission standards for SO₂, particulates, and other by-products of coal combustion. As these potential programs are in various stages of discussion and consideration, it is impossible to make reasonable estimates of the potential costs and impacts, if any.

In 1992, the Pennsylvania Department of Environmental Protection (DEP) issued Residual Waste Management Regulations governing the generation and management of non-hazardous residual waste, such as coal ash. Duquesne is assessing the sites which it utilizes and has developed compliance strategies under review by the DEP. Capital compliance costs of \$3.0 million were incurred by Duquesne in 1995 to comply with these DEP regulations; on the basis of information currently available, an additional \$2.5 million will be incurred in 1996. The expected additional capital cost of compliance through the year 2000 is estimated, based on current information, to be approximately \$25 million. This estimate is subject to the results of ground water assessments and DEP final approval of compliance plans.

Duquesne is involved in various other environmental matters. Duquesne believes that such matters, in total, will not have a materially adverse effect on its financial position or results of operations.

Outlook

Competition

The electric utility industry is undergoing fundamental change in response to the open transmission access and increased availability of energy alternatives fostered by NEPA which has served to increase competition in the industry. Previously captive customers are seeking freedom to choose alternative suppliers of energy. These competitive pressures require utilities to offer competitive pricing and terms to retain customers and to develop new markets for the optimal utilization of their generation capacity.

At the national level, NEPA was designed to encourage competition among electric utility companies, improve energy resource planning and to encourage the development of alternative sources of energy. NEPA authorizes the FERC to require electric utilities to provide wholesale suppliers of electric energy with nondiscriminatory access to the utility's wholesale transmission system. In response to this mandate, the FERC has issued a Notice of Proposed Rulemaking (NOPR) on Open Access Nondiscriminatory Transmission Services and a supplemental NOPR on the Recovery of Stranded Costs. The NOPR on open access transmission would define the terms under which independent power producers, neighboring utilities and others could gain access to a utility's transmission grid to deliver power to customers. The supplemental NOPR on stranded costs would address the issue of recovery of a utility's unrecovered costs that were incurred to provide service to customers that subsequently leave a utility's system in favor of another supplier. A final order is expected in mid-1996 on both NOPRs. Also, in January 1996, the FERC announced its plans to reconsider its public utility merger guidelines. The FERC actions are expected to have a significant impact on competition in the electric utility industry.

In Pennsylvania, the PUC currently is conducting an investigation concerning regulatory reform and has indicated an intention to issue a report to the governor and the Pennsylvania General Assembly by June 1996. The PUC staff issued an interim report in August 1995 that recommended that retail wheeling not be

implemented at that time because of concerns that retail wheeling would benefit large industrials at the expense of smaller customers and utility shareholders, who would absorb the costs of stranded investments, and that service reliability could be impaired. The report concludes that performance-based ratemaking, wholesale competition and utility cost cutting could provide the benefits of retail wheeling without the attendant disruptions.

Duquesne is aware of the foregoing federal and state regulatory and business uncertainties, and is attempting to position itself to operate in a more competitive environment. Its current rate structure allows some flexibility in setting rates to retain its customer base and attract new business. Furthermore, as discussed below, open access transmission offers Duquesne the opportunity to sell power on a market basis to customers outside of its service territory.

Duquesne has proposals before both the FERC and the PUC that address specific issues relating to its competitive position. Because of Duquesne's current electric generating configuration, some of its baseload capacity is used less than optimally. Two options Duquesne is currently considering to align its generating capabilities more closely with customer demand are discussed in "Transmission Access" below and "Generation Resource Optimization" on page 17. First, through open transmission access, Duquesne is seeking to increase its level of fixed demand through the negotiation of long-term power sale contracts to customers outside its service territory. Second, Duquesne proposes to change its generation profile through the sale of its interest in the Ft. Martin Power Station.

As part of its petition currently before the PUC with respect to the sale of its interest in Ft. Martin, Duquesne has proposed, among other concessions, a five-year freeze on base rates and a five-year annual \$5 million credit to the ECR (which would otherwise remain unaffected by the freeze) to compensate Duquesne's electric utility customers for short-term power sales foregone by the sale of its interest in the plant. (See "Sale of Ft. Martin" discussion on page 9.) Although Duquesne believes a rate freeze will enable it to maintain and expand its existing customer base, if the rate freeze is implemented, Duquesne could face the risk of reduced rates of return if unforeseen costs arise and if revenues from sales prove inadequate to fund those costs.

Finally, as noted above, open access transmission requirements implicitly create the potential for stranded costs. To address these issues, Duquesne has implemented, and will continue to evaluate, the accelerated depreciation of its generating assets as one method to guard against the competitive risks of stranded investments. (See "Operating Expenses" discussion on page 4.) At present, the FERC and the PUC appear supportive of stranded cost recovery; however, implementation details for recovery of stranded costs are extremely vague and far from decided. The petition for the sale of Duquesne's ownership interest in the Ft. Martin Power Station currently before the PUC proposes to further increase *depreciation and amortization* expense related to Duquesne's nuclear power investment by \$75 million over a three-year period. This petition also proposes to record a one-time write-down in the value of Duquesne's nuclear plant investment of approximately \$130 million and to increase by \$5 million the annual contribution to Duquesne's nuclear plant decommissioning funds, for a total of \$25 million in contributions over the next five years. (See "Sale of Ft. Martin" discussion on page 9.) These current and proposed accelerated investment cost recovery measures will be absorbed by Duquesne without an increase in base rates.

Duquesne believes that these and similar initiatives will strengthen its position to succeed in a more competitive environment by eliminating the need to charge its electric utility customers in the future for these currently recognized expenses. At this time, however, there is no assurance as to the extent to which Company initiatives can or will ultimately eliminate regulatory and other uncertainties associated with increased competition.

Transmission Access

In March 1994, Duquesne submitted, pursuant to the *Federal Power Act*, two separate "good faith" requests for transmission service with APS and the Pennsylvania-New Jersey-Maryland Interconnection Association (PJM Companies), respectively. Each request is based on 20-year firm service with flexible delivery points for 300 MW of transfer capability over the APS and PJM Companies transmission networks, which

together extend from western Pennsylvania to the East Coast. Because of a lack of progress on pricing and other issues, on August 5 and September 16, 1994, Duquesne filed with the FERC applications for transmission service from the PJM Companies and APS, respectively. The applications are authorized under Section 211 of the *Federal Power Act*, which requires electric utilities to provide firm wholesale transmission service. In May 1995, the FERC issued proposed orders instructing APS and the PJM Companies to provide transmission service to Duquesne and directing the parties to negotiate specific rates, terms and conditions. Duquesne was unable to agree to terms for transmission service with either APS or the PJM Companies. Briefs were filed with the FERC outlining the areas of disagreement among the companies. The matter is now pending before the FERC. Duquesne cannot predict the final outcome of these proceedings.

Generation Resource Optimization

Duquesne's plans for optimizing generation resources are designed to reduce underutilized generating capacity, promote competition in the wholesale marketplace, maintain stable prices and meet customer-specified levels of service reliability. Duquesne is committed to explore firm energy sales to wholesale customers, system power sales, system power sales with specific unit back-up, unit power sales, generating asset sales and any other approach to efficiently managing capacity and energy.

The proposed sale of Duquesne's ownership interest in the Ft. Martin Power Station demonstrates Duquesne's ongoing efforts to optimize the utilization of generation resources. (See "Sale of Ft. Martin" discussion on page 9.) The sale is expected to reduce power production costs by employing a cost-effective source of peaking capacity through enhanced reliability of the simple cycle units at Bl. Implementation of the proposed plan will better align Duquesne's generating capabilities with its native load requirements.

Customer Service Guarantees

Duquesne's commitment to provide reliable, quality service to its customers is characterized by its customer service guarantees. On March 6, 1995, Duquesne became the first Pennsylvania regulated utility, and the third in the United States, to offer its residential customers guarantees of its commitment to courteous, reliable and efficient service. Duquesne offers a \$25 credit to a customer's account if Duquesne fails to provide accurate billings; to meet punctual service appointments; to extend prompt, courteous and professional service; or to connect new services within one day of the date requested by the customer.

Customer Advanced Reliability System

In January 1996, Duquesne announced its Customer Advanced Reliability System, a new communications service that will provide its customers with superior levels of service reliability, security and convenience. Duquesne has signed a long-term, full service contract with Itron, Inc. (Itron), a leading supplier of energy information and communication solutions to the electric utility industry. Over the next two years, Itron will install, operate and maintain a communications network that will provide Duquesne with an electronic link to its 580,000 customers.

The Customer Advanced Reliability System is designed to respond to customer needs on the basis of immediate information about the status of power delivery at individual homes and businesses. This electronic communications service is another major element in Duquesne's multi-step plan to make Duquesne's operations more competitive and efficient.

Other

Financial Accounting Pronouncement

The Financial Accounting Standards Board issued *Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of (SFAS No. 121)*,

in March 1995. This statement is effective for years beginning after December 15, 1995. Duquesne anticipates adopting this standard on January 1, 1996, and does not expect that it will have a material impact on its financial position or results of operations, based on the current regulatory structure in which it operates. As competitive factors influence pricing in the utility industry, this opinion may change in the future. The general requirements of *SFAS No. 121* apply to non-current assets and require impairment to be considered whenever evidence suggests that it is no longer probable that future cash flows in an amount at least equal to the asset will result.

Retirement Plan Measurement Assumptions

Duquesne decreased the discount rate used to determine the projected benefit obligation on Duquesne's retirement plans at December 31, 1995, to 7.0 percent. The assumed change in future compensation levels was also decreased to reflect current market and economic conditions. The effects of these changes on Duquesne's retirement plan obligations are reflected in the amounts shown in "Employee Benefits," Note M to the consolidated financial statements on page 56. The resulting change in related expenses for subsequent years is not expected to be material.

Except for historical information contained herein, the matters discussed in this Annual Report on Form 10-K, are forward-looking statements that involve risks and uncertainties including, but not limited to, economic, competitive, governmental and technological factors affecting Duquesne's operations, markets, products, services and prices, and other factors discussed in Duquesne's filings with the Securities and Exchange Commission.

Executive Officers of the Registrant

Set forth below are the names, ages as of March 1, 1996, positions and brief accounts of the business experience during the past five years of the executive officers of Duquesne.

<u>Name</u>	<u>Age</u>	<u>Office</u>
Wesley W. von Schack	51	Chairman of the Board since September 1987 and Chief Executive Officer since January 1986. President from January 1986 to February 1995.
David D. Marshall	43	President and Chief Operating Officer since February 1995. Executive Vice President from February 1992 to February 1995, Assistant to the President from October 1990 to February 1992, and Vice President-Corporate Development from August 1987 to February 1992.
Gary L. Schwass	50	Senior Vice President since February 1995 and Chief Financial Officer since July 1989. Vice President-Finance from May 1988 to February 1995.

<u>Name</u>	<u>Age</u>	<u>Office</u>
James E. Cross	49	Senior Vice President - Nuclear since February 1995. Vice President - Nuclear from September 1994 to February 1995. Formerly Vice President, Thermal Operations, and Chief Nuclear Officer of Portland General Electric from May 1993 to September 1994; Vice President and Chief Nuclear Officer of Portland General Electric from December 1991 to May 1993; and Vice President, Nuclear, of Portland General Electric from May 1990 to December 1991.
Dianna L. Green	49	Senior Vice President - Customer Operations since April 1995. Senior Vice President - Administration from February 1995 to April 1995. Vice President - Administrative Services from August 1988 to February 1995.
Roger D. Beck	59	Vice President - Customer Services since April 1995. Vice President - Marketing and Customer Services from August 1986 to April 1995.
Gary R. Brandenberger	58	Vice President - Power Supply since August 1986.
William J. DeLeo	45	Vice President - Marketing and Corporate Performance since April 1995. Vice President - Corporate Performance and Information Services from January 1991 to April 1995.
Victor A. Roque	49	Vice President since April 1995 and General Counsel since November 1994. Previously Vice President, General Counsel and Secretary for Orange and Rockland Utilities from April 1989 to November 1994.
Donald J. Clayton	41	Treasurer since January 1995. Assistant Treasurer from May 1990 to January 1995 and Manager, Valuation and Property Records, from August 1985 to May 1990.
Morgan K. O'Brien	35	Controller and Principal Accounting Officer since October 1995. Assistant Controller from December 1993 to October 1995. Manager, Corporate Taxes, from September 1991 to December 1993. Previously Assistant Vice President - Corporate Taxes at PNC Financial Corporation from 1990 to September 1991.

ITEM 2. PROPERTIES.

Duquesne's properties consist of electric generating stations, transmission and distribution facilities, and supplemental properties and appurtenances, comprising as a whole an integrated electric utility system, located substantially in Allegheny and Beaver counties in southwestern Pennsylvania.

Duquesne owns all or a portion of the following generating units except Beaver Valley Unit 2, which is leased.

<u>Name and Location</u>	<u>Type</u>	<u>Duquesne's Share of Capacity (Megawatts)</u>		<u>Net Plant Output Year Ended December 31, 1995 (Megawatt-hours)</u>
		<u>Summer</u>	<u>Winter</u>	
Cheswick Springdale, Pa.	Coal	562	570	3,431,410
Ft. Martin Unit 1 (1) Maidsville, W. Va.	Coal	276	276	1,054,790
Elrama Elrama, Pa.	Coal	474	487	2,411,635
Sammis Unit 7 (1) Stratton, Ohio	Coal	187	187	1,008,249
Eastlake Unit 5 (1) Eastlake, Ohio	Coal	186	186	896,065
Beaver Valley Unit 1 (1) Shippingport, Pa.	Nuclear	385	385	2,598,215
Beaver Valley Unit 2 (1) Shippingport, Pa.	Nuclear	113	113	856,249
Perry Unit 1 (1) North Perry, Ohio	Nuclear	161	164	1,255,429
Bruce Mansfield Unit 1 (1) Shippingport, Pa.	Coal	228	228	1,047,989
Bruce Mansfield Unit 2 (1) Shippingport, Pa.	Coal	62	62	168,360
Bruce Mansfield Unit 3 (1) Shippingport, Pa.	Coal	110	110	310,341
Brunot Island Brunot Island, Pa.	Oil	54	66	(858)
Total		<u>2,798</u>	<u>2,834</u>	<u>15,037,874</u>
Property held for future use:				
Brunot Island	Oil	204	240	
Phillips	Coal	<u>300</u>	<u>310</u>	
Total		<u>3,302</u>	<u>3,384</u>	

- (1) Amounts represent Duquesne's share of the unit which is owned by Duquesne in common with one or more other electric utilities (or, in the case of Beaver Valley Unit 2, leased by Duquesne).

Duquesne owns 25 transmission substations (including interests in common in the step-up transformers at Fort Martin Unit 1; Sammis Unit 7; Eastlake Unit 5; Bruce Mansfield Unit 1; Beaver Valley Unit 1; Beaver Valley Unit 2; Perry Unit 1; Bruce Mansfield Unit 2; and Bruce Mansfield Unit 3) and 562 distribution substations. Duquesne has 714 circuit-miles of transmission lines, comprising 345,000, 138,000 and 69,000 volt lines. Street lighting and distribution circuits of 23,000 volts and less include approximately 50,000 miles of lines and cable.

Duquesne owns the Warwick Mine, including 4,849 acres owned in fee of unmined coal lands and mining rights, located on the Monongahela River in Greene County, Pennsylvania, approximately 83 river miles from Pittsburgh. (See Item 1. BUSINESS. "Fossil Fuel" discussion on page 11.)

Duquesne's 1947 mortgage bond indenture was retired in the third quarter of 1995 following the maturity of the last bond series issued under the indenture. All First Collateral Trust Bonds have been issued under a new mortgage indenture that was established in April 1992 (the 1992 Indenture). The 1992 Indenture includes more flexible provisions and eliminates conventions such as mandatory sinking funds and formula-derived maintenance and replacement clauses.

Additional information relating to Item 2. PROPERTIES, is set forth in Note B, "Property, Plant and Equipment," of the consolidated financial statements for year ended December 31, 1995, on page 46. The information is incorporated here by reference.

ITEM 3. LEGAL PROCEEDINGS.

Rate-Related Legal Proceedings, Property, Plant and Equipment-Related Legal Proceedings and Environmental Legal Proceedings

Eastlake Unit 5

In October 1995, CEI commenced an action (Action) in the Common Pleas Court of Lake County, Ohio, seeking to enjoin Duquesne from seeking a partition of the Unit, through arbitration or otherwise, on the basis of a waiver of partition contained in the deed to the Unit. It is Duquesne's position that the deed covenant is unenforceable by CEI due to CEI's bad faith conduct toward Duquesne. Duquesne removed the Action to the United States District Court for the Northern District of Ohio, where it is now pending, and then, brought a motion requesting that all claims in dispute between the parties (including its arbitration claims) be heard by the Court or, alternatively, that the Court stay the Action and compel arbitration of all claims and filed an answer and counterclaims. This motion and nine other motions are pending before the Court. Until order of the federal court is issued on this issue, both the arbitration and the federal litigation are proceeding.

Proceedings involving Duquesne's rates are reported in Item 1. BUSINESS "Rate Matters." Proceedings involving Property, Plant and Equipment are reported in Item 1. BUSINESS "Property, Plant and Equipment." Proceedings involving environmental matters are reported in Item 1. BUSINESS "Environmental Matters."

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

Duquesne's common stock is not publicly traded. Effective July 7, 1989, Duquesne became a wholly owned subsidiary of DQE, the holding company formed as part of a shareholder-approved restructuring. As a result of the restructuring, Duquesne's shareholders received DQE common stock in exchange for their shares of Duquesne common stock, which were cancelled. DQE owns all of Duquesne's outstanding common stock, which consists of 10 shares. As such, this item is not applicable to Duquesne because all its common equity is held solely by DQE. During 1995 and 1994, Duquesne declared quarterly dividends on its common stock totaling \$144 million each year.

ITEM 6. SELECTED FINANCIAL DATA.

Selected financial data for Duquesne for each year of the six-year period ended December 31, 1995, are set forth on page 63. The financial data is incorporated here by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's discussion and analysis of financial condition and results of operations are set forth in Item 1. BUSINESS. The discussion and analysis are incorporated here by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Consolidated Balance Sheet of Duquesne Light Company and its Subsidiary as of December 31, 1995 and 1994, and the related Statements of Consolidated Income, Retained Earnings and Cash Flows for each of the three years in the period ended December 31, 1995, together with the Independent Auditors' Report dated January 30, 1996, are set forth in pages 38 to 62 of this Report. The consolidated financial statements and report are incorporated here by reference. Quarterly financial information is included on page 62 in Note O to Duquesne's consolidated financial statements and is incorporated here by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

All directors of DQE are also directors of Duquesne. Information relating to DQE's and Duquesne's board of directors is set forth on page 20 of the 1995 DQE Annual Report to Shareholders filed here as part of this Report in Exhibit 99.2. The information is incorporated here by reference. Information relating to the executive officers of the Registrant is set forth in Part I of this Report under the caption "Executive Officers of the Registrant."

ITEM 11. EXECUTIVE COMPENSATION.

The information relating to executive compensation is set forth in Exhibit 99.1, filed as part of this Report. The information is incorporated here by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

DQE is the beneficial owner and holder of all shares of outstanding Common Stock, \$1 par value, of Duquesne Light, consisting of 10 shares as of February 21, 1996. Information relating to the ownership of equity securities of DQE and Duquesne Light by directors and executive officers of Duquesne Light is set forth in Exhibit 99.1, filed as part of this Report. The information is incorporated here by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

None.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) The following information is set forth here on pages 38 through 62:

Report of Independent Certified Public Accountants.

Statement of Consolidated Income for the Three Years Ended December 31, 1995.

Consolidated Balance Sheet, December 31, 1995 and 1994.

Statement of Consolidated Cash Flows for the Three Years Ended December 31, 1995.

Statement of Consolidated Retained Earnings for the Three Years Ended December 31, 1995.

Notes to Consolidated Financial Statements.

(a)(2) The following financial statement schedule and the related Report of Independent Certified Public Accountants (See page 38.) are filed here as a part of this Report:

Schedule for the Three Years Ended December 31, 1995:

II- Valuation and Qualifying Accounts.

The remaining schedules are omitted because of the absence of the conditions under which they are required or because the information called for is shown in the financial statements or notes to the financial statements.

(a)(3) Exhibits are set forth in the Exhibit List on pages 24 through 34, and incorporated here by reference. Documents other than those designated as being filed here are incorporated here by reference. Previously filed documents incorporated by reference to a DQE Annual Report on Form 10-K, a Quarterly Report on Form 10-Q or a Current Report on Form 8-K are at Securities and Exchange Commission File No. 1-10290. Documents incorporated by reference to a Duquesne Light Company Annual Report on Form 10-K, Quarterly Report on Form 10-Q or a Current Report on Form 8-K are at Securities and Exchange Commission File No. 1-956. The Exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(d)(10)(iii), of Regulation S-K.

(b) Reports on Form 8-K filed during the twelve months ended December 31, 1995:

(1) *May 22, 1995 - The following event was reported:*

Item 5. Federal Energy Regulatory Commission responded favorably to Section 211 applications filed by Duquesne Light Company for transmission service from the Pennsylvania-New Jersey-Maryland Power Pool and Allegheny Power System by issuing proposed orders requiring the provision of firm transmission service at comparable prices.

No financial statements were filed with this report.

(2) *December 4, 1995 - The following event was reported:*

Item 5. On November 29, 1995, Duquesne Light Company announced it will seek approval from the Pennsylvania Public Utility Commission for a five-year freeze on base rates, the sale of Duquesne's interest in the Fort Martin Power Station, the accelerated depreciation of Duquesne's investment in its nuclear power plants and the return to service of three units at the Brunot Island Power Station. In addition, Duquesne reiterated its proposal for the inclusion of all Pennsylvania electric utilities in a region wide independent transmission organization, and reaffirmed its commitment to the highest levels of guaranteed customer service.

No financial statements were filed with this report.

EXHIBITS INDEX

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	Restated Articles of Duquesne Light Company, as amended through December 19, 1991 and as currently in effect.	Exhibit 3.1 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1991.
3.2	By-Laws of Duquesne Light Company, as amended through December 19, 1991 and as currently in effect.	Exhibit 3.2 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1991.
4.1	Indenture dated March 1, 1960, relating to Duquesne Light Company's 5% Sinking Fund Debentures.	Exhibit 4.3 to the Form 10-K Annual Report of DQE for the year ended December 31, 1989.
4.2	Indenture dated as of November 1, 1989 relating to the issuance of Duquesne Light Company's unsecured notes.	Exhibit 4.4 to the Form 10-K Annual Report of DQE for the year ended December 31, 1989.
4.3	Indenture of Mortgage and Deed of Trust dated as of April 1, 1992, securing Duquesne Light Company's First Collateral Trust Bonds.	Exhibit 4.3 to Registration Statement (Form S-3) No. 33-52782.
4.4	Supplemental Indentures supplementing the said Indenture of Mortgage and Deed of Trust - Supplemental Indenture No. 1.	Exhibit 4.4 to Registration Statement (Form S-3) No. 33-52782.
	Supplemental Indenture No. 2 through Supplemental Indenture No. 4.	Exhibit 4.4 to Registration Statement (Form S-3) No. 33-63602.
	Supplemental Indenture No. 5 through Supplemental Indenture No. 7.	Exhibit 4.6 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1993.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
	Supplemental Indenture No. 8 and Supplemental Indenture No. 9	Exhibit 4.6 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1994.
	Supplemental Indenture No. 10 through Supplemental Indenture No. 12.	Filed here.

Agreements relating to Jointly Owned Generating Units:

10.1	Administration Agreement dated as of September 14, 1967.	Exhibit 5.8 to Registration Statement (Form S-7) No. 2-43106.
10.2	Transmission Facilities Agreement dated as of September 14, 1967.	Exhibit 5.9 to Registration Statement (Form S-7) No. 2-43106.
10.3	Operating Agreement dated as of September 21, 1972 for Eastlake Unit No. 5.	Exhibit 5.1 to Registration Statement (Form S-7) No. 2-48164.
10.4	Memorandum of Agreement dated as of July 1, 1982 re reallocation of rights and liabilities of the companies under uranium supply contracts.	Exhibit 10.14 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.
10.5	Operating Agreement dated August 5, 1982 as of September 1, 1971 for Sammis Unit No. 7.	Exhibit 10.17 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1988.
10.6	Memorandum of Understanding dated as of March 31, 1985 re implementation of company-by-company management of uranium inventory and delivery.	Exhibit 10.19 to the Form 10-K Annual Report of DQE for the year ended December 31, 1989.
10.7	Restated Operating Agreement for Beaver Valley Unit Nos. 1 and 2 dated September 15, 1987.	Exhibit 10.23 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.
10.8	Operating Agreement for Perry Unit No. 1 dated March 10, 1987.	Exhibit 10.24 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.
10.9	Operating Agreement for Bruce Mansfield Units Nos. 1, 2 and 3 dated September 15, 1987 as of June 1, 1976.	Exhibit 10.25 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.

<u>Exhibit No.</u>	<u>Description</u>	<u>'Method of Filing</u>
10.10	Basic Operating Agreement, as amended January 1, 1993.	Exhibit 10.10 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1993.
10.11	Amendment No. 1 dated December 23, 1993 to Transmission Facilities Agreement (as of January 1, 1993).	Exhibit 10.11 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1993.
10.12	Microwave Sharing Agreement (as amended January 1, 1993) dated December 23, 1993.	Exhibit 10.12 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1993.
10.13	Agreement (as of September 1, 1980) dated December 23, 1993 for termination or construction of certain agreements.	Exhibit 10.13 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1993.
10.14	Fort Martin Construction and Operating Agreement dated April 30, 1965.	Exhibit 10.14 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1993.
10.15	Fort Martin Transmission Agreement dated March 15, 1967.	Exhibit 10.15 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1993.
10.16	Amendment of January 1, 1988 to Fort Martin Transmission Agreement.	Exhibit 10.16 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1993.
10.17	Fort Martin Power Station Asset Purchase Agreement dated as of November 28, 1995.	Filed hereto.

*Agreements relating to the Sale and Leaseback
of Beaver Valley Unit No. 2:*

10.18	Order of the Pennsylvania Public Utility Commission dated September 25, 1987 regarding the application of the Duquesne Light Company under Section 1102(a)(3) of the Public Utility Code for approval in connection with the sale and leaseback of its interest in Beaver Valley Unit No. 2.	Exhibit 28.2 to the Form 10-Q Quarterly Report of Duquesne Light Company for the quarter ended September 30, 1987.
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<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
10.19	Order of the Pennsylvania Public Utility Commission dated October 15, 1992 regarding the Securities Certificate of Duquesne Light Company for the assumption of contingent obligations under financing agreements in connection with the refunding of Collateralized Lease Bonds.	Exhibit 10.28 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
x10.20	Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, Lessor, and Duquesne Light Company, Lessee.	Exhibit (4)(c) to Registration Statement (Form S-3) No. 33-18144.
y10.21	Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987, with the corporate Owner Participant named therein, Lessor, and Duquesne Light Company, Lessee.	Exhibit (4)(d) to Registration Statement (Form S-3) No. 33-18144.
x10.22	Amendment No. 1 dated as of December 1, 1987 to Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, Lessor, and Duquesne Light Company, Lessee.	Exhibit 10.30 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.
y10.23	Amendment No. 1 dated as of December 1, 1987 to Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the corporate Owner Participant named therein, Lessor, and Duquesne Light Company, Lessee.	Exhibit 10.31 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.
x10.24	Amendment No. 2 dated as of November 15, 1992 to Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, Lessor, and Duquesne Light Company, Lessee.	Exhibit 10.33 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
y10.25	Amendment No. 2 dated as of November 15, 1992 to Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the corporate Owner Participant named therein, Lessor, and Duquesne Light Company, Lessee.	Exhibit 10.34 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
x10.26	Amendment No. 3 dated as of October 13, 1994 to Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, Lessor, and Duquesne Light Company, Lessee.	Exhibit 10.25 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1994.
y10.27	Amendment No. 3 dated as of October 13, 1994 to Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the corporate Owner Participant named therein, Lessor, and Duquesne Light Company, Lessee.	Exhibit 10.26 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1994.
x10.28	Participation Agreement dated as of September 15, 1987 among the limited partnership Owner Participant named therein, the Original Loan Participants listed in Schedule 1 thereto, as Original Loan Participants, DQU Funding Corporation, as Funding Corp, The First National Bank of Boston, as Owner Trustee, Irving Trust Company, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit (28)(a) to Registration Statement (Form S-3) No. 33-18144.
y10.29	Participation Agreement dated as of September 15, 1987 among the corporate Owner Participant named therein, the Original Loan Participants listed in Schedule 1 thereto, as Original Loan Participants, DQU Funding Corporation, as Funding Corp, The First National Bank of Boston, as Owner Trustee, Irving Trust Company, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit (28)(b) to Registration Statement (Form S-3) No. 33-18144.
x10.30	Amendment No. 1 dated as of December 1, 1987 to Participation Agreement dated as of September 15, 1987 among the limited partnership Owner Participant named therein, the Original Loan Participants listed therein, as Original Loan Participants, DQU Funding Corporation, as Funding Corp, The First National Bank of Boston, as Owner Trustee, Irving Trust Company, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit 10.34 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.
y10.31	Amendment No. 1 dated as of December 1, 1987 to Participation Agreement dated as of September 15, 1987 among the corporate Owner Participant named therein, the Original Loan Participants listed therein, as Original Loan Participants, DQU Funding Corporation, as Funding Corp, The First National Bank of Boston, as Owner Trustee, Irving Trust Company, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit 10.35 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
x10.32	Amendment No. 2 dated as of March 1, 1988 to Participation Agreement dated as of September 15, 1987 among the limited partnership Owner Participant named therein, DQU Funding Corporation, as Funding Corp, The First National Bank of Boston, as Owner Trustee, Irving Trust Company, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit (28)(c)(3) to Registration Statement (Form S-3) No. 33-54648.
y10.33	Amendment No. 2 dated as of March 1, 1988 to Participation Agreement dated as of September 15, 1987 among the corporate Owner Participant named therein, DQU Funding Corporation, as Funding Corp, The First National Bank of Boston, as Owner Trustee, Irving Trust Company, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit (28)(c)(4) to Registration Statement (Form S-3) No. 33-54648.
x10.34	Amendment No. 3 dated as of November 15, 1992 to Participation Agreement dated as of September 15, 1987 among the limited partnership Owner Participant named therein, DQU Funding Corporation, as Funding Corp, DQU II Funding Corporation, as New Funding Corp, The First National Bank of Boston, as Owner Trustee, The Bank of New York, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit 10.41 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
y10.35	Amendment No. 3 dated as of November 15, 1992 to Participation Agreement dated as of September 15, 1987 among the corporate Owner Participant named therein, DQU Funding Corporation, as Funding Corp, DQU II Funding Corporation, as New Funding Corp, The First National Bank of Boston, as Owner Trustee, The Bank of New York, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit 10.42 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
x10.36	Amendment No. 4 dated as of October 13, 1994 to Participation Agreement dated as of September 15, 1987 among the limited partnership Owner Participant named therein, DQU Funding Corporation, as Funding Corp, DQU II Funding Corporation, as New Funding Corp, The First National Bank of Boston, as Owner Trustee, The Bank of New York, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit 10.35 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1994.
y10.37	Amendment No. 4 dated as of October 13, 1994 to Participation Agreement dated as of September 15, 1987 among the corporate Owner Participant named therein, DQU Funding Corporation, as Funding Corp, DQU II Funding Corporation, as New Funding Corp, The First National Bank of Boston, as Owner Trustee, The Bank of New York, as Indenture Trustee and Duquesne Light Company, as Lessee.	Exhibit 10.36 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1994.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
z10.38	Ground Lease and Easement Agreement dated as of September 15, 1987 between Duquesne Light Company, Ground Lessor and Grantor, and The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, Tenant and Grantee.	Exhibit (28)(e) to Registration Statement (Form S-3) No. 33-18144.
z10.39	Assignment, Assumption and Further Agreement dated as of September 15, 1987 among The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, The Cleveland Electric Illuminating Company, Duquesne Light Company, Ohio Edison Company, Pennsylvania Power Company and The Toledo Edison Company.	Exhibit (28)(f) to Registration Statement (Form S-3) No. 33-18144.
z10.40	Additional Support Agreement dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, and Duquesne Light Company.	Exhibit (28)(g) to Registration Statement (Form S-3) No. 33-18144.
z10.41	Indenture, Bill of Sale, Instrument of Transfer and Severance Agreement dated as of October 2, 1987 between Duquesne Light Company, Seller, and The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, Buyer.	Exhibit (28)(h) to Registration Statement (Form S-3) No. 33-18144.
z10.42	Tax Indemnification Agreement dated as of September 15, 1987 between the Owner Participant named therein and Duquesne Light Company, as Lessee.	Exhibit 28.1 to the Form 8-K Current Report of Duquesne Light Company dated November 20, 1987.
z10.43	Amendment No. 1 dated as of November 15, 1992 to Tax Indemnification Agreement dated as of September 15, 1987 between the Owner Participant named therein and Duquesne Light Company, as Lessee.	Exhibit 10.48 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
z10.44	Amendment No. 2 dated as of October 13, 1994 to Tax Indemnification Agreement dated as of September 15, 1987 between the Owner Participant named therein and Duquesne Light Company, as Lessee.	Exhibit 10.43 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1994.
z10.45	Extension Letter dated December 8, 1992 from Duquesne Light Company, each Owner Participant, The First National Bank of Boston, the Lease Indenture Trustee, DQU Funding Corporation and DQU II Funding Corporation addressed to the New Collateral Trust Trustee extending their respective representations and warranties and covenants set forth in each of the Participation Agreements.	Exhibit 10.49 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
x10.46	Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, and Irving Trust Company, as Indenture Trustee.	Exhibit (4)(g) to Registration Statement (Form S-3) No. 33-18144.
y10.47	Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the corporate Owner Participant named therein, and Irving Trust Company, as Indenture Trustee.	Exhibit (4)(h) to Registration Statement (Form S-3) No. 33-18144.
x10.48	Supplemental Indenture No. 1 dated as of December 1, 1987 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, and Irving Trust Company, as Indenture Trustee.	Exhibit 10.45 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.
y10.49	Supplemental Indenture No. 1 dated as of December 1, 1987 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the corporate Owner Participant named therein, and Irving Trust Company, as Indenture Trustee.	Exhibit 10.46 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1987.
x10.50	Supplemental Indenture No. 2 dated as of November 15, 1992 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the limited partnership Owner Participant named therein, and The Bank of New York, as Indenture Trustee.	Exhibit 10.54 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
y10.51	Supplemental Indenture No. 2 dated as of November 15, 1992 to Trust Indenture, Mortgage, Security Agreement and Assignment of Facility Lease dated as of September 15, 1987 between The First National Bank of Boston, as Owner Trustee under a Trust Agreement dated as of September 15, 1987 with the corporate Owner Participant named therein, and The Bank of New York, as Indenture Trustee.	Exhibit 10.55 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
10.52	Reimbursement Agreement dated as of October 1, 1994 among Duquesne Light Company, Swiss Bank Corporation, New York Branch, as LOC Bank, Union Bank, as Administrating Bank, Swiss Bank Corporation, New York Branch, as Administrating Bank and The Participating Banks Named Therein.	Exhibit 10.51 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1994.
10.53	Collateral Trust Indenture dated as of November 15, 1992 among DQU II Funding Corporation, Duquesne Light Company and The Bank of New York, as Trustee.	Exhibit 10.58 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
10.54	First Supplemental Indenture dated as of November 15, 1992 to Collateral Trust Indenture dated as of November 15, 1992 among DQU II Funding Corporation, Duquesne Light Company and The Bank of New York, as Trustee.	Exhibit 10.59 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
x10.55	Refinancing Agreement dated as of November 15, 1992 among the limited partnership Owner Participant named therein, as Owner Participant, DQU Funding Corporation, as Funding Corp, DQU II Funding Corporation, as New Funding Corp, The First National Bank of Boston, as Owner Trustee, The Bank of New York, as Indenture Trustee, The Bank of New York, as Collateral Trust Trustee, The Bank of New York, as New Collateral Trust Trustee, and Duquesne Light Company, as Lessee.	Exhibit 10.60 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
y10.56	Refinancing Agreement dated as of November 15, 1992 among the corporate Owner Participant named therein, as Owner Participant, DQU Funding Corporation, as Funding Corp, DQU II Funding Corporation, as New Funding Corp, The First National Bank of Boston, as Owner Trustee, The Bank of New York, as Indenture Trustee, The Bank of New York, as Collateral Trust Trustee, The Bank of New York, as New Collateral Trust Trustee, and Duquesne Light Company, as Lessee.	Exhibit 10.61 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
x10.57	Addendum dated December 8, 1992 to Refinancing Agreement dated as of November 15, 1992 among the limited partnership Owner Participant named therein, as Owner Participant, DQU Funding Corporation, as Funding Corp, DQU II Funding Corporation, as New Funding Corp, The First National Bank of Boston, as Owner Trustee, The Bank of New York, as Indenture Trustee, The Bank of New York, as Collateral Trust Trustee, The Bank of New York, as New Collateral Trust Trustee, and Duquesne Light Company, as Lessee.	Exhibit 10.62 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
y10.58	Addendum dated December 8, 1992 to Refinancing Agreement dated as of November 15, 1992 among the corporate Owner Participant named therein, as Owner Participant, DQU Funding Corporation, as Funding Corp, DQU II Funding Corporation, as New Funding Corp, The First National Bank of Boston, as Owner Trustee, The Bank of New York, as Indenture Trustee, The Bank of New York, as Collateral Trust Trustee, The Bank of New York, as New Collateral Trust Trustee, and Duquesne Light Company, as Lessee.	Exhibit 10.63 to the Form 10-K Annual Report of Duquesne Light Company for the year ended December 31, 1992.
<i>Other Agreements:</i>		
*10.59	Deferred Compensation Plan for the Directors of Duquesne Light Company, as amended to date.	Exhibit 10.1 to the Form 10-K Annual Report of DQE for the year ended December 31, 1992.
*10.60	Incentive Compensation Program for Certain Executive Officers of Duquesne Light Company, as amended to date.	Exhibit 10.2 to the Form 10-K Annual Report of DQE for the year ended December 31, 1992.
*10.61	Description of Duquesne Light Company Pension Service Supplement Program.	Exhibit 10.3 to the Form 10-K Annual Report of DQE for the year ended December 31, 1992.
*10.62	Duquesne Light Company Outside Directors' Retirement Plan, as amended to date.	Filed here.
*10.63	Employment Agreement dated as of December 15, 1992 between DQE, Duquesne Light Company and Wesley W. von Schack.	Exhibit 10.5 to the Form 10-K Annual Report of DQE for the year ended December 31, 1992.
*10.64	Duquesne Light/DQE Charitable Giving Program.	Exhibit 10.6 to the Form 10-K Annual Report of DQE for the year ended December 31, 1992.
*10.65	Duquesne Light Company Performance Incentive Program.	Exhibit 10.7 to the Form 10-K Annual Report of DQE for the year ended December 31, 1994.
*10.66	First Amendment dated as of October 25, 1994 to Employment Agreement dated as of December 15, 1992 between DQE, Duquesne Light Company and Wesley W. von Schack.	Exhibit 10.8 to the Form 10-K Annual Report of DQE for the year ended December 31, 1994.
*10.67	Employment Agreement dated as of August 30, 1994 between DQE, Duquesne Light Company and David D. Marshall.	Exhibit 10.9 to the Form 10-K Annual Report of DQE for the year ended December 31, 1994.
*10.68	First Amendment dated as of June 27, 1995 to Employment Agreement dated as of August 30, 1994 between DQE, Duquesne Light Company and David D. Marshall.	Filed here.

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
*10.69	Employment Agreement dated as of August 30, 1994 between DQE, Duquesne Light Company and Gary L. Schwass.	Duquesne Light Company Exhibit 10.10 to the Form 10-K Annual Report of DQE for the year ended December 31, 1994.
*10.70	Employment Agreement dated as of August 30, 1994 between Duquesne Light Company and Dianna L. Green.	Exhibit 10.68 to the Form 10-K Annual Report of DQE for the year ended December 31, 1994.
*10.71	First Amendment dated as of June 27, 1995 to Employment Agreement dated as of August 30, 1994 between Duquesne Light Company and Dianna L. Green.	Filed here.
12.1	Calculation of Ratio of Earnings to Fixed Charges.	Filed here.
21.1	Subsidiaries of registrant: Duquesne has no significant subsidiaries.	
23.1	Independent Auditors' Consent.	Filed here.
27.1	Financial Data Schedule.	Filed here.
99.1	Executive Compensation of Duquesne Light Company Executive Officers for 1995 and Security Ownership of Duquesne Light Company Directors and Executive Officers as of February 21, 1996.	Filed here.
99.2	Directors of DQE and Duquesne Light Company, Page 20, 1995 DQE Annual Report to Shareholders.	Filed here.
x	An additional document, substantially identical in all material respects to this Exhibit, has been entered into relating to one additional limited partnership Owner Participant. Although the additional document may differ in some respects (such as name of the Owner Participant, dollar amounts and percentages), there are no material details in which the document differs from this Exhibit.	
y	Additional documents, substantially identical in all material respects to this Exhibit, have been entered into relating to four additional corporate Owner Participants. Although the additional documents may differ in some respects (such as names of the Owner Participants, dollar amounts and percentages), there are no material details in which the documents differ from this Exhibit.	
z	Additional documents, substantially identical in all material respects to this Exhibit, have been entered into relating to six additional Owner Participants. Although the additional documents may differ in some respects (such as names of the Owner Participants, dollar amounts and percentages), there are no material details in which the documents differ from this Exhibit.	
*	This document is required to be filed as an exhibit to this form under Item 14(c).	

Copies of the exhibits listed above will be furnished, upon request, to holders or beneficial owners of any class of Duquesne's stock as of February 21, 1996, subject to payment in advance of the cost of reproducing the exhibits requested.

SCHEDULE II

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 1995, 1994 and 1993
(Thousands of Dollars)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>	<u>Column D</u>	<u>Column E</u>	<u>Column F</u>
<u>Description</u>	<u>Balance at Beginning of Year</u>	<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
<p>Year Ended December 31, 1995</p> <p>Reserve Deducted from the Asset to which it applies:</p> <p>Allowance for uncollectible accounts</p>					
	<u>\$15,021</u>	<u>\$13,430</u>	<u>\$3,567 (A)</u>	<u>\$14,092 (B)</u>	<u>\$17,919</u>
<p>Year Ended December 31, 1994</p> <p>Reserve Deducted from the Asset to which it applies:</p> <p>Allowance for uncollectible accounts</p>					
	<u>\$13,282</u>	<u>\$11,890</u>	<u>\$3,837 (A)</u>	<u>\$13,988 (B)</u>	<u>\$15,021</u>
<p>Year Ended December 31, 1993</p> <p>Reserve Deducted from the Asset to which it applies:</p> <p>Allowance for uncollectible accounts</p>					
	<u>\$7,707</u>	<u>\$17,093</u>	<u>\$2,925 (A)</u>	<u>\$14,443 (B)</u>	<u>\$13,282</u>

Notes: (A) Recovery of accounts previously written off.
(B) Accounts receivable written off.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DUQUESNE LIGHT COMPANY
(Registrant)

Date: March 26, 1996

By: /s/ Wesley W. von Schack
(Signature)
Wesley W. von Schack
Chairman of the Board
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Wesley W. von Schack</u> Wesley W. von Schack	Chairman of the Board, Chief Executive Officer and Director	March 26, 1996
<u>/s/ David D. Marshall</u> David D. Marshall	President and Chief Operating Officer and Director	March 26, 1996
<u>/s/ Gary L. Schwass</u> Gary L. Schwass	Senior Vice President and Chief Financial Officer	March 26, 1996
<u>/s/ Morgan K. O'Brien</u> Morgan K. O'Brien	Controller and Principal Accounting Officer	March 26, 1996
<u>/s/ Daniel Berg</u> Daniel Berg	Director	March 26, 1996
<u>/s/ Doreen E. Boyce</u> Doreen E. Boyce	Director	March 26, 1996
<u>Robert P. Bozzone</u>	Director	March 26, 1996
<u>/s/ Sigo Falk</u> Sigo Falk	Director	March 26, 1996
<u>/s/ William H. Knoell</u> William H. Knoell	Director	March 26, 1996
<u>/s/ Robert Mehrabian</u> Robert Mehrabian	Director	March 26, 1996
<u>/s/ Thomas J. Murrin</u> Thomas J. Murrin	Director	March 26, 1996
<u>/s/ Robert B. Pease</u> Robert B. Pease	Director	March 26, 1996
<u>Eric W. Springer</u>	Director	March 26, 1996

Following are explanations of certain financial and operating terms used in this Report and unique in the utility business.

Allowance for Funds Used During Construction (AFC)

AFC is an amount recorded on the books of a utility during the period of construction of utility assets. The amount represents the estimated cost of both debt and equity used to finance the construction.

Baseload

The amount of electric power delivered or needed at the lowest point of demand during the day.

Construction Work In Progress (CWIP)

This amount represents assets in the process of construction but not yet placed in service. The amount is shown on the consolidated balance sheet as a component of property, plant and equipment.

Deferred Energy Costs

In conjunction with the Energy Cost Rate Adjustment Clause, Duquesne records deferred energy costs to offset differences between actual energy costs and the level of energy costs currently recovered from electric utility customers.

Demand

The amount of electricity delivered to consumers at any instant or averaged over a period of time.

Energy Cost Rate Adjustment Clause (ECR)

Duquesne recovers through the ECR, to the extent that such amounts are not included in base rates, the cost of nuclear fuel, fossil fuel and purchased power costs and passes to its customers the profits from short-term power sales to other utilities.

Federal Energy Regulatory Commission (FERC)

The FERC is an independent five-member commission within the United States Department of Energy. Among its many responsibilities, the FERC sets rates and charges for the wholesale transportation and sale of natural gas and electricity, and licenses hydroelectric power projects.

Interruptible Customer

Interruptible customers receive a discount in exchange for allowing temporary interruptions in their service during Duquesne's peak load periods or during emergency conditions.

Kilowatt (KW)

A kilowatt is a unit of power or capacity. A kilowatt hour (KWH) is a unit of energy or kilowatts times the length of time the kilowatts are used. For example, a 100-watt bulb has a

demand of .1 KW and, if burned continuously, will consume 1 KWH in ten hours. One thousand KWs is a megawatt (MW). One thousand KWHs is a megawatt hour (MWH).

Nuclear Decommissioning Costs

Decommissioning costs are expenses to be incurred in connection with the entombment, decontamination, dismantlement, removal and disposal of the structures, systems and components of a nuclear power plant that has permanently ceased the production of electric energy.

Peak Demand

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

Pennsylvania Public Utility Commission (PUC)

The Pennsylvania governmental body that regulates all utilities (electric, gas, telephone, water, etc.), which is made up of five members nominated by the governor and confirmed by the senate.

Regulatory Asset

Costs that Duquesne would otherwise have charged to expense which are capitalized or deferred because these costs are currently being recovered or because it is probable that the PUC and the FERC will allow recovery of these costs through the ratemaking process.

Retail or Wholesale Access

The ability of customers to contract for electrical energy from competing generating suppliers.

Stranded Cost

Stranded costs include any prudent utility investment, commitments or expenses not yet recovered, made during a period when there was an obligation or authorization to provide service at a regulated price, that are no longer necessary or economical due to a change in statute or regulatory policy which allows others to compete for the utility's customers. For example, Duquesne recently refinanced its long-term debt. Refinancing costs will be recovered and amortized for accounting purposes over the term of the debt, unless regulatory changes prevent future recovery, and result in "stranded costs."

Wheeling

An electric operation wherein transmission facilities of one system are used to transmit power of another system.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Directors and Stockholder of Duquesne Light Company:

We have audited the accompanying consolidated balance sheet of Duquesne Light Company and its subsidiary (Duquesne) as of December 31, 1995 and 1994, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1995. Our audits also included the financial statement schedule listed in Item 14. These financial statements and financial statement schedule are the responsibility of Duquesne's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Duquesne as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note A to the consolidated financial statements, effective January 1, 1993, Duquesne changed its method of accounting for income taxes to conform with *Statement of Financial Accounting Standards No. 109*, and Duquesne changed its method of accounting for maintenance costs during scheduled major fossil station outages.

/s/ Deloitte & Touche LLP
DELOITTE & TOUCHE LLP
Pittsburgh, Pennsylvania
January 30, 1996

DUQUESNE LIGHT COMPANY
STATEMENT OF CONSOLIDATED INCOME

(Thousands of Dollars)
Year Ended December 31,

	1995	1994	1993
Operating Revenues:			
Sales of Electricity:			
Customers - net	\$1,088,737	\$1,109,752	\$1,175,287
Phase-in deferrals	-	(28,810)	(100,315)
Net customer revenues	1,088,737	1,080,942	1,074,972
Utilities	55,963	58,295	50,669
Total Sales of Electricity	1,144,700	1,139,237	1,125,641
Other	35,084	29,387	35,044
Total Operating Revenues	1,179,784	1,168,624	1,160,685
Operating Expenses:			
Fuel	208,546	222,420	223,699
Purchased power	23,422	21,715	14,032
Other operating	260,541	268,303	287,166
Maintenance	81,516	79,488	80,292
Depreciation and amortization	189,146	163,219	150,925
Taxes other than income taxes	86,349	85,839	70,404
Income taxes	88,665	90,740	96,270
Total Operating Expenses	938,185	931,724	922,788
Operating Income	241,599	236,900	237,897
Other Income and (Deductions):			
Allowance for equity funds used during construction	721	1,295	869
Long-term power sale write-off	-	-	(15,225)
Carrying charges on deferred revenues	-	30	1,801
Income taxes	(4,229)	6,549	19,033
Other - net	10,205	3,729	10,552
Total Other Income and (Deductions)	6,697	11,603	17,030
Income Before Interest Charges	248,296	248,503	254,927
Interest Charges:			
Interest on long-term debt	95,391	101,027	108,479
Other interest	2,599	1,095	2,387
Allowance for borrowed funds used during construction	(764)	(1,068)	(726)
Total Interest Charges	97,226	101,054	110,140
Income Before Cumulative Effect on Prior Years of			
Changes in Accounting Principles	151,070	147,449	144,787
Adoption of SFAS No. 109 - Income Taxes	-	-	8,000
Accounting for maintenance costs - net	-	-	(5,425)
Net Income	151,070	147,449	147,362
Dividends on Preferred and Preference Stock	5,320	6,046	9,188
Earnings for Common Stock	\$145,750	\$141,403	\$138,174

See notes to consolidated financial statements.

DUQUESNE LIGHT COMPANY
CONSOLIDATED BALANCE SHEET

(Thousands of Dollars)
As of December 31,

ASSETS	1995	1994
Property, Plant and Equipment:		
Electric plant in service	\$4,262,670	\$4,196,690
Construction work in progress	38,133	43,763
Property held under capital leases	133,381	161,775
Property held for future use	216,633	216,206
Other	1,193	532
<i>Total</i>	4,652,010	4,618,966
Less accumulated depreciation and amortization	(1,673,107)	(1,550,447)
<i>Property, Plant and Equipment - Net</i>	2,978,903	3,068,519
Long-Term Investments:		
Investment in DQE Common Stock	66,757	43,057
Other investments	102,648	31,212
<i>Total Long-Term Investments</i>	169,405	74,269
Current Assets:		
Cash and temporary cash investments (at cost which approximates market)	2,490	15,904
Receivables:		
Electric customer accounts receivable	103,821	96,157
Other utility receivables	22,441	26,008
Other receivables	11,842	25,171
Less: Allowance for uncollectible accounts	(17,920)	(15,021)
Receivables less allowance for uncollectible accounts	120,184	132,315
Less: Receivables sold	(7,000)	-
<i>Total Receivables</i>	113,184	132,315
Materials and supplies (generally at average cost):		
Coal	25,454	30,484
Operating and construction	53,298	58,262
Other current assets	7,955	15,795
<i>Total Current Assets</i>	202,381	252,760
Other Non-Current Assets:		
Regulatory assets	671,928	710,763
Other	45,048	43,556
<i>Total Other Non-Current Assets</i>	716,976	754,319
<i>Total Assets</i>	\$4,067,665	\$4,149,867

See notes to consolidated financial statements.

DUQUESNE LIGHT COMPANY
CONSOLIDATED BALANCE SHEET

(Thousands of Dollars)
As of December 31,

CAPITALIZATION AND LIABILITIES	1995	1994
Capitalization:		
Common stock (authorized – 90,000,000 shares, issued and outstanding – 10 shares)	\$ —	\$ —
Capital surplus	837,265	823,193
Retained earnings	294,069	292,319
<i>Total common stockholder's equity</i>	1,131,334	1,115,512
Non-redeemable preferred stock	63,608	90,340
Non-redeemable preference stock	29,615	29,857
Total preferred and preference stock before deferred ESOP benefit (involuntary liquidation values of \$93,086 and \$120,060 exceed par by \$28,781 and \$43,882, respectively)	93,223	120,197
Deferred employee stock ownership plan (ESOP) benefit	(22,257)	(24,852)
Total preferred and preference stock	70,966	95,345
Long-term debt	1,322,531	1,368,930
<i>Total Capitalization</i>	2,524,831	2,579,787
Obligations Under Capital Leases	34,546	41,106
Current Liabilities:		
Current maturities and sinking fund requirements	71,051	85,691
Accounts payable	76,435	60,654
Accrued liabilities	53,930	81,035
Dividends declared	37,015	35,469
Other	9,191	5,722
<i>Total Current Liabilities</i>	247,622	268,571
Non-Current Liabilities:		
Deferred income taxes-net	805,996	991,149
Deferred investment tax credits	115,760	123,591
Deferred income	162,916	—
Other	175,994	145,663
<i>Total Non-Current Liabilities</i>	1,260,666	1,260,403
Commitments and Contingencies		
<i>Total Capitalization and Liabilities</i>	\$4,067,665	\$4,149,867

DUQUESNE LIGHT COMPANY
STATEMENT OF CONSOLIDATED CASH FLOWS

(Thousands of Dollars)
Year Ended December 31,

	1995	1994	1993
Cash Flows From Operating Activities:			
Net income	\$151,070	\$147,449	\$147,362
Principal non-cash charges (credits) to net income:			
Depreciation and amortization	189,146	156,519	150,125
Capital lease, nuclear fuel and other amortization	32,670	36,940	32,428
Deferred income taxes and investment tax credits - net	(41,411)	(29,705)	(44,420)
Allowance for equity funds used during construction	(721)	(1,295)	(869)
Phase-in plan revenues and related carrying charges	—	28,621	99,375
Changes in working capital other than cash	30,656	(36,884)	(96,799)
Other - net	36,004	49,499	19,505
Net Cash Provided from Operating Activities	397,414	351,144	306,707
Cash Flows Used By Investing Activities:			
Construction expenditures	(78,656)	(94,315)	(100,628)
Long-term investments	(62,854)	(5,317)	—
Allowance for borrowed funds used during construction	(764)	(1,068)	(726)
Other - net	(3,770)	3,145	(12,317)
Net Cash Used by Investing Activities	(146,044)	(97,555)	(113,671)
Cash Flows Used In Financing Activities:			
Sale of bonds	—	114,110	740,500
(Decrease) increase in notes payable	—	(10,990)	10,990
Dividends on capital stock	(150,059)	(151,059)	(154,204)
Reductions of long-term obligations:			
Preferred and preference stock	(29,732)	(39,958)	(187)
Long-term debt	(56,114)	(114,835)	(735,048)
Other obligations	(26,373)	(33,522)	(27,751)
Premium on reacquired debt	(1,731)	(5,033)	(31,702)
Other - net	(775)	3,602	(1,790)
Net Cash Used In Financing Activities	(264,784)	(237,685)	(199,192)
Net (decrease) increase in cash and temporary cash investments	(13,414)	15,904	(6,156)
Cash and temporary cash investments at beginning of year	15,904	—	6,156
Cash and temporary cash investments at end of year	\$ 2,490	\$ 15,904	\$ —

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

Interest (net of amount capitalized)	\$ 95,521	\$102,944	\$124,692
Income taxes	\$115,504	\$111,614	\$133,303
Non-cash investing and financing activities:			
Capital lease obligations recorded	\$ 14,961	\$ 16,909	\$ 11,811
Contribution of DQE Common Stock from parent company	\$ —	\$ 19,531	\$ —
Preferred stock issued in conjunction with long-term investments	\$ 3,000	\$ —	\$ —

See notes to consolidated financial statements.

DUQUESNE LIGHT COMPANY
STATEMENT OF CONSOLIDATED RETAINED EARNINGS

(Thousands of Dollars)
 Year Ended December 31,

	1995	1994	1993
Balance, January 1	\$292,319	\$294,916	\$300,742
Net Income for the Year	151,070	147,449	147,362
Total	443,389	442,365	448,104
Cash dividends declared:			
Preferred stock	3,870	4,592	4,740
Preference stock (net of tax benefit of ESOP dividend)	1,450	1,454	4,448
Common stock	144,000	144,000	144,000
Total Cash Dividends Declared	149,320	150,046	153,188
Balance, December 31	\$294,069	\$292,319	\$294,916

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**A. Summary of
 Significant
 Accounting
 Policies**

Consolidation

Duquesne Light Company (Duquesne) is a wholly owned subsidiary of DQE, an energy services holding company formed in 1989. Duquesne is engaged in the production, transmission, distribution and sale of electric energy. Duquesne was formed under the laws of Pennsylvania by the consolidation and merger in 1912 of three constituent companies. Duquesne has one wholly owned subsidiary, Monongahela Light and Power, also a Pennsylvania corporation, which makes long-term investments.

All material intercompany balances and transactions have been eliminated in the preparation of the consolidated financial statements of Duquesne.

Basis of Accounting

Duquesne is subject to the accounting and reporting requirements of the Securities and Exchange Commission (SEC). In addition, Duquesne's operations are subject to the regulation of the Pennsylvania Public Utility Commission (PUC) and the Federal Energy Regulatory Commission (FERC). As a result, the consolidated financial statements contain regulatory assets and liabilities in accordance with *Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS No. 71)* and reflect the effects of the ratemaking process. Such effects concern mainly the time at which various items enter into the determination of net income in accordance with the principle of matching costs and revenues. (See "Rate Matters," Note F, on page 48.)

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The reported amounts of revenues and expenses during the reporting period may also be affected by the estimates and assumptions management is required to make. Actual results could differ from those estimates.

Revenues

Meters are read monthly and customers are billed on the same basis. Revenues are recorded in the accounting periods for which they are billed, with the exception of energy cost recovery revenues. Deferred revenues are associated with Duquesne's 1987 rate case. (See "Energy Cost Rate Adjustment Clause (ECR)" discussion on page 44 and "1987 Rate Case" discussion, Note F, on page 47).

Duquesne's Electric Service Territory

Duquesne provides electric service to customers in Allegheny County, including the City of Pittsburgh, and Beaver County. This represents a service territory of approximately 800 square miles in southwestern Pennsylvania. The population of the area served by Duquesne, based on 1990 census data, is approximately 1,510,000, of whom 370,000 reside in the City of Pittsburgh. In addition to serving approximately 580,000 customers within this service area, Duquesne also sells electricity to other utilities beyond its service territory.

Net Customer Revenues for the Year ended December 31

	1995	1994	1993
	<i>(Amounts in Thousands of Dollars)</i>		
Sales of Electricity:			
Customers	\$1,102,167	\$1,121,642	\$1,192,381
Provision for doubtful accounts	(13,430)	(11,890)	(17,094)
Customers - net	1,088,737	1,109,752	1,175,287
Phase-in deferrals	—	(28,810)	(100,315)
Net Customer Revenues	\$1,088,737	\$1,080,942	\$1,074,972

Energy Cost Rate Adjustment Clause (ECR)

Through the ECR, Duquesne recovers (to the extent that such amounts are not included in base rates) nuclear fuel, fossil fuel and purchased power expenses and, also through the ECR, passes to its customers the profits from short-term power sales to other utilities (collectively, ECR energy costs). Nuclear fuel expense is recorded on the basis of the quantity of electric energy generated and includes such costs as the fee imposed by the United States Department of Energy (DOE) for future disposal and ultimate storage and disposition of spent nuclear fuel. Fossil fuel expense includes the costs of coal, natural gas and fuel oil used in the generation of electricity.

On Duquesne's statement of consolidated income, these energy cost recovery revenues are included as a component of *operating revenues*. For ECR purposes, Duquesne defers fuel and other energy expenses for recovery, or refunding, in subsequent years. The deferrals reflect the difference between the amount that Duquesne is currently collecting from customers and its actual ECR energy costs. The PUC annually reviews Duquesne's ECR energy costs for the fiscal year April through March, compares them to previously projected ECR energy costs and adjusts the ECR for over- or under-recoveries and for two PUC-established coal cost standards. (See "Deferred Coal Costs" and "Warwick Mine Costs" discussions, Note F, on pages 49 and 50, respectively.)

Over- or under-recoveries from customers are recorded in the consolidated balance sheet as payable to, or receivable from, customers. At December 31, 1995, \$5.8 million was payable to customers and shown as *other current liabilities*. At December 31, 1994, \$5.9 million was receivable from customers and shown as *other current assets*.

Maintenance

Incremental *maintenance* expense incurred for refueling outages at Duquesne's nuclear units is deferred for amortization over the period between refueling outages (generally 18 months). Duquesne changed, as of January 1, 1993, its method of accounting for maintenance costs during scheduled major fossil generating station outages. Prior to that time, maintenance costs incurred for scheduled major outages at fossil generating stations were charged to expense as these costs were incurred. Under the new accounting policy, Duquesne accrues, over the periods between outages, anticipated expenses for scheduled major fossil generating station outages. Maintenance costs incurred for non-major scheduled outages and for forced outages are charged to expense as such costs are incurred. This method was adopted to match more accurately the maintenance costs and the revenue produced during the periods between scheduled major fossil generating station outages.

The cumulative effect (approximately \$5.4 million, net of income taxes of approximately \$3.9 million) of the change on prior years was included in *net income* in 1993. The effect of the change in 1993 was to reduce *income, before the cumulative effect of changes in accounting principles*, by approximately \$2.4 million, and to reduce *net income*, after the cumulative effect of changes in accounting principles, by approximately \$7.8 million.

Depreciation and Amortization

Depreciation of *property, plant and equipment*, including plant-related intangibles, is recorded on a straight-line basis over the estimated remaining useful lives of properties. Amortization of other intangibles is recorded on a straight-line basis over a five-year period. *Depreciation and amortization* of other properties are calculated on various bases.

Duquesne records decommissioning costs under the category of *depreciation and amortization* expense and accrues a liability, equal to that amount, for nuclear decommissioning expense. Such nuclear decommissioning funds are deposited in external, segregated trust accounts. The funds are invested in a portfolio of municipal bonds, certificates of deposit and United States government securities. Trust fund earnings increase the fund balance and the recorded liability. The market value of the aggregate trust fund balances at December 31, 1995, totaled approximately \$28.5 million. On Duquesne's consolidated balance sheet, the decommissioning trusts have been reflected in *other investments*, and the related liability has been recorded as other *non-current liabilities*. (See "Nuclear Decommissioning" discussion, Note N, on page 59.)

Depreciation and amortization expense increased \$25.9 million primarily due to the change in Duquesne's composite depreciation rate from 3.0 percent to 3.5 percent effective January 1, 1995.

Income Taxes

On January 1, 1993, Duquesne adopted *Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109)*. Implementation of *SFAS No. 109* involved a change in accounting principle. The cumulative \$8 million effect on prior years was reported in 1993 as an increase in *net income*.

SFAS No. 109 requires that the liability method be used in computing deferred taxes on all differences between book and tax bases of assets. These book/tax differences occur when events and transactions recognized for financial reporting purposes are not recognized in the same period for tax purposes. *SFAS No. 109* also requires that a deferred tax liability or asset be adjusted in the period of enactment for the effect of changes in tax laws or rates. During 1994, the statutory Pennsylvania income tax rate was reduced from 12.25 percent to 9.99 percent. This resulted in a net decrease of \$80.5 million in deferred tax liabilities and a corresponding reduction in the regulatory receivable.

Duquesne recognizes a *regulatory asset* for the deferred tax liabilities that are expected to be recovered from customers through rates. (See "Rate Matters," Note F, and "Income Taxes," Note K, on pages 48 and 54, respectively.)

With respect to the financial statement presentation of *SFAS No. 109*, Duquesne reflects the amortization of the regulatory tax receivable resulting from reversals of deferred taxes as *depreciation and amortization* expense. Reversals of accumulated *deferred income taxes* are included in *income tax* expense.

When applied to reduce Duquesne's income tax liability, investment tax credits related to electric utility property generally were deferred. Such credits are subsequently reflected, over the lives of the related assets, as reductions to tax expense.

Property, Plant and Equipment

The asset values of Duquesne's properties are stated at original construction cost, which includes related payroll taxes, pensions and other fringe benefits, as well as administrative and general costs. Also included in original construction cost is an allowance for funds used during construction (AFC), which represents the estimated cost of debt and equity funds used to finance construction. The amount of AFC that is capitalized will vary according to changes in the cost of capital and in the level of construction work in progress (CWIP). On a current basis, Duquesne does not realize cash from the AFC. Duquesne does realize cash, during the service life of the plant, through increased revenues reflecting a higher rate base (upon which a return is earned) and increased depreciation. The AFC rates applied to CWIP were 8.7 percent in 1995, 9.0 percent in 1994 and 9.6 percent in 1993.

Additions to, and replacements of, property units are charged to plant accounts. Maintenance, repairs and replacement of minor items of property are recorded as expenses when they are incurred. The costs of properties that are retired (plus removal costs and less any salvage value) are charged to *accumulated depreciation and amortization*.

Substantially all of Duquesne's properties are subject to a first mortgage lien.

Other Current Assets and Long-Term Investments

Duquesne's *other current assets* and *long-term investments* include certain investments in marketable securities. In accordance with *Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115)*, these investments are classified as available-for-sale and are stated at market value.

Financial Accounting Pronouncement

The Financial Accounting Standards Board issued *Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of (SFAS No. 121)* in March 1995. This statement is effective for years beginning after December 15, 1995. Duquesne anticipates adopting this standard on January 1, 1996, and does not expect that it will have a material impact on its financial position or results of operations, based on the current regulatory structure in which it operates. As competitive factors influence pricing in the utility industry, this opinion may change in the future. The general requirements of *SFAS No. 121* apply to non-current assets and require impairment to be considered whenever evidence suggests that it is no longer probable that future cash flows in an amount at least equal to the asset will result.

Temporary Cash Investments

Temporary cash investments are short-term, highly liquid investments with original maturities of three or fewer months. They are stated at market, which approximates cost. Duquesne considers temporary cash investments to be cash equivalents.

Reclassifications

The 1994 and 1993 consolidated financial statements have been reclassified to conform with accounting presentations adopted during 1995.

B. Property, Plant and Equipment

In addition to its wholly owned generating units, Duquesne, together with other electric utilities, has an ownership or leasehold interest in certain jointly owned units. Duquesne is required to pay its share of the construction and operating costs of the units. Duquesne's share of the operating expenses of the units is included in the statement of consolidated income.

Generating Units at December 31, 1995

Unit	Megawatts		Net Utility Plant (Millions of Dollars)	Fuel Source
	Summer	Winter		
Cheswick	562	570	\$ 118.7	Coal
Elrama (a)	474	487	98.1	Coal
Ft. Martin Unit 1 (b)	276	276	36.4	Coal
Eastlake Unit 5	186	186	42.7	Coal
Sammis Unit 7	187	187	53.1	Coal
Bruce Mansfield Unit 1 (a)	228	228	66.2	Coal
Bruce Mansfield Unit 2 (a)	62	62	19.1	Coal
Bruce Mansfield Unit 3 (a)	110	110	52.1	Coal
Beaver Valley Unit 1 (c)	385	385	234.0	Nuclear
Beaver Valley Unit 2 (d)(e)	113	113	14.4	Nuclear
Beaver Valley Common Facilities			159.4	
Perry Unit 1 (f)	161	164	565.5	Nuclear
Brunot Island	54	66	7.1	Fuel Oil
Total	2,798	2,834	1,466.8	
Property held for future use:				
Brunot Island (g)	204	240	44.9	Fuel Oil
Phillips (a)	300	310	77.4	Coal
Total Generating Units	3,302	3,384	\$1,589.1	

(a) The unit is equipped with flue gas desulfurization equipment.

(b) See "Sale of Ft. Martin" discussion below.

(c) The Nuclear Regulatory Commission (NRC) has granted a license to operate through January 2016.

(d) On October 2, 1987, Duquesne sold its 13.74 percent interest in Beaver Valley Unit 2 (BV Unit 2) and leased it back; the sale was exclusive of transmission and common facilities.

Amounts shown represent facilities not sold and subsequent leasehold improvements.

(e) The NRC has granted a license to operate through May 2027.

(f) The NRC has granted a license to operate through March 2026.

(g) Combustion turbine capacity held for future use representing 135 megawatts summer and 168 megawatts winter may be returned to service pending outcome of the sale of Ft. Martin. (See "Sale of Ft. Martin" discussion below.)

Sale of Ft. Martin

In December 1995, Duquesne filed a Petition for Declaratory Order with the PUC requesting approval for the sale of its ownership interest in the Ft. Martin Power Station and for a six-point plan to be financed in part by the proceeds of the Ft. Martin transaction. Under the plan, Duquesne offers to freeze its base rates for a period of five years. In addition, Duquesne proposes to record a one-time reduction of approximately \$130 million in the value of Duquesne's nuclear plant investment. Duquesne also proposes to use the proceeds from the sale to finance reliability enhancements to the simple cycle units located at Brunot Island (BI), to retire debt and to reduce equity. The plan also proposes an annual increase of \$25 million for three years in *depreciation and amortization* expense to Duquesne's nuclear investment, as well as additional annual contributions to its nuclear plant decommissioning funds of \$5 million for five years, without any increase in existing electric rates. Lastly, Duquesne proposes a five-year annual \$5 million credit to the ECR to compensate Duquesne's customers for the lost profits from any reduced short-term power sales foregone by the sale of its ownership interest in the Ft. Martin Power Station. (See "Energy Cost Rate Adjustment Clause (ECR)" discussion, Note A, on page 44.) The PUC is currently reviewing Duquesne's petition.

C. Long-Term Investments

At December 31, 1995 and 1994, the fair market value of Duquesne's investment in DQE common stock was \$66.8 million and \$43.1 million, respectively. At December 31, 1995 and 1994, the cost of Duquesne's investment in DQE common stock was \$43.9 million and \$45.9 million, respectively.

Duquesne makes equity investments in affordable housing. At December 31, 1995, Duquesne had investments in seven affordable housing funds.

Deferred income primarily relates to Duquesne's leasehold investments. Deferred amounts will be recognized as income over the lives of the underlying leasehold investments over periods generally not exceeding five years.

Duquesne's other investments are primarily in assets of nuclear decommissioning trusts and marketable securities. In accordance with *SFAS No. 115*, these investments are classified as available-for-sale and are stated at market value. The amount of unrealized holding gains related to marketable securities at December 31, 1995, is \$22.8 million (\$13.4 million net of tax). There were no material unrealized gains or losses on investments at December 31, 1994.

D. Receivables

Duquesne and an unaffiliated corporation have an agreement that entitles Duquesne to sell, and the corporation to purchase, on an ongoing basis, up to \$50 million of accounts receivable. At December 31, 1995, Duquesne had sold \$7 million of receivables to the unaffiliated corporation. Duquesne had no receivables sold at December 31, 1994. The accounts receivable sales agreement, which expires in June 1996, is one of many sources of funds available to Duquesne. Duquesne may attempt to extend the agreement, or to replace the facility with a similar one or to eliminate it upon expiration.

E. Changes in Working Capital Other than Cash

Changes in Working Capital Other than Cash

	1995	1994	1993
	<i>(Amounts in Thousands of Dollars)</i>		
<i>Receivables</i>	\$19,131	\$ 6,708	\$(87,671)
<i>Materials and supplies</i>	9,994	2,932	13,635
<i>Other current assets</i>	7,840	(6,929)	3,636
<i>Accounts payable</i>	15,781	(23,816)	(6,022)
<i>Other current liabilities</i>	(22,090)	(15,779)	(20,377)
Total	\$30,656	\$(36,884)	\$(96,799)

F. Rate Matters

1987 Rate Case

In March 1988, the PUC adopted a rate order that increased Duquesne's revenues by \$232 million annually. This rate increase was phased-in from April 1988 through April 1994. Deficiencies in current revenues which resulted from the phase-in plan were included in the consolidated statement of income as *phase-in deferrals*. *Phase-in deferrals* were recorded on the consolidated balance sheet as a regulatory asset. As customers were billed for deficiencies related to prior periods, this *regulatory asset* was reduced.

At this time, Duquesne has no pending base rate case and has no immediate plans to file a base rate case. In Duquesne's petition currently before the PUC for the sale of its ownership interest in the Ft. Martin Power Station, Duquesne proposes to freeze its base rates for a five-year period. (See "Sale of Ft. Martin" discussion, Note B, on page 47.)

Regulatory Assets

As a result of the application of *SFAS No. 71*, Duquesne records *regulatory assets* on its consolidated balance sheet. The *regulatory assets* represent probable future revenue to Duquesne because provisions for these costs are currently included, or are expected to be included, in charges to customers through the ratemaking process.

Duquesne's operations currently satisfy the *SFAS No. 71* criteria. However, a company's electric utility operations or a portion of such operations could cease to meet these criteria for various reasons, including a change in the PUC or the FERC regulations. Should Duquesne's operations cease to meet the *SFAS No. 71* criteria, Duquesne would be required to write off any regulatory assets or liabilities for those operations that no longer meet these requirements. Management will continue to evaluate significant changes in the regulatory and competitive environment in order to assess Duquesne's overall consistency with the criteria of *SFAS No. 71*.

Regulatory Assets at December 31

	1995	1994
	<i>(Amounts in Thousands of Dollars)</i>	
Regulatory tax receivable (Note K)	\$414,543	\$428,043
Unamortized debt costs (Note I)(a)	98,776	103,454
Deferred rate synchronization costs (below)	51,149	51,149
Beaver Valley Unit 2 (BV Unit 2) sale/leaseback premium (Note L)(b)	31,564	33,414
Deferred employee costs (c)	31,218	31,012
Extraordinary property loss (below)	8,300	22,394
Deferred nuclear maintenance outage costs (Note A)	6,776	11,406
DOE decontamination and decommissioning receivable (Note N)	10,687	10,932
Deferred coal costs (below)	12,753	10,677
Other	6,162	8,282
<i>Total Regulatory Assets</i>	\$671,928	\$710,763

- (a) The premiums paid to reacquire debt prior to scheduled maturity dates are deferred for amortization over the life of the debt issued to finance the reacquisitions.
- (b) The premium paid to refinance the BV Unit 2 lease was deferred for amortization over the life of the lease.
- (c) Includes amounts for recovery of accrued compensated absences and accrued claims for workers' compensation.

Deferred Rate Synchronization Costs

In 1987, the PUC approved Duquesne's petition to defer initial operating and other costs of Perry Unit 1 and BV Unit 2. Duquesne deferred the costs incurred from November 17, 1987, when the units went into commercial operation, until March 25, 1988, when a rate order was issued. In its order, the PUC postponed ruling on whether these costs would be recoverable from Duquesne's customers. Duquesne is not earning a return on the deferred costs. Duquesne believes that these deferred costs are recoverable. In 1990 and 1995, the PUC permitted other Pennsylvania electric utilities rate recovery of such costs.

Extraordinary Property Loss

Duquesne abandoned its interest in the partially constructed Perry Unit 2 in 1986 and subsequently disposed of its interest in 1992. In the 1987 rate case, the PUC approved recovery, over a 10-year period, of Duquesne's original \$155 million investment in Perry Unit 2. Duquesne is not earning a return on the as-yet-unrecovered portion of its investment in the unit.

Deferred Coal Costs

The PUC has established two market price coal cost standards. One applies only to coal delivered at the Bruce Mansfield Power Station (Bruce Mansfield). The other, the system-wide coal cost standard, applies to coal delivered to the remainder of Duquesne's system. Both standards are updated monthly to reflect prevailing market prices for similar coal. The

PUC has directed Duquesne to defer recovery of the delivered cost of coal to the extent that such cost exceeds generally prevailing market prices for similar coal, as determined by the PUC. The PUC allows deferred amounts to be recovered from customers when the delivered costs of coal fall below such PUC-determined prevailing market prices.

In 1990, the PUC approved a joint petition for settlement that clarified certain aspects of the system-wide coal cost standard and gave Duquesne options to extend the standard through March 2000. In December 1991, Duquesne exercised the first of two options that extended the standard through March 1996. In December 1995, Duquesne exercised the second option to extend the standard through March 2000. The unrecovered cost of coal used at Bruce Mansfield amounted to \$8.4 million and \$7.3 million and the unrecovered cost of coal used throughout the system amounted to \$4.4 million and \$3.4 million at December 31, 1995 and 1994, respectively. Duquesne believes that all deferred coal costs will be recovered.

Warwick Mine Costs

The 1990 joint petition for settlement (See preceding discussion on "Deferred Coal Costs.") also recognized costs at Duquesne's Warwick Mine, which had been on standby since 1988, and allowed for recovery of such costs, including the costs of ultimately closing the mine. In 1990, Duquesne entered into an agreement under which an unaffiliated company will operate the mine until March 2000 and sell the coal produced. Production began in late 1990. The mine reached a full production rate in early 1991. The Warwick Mine coal reserves include both high and low sulfur coal; Duquesne's contract is for medium to high sulfur (1.3 percent to 2.5 percent) coal. More than 60 percent of the coal mined at Warwick Mine currently is used by Duquesne. Duquesne receives a royalty on sales of Warwick coal in the open market. These royalties are credited to Duquesne's ECR. In the past year, the Warwick Mine supplied slightly less than one-fifth of the coal used in the production of electricity at Duquesne's wholly owned and jointly owned plants.

Costs at the Warwick Mine and Duquesne's investment in the mine are expected to be recovered through the cost of coal in the ECR. Recovery is subject to the system-wide coal cost standard. Duquesne also has an opportunity to earn a return on its investment in the mine through the cost of coal during the period of the system-wide coal cost standard including extensions. At December 31, 1995, Duquesne's net investment in the mine was \$14.9 million. The current estimated liability, including final site reclamation, mine water treatment and certain labor liabilities, for mine closing is \$34.1 million and Duquesne has recorded a liability on the consolidated balance sheet of approximately \$15.9 million toward these costs.

Property Held for Future Use

In 1986, the PUC approved Duquesne's request to remove the Phillips Power Station (Phillips) and a portion of BI from service and from rate base. Duquesne expects to recover its net investment in these plants through future electricity sales. Duquesne believes its investment in these plants will be necessary in order to meet future business needs outlined in Duquesne's plans for optimizing generation resources. If business opportunities do not develop as expected, Duquesne will consider the sale of these assets. In the event that market demand, transmission access or rate recovery do not support the utilization or sale of the plants, Duquesne may have to write off part or all of their costs. A portion of the BI combustion turbine capacity currently held for future use may be returned to service pending the outcome of the sale of Duquesne's ownership interest in Ft. Martin. (See "Sale of Ft. Martin" discussion, Note B, on page 47.) At December 31, 1995, Duquesne's net investment in Phillips and BI held for future use was \$77.4 million and \$44.9 million, respectively.

G. Common Stock
and Capital
Surplus

Common Stock and Capital Surplus

Capital Surplus	1995	1994	1993
Year Ended December 31,	<i>(Amounts in Thousands of Dollars)</i>		
Capital Surplus	\$ —	\$ —	\$ —
Premium on common stock	837,539	823,886	807,593
Capital stock expense	(274)	(693)	(1,838)
Total Capital Surplus	\$837,265	\$823,193	\$805,755

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

DQE or its predecessor, Duquesne, has continuously paid dividends on *common stock* since 1953. Dividends may be paid on DQE common stock to the extent permitted by law and as declared by its board of directors. However, in Duquesne's *Restated Articles* of incorporation, provisions relating to *preferred and preference stock* may restrict the payment of Duquesne's common dividends. No dividends or distributions may be made on Duquesne's *common stock* if Duquesne has not paid dividends or sinking fund obligations on its preferred or preference stock. Further, the aggregate amount of Duquesne's *common stock* dividend payments or distributions may not exceed certain percentages of *net income* if the ratio of *common stockholder's equity* to *total capitalization* is less than specified percentages. As all of Duquesne's *common stock* is owned by DQE, to the extent that Duquesne cannot pay common dividends, DQE may not be able to pay dividends to its common shareholders. No part of the *retained earnings* of Duquesne was restricted at December 31, 1995.

H. Preferred and
Preference
Stock

Holders of Duquesne's preferred stock are entitled to cumulative quarterly dividends. If four quarterly dividends on any series of preferred stock are in arrears, holders of the preferred stock are entitled to elect a majority of Duquesne's board of directors until all dividends have been paid. At December 31, 1995, Duquesne had made all preferred stock dividend payments.

Holders of Duquesne's preference stock are entitled to receive cumulative quarterly dividends if dividends on all series of preferred stock are paid. If six quarterly dividends on any series of preference stock are in arrears, holders of the preference stock are entitled to elect two of Duquesne's directors until all dividends have been paid. At December 31, 1995, Duquesne had made all dividend payments. *Preferred and preference dividends* were \$5.3 million, \$6.0 million and \$9.2 million in 1995, 1994 and 1993, respectively.

In December 1991, Duquesne established an Employee Stock Ownership Plan (ESOP) to provide matching contributions for a 401(k) Retirement Savings Plan for Management Employees. (See "Employee Benefits," Note M, on page 56.) Duquesne issued and sold 845,070 shares of preference stock, plan series A to the trustee of the ESOP. As consideration for the stock, Duquesne received a note valued at \$30 million from the trustee. The preference stock has an annual dividend rate of \$2.80 per share, and each share of the preference stock is exchangeable for one and one half shares of DQE common stock. At December 31, 1995, \$22.3 million of preference stock issued in connection with the establishment of the ESOP had been offset, for financial statement purposes, by the recognition of a deferred ESOP benefit. Dividends on the preference stock and cash contributions from Duquesne are used to repay the ESOP note. Duquesne made cash contributions of approximately \$2.1 million for 1995, \$2.3 million for 1994 and \$2.1 million for 1993. These cash contributions were the difference between the ESOP debt service and the amount of dividends on ESOP shares (approximately \$2.3 million in 1995, \$2.4 million in 1994 and \$2.3 million in 1993). As shares of preference stock are allocated to the accounts of participants in

the ESOP, Duquesne recognizes compensation expense, and the amount of the deferred compensation benefit is amortized. Duquesne recognized compensation expense related to the 401(k) plans of \$2.3 million in 1995, \$1.8 million in 1994 and \$1.7 million in 1993.

Outstanding *preferred and preference stock* is generally callable, on notice of not less than thirty days, at stated prices plus accrued dividends. On September 1, 1995, Duquesne called for redemption of all of its outstanding shares of \$7.20 preferred stock. On January 14, 1994, Duquesne called for redemption of all of its outstanding shares of \$2.10 and \$7.50 preference stock. None of the remaining Duquesne preferred or preference stock issues has mandatory purchase requirements.

Preferred and Preference Stock at December 31

			(Shares and Amounts in Thousands)					
	Call Price		1995		1994		1993	
	Per Share	Shares	Amount	Shares	Amount	Shares	Amount	
Preferred Stock Series:								
6.75% (a) (b) (c)	\$51.00	148	\$ 7,407	148	\$ 7,407	148	\$ 7,407	
4.00% (a) (b) (c)	51.50	550	27,486	550	27,486	550	27,486	
4.10% (a) (b) (c)	51.75	120	6,012	120	6,012	120	6,012	
4.15% (a) (b) (c)	51.73	132	6,643	132	6,643	132	6,643	
4.20% (a) (b) (c)	51.71	100	5,021	100	5,021	100	5,021	
\$2.10 (a) (b) (c)	51.84	159	8,039	159	8,039	159	8,039	
\$7.20 (a) (c) (d)	—	—	—	298	29,732	319	31,915	
9.00% (e)	—	—	3,000	—	—	—	—	
<i>Total Preferred Stock</i>		1,209	63,608	1,507	90,340	1,528	92,523	
Preference Stock Series: (f)								
\$2.10 (c) (g)	—	—	—	—	—	1,175	29,383	
\$7.50 (d) (h)	—	—	—	—	—	84	8,392	
Plan Series A (c) (i)	37.18	834	29,615	841	29,857	844	29,956	
<i>Total Preference Stock</i>		834	29,615	841	29,857	2,103	67,731	
Deferred ESOP benefit			(22,257)		(24,852)		(27,126)	
<i>Total Preferred and Preference Stock</i>			\$70,966		\$95,335		\$133,128	

(a) Preferred stock: 4,000,000 authorized shares; \$50 par value; cumulative
 (b) \$50 per share involuntary liquidation value
 (c) Non-redeemable
 (d) \$100 per share involuntary liquidation value
 (e) 500 authorized shares; 10 issued \$300,000 par value; involuntary liquidation value \$300,000 per share; redeemable beginning August 2000

(f) Preference stock: 8,000,000 authorized shares; \$1 par value; cumulative
 (g) \$25 per share involuntary liquidation value
 (h) Redeemable
 (i) \$35.50 per share involuntary liquidation value

I. Long-Term Debt

Duquesne's 1947 first mortgage bond indenture was retired in the third quarter of 1995 following the maturity of the last bond series issued under the indenture. All of Duquesne's First Collateral Trust Bonds have been issued under a new mortgage indenture that was established in April 1992 (the 1992 Indenture). All First Collateral Trust Bonds became first mortgage bonds when the 1947 mortgage indenture was retired. The 1992 Indenture includes more flexible provisions and eliminates conventions such as mandatory sinking funds and formula-derived maintenance and replacement clauses.

The pollution control notes arise from the sale of bonds by public authorities for the purposes of financing construction of pollution control facilities at Duquesne's plants or refunding previously issued bonds. Duquesne is obligated to pay the principal and interest on these bonds. For certain of the pollution control notes, there is an annual commitment fee

for an irrevocable letter of credit. Under certain circumstances, the letter of credit is available for the payment of interest on, or redemption of, all or a portion of the notes. In late 1994, pollution control notes totaling \$114.1 million with an average interest rate of 10.34 percent were refinanced at lower adjustable interest rates.

Long-Term Debt at December 31

	Interest Rate	Maturity	Principal Outstanding (Amounts in Thousands of Dollars)	
			1995	1994
First Collateral Trust Bonds/ first mortgage bonds	4.75%-8.75%	1996-2025	\$ 903,000 (a)	\$ 950,400 (b)
Pollution control notes (c)	(d)	2003-2030	417,985	417,051
Sinking fund debentures	5%	2010	5,703	5,817
Miscellaneous			—	152
Less unamortized debt discount and premium - net			(4,157)	(4,490)
Total Long-Term Debt			\$1,322,531	\$1,368,930

(a) Excludes \$50.0 million in 1995 related to a current maturity on May 15, 1996.

(b) Excludes \$9.6 million in 1994 related to sinking fund requirements on the underlying first mortgage bonds and \$49.0 million related to the maturity on June 1, 1995, of the last first mortgage bonds issued under the 1947 indenture.

(c) Excludes \$0.9 million in 1994 related to sinking fund requirements on the underlying first mortgage bonds.

(d) The pollution control notes have adjustable interest rates. The interest rates at year-end averaged 3.9 percent in 1995 and 4.3 percent in 1994.

At December 31, 1995, sinking fund requirements (related solely to the sinking fund debentures) and maturities of long-term debt outstanding for the next five years were: \$50.4 million in 1996; \$50.7 million in 1997, \$75.7 million in 1998, \$75.8 million in 1999 and \$100.8 million in 2000.

Total interest costs incurred were \$103.3 million in 1995, \$107.7 million in 1994 and \$117.0 million in 1993. Interest costs attributable to long-term debt and other interest were \$98.0 million, \$102.1 million and \$110.9 million in 1995, 1994 and 1993, respectively. Interest costs incurred also include \$5.3 million, \$5.6 million and \$6.1 million attributable to capital leases in 1995, 1994 and 1993, respectively. Of these amounts, \$1.8 million in 1995, \$2.0 million in 1994 and \$2.0 million in 1993 were capitalized as AFC. Debt discount or premium and related issuance expenses are amortized over the lives of the applicable issues.

During 1994, Duquesne's BV Unit 2 lease arrangement was amended to reflect an increase in federal income tax rates. At the same time, the associated letter of credit securing the lessor's equity interest in the unit was increased from \$188 million to \$194 million and the term of the letter of credit was extended to 1999. If certain specified events occur, the letter of credit could be drawn down by the owners, the leases could terminate and collateralized lease bonds (\$409 million at December 31, 1995) would become direct obligations of Duquesne.

At December 31, 1995 and 1994, Duquesne was in compliance with all of its debt covenants. At December 31, 1995, the fair value of Duquesne's long-term debt, including current maturities and sinking fund requirements, estimated on the basis of quoted market prices for the same or similar issues or current rates offered to Duquesne for debt of the same remaining maturities, was \$1,401.4 million. The principal amount included in Duquesne's consolidated balance sheet is \$1,376.7 million.

**J. Short-Term
Borrowing and
Revolving
Credit
Arrangements**

At December 31, 1995, Duquesne had an extendible revolving credit agreement with a group of banks totaling \$150 million. This facility expires in October 1996. Interest rates on this credit agreement vary. Commitment fees are based on the unborrowed amount of the commitments. The credit facility contains a two-year repayment period for any amount outstanding at the expiration of the revolving credit period. At December 31, 1995 and 1994, there were no short-term borrowings outstanding.

K. Income Taxes

Duquesne's federal income tax returns have been audited by the Internal Revenue Service (IRS) for the tax years through 1989. The tax years 1990 through 1995 remain subject to IRS review. Duquesne does not believe that final settlement of the federal income tax returns for these years will have a materially adverse effect on its financial position or results of operations. The effects of the 1993 adoption of *SFAS No. 109* are discussed in "Income Taxes," Note A, on page 45. Implementation of the standard involved a change in accounting principle. The cumulative effect of \$8 million on prior years was reported in 1993 as an increase in *net income*. The *SFAS No. 109* impact on 1993 *income before cumulative effect of changes in accounting principles* is immaterial.

Deferred Tax Liabilities

	1995	1994
	<i>(Amounts in Thousands of Dollars)</i>	
At December 31, deferred tax assets (liabilities) were:		
Investment tax credits unamortized	\$ 48,033	\$ 51,282
Gain on sale/leaseback of BV Unit 2	64,124	67,120
Tax benefit -- long-term investments	164,582	—
Other	41,509	52,037
Deferred tax assets	318,248	170,439
Property depreciation	(871,539)	(880,342)
Regulatory asset	(172,008)	(177,610)
Loss on reacquired debt unamortized	(35,340)	(38,066)
Other	(45,357)	(65,570)
Deferred tax liabilities	(1,124,244)	(1,161,588)
<i>Net Deferred Tax Liabilities</i>	\$ (805,996)	\$ (991,149)

Income Taxes

	1995	1994	1993
	<i>(Amounts in Thousands of Dollars)</i>		
Included in operating expenses:			
Currently payable:			
Federal	\$100,491	\$90,335	\$100,521
State	29,585	33,071	37,718
Deferred -- net:			
Federal	(28,381)	(20,058)	(28,129)
State	(5,778)	(7,232)	(8,441)
Investment tax credits deferred -- net	(7,252)	(5,376)	(5,399)
<i>Total Included in Operating Expenses</i>	88,665	90,740	96,270
Included in other income and deductions:			
Currently payable:			
Federal	4,979	(6,139)	(17,557)
State	(751)	335	(1,220)
Deferred -- net:			
Federal	442	(99)	251
State	137	(39)	100
Investment tax credits	(578)	(607)	(607)
<i>Total Included in Other Income and Deductions</i>	4,229	(6,549)	(19,033)
<i>Total Income Tax Expense</i>	\$ 92,894	\$ 84,191	\$ 77,237

Total income taxes differ from the amount computed by applying the statutory federal income tax rate to income before income taxes and before the cumulative effect of changes in accounting principles.

Income Tax Expense Reconciliation

	1995	1994	1993
	<i>(Amounts in Thousands of Dollars)</i>		
Computed federal income tax at statutory rate	\$ 85,301	\$81,074	\$ 77,708
Increase (decrease) in taxes resulting from:			
Tax audit settlement	—	—	(15,000)
State income taxes, net of federal income tax benefit	15,076	16,988	18,302
Amortization of deferred investment tax credits	(7,831)	(5,983)	(6,006)
Revenue requirement adjustment to regulatory taxes	—	(12,178)	—
Other - net	348	4,290	2,233
<i>Total Income Tax Expense</i>	\$ 92,894	\$84,191	\$ 77,237

L. Leases

Duquesne leases nuclear fuel, a portion of a nuclear generating plant, certain office buildings, computer equipment and other property and equipment.

Capital Leases at December 31

	1995	1994
	<i>(Amounts in Thousands of Dollars)</i>	
Nuclear fuel	\$112,573	\$139,763
Electric plant	20,808	22,012
<i>Total</i>	133,381	161,775
Less accumulated amortization	(74,874)	(91,376)
<i>Property Held Under Capital Leases - Net (a)</i>	\$ 58,507	\$ 70,399

(a) Includes \$2,910 in 1995 and \$3,201 in 1994 of capital leases with associated obligations retired.

In 1987, Duquesne sold and leased back its 13.74 percent interest in BV Unit 2; the sale was exclusive of transmission and common facilities. The total sales price of \$537.9 million was the appraised value of Duquesne's interest in the property. Duquesne leased back its interest in the unit for a term of 29.5 years. The lease provides for semiannual payments and is accounted for as an operating lease. Duquesne is responsible under the terms of the lease for all costs of its interest in the unit. In December 1992, Duquesne participated in the refinancing of collateralized lease bonds to take advantage of lower interest rates and reduce the annual lease payments. The bonds were originally issued in 1987 for the purpose of partially financing the lease of BV Unit 2. In accordance with the BV Unit 2 lease agreement, Duquesne paid the premiums of approximately \$36.4 million as a supplemental rent payment to the lessors. This amount was deferred and is being amortized over the remaining lease term. At December 31, 1995, the deferred balance was approximately \$31.6 million.

Leased nuclear fuel is amortized as the fuel is burned. The amortization of all other leased property is based on rental payments made. Payments for capital and operating leases are charged to *operating expenses* on the statement of consolidated income.

Summary of Rental Payments

	1995	1994	1993
	<i>(Amounts in Thousands of Dollars)</i>		
Operating leases	\$57,617	\$56,437	\$57,398
Amortization of capital leases	26,705	33,596	28,758
Interest on capital leases	4,332	4,996	5,382
Total Rental Payments	\$88,654	\$95,029	\$91,538

Future minimum lease payments for capital leases are related principally to the estimated use of nuclear fuel financed through leasing arrangements and building leases. Minimum payments for operating leases are related principally to BV Unit 2 and certain of the corporate offices. Future payments due to Duquesne, as of December 31, 1995, under subleases of certain corporate office space are approximately \$4.4 million in 1996, \$4.5 million in 1997 and \$23.1 million thereafter.

Future Minimum Lease Payments

Year Ended December 31,	Operating Leases	Capital Leases
	<i>(Amounts in Thousands of Dollars)</i>	
1996	\$ 58,095	\$ 24,392
1997	57,870	13,862
1998	57,621	8,801
1999	57,206	5,130
2000	57,164	3,705
2001 and thereafter	902,097	20,946
Total Minimum Lease Payments	\$1,190,053	76,836
Less amount representing interest		(21,239)
Present value of minimum lease payments for capital leases		\$ 55,597 (a)

(a) Includes current obligations of \$21.1 million at December 31, 1995.

M. Employee Benefits

Retirement Plans

Duquesne maintains retirement plans to provide pensions for all full-time employees. Upon retirement, an employee receives a monthly pension based on his or her length of service and compensation. The cost of funding the pension plan is determined by the unit credit actuarial cost method. Duquesne's policy is to record this cost as an expense and to fund the pension plans by an amount that is at least equal to the minimum funding requirements of the *Employee Retirement Income Security Act of 1974 (ERISA)* but not to exceed the maximum tax deductible amount for the year. Pension costs charged to expense or construction were \$6.1 million for 1995, \$8.9 million for 1994 and \$9.8 million for 1993.

Funded Status of the Retirement Plans and Amounts Recognized on the Consolidated Balance Sheet at December 31

	1995	1994
	<i>(Amounts in Thousands of Dollars)</i>	
Actuarial present value of benefits rendered to date:		
Vested benefits	\$378,344	\$314,933
Non-vested benefits	19,110	17,282
Accumulated benefits obligations based on compensation to date	397,454	332,215
Additional benefits based on estimated future salary levels	53,757	59,318
Projected benefits obligation	451,211	391,533
Fair market value of plan assets	490,870	412,724
Projected benefits obligation under plan assets	\$ 39,659	\$ 21,191
Unrecognized net gain	\$124,794	\$ 95,691
Unrecognized prior service cost	(37,535)	(30,365)
Unrecognized net transition liability	(15,665)	(17,477)
Net pension liability per consolidated balance sheet	(31,935)	(26,658)
Total	\$ 39,659	\$ 21,191
Assumed rate of return on plan assets	8.00%	8.00%
Discount rate used to determine projected benefits obligation	7.00%	8.00%
Assumed change in compensation levels	5.00%	5.50%

Pension assets consist primarily of common stocks, United States obligations and corporate debt securities.

Components of Net Pension Cost

	1995	1994	1993
	<i>(Amounts in Thousands of Dollars)</i>		
Service cost (benefits earned during the year)	\$ 9,953	\$ 12,482	\$ 11,657
Interest on projected benefits obligation	30,063	28,221	27,423
Return on plan assets	(99,246)	1,967	(41,725)
Net amortization and deferrals	65,316	(33,783)	12,454
Net Pension Cost	\$ 6,086	\$ 8,887	\$ 9,809

Retirement Savings Plan and Other Benefit Options

Duquesne sponsors separate 401(k) retirement plans for its management and bargaining unit employees.

The 401(k) Retirement Savings Plan for Management Employees provides that Duquesne will match employee contributions to a 401(k) account up to a maximum of six percent of an employee's eligible salary. Duquesne's match consists of a \$.25 base match per eligible contribution dollar and an additional \$.25 incentive match per eligible contribution dollar, if Board-approved targets are achieved. The 1995 incentive target for management was accomplished. Duquesne is funding its matching contributions to the 401(k) Retirement Savings Plan for Management Employees with payments to an ESOP established in December 1991. (See "Preferred and Preference Stock," Note H, on page 51.)

The 401(k) Retirement Savings Plan for IBEW Represented Employees provides that beginning in 1995, Duquesne will match employee contributions to a 401(k) account up to a maximum of four percent of an employee's eligible salary. Duquesne's match consists of a \$.25 base match per eligible contribution dollar and an additional \$.25 incentive match per eli-

gible contribution dollar, if certain non-occupational illness and injury targets are met. In 1995, these incentive targets were not met by Duquesne's union-represented employees.

DQE's shareholders have approved a long-term incentive plan through which Duquesne may grant management employees options to purchase, during the years 1987 through 2003, up to a total of 6.9 million shares of DQE's *common stock* at prices equal to the fair market value of such stock on the dates the options were granted. At December 31, 1995, approximately 2.6 million of these shares were available for future grants.

On April 19, 1995, DQE's board of directors declared a three-for-two stock split for shareholders of record on May 1, 1995. One additional share of *common stock* was issued for every two shares outstanding as of the record date.

The following information is restated to reflect the 1995 stock split. As of December 31, 1995, 1994 and 1993, respectively, active grants totaled 2,159,000; 2,118,000; and 1,763,000 shares. Exercise prices of these options ranged from \$8.2084 to \$27.625 at December 31, 1995, and from \$8.2084 to \$23.0833 at December 31, 1994 and December 31, 1993. Expiration dates of these grants ranged from 1997 to 2005 at December 31, 1995; from 1997 to 2004 at December 31, 1994; and from 1997 to 2003 at December 31, 1993. As of December 31, 1995, 1994 and 1993, respectively, stock appreciation rights (SARs) had been granted in connection with 1,202,000; 1,190,000 and 1,193,000 of the options outstanding. During 1995, 367,000 SARs were exercised; 133,000 options were exercised at prices ranging from \$8.2084 to \$21.6667 and 28,000 options were cancelled. During 1994, 1,254,000 SARs were exercised; 339,000 options were exercised at prices ranging from \$8.2084 to \$18.9167; and 80,000 options were cancelled. During 1993, 1,122,000 SARs were exercised; 227,000 options were exercised at prices ranging from \$8.2084 to \$18.9167; and 78,000 options were cancelled. Of the active grants at December 31, 1995, 1994 and 1993, respectively, 929,000; 918,000; and 867,000 were not exercisable.

Other Postretirement Benefits

In addition to pension benefits, Duquesne provides certain health care benefits and life insurance for some retired employees. Substantially all of Duquesne's full-time employees may, upon attaining the age of 55 and meeting certain service requirements, become eligible for the same benefits available to retired employees. Participating retirees make contributions, which are adjusted annually, to the health care plan. The life insurance plan is non-contributory. Company-provided health care benefits terminate when covered individuals become eligible for Medicare benefits or reach age 65, whichever comes first. Duquesne funds actual expenditures for obligations under the plans on a "pay-as-you-go" basis. Duquesne has the right to modify or terminate the plans.

As of January 1, 1993, Duquesne adopted *Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions*, which requires the actuarially determined costs of the aforementioned postretirement benefits to be accrued over the period from the date of hire until the date the employee becomes fully eligible for benefits. Duquesne has adopted this standard prospectively and has elected to amortize the transition liability over 20 years.

Components of Postretirement Cost

	1995	1994
	<i>(Amounts in Thousands of Dollars)</i>	
Service cost (benefits earned during the period)	\$1,315	\$1,631
Interest cost on accumulated benefit obligation	2,340	2,294
Amortization of the transition obligation over twenty years	1,700	1,700
Other	(582)	—
<i>Total Postretirement Cost</i>	\$4,773	\$5,625

Funded Status of Postretirement Plan and Amounts Recognized on the Consolidated Balance Sheet at December 31

	1995	1994
	<i>(Amounts in Thousands of Dollars)</i>	
Actuarial present value of benefits:		
Retirees	\$ 7,359	\$ 6,292
Fully eligible active plan participants	3,187	3,074
Other active plan participants	21,935	20,543
Accumulated postretirement benefit obligation	32,481	29,909
Fair market value of plan assets	—	—
Accumulated benefit obligation in excess of plan assets	\$(32,481)	\$(29,909)
Unrecognized net actuarial gains	\$ 8,427	\$ 9,481
Unrecognized net transition liability	(28,898)	(30,598)
Postretirement liability per consolidated balance sheet	(12,010)	(8,792)
Total	\$(32,481)	\$(29,909)
Discount rate used to determine projected benefit obligation	7.00%	8.00%
Health care cost trend rates:		
For year beginning January 1	8.80%	8.60%
Ultimate rate	5.50%	6.50%
Year ultimate rate is reached	2000	1999
Effect of a one percent increase in health care cost trend rates:		
On accumulated projected benefit obligation	\$ 3,228	\$ 3,137
On aggregate of annual service and interest costs	\$ 435	\$ 465

The accumulated postretirement benefit obligation comprises the present value of the estimated future benefits payable to current retirees and a pro rata portion of estimated benefits payable to active employees after retirement.

N. Commitments and Contingencies

Construction

Duquesne estimates that it will spend, excluding AFC and nuclear fuel, approximately \$90 million, \$90 million and \$100 million on construction during 1996, 1997 and 1998, respectively. Approximately \$5 million of capital expenditures for the reliability enhancements to the simple cycle units located at BI contemplated in Duquesne's petition before the PUC are excluded from these estimates. (See "Sale of Ft. Martin" discussion, Note B, on page 47.)

Nuclear-Related Matters

Duquesne operates two nuclear units and has an ownership interest in a third. The operation of a nuclear facility involves special risks, potential liabilities and specific regulatory and safety requirements. Specific information about risk management and potential liabilities is discussed below.

Nuclear Decommissioning. The PUC ruled that recovery of the decommissioning costs for Beaver Valley Unit 1 (BV Unit 1) could begin in 1977, and that recovery for BV Unit 2 and Perry Unit 1 could begin in 1988. Duquesne expects to decommission BV Unit 1, BV Unit 2 and Perry Unit 1 no earlier than the expiration of each plant's operating license, 2016, 2027 and 2026, respectively. BV Unit 1 will be placed in safe storage until the expiration of the BV Unit 2 operating license, at which time the units may be decommissioned together.

Based on site-specific studies finalized in 1992 for BV Unit 2, and in 1994 for BV Unit 1 and Perry Unit 1, Duquesne's share of the total estimated decommissioning costs, including removal and decontamination costs, currently being used to determine Duquesne's cost of service, are \$122 million for BV Unit 1, \$35 million for BV Unit 2, and \$67 million for Perry Unit 1.

In conjunction with an August 18, 1994, PUC Accounting Order, Duquesne has increased the annual contribution to its decommissioning trusts by approximately \$2 million to bring the total annual funding to approximately \$4 million per year. In collaboration with Duquesne and several other Pennsylvania utilities, the PUC Office of Special Assistants is evaluating various decommissioning issues, including funding methods. Duquesne expects that any action relating to any forthcoming PUC report will result in further increases in annual contributions to its decommissioning trusts. Consistent with these anticipated future PUC actions, Duquesne's petition before the PUC for the sale of its ownership interest in the Ft. Martin Power Station provides for additional annual contributions to its nuclear decommissioning funds of \$5 million for five years without any increase in existing electric utility rates. (See "Sale of Ft. Martin" discussion, Note B, on page 47.)

Duquesne records decommissioning costs under the category of *depreciation and amortization* expense and accrues a liability, equal to that amount for nuclear decommissioning expense. Such nuclear decommissioning funds are deposited in external, segregated trust accounts. The funds are invested in a portfolio of municipal bonds, certificates of deposit and United States government securities having a weighted average duration of four to seven years. Trust fund earnings increase the fund balance and the recorded liability. The market value of the aggregate trust fund balances at December 31, 1995, totaled approximately \$28.5 million. On Duquesne's consolidated balance sheet, the decommissioning trusts have been reflected in *other long-term investments*, and the related liability has been recorded as *other non-current liabilities*.

Nuclear Insurance. All of the companies with an interest in BV Unit 1, BV Unit 2 and Perry Unit 1 maintain nuclear property insurance, which provides coverage for property damage, decommissioning and decontamination liabilities. Duquesne's share of this program provides for \$1.2 billion of insurance coverage for its net investment of \$407.8 million in the Beaver Valley Power Station (BVPS) and \$565.5 million in Perry Unit 1, plus its interest in BV Unit 2 with lease commitments of \$405.2 million, at December 31, 1995. The lease commitments of \$405.2 million represent the net present value of future lease payments discounted at 10.94 percent, the return currently authorized Duquesne by the PUC. Duquesne would be responsible for its share of any damages in excess of insurance coverage. In addition, if the property damage reserves of Nuclear Electric Insurance Limited (NEIL), an industry mutual insurance company, are inadequate to cover claims arising from an incident at any United States nuclear site covered by that insurer, Duquesne could be assessed retrospective premiums totaling a maximum of \$10.9 million.

The *Price-Anderson Amendments* to the *Atomic Energy Act of 1954* limit public liability from a single incident at a nuclear plant to \$8.9 billion. Duquesne has purchased \$200 million of insurance, the maximum amount available, which provides the first level of financial protection.

Additional protection of \$8.3 billion would be provided by an assessment of up to \$75.5 million per incident on each nuclear unit in the United States. Duquesne's maximum total assessment, \$56.6 million, which is based on its ownership or leasehold interests in three nuclear generating units, would be limited to a maximum of \$7.5 million per incident per year. A further surcharge of 5 percent could be levied if the total amount of public claims exceeded the funds provided under the assessment program. Additionally, a state premium tax may be charged on the assessment and surcharge. Finally, the United States Congress could impose other revenue-raising measures on the nuclear industry if funds prove insufficient to pay claims.

Duquesne carries extra expense insurance which would pay the incremental cost of any replacement power purchased (in addition to costs that would have been incurred had the units been operating) and other incidental expense after the occurrence of certain types of accidents at its nuclear units in a limited amount for a limited period of time. The coverage provides for 100 percent of the estimated extra expense per week during the 52-week period starting 21 weeks after an accident and 80 percent of such estimate per week for the following 104 weeks with no coverage thereafter. The amount and duration of actual extra expense could substantially exceed insurance coverage. NEIL also provides this insurance. If NEIL's reserves are inadequate to cover claims at any United States nuclear site covered by that insurer, Duquesne could be assessed retrospective premiums totaling a maximum of \$3.5 million.

Beaver Valley Power Station Steam Generators. BVPS' units are equipped with steam generators designed and built by Westinghouse Electric Corporation (Westinghouse). Similar to other Westinghouse nuclear plants, stress corrosion cracking (SCC) has occurred in the steam generator tubes of BV Unit 1. BV Unit 2, which was placed in service eleven years after BV Unit 1, has not yet exhibited the degree of steam generator tube SCC experienced at BV Unit 1. It is, however, too early in the life of BV Unit 2 to determine the extent to which steam generator tube SCC may become a problem.

Duquesne has undertaken certain measures, such as increased inspections and tube plugging, to minimize the operational impact and to reduce susceptibility to steam generator tube SCC. Although Duquesne has taken these steps to allay the effects of steam generator tube SCC, the inherent potential for future SCC in steam generator tubes of the Westinghouse design still exists. Material acceleration in SCC could lead to loss of plant efficiency, significant repairs or possible replacement of BV Unit 1's steam generators. Total replacement cost of BV Unit 1 steam generators is currently estimated at approximately \$125 million. Duquesne would be responsible for \$59 million of this total, which includes the cost of equipment removal and replacement, but excludes replacement power costs. The earliest that BV Unit 1's steam generators could be replaced is 1999.

Duquesne continues to explore all viable means of mitigating steam generator tube SCC, including new repair technologies. Both units will undergo 100 percent tube inspection during scheduled refueling outages in 1996. Duquesne will continue to monitor and evaluate the condition of the BVPS steam generators.

Spent Nuclear Fuel Disposal. The *Nuclear Waste Policy Act of 1982* established a policy for handling and disposing of spent nuclear fuel and a policy requiring the established final repository to accept spent fuel. Electric utility companies have entered into contracts with the DOE for the permanent disposal of spent nuclear fuel and high-level radioactive waste in compliance with this legislation. The DOE has indicated that its repository under these contracts will not be available for acceptance of spent fuel before 2010 at the earliest. Existing on-site spent fuel storage capacities at BV Unit 1, BV Unit 2 and Perry Unit 1 are expected to be sufficient until 2016, 2010 and 2011, respectively.

Uranium Enrichment Decontamination and Decommissioning Fund. Nuclear reactor licensees in the United States are assessed annually for the decontamination and decommissioning of DOE uranium enrichment facilities. Assessments are based on the amount of uranium a utility had processed for enrichment prior to enactment of the *National Energy Policy Act of 1992* (NEPA) and are to be paid by such utilities over a 15-year period. At December 31, 1995, Duquesne's liability for contributions is approximately \$9.9 million (subject to an inflation adjustment). Contributions, when made, are recovered from customers through the ECR.

Guarantees

Duquesne and the owners of Bruce Mansfield have guaranteed certain debt and lease obligations related to a coal supply contract for the Bruce Mansfield plant. At December 31, 1995, Duquesne's share of these guarantees was \$25.4 million. The prices paid for the coal by the companies under this contract are expected to be sufficient to meet debt and lease obligations to be satisfied in the year 2000. (See "Deferred Coal Costs" discussion, Note F, on page 49.) The minimum future payments to be made by Duquesne solely in relation to these obligations are \$6.2 million in 1996, \$5.9 million in 1997, \$5.6 million in 1998, \$5.3 million in 1999 and \$4.2 million in 2000. Duquesne's total payments for coal purchased under the contract were \$28.9 million in 1995, \$23.3 million in 1994 and \$26.5 million in 1993.

Residual Waste Management Regulations

In 1992, the Pennsylvania Department of Environmental Protection (DEP) issued Residual Waste Management Regulations governing the generation and management of non-hazardous residual waste, such as coal ash. Duquesne is assessing the sites which it utilizes and has developed compliance strategies under review by the DEP. Capital compliance costs of \$3.0 million were incurred by Duquesne in 1995 to comply with these DEP regulations; on the basis of information currently available, an additional \$2.5 million will be incurred in 1996. The expected additional capital cost of compliance through the year 2000 is estimated, based on current information, to be approximately \$25 million. This estimate is subject to the results of ground water assessments and DEP final approval of compliance plans.

Other

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

O. Quarterly Financial Information (Unaudited)

Summary of Selected Quarterly Financial Data (Thousands of Dollars)

[The quarterly data reflect seasonal weather variations in Duquesne's service territory.]

1995	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating Revenues (a)	\$286,616	\$274,669	\$337,156	\$281,343
Operating Income (a)	57,542	55,705	76,001	52,351
Net Income	33,371	32,441	52,787	32,471
1994				
Operating Revenues (a)	\$293,145	\$281,054	\$319,781	\$274,644
Operating Income (a)	60,345	54,373	71,670	50,512
Net Income	35,492	30,556	44,876	36,525

(a) Restated to conform with presentations adopted during 1995.

Except for historical information contained herein, the matters discussed in this Annual Report on Form 10-K, are forward-looking statements that involve risks and uncertainties including, but not limited to, economic, competitive, governmental and technological factors affecting Duquesne's operations, markets, products, services and prices, and other factors discussed in Duquesne's filings with the Securities and Exchange Commission.

SELECTED FINANCIAL DATA

Amounts in Thousands of Dollars	1995	1994	1993	1992	1991	1990
INCOME STATEMENT ITEMS						
Total operating revenues	\$1,179,784	\$1,168,624	\$1,160,685	\$1,150,380	\$1,173,105	\$1,115,360
Operating income	\$ 241,599	\$ 236,900	\$ 237,897	\$ 257,119	\$ 268,666	\$ 269,396
Net income	\$ 151,070	\$ 147,449	\$ 147,362	\$ 149,768	\$ 143,133	\$ 135,456
Earnings for common stock	\$ 145,750	\$ 141,403	\$ 138,174	\$ 140,357	\$ 132,332	\$ 121,410
BALANCE SHEET ITEMS						
Property, plant and equipment-net	\$2,978,903	\$3,068,519	\$3,123,948	\$3,018,641	\$3,037,454	\$3,042,920
Total assets	\$4,067,665	\$4,149,867	\$4,388,103	\$3,718,092	\$3,802,626	\$3,794,313
Capitalization:						
Common stockholder's equity	\$1,131,334	\$1,115,512	\$1,100,671	\$1,107,609	\$1,064,104	\$1,035,059
Non-redcmable preferred and preference stock	70,966	95,345	124,736	123,430	121,906	151,346
Redeemable preferred and preference stock	—	—	8,392	8,579	15,437	37,747
Long-term debt	1,322,531	1,368,930	1,416,705	1,413,001	1,420,726	1,501,295
Total capitalization	\$2,524,831	\$2,579,787	\$2,650,504	\$2,652,619	\$2,622,173	\$2,725,447

Duquesne Light Company and Subsidiary

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

	Year Ended December 31,				
	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>
FIXED CHARGES:					
Interest on long-term debt	\$ 89,139	\$94,646	\$102,938	\$119,179	\$127,606
Other interest	2,599	1,095	2,387	1,749	1,773
Amortization of debt discount, premium and expense-net	6,252	6,381	5,541	4,223	3,892
Portion of lease payments representing an interest factor	<u>44,386</u>	<u>44,839</u>	<u>45,925</u>	<u>60,721</u>	<u>64,189</u>
Total Fixed Charges	<u>\$142,376</u>	<u>\$146,961</u>	<u>\$156,791</u>	<u>\$185,872</u>	<u>\$197,460</u>
EARNINGS:					
Income from continuing operations	\$151,070	\$147,449	\$144,787	\$149,768	\$143,133
Income taxes	92,894 *	84,191 *	77,237	110,993	104,067
Fixed charges as above	<u>142,376</u>	<u>146,961</u>	<u>156,791</u>	<u>185,872</u>	<u>197,460</u>
Total Earnings	<u>\$386,340</u>	<u>\$378,601</u>	<u>\$378,815</u>	<u>\$446,633</u>	<u>\$444,660</u>
RATIO OF EARNINGS TO FIXED CHARGES	<u>2.71</u>	<u>2.58</u>	<u>2.42</u>	<u>2.40</u>	<u>2.25</u>

Duquesne's share of the fixed charges of an unaffiliated coal supplier, which amounted to approximately \$3.4 million for the twelve months ended December 31, 1995, has been excluded from the ratio.

*Earnings related to income taxes reflect a \$13.5 million decrease for the twelve months ended December 31, 1995, and December 31, 1994, due to a financial statement reclassification related to SFAS 109. The Ratio of Earnings to Fixed Charges absent this reclassification equals 2.81 and 2.67 for the twelve months ended December 31, 1995 and December 31, 1994, respectively.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-52782, 33-53602, 33-53563 and 33-53563-01 of Duquesne Light Company on Form S-3 of our report dated January 30, 1996, appearing in the Annual Report on Form 10-K of Duquesne Light Company for the year ended December 31, 1995.

/s/ Deloitte & Touche LLP
DELOITTE & TOUCHE LLP
Pittsburgh, Pennsylvania
March 29, 1996