1989 Annual Report

1988 Annual Report

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Financial and Operating Highlights

	1989	1988	Percent Change
Operating Revenues (000)	$1,120,680	$1,063,233	+5.4
Book Value Per Share of Common Stock at Year End	$19.27	$18.51	+4.1
Earnings Per Share of Common Stock	$2.03	$1.86	+9.1
Shares of Common Stock Outstanding at Year End (000)	55,340	57,831	−4.3
Dividends Paid Per Share	$1.28	$1.20	+6.7
Return on Average Common Equity	10.6%	10.4%	+1.9
Annual System Generation (megawatt hours)	14,357,715	14,996,332	−4.3
Peak Load (megawatts)	2,381	2,372	+0.4

About the Company

DQE is a holding company dedicated to energy related services, headquartered in Pittsburgh, Pa. Duquesne Light Company is the principal subsidiary and primary source of revenue and earnings for DQE. Duquesne Light provides electric service for approximately 573,000 customers within an 800 square mile area in Allegheny and Beaver counties in Southwestern Pennsylvania, and also sells electricity to other electric utilities. Another subsidiary of DQE is Duquesne Enterprises, which owns Allegheny Development Corporation, and Property Ventures, Ltd.

To Our Shareholders

A milestone was passed in 1989 when shareholders overwhelmingly approved the formation of DQE as a holding company. The new structure adds flexibility to our strategy for managing your assets.

DQE enjoys a special advantage because it is able to draw lessons from the successes and failures of diversification elsewhere. We anticipate that DQE will pursue new business opportunities that will capitalize on your company's notable leadership in engineering, energy production, and the application of technology. Moreover, we intend to pursue new business opportunities only when there is the clearly definable potential for above average returns to our shareholders.

Formation of DQE as a holding company dedicated to energy related services marks another step in the vigorous restructuring of our traditional business—an endeavor that was the hallmark of the 1980s. In the decade just ended, we placed primary emphasis on management actions that improved financial performance.

During the second half of the 1980s, many decisions were painful. We cut back on the size of Duquesne Light to reflect lower growth in demand for electricity in our service territory. We closed power plants and reduced the dividend. Yet we emerged from this experience by the end of the decade in a stronger position and with a clearer understanding of how best to manage DQE assets to increase their value.

"Formation of DQE as a holding company marks another step in the vigorous restructuring of our traditional business."

In 1989, our solid progress in managing the decade's many tough choices was evident. Our earnings per share advanced to $2.03 from $1.86 in 1988 as our financial condition continued to improve. In 1989, customer service operations earned strong endorsements from those who matter most--our customers. In the last year of the decade, it also became clear that our long term strategy for regional economic development is effectively contributing to growth in our service territory.

The successful conclusion of a challenging decade was most gratifyingly observed in the increased value of our common stock during the last two years. DQE common shares closed 1989 at a 16 year high. Common dividends also were raised during each of the last two years.

Your company did a great deal in the 1980s to prepare for the 1990s. Allow me to elaborate on how we shaped our perspective for the 1990s as we met the challenges of the 1980s.

1980-1989 was a decade when Duquesne Light asked how can we uncover the potential rewards of a changing environment. We discovered that we can confront challenging and difficult situations and discern new opportunities in them. Our successes reinvigorated our determination to achieve excellence in operations and in customer service.

The Duquesne Light management team adopted as its goal that your company will be one of the best run in the industry. I have confidence in our ability to achieve that ambition. We reduced the number of layers in our corporate structure to achieve more individual responsibility, to optimize communication, and to loosen the grip of bureaucracy. The company is dedicated to recognizing the value of every individual employee.

In the 1980s, we improved cost controls throughout our operation. And, in the 1990s, cost control will be one of our top priorities, given the strong competitive pressures in the energy business.

Our employees rededicated themselves to deliver more courteous, responsive, and timely service to customers. In the 1980s, we came to appreciate the need to look at our market in much more discrete elements—and to recognize that our smallest customer deserves to be treated with the same careful attention as our largest customer. We recognize that no one will make more critical choices about the company's future in the coming years than will our customers.

Duquesne Light has a long and successful history as a provider of power to large industrial customers. However, as our region lost much of its industrial base, we recognized that we must prepare to deliver our product during the 1990s in an economy that is rapidly diversifying—and changing our mix of customers.

For example, in 1980, Duquesne Light's industrial customers accounted for 47% of a total 13.3 billion kilowatt hour sales. By the end of the decade,

"Our customers are expressing a high level of satisfaction with our service."

industrial customer sales were only 28% of a total 11.6 billion kilowatt hours.

Kilowatt hour sales to the diverse commercial sector grew during the decade from 30% in 1980 to 44% of kilowatt hour sales in 1989. Residential and other sales, meanwhile, grew from 23% in 1980 to 28% in 1989.

So we examined our customer base more closely, significantly increased our efforts to share each customer's perspective, and improved the quality, reliability, and timeliness of our service in ways that customers tell us they would like to have it provided. Our customers seem to agree that our commitment makes a difference, as they are expressing a high level of satisfaction with our service.

We also intend to build on our strengths. Let me cite one of them. Duquesne Light has significant power that could be made available for other marketing opportunities beyond its current service obligations. Entering the 1990s, the company sees opportunities in the wholesale bulk power market that will benefit shareholders and ratepayers alike.

"Entering the 1990s, the company sees opportunities in the wholesale bulk power market that will benefit shareholders and ratepayers alike."

In the 1980s, we fashioned a model economic development program and made Duquesne Light an important partner in the turnaround of Southwestern Pennsylvania. Our dramatically increased commitment to this effort is improving our outlook for sales. And we are recognized as a leader in promoting this region's attractiveness as a location for new businesses and for expansion of enterprises already here.

What will the 1990s look like for Duquesne Light and the Pittsburgh region? The 2% growth forecast for this region in the 1990s will be somewhat lower than the nation as a whole. Yet our analysis of the market tells us that, overall, the next decade promises something very favorable for our company: more stability and less likelihood of the severe swings in demand and output that the region experienced in the 1980s.

Our customers are confident at the start of the new decade, and we share their confidence. In 1989, through the University of Pittsburgh, we sponsored a survey of the business outlook in our region. The survey told us that the owners and managers of enterprises throughout Southwestern Pennsylvania anticipate higher sales in the new decade.

We also learned, encouragingly, that 80% of enterprises share our view that the business climate here is excellent or good, that the quality of the labor force is outstanding, and that the region's amenities for employers and employees and their families are particularly strong advantages for regional competitiveness in the decade ahead.

These survey results reflect growing confidence in a region that lost much of its economic strength in the early 1980s but was able to rebuild during the rest of the decade.

I believe that tells the story of Duquesne Light in the 1980s as well—moving from heavy reliance on industrial customers to a demand for exacting service from a diverse customer base.

With the formation of DQE, the story will continue, as we use our more flexible corporate structure to take full advantage of opportunities for our shareholders in the 1990s.

Our progress reflects the outstanding dedication of my fellow employees, whose spirited response enabled the company to manage profound changes in the 1980s and to successfully prepare for the decade ahead. I thank them for their service.

Thank you for your steadfast support as the owners of DQE. In the 1990s, your company intends to continue on a path that will achieve steady growth in the value of your investment.

Our colleague and fellow director, Mr. Henry G. Allyn Jr., has decided not to stand for reelection. We thank him for his invaluable business insight and dedicated service over the past nine years.

On behalf of the Board of Directors,

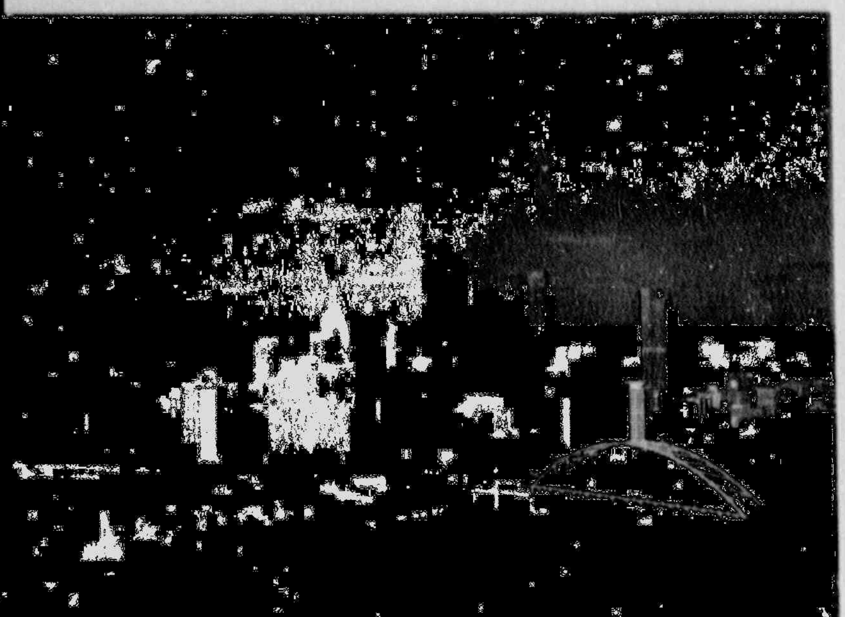
Wesley W. von Schack

Wesley W. von Schack
Chairman of the Board and Chief Executive Officer
March 9, 1990

Perspective on Clean Air

Some observers throw all utilities together as opponents of clean air. Our reaction is to wonder why they don't talk, instead, about companies like ours. We look on important environmental milestones, such as Earth Day on April 22, as a cause to celebrate.

Society has made great strides over the last two decades in cleaning up its act. We're proud of our track record. Our company is a recognized leader in improving air quality—from our installation in the early 1970s of the nation's first full scale, plant wide scrubber system, to our more recent pioneering use of natural gas to fire a coal fueled boiler. We also pioneered the use of chemicals to reduce scrubber system corrosion, and we are leaders in research to find methods for removing low concentrations of toxic substances from our plants' wastes.



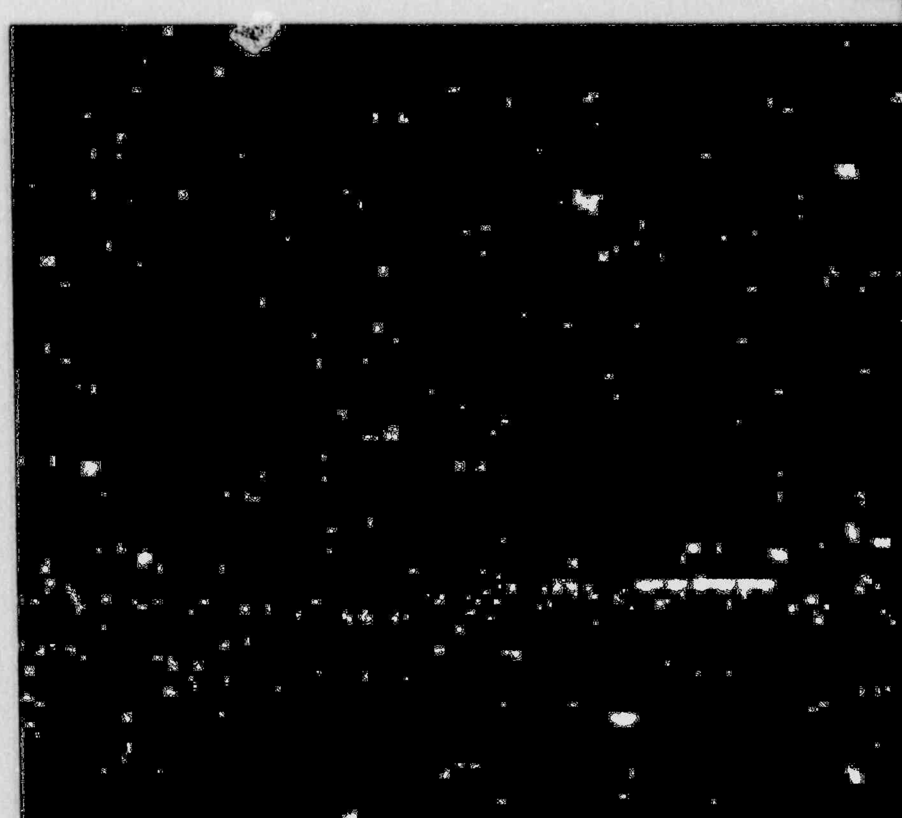
Our contribution to a clean environment exceeds $600 million. With our commitment to this cause during the last two decades, our plants in the Pittsburgh region already meet the new standards proposed for the Clean Air Act.

Investment in clean air equipment at our power plants produces a tangible improvement in the quality of life in our service territory. As our business leaders travel the world promoting the livability of this region, our contribution to clean air is proof of Southwestern Pennsylvania's determination to invest in its future.

Responsible behavior toward the environment is a crucial test of corporate citizenship as well as a test of intelligent management. Our innovation and our financial commitment to clean air have produced a 75% reduction in sulfur dioxide emissions and a 95% reduction in dust emissions. We're pleased with these accomplishments, but we are not content to rest on our laurels. We realize application of the new law will present us with new challenges and costs. We are prepared to meet those obligations and to maintain our leadership among companies concerned about the environment.

Perspective on 1989

Our ambitious DUQUESNE PLAN business strategy, adopted in 1986, coupled with our commitment to quality service, high customer satisfaction, and excellence in operations, has enabled us to meet the challenges of the 1980s and to emerge as a stronger company. As we enter the 1990s, we believe DQE, a holding company dedicated to energy related services, and its subsidiaries, Duquesne Light Company and Duquesne Enterprises, are positioned to take advantage of the opportunities presented by an increasingly competitive energy marketplace...and to build on the momentum of the many positive developments under way in Southwestern Pennsylvania.



Powering the New Pittsburgh

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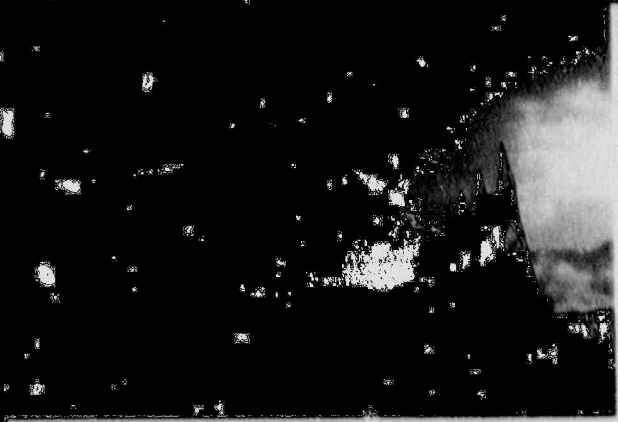
[illegible] development [illegible] market...the third most livable city [illegible] city for raising children...and the eighth best city [illegible]



Duquesne Light Company provides the electricity which powers Greater Pittsburgh's progress. Our well balanced fuel mix—78% coal and 22% nuclear—ensures an adequate and reliable supply of electricity for future regional growth.

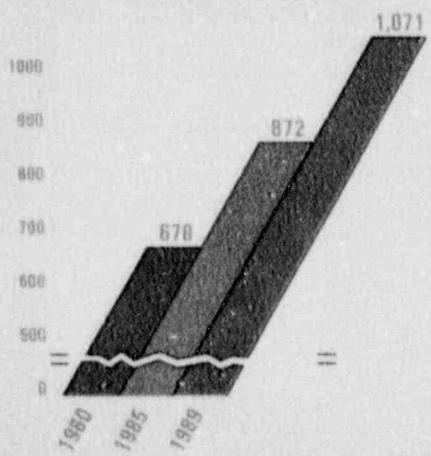
Financial Review

Our aggressive financial restructuring program, begun in 1987, continued last year. As of the end of 1989, we had repurchased 24.3% of the common shares outstanding at the beginning of the buy back program, reducing the number of shares outstanding from 73.1 million to 55.3 million. In addition, we were able to reduce annual interest expenses by $26 million through the repurchase of high coupon bonds.

Our common stock hit a 16 year high of $23⅞ in 1989. And the annual dividend was increased 6.25%, from $1.28 to $1.36, beginning Jan. 1, 1990.

Net income decreased 5%, to $113 million, in 1989. This was due primarily to a one time, $4.6 million charge relating to an agreement that resolved all appeals in Duquesne Light rate matters. Despite the decrease in net income, 1989 earnings per share increased 9%, to $2.03, because of the company's stock buy back program. During the course of the year, the company reduced the average number of shares outstanding by eight million.

Retail Customer Revenues
Millions of Dollars



On July 25, retail customer demand reached 2,381 megawatts, the highest level since 1981—the year we reached our all time system peak of 2,522 megawatts. The Duquesne Light system performed well in response to customer demand.

Duquesne Light Company realized sales to retail customers last year of 11.6 billion kilowatt hours. This sales level maintains the healthy 6% increase achieved in 1988, when electrical demand received an added boost from the hottest summer in 100 years. While summer temperatures returned to near normal in 1989, regional growth and diversity continued. Commercial sales, which have posted all time high totals for 12 years in a row, now make up 44% of our retail sales.

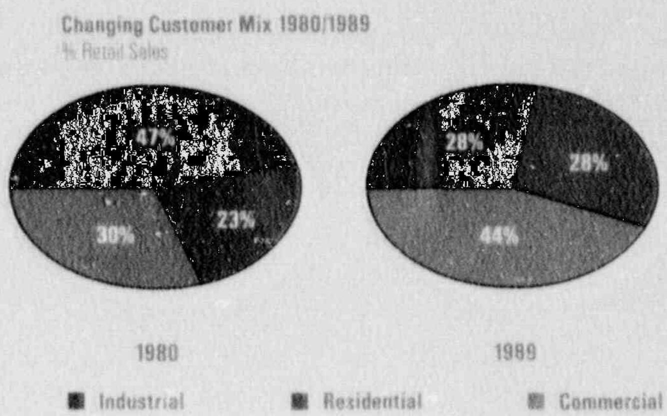
Scheduled maintenance and refueling outages at Duquesne Light power stations meant less generating capacity was available for sale to other utilities. Consequently, in 1989 these sales decreased 22%, to 2.2 billion kilowatt hours, after five consecutive years of record growth.

All classes of retail customers posted revenue increases: commercial, 11.5%; residential, 8.7%; and industrial, 5.8%. Total 1989 operating revenues, which include sales to other utilities, increased 5.4%, to $1.1 billion.

Customer Satisfaction

We are always looking for ways to increase customer satisfaction.

In the fall of 1989, Duquesne Light began to read the meters of residential customers monthly rather than bimonthly. This has resulted in more accurate and timely bills and fewer billing complaints.



Since Duquesne Light tripled its economic development team in 1987, company people have helped add or retain 8,450 jobs in the region. A recent example is Oticon Inc., one of the oldest and largest hearing aid manufacturers in the world. Duquesne Light's help was a critical element in the cooperative effort that brought Oticon's new manufacturing division to Beaver County.

Diversified Economy

[illegible] advanced supercomputing center in [illegible]. These facilities, along with the Software Engineering Institute and a planned biotechnology center, form the base for a critical mass of high technology growth in the region.

Another customer service enhancement begun in 1989 was ElectriCall, a computerized system which answers questions customers ask most often. If more specialized information is needed, ElectriCall will link customers directly to the company representative who can satisfy their request.

Duquesne Light introduced Electric Check, a free service whereby customers can have their checking or savings account automatically debited each month for the amount of their electric bill. Duquesne Light was the first Pittsburgh based utility to offer this kind of innovative service.

Near the end of December, the Pennsylvania PUC adopted a policy statement urging utilities to adopt a 'plain language' approach to all their communications with customers. We are pleased to report that Duquesne Light introduced its own plain language residential bill in late 1988.

A recent survey revealed that customers are extremely pleased with the new bill format. Customer comments included the following. "Congratulations, the revised format is good—typical of Duquesne Light's quality service"; "The bill is excellent"; and "This is the most informative of all the bills we receive."

The company keeps in regular contact with customers to get feedback on its performance. A series of telephone surveys and face to face meetings were conducted with residential and commercial customers in 1989. Duquesne Light residential customers were overwhelmingly pleased with the overall quality of the company's services and reliability.

Commercial customers said they are highly satisfied with their service and with the efforts of our representatives, who are working to serve customers better by making them aware of new energy technologies...by providing on site analysis of existing energy systems...and by providing price options, such as interruptible rates, time of day rates, and economic development rates. Commercial customers also gave the company high scores for its ability to help them get the most value for their energy dollars.

A Quality Life

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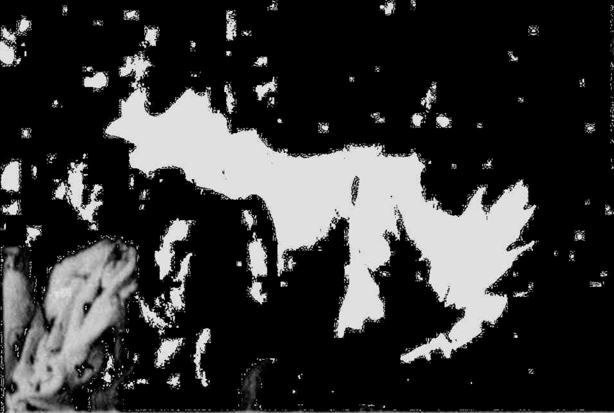
[illegible] services to more than 500 lower [illegible]



Tammy Charles and hundreds of other Duquesne Light people take very active roles in their communities, volunteering their time and expertise to a wide variety of youth, church, social service, and cultural groups.

Economic Development Leader

Duquesne Light, a recognized leader in the Pittsburgh region's revitalization efforts, presented its first Economic Development Awards to J&L Structural, Inc. in Aliquippa, Beaver County, and to Thunder Manufacturing in McKees Rocks, Allegheny County. The awards recognize companies that contribute to the revitalization of their individual communities and to the region as a whole.

The company also helps promising business start ups and expansions through loan programs administered by the Beaver County Corporation for Economic Development and the Pittsburgh Foundation. In just two years, funds provided by the company have resulted in loans of more than $2 million to eight companies.

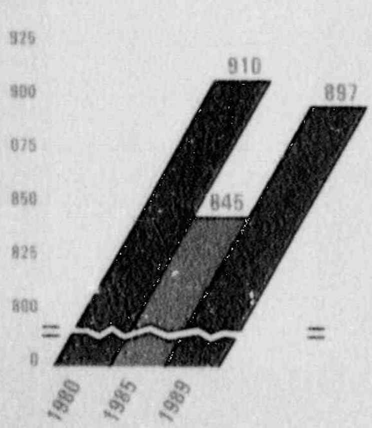
Community Relations and Partnerships

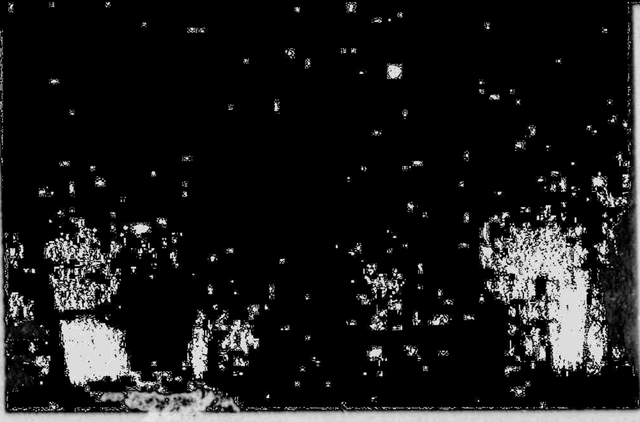
Our successful community relations program is built on the cornerstone of partnership. By blending our resources with those of others in the community, we have created a wellspring of synergistic benefits for the Pittsburgh region.

Company partnerships have paired Duquesne Light's resources with those of the first Carnegie Library in the country (Braddock, Pa.) in an effort to save a historic area building...and with those of two nonprofit energy conservation firms to create "Energy House," a 120 year old home that was extensively retrofitted to be energy efficient. Used as an educational tool for our customers, Energy House recently was one of seven energy projects in Pennsylvania to receive the Governor's Energy Award.

Community partnerships—public and private sectors working together—fueled the revitalization of the Pittsburgh region in the 1980s. We are committed to keeping this spirit alive in the 1990s.

Jobs in the Greater Pittsburgh Area
Thousands





Adequate transmission access will be the key to linking Duquesne Light produced electricity with the many new opportunities we see in the bulk power market. The company is working very hard to sell power to other utilities, particularly those in Mid Atlantic and Northeastern states where customer demand continues to grow faster than the electric supply.

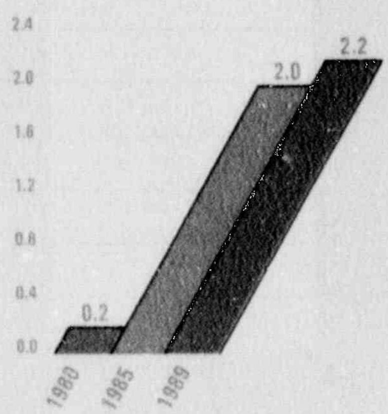
Our People

Our people are actively involved in efforts to make the Pittsburgh region a better place to live and work. In addition to providing the electric power that helps fuel growth of the local economy, these dedicated citizens serve in leadership roles in various community service, governmental, social, and economic development organizations.

To insure that they have the knowledge and skills needed in today's rapidly changing environment, we continued our strong emphasis on training. Our people took part in more than a quarter million work hours of skills training, personal development, and managerial education. In support of our corporate goal of providing opportunities for personal growth and development, the tuition refund benefit for job related courses was increased to 100% in 1989.

Both on and off the job, our people are the key to meeting our goals in the years ahead.

Sales to Other Utilities
Billions of kWh



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Duquesne Enterprises

Duquesne Enterprises represents the next phase of our continuing efforts to stay ahead of changing market forces. This company will consider opportunities in such areas as conservation, demand side management, and independent power production. Customers for these types of services could include individuals, companies, and other utilities, and can be found in our traditional service territory and in other parts of the country.

Our approach will be measured and deliberate, and will reflect the expertise we've developed over the years. Allegheny Development Corporation, a Duquesne Enterprises subsidiary that will provide energy services to the new Greater Pittsburgh International Airport, is an example of how we can successfully respond to the changing energy services market.

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

Corporate Structure

Effective July 7, 1989 Duquesne Light Company (Duquesne) became a wholly owned subsidiary of DQE, a holding company formed as part of a shareholder-approved restructuring. DQE and Duquesne are sometimes referred to collectively as the Company. As the principal operating subsidiary of DQE, Duquesne's operations account for the major share of DQE's total assets, revenues and income. Therefore, DQE's financial condition, changes in its liquidity and its future financial outlook depend primarily on the operating, investing and financial activities of Duquesne.

Results of Operations

Operating Revenues

Operating revenues increased (decreased) in the years 1987 through 1989 over the respective preceding years, for the following reasons:

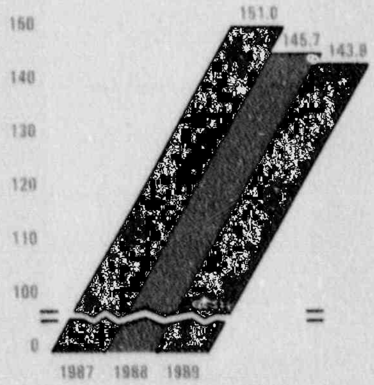
(Millions of Dollars)	1989	1988	1987
General rate increase	$83.7	$ 63.3	$ —
Deferred customer revenues	(21.3)	117.5	—
Electrical consumption	(1.6)	22.0	10.8
Energy cost rate revenues	(4.2)	(34.9)	(10.9)
General rate decrease	—	(7.7)	(7.6)
Other	12.8	5.1	(7.1)
Revenues from other utilities	(12.0)	9.9	6.5
Total	$57.4	$175.2	$ (8.3)

Operating revenues are based on rates authorized by the Pennsylvania Public Utility Commission (PUC) and are designed to recover operating expenses, plus a rate of return on the investment in utility rate base.

The general rate increase and the deferred customer revenues in 1989 and 1988 resulted from the rate order received in March 1988. The decrease in deferred revenues in 1989 reflects the implementation of the second step of the phase-in plan in March 1989 which resulted in increased current revenues. See Note H.

The fluctuations in electrical consumption resulted from changes in kilowatt-hour sales to residential, commercial and industrial customers. The decreases in energy cost rate revenues in all years were primarily due to decreases in the energy cost rate. The general rate decrease resulted from the final order in the 1986 rate case. The decrease in sales to other utilities in 1989 was primarily due to more scheduled outages at Duquesne's generating units in 1989, which resulted in less available capacity. Favorable capacity situations and the requirements of neighboring utilities resulted in increased sales to other utilities in 1988 and 1987. Currently, all benefits from short-term sales to other utilities are required by the PUC to be passed through to Duquesne's customers.

Cost of Fuel
Cents per MMBTU



Operation and Maintenance Expenses

Fuel expense decreased in 1989 and 1988 compared to the respective preceding years due to decreases in the cost per ton of coal, the effect of the increased use of lower cost nuclear fuel and adjustments for revenues received through the energy cost rate. Additionally, fuel expense decreased in 1989 compared to 1988 due to decreased generation. Other operation and maintenance expenses increased in 1989 and 1988 due to expenses related to Beaver Valley 2 and Perry 1, which were deferred through the first quarter of 1988. Additionally, maintenance expense increased in 1989 due to more scheduled outages of generating units, and other operation expenses increased in 1988 compared to 1987 due to increases in the generation of electricity and increases in general and administrative and marketing expenses.

Depreciation and Taxes

Depreciation and amortization increased in 1989 and 1988 primarily due to depreciation of Perry 1 and Beaver Valley 2 common and transmission facilities beginning in April 1988. Additionally, these costs increased in 1988 due to the amortization of Perry 2 costs which began in July 1987.

The increases in taxes other than income taxes in 1989 and 1988 were primarily due to increased Pennsylvania gross receipts taxes, which vary in direct relationship to revenues. The increases in income taxes in 1989 and 1988 were primarily due to increased taxable income. Income taxes also were affected by decreases in statutory income tax rates in both 1988 and 1987. The effective income tax rates for 1989, 1988 and 1987 were 37%, 31% and (9%), respectively.

Other Income and Deductions and Interest and Other Charges

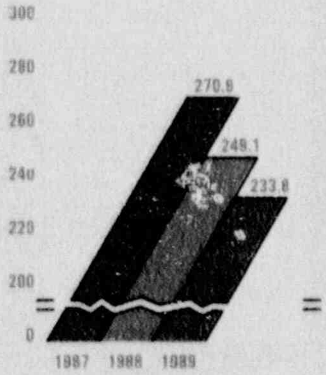
Allowance for funds used during construction (AFC) decreased significantly when construction of Beaver Valley 2 and Perry 1 was completed in late 1987. This decrease was partially offset by carrying charges applicable to those Units recorded through the first quarter of 1988 and included in other income. Additionally, other income decreased in 1989 compared to 1988 due to recording in the second quarter of 1989 the additional costs of the option order and cancelled generating units refunds which resulted from the settlement of the 1987 rate case. These decreases were offset substantially by increased carrying charges in 1989 on deferred revenues on the phased-in portion of the rate increase. See Note H. Interest income decreased in 1989 compared to 1988 and increased in 1988 compared to 1987 due to interest earned in 1988 on the proceeds from the sale of Beaver Valley 2. Interest and other charges decreased in 1989 and 1988 due to Duquesne's purchases of its high-cost first mortgage bonds and preferred and preference stocks beginning in October 1987. These purchases allowed the Company to reduce interest on long-term debt and dividends on preferred and preference stock to $161.4 million in 1989 from $183.6 million in 1987.

The adverse effects in 1987 of recording the losses on the cancelled generating units and on the sale of Beaver Valley 2 are discussed in Notes E and H.

Earnings Per Share of Common Stock

Earnings per share of common stock were affected by the decrease in the average number of shares outstanding resulting from the Company's repurchases of its common stock beginning in October 1987, which increased earnings per share by $.25 for 1989 compared to 1988 and by $.23 for 1988 compared to 1987.

Interest and Dividends
Millions of Dollars



Capital Resources and Liquidity

Construction

Construction expenditures during 1989, exclusive of AFC and nuclear fuel, were $88 million. These expenditures were made to improve and expand production, transmission and distribution systems. Construction expenditures decreased significantly with Duquesne's completion of its major construction program related to Perry 1 and Beaver Valley 2 when they went into commercial operation in 1987. Further, the Company currently has no plans for construction of additional generating plants.

The Company currently estimates that its construction expenditures, exclusive of AFC and nuclear fuel, will be approximately $100 million each year for 1990 through 1994. These amounts do not contain estimates for new environmental regulations, such as "acid rain" legislation; however, the Company believes that under current acid rain proposals there would be no additional construction expenditures required during the 1990 to 1994 period.

Financing

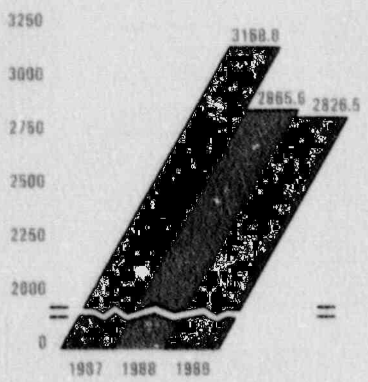
During 1989 the Company repurchased 2.5 million shares of common stock for $ 45.7 million and Duquesne repurchased 191,000 shares of preferred and preference stock for $18.6 million. Duquesne also spent $ 7.5 million to retire high-cost first mortgage bonds. These transactions reduced interest expense and dividend costs and increased the Company's financial flexibility. The Company's recapitalization program financed primarily by proceeds from the sale of Beaver Valley 2 was essentially completed in early 1989. The Company is continuing its efforts to reduce its capital costs by making additional purchases or refundings of its securities to the extent funds are available and the capital markets permit. However, future purchases of securities are not expected to occur at the level experienced during the 1987-1989 period. As a result, the substantial reduction in interest expense and preferred and preference stock dividends and the favorable effect on earnings per share described above under "Results of Operations" is not expected to continue

In June 1989 Duquesne completed the sale of $75 million of accounts receivable to an unaffiliated third party. An additional $15 million was sold in July 1989. The receivables sales agreement permits sales of up to $90 million. These sales provide Duquesne with enhanced liquidity and reduce working capital requirements. In the fourth quarter of 1989, Duquesne established a $225 million program for medium-term notes (which could be issued in the form of first mortgage bonds or unsecured notes), the proceeds of which would be used for further recapitalization efforts and general corporate purposes. In December 1989, $13.5 million of pollution control obligations were issued to finance Duquesne's share of the cost of certain Perry 1 facilities. There were no equity securities issued by the Company in 1989.

Duquesne finances its nuclear fuel requirements by leasing arrangements under which it may finance up to $185 million of nuclear fuel. As of December 31, 1989 Duquesne's costs of nuclear fuel financed under these arrangements was $138 million, including interest, storage and other costs.

In 1989 $17.8 million was required for maturities of long-term debt and sinking fund requirements. It is expected that $8.2 million will be required in 1990 for similar purposes.

Capitalization
Millions of Dollars



The Company anticipates that funds for planned construction expenditures in the next several years will be provided by cash flows from operations and, to a minimal extent, the issuance of additional securities. Any interim financing required will be through bank borrowings and sales of commercial paper.

Dividends may be paid on the common stock to the extent permitted by law and as declared by the Board of Directors. However, such dividends are affected by provisions in Duquesne's Restated Articles relating to payment of dividends to DQE. No dividends or distributions may be made on Duquesne's common stock if dividends or sinking fund obligations on Duquesne's preferred or preference stock are unpaid. Further, the aggregate amount of Duquesne's common stock payments is limited to certain percentages of net income and by the ratio of common stockholders' equity to total capitalization. No portion of Duquesne's retained earnings at December 31, 1989 was restricted.

Outlook

During 1989 results of operations began to reflect the full annual effect of the costs associated with Perry 1 and Beaver Valley 2 and of the March 1988 rate increase which is being phased in over a six-year period. Deferred revenues, representing the difference between the total rate increase granted by the PUC and the amounts currently being collected from customers, have been reflected in the income statement.

The Company has been exploring opportunities for long-term power sales to other utilities. On July 14, 1989 a contract was signed between Duquesne and Delmarva Power and Light Company involving the sale of 100 megawatts annually for a period of 20 years beginning in 1990. Other opportunities in energy-related businesses are currently being explored.

If, at any time in the future, the Company determines that recovery of investments not currently included in rate base or other deferred costs is not probable, the Company would recognize such unrecoverable amounts as a charge to earnings. See Note H for a description of such items. The Company currently expects that funds generated from operations will continue to be sufficient to meet its operating expenses, pay dividends and finance a large portion of its capital needs. The Company's need for funds and the availability of those generated from operations will be affected by the level of economic activity in the Company's service area, legislation, rate-related proceedings, changes in accounting principles and other matters experienced by it and the electric utility industry generally.

The electric utility industry is subject to inflationary pressures similar to those experienced by other industries. Because Duquesne's rates are regulated, any increases in its cost of service or construction costs will not be included in rates charged to customers until new rates can be implemented through a rate proceeding with the PUC. To the extent Duquesne incurs additional costs or receives benefits resulting from the effects of inflation, it is anticipated that those effects ultimately will be reflected in its rates.

Statement of Consolidated Income

Year Ended December 31, (Thousands of Dollars, Except Per Share Amounts)	1989	1988	1987
Operating Revenues:			
Customers:			
Current	$ 974,444	$ 883,725	$835,986
Deferred (Note H)	96,287	117,544	—
Other utilities	49,949	61,964	52,018
Total Operating Revenues	1,120,680	1,063,233	888,004
Operating Expenses:			
Fuel	210,299	224,900	238,039
Purchased power	6,856	5,688	5,594
Other operation	272,823	268,762	189,783
Maintenance	83,305	73,180	66,380
Depreciation and amortization	119,376	111,023	82,172
Taxes other than income taxes	92,919	80,833	67,442
Income taxes (Note F)	64,539	54,505	52,859
Total Operating Expenses	850,117	818,891	702,269
Operating Income	270,563	244,342	185,735
Other Income and Deductions:			
Allowance for equity funds used during construction	69	1,323	71,234
Carrying charges on assets not in rate base (Note H)	—	23,622	11,093
Loss on cancelled generating units (Note H)	—	—	(34,263)
Loss on sale of Beaver Valley 2 (Note E)	—	—	(23,828)
Rate refunds (including interest expense of $5,943, $1,180 and $1,854, respectively) (Note H)	(8,581)	(1,180)	(1,854)
Effects of application of SFAS 90 (Note B)	5,973	6,586	7,048
Income taxes (Note F)	(10,880)	(7,277)	65,034
Other-net	20,867	25,972	10,561
Total Other Income and Deductions	7,448	49,046	105,025
Income Before Interest and Other Charges	278,011	293,388	290,760
Interest and Other Charges:			
Interest on long-term debt	144,633	152,693	163,777
Other interest	6,386	4,977	4,566
Allowance for borrowed funds used during construction	(2,803)	(1,704)	(32,343)
Preferred and preference stock dividends of Duquesne Light Company (Note A)	16,793	18,856	19,788
Total Interest and Other Charges	165,009	174,822	155,788
Net Income	$ 113,002	$ 118,566	$134,972
Average Number of Common Shares Outstanding (000)	55,790	63,748	72,845
Earnings Per Share of Common Stock	$2.03	$1.86	$1.85
Dividends Declared Per Share of Common Stock	$1.30	$1.22	$1.20

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

As of December 31, (Thousands of Dollars)	1989	1988
Assets		
Property, Plant and Equipment:		
Electric plant in service	$3,575,638	$3,512,943
Construction work in progress	60,069	70,980
Property held under capital leases (Note E)	347,287	303,673
Property held for future use (Note H)	215,635	214,982
Total	4,198,629	4,102,578
Less accumulated depreciation and amortization	(1,143,590)	(1,036,656)
Property, Plant and Equipment—Net	3,055,039	3,065,922
Other Property and Investments (at cost)	15,809	26,796
Current Assets:		
Cash and temporary cash investments (at cost which approximates market)	97,159	45,557
Accounts receivable (Note C):		
Customers (less allowance for uncollectible accounts of $11,244 and $7,721, respectively)	23,306	96,640
Other	13,673	58,493
Materials and supplies (generally at average cost):		
Coal	28,100	25,088
Operating and construction	52,910	47,208
Other current assets	8,094	6,941
Total Current Assets	223,242	279,927
Deferred Debits:		
Extraordinary property loss (Note B)	97,181	107,453
Unamortized loss on reacquired debt (Note I)	55,176	58,015
Deferred coal costs (Note H)	6,030	12,768
Income taxes on sale of Beaver Valley 2 (Note E)	79,095	82,090
Deferred costs of units not in rate base (Note H)	51,149	51,127
Phase-in plan deferrals (Note H)	234,149	119,707
Other deferred debits	103,720	77,619
Total Deferred Debits	626,500	508,779
Total Assets	$3,920,590	$3,881,424

See Notes to Consolidated Financial Statements.

	1989	1988
Capitalization and Liabilities		
Capitalization (Note J):		
Common stock (authorized—125,000,000 shares, issued—73,119,446 shares)	$ 73,[illegible]9	$ 73,119
Capital surplus	928,[illegible]3	927,446
Retained earnings	334,459	293,854
Less treasury stock (at cost) (17,779,816 and 15,288,090 shares, respectively)	(269,431)	(223,844)
Total Common Stockholders' Equity	1,066,190	1,070,575
Non-redeemable preferred and preference stock	154,030	154,073
Redeemable preferred and preference stock	65,961	90,743
First mortgage bonds	1,181,013	1,187,903
Other long-term debt	365,268	368,694
Unamortized debt discount and premium—net	(5,952)	(6,366)
Total Capitalization	2,826,510	2,865,622
Obligations Under Capital Leases (Note E)	119,792	121,793
Current Liabilities:		
Long-term debt and lease obligations due within one year (Notes E and J)	48,527	39,852
Accounts payable	102,673	110,66[illegible]
Accrued income taxes	9,618	8,535
Deferred income taxes and other accrued taxes	37,830	26,257
Accrued interest	38,758	47,475
Dividends declared	26,966	23,810
Deferred energy costs	2,037	12,545
Sinking fund and purchase requirements (Note J)	19,170	19,170
Rate refunds due within one year	19,121	4,442
Total Current Liabilities	304,700	292,755
Other Noncurrent Liabilities:		
Investment tax credits unamortized	154,116	161,038
Accumulated deferred income taxes	463,926	400,710
Other deferred credits	51,546	39,506
Total Other Noncurrent Liabilities	669,588	601,254
Commitments and Contingencies (Notes B through K)		
Total Capitalization and Liabilities	$3,920,590	$3,881,424

Statement of Consolidated Cash Flows

Year Ended December 31, (Thousands of Dollars)	1989	1988	1987
Cash Flows From Operating Activities:			
Net income	$113,002	$118,566	$134,972
Principal non-cash charges (credits) to net income:			
Depreciation and amortization	150,389	154,042	114,002
Deferred income taxes and investment tax credits—net	56,294	44,560	69,866
Allowance for equity funds used during construction	(69)	(1,323)	(71,234)
Effects of application of SFAS 90	(5,973)	(6,586)	(7,048)
Phase-in plan deferred revenues	(114,442)	(119,707)	—
Loss on cancelled generating units	—	—	34,263
Loss on sale of Beaver Valley 2	—	—	23,828
Rate refunds (including accrued interest)	8,581	—	—
Carrying charges on assets not in rate base	—	(23,622)	(11,093)
Changes in working capital other than cash:			
Accounts receivable (Note C)	118,154	(8,003)	(19,630)
Materials and supplies	(8,714)	12,448	(8,605)
Other current assets	(1,153)	27,395	(569)
Accounts payable	(7,996)	3,629	9,523
Other current liabilities	(3,413)	1,522	29,626
Other—net	25,311	11,555	(15,160)
Net Cash Provided From Operating Activities	329,971	214,476	282,741
Cash Flows From Investing Activities:			
Construction expenditures	(88,169)	(93,253)	(187,302)
Sale of Beaver Valley 2	—	—	537,921
Income taxes on sale of Beaver Valley 2	—	—	(85,086)
Other—net	(3,519)	(4,039)	(1,925)
Net Cash Provided From (Used In) Investing Activities	(91,688)	(97,292)	263,608
Cash Flows From Financing Activities:			
Sale of bonds	13,500	71,000	100,000
Decrease in notes payable	—	—	(15,000)
Dividends on common stock	(72,397)	(77,571)	(87,296)
Reductions of long-term obligations	(73,512)	(276,464)	(43,853)
Rate refund payments	(10,873)	(3,192)	(47,636)
Repurchase of common stock	(45,707)	(189,096)	(34,858)
Premium on reacquired debt	(173)	(18,387)	(177)
Other—net	2,481	1,945	(212)
Net Cash Used In Financing Activities	(186,681)	(491,765)	(129,032)
Net increase (decrease) in cash and temporary cash investments	51,602	(374,581)	417,317
Cash and temporary cash investments at beginning of year	45,557	420,138	2,821
Cash and temporary cash investments at end of year	$ 97,159	$ 45,557	$420,138
Cash paid during the year for:			
Interest (net of amount capitalized)	$166,702	$132,913	$134,819
Income taxes	$ 28,157	$ 16,021	$ 36,211
Noncash investing and financing activities:			
Capital lease obligations recorded	$ 31,542	$ 14,811	$ 20,851

See Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Earnings

Year Ended December 31, (Thousands of Dollars)	1989	1988	1987
Balance, January 1	$293,854	$252,859	$205,183
Net Income For The Year	113,002	118,566	134,972
Total	406,856	371,425	340,155
Cash dividends declared—Common stock	72,397	77,571	87,296
Balance At End of Year	$334,459	$293,854	$252,859

Notes To Consolidated Financial Statements

A. Summary of Accounting Policies

Consolidation

The consolidated financial statements include the accounts of DQE, Duquesne and their wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in preparation of the consolidated financial statements. Financial statements for the periods prior to the formation of DQE have been restated to reflect the preferred and preference stock dividends of Duquesne as interest and other charges.

Property, Plant and Equipment

Properties are stated at the original cost of construction, including related payroll taxes, pensions and other fringe benefits, administrative and general costs and an allowance for funds used during construction (AFC). AFC, which represents the estimated combined debt and equity cost of funds used to finance construction, varies according to changes in the level of construction work in progress (CWIP) and in the cost of capital. AFC is credited to income, and while cash is not realized currently from this allowance, it is realized over the service life of the plant through increased revenues resulting from higher rate base and higher depreciation expense. The AFC rates applied to CWIP were 10.1%, 12.0% and 11.4% in 1989, 1988 and 1987, respectively.

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

Revenues

Customer meters are read and billed monthly. Revenues are recorded in the accounting periods in which they are billed. Deferred revenues representing the phased-in portion of the rate increase have been recorded in operating revenues. See Note H.

Depreciation

Depreciation of electric plant, except for coal properties, is provided on a straight-line basis over the estimated useful lives of property. Depreciation, amortization and depletion of other property are calculated on various bases, such as amount of nuclear fuel burned and tons of coal mined.

As permitted by the PUC, Duquesne recovers through rates its share of the estimated future decommissioning costs for three jointly owned nuclear units. These costs are estimated at $80 million for Beaver Valley 1, $23 million for Beaver Valley 2 and $38 million for Perry 1. Amounts collected from customers through rates are deposited in segregated accounts which can be used only for future decommissioning costs.

Income Taxes

Deferred income taxes are recorded principally for timing differences between depreciation for income tax purposes and depreciation for accounting purposes to the extent permitted by the PUC. Deferred taxes also are provided for expenses which are deferred for accounting purposes but are deducted currently for income tax purposes. These expenses include fuel, extraordinary property losses and losses on early retirement of debt. Deferred tax credits are recorded for certain rate refunds which are recognized currently as losses for accounting purposes but are deducted over the refund period for income tax purposes. Deferred taxes are also provided for the phase-in plan deferred revenues which are recognized as taxable income when billed to customers.

The deferred tax effects of certain other timing differences are not provided. They are recognized for book purposes, and in rates, in the year they affect taxes payable. These timing differences relate primarily to the difference between tax depreciation and book depreciation related to property placed in service prior to 1971. Based upon established PUC ratemaking practices, Duquesne believes that deferred taxes which have not been provided will be collected from its customers when the taxes become payable. As of December 31, 1989 the cumulative net amount of timing differences for which deferred income taxes have not been provided was approximately $257 million.

Duquesne allocates income taxes between operating expenses and other income principally with respect to interest charges related to CWIP. For certain property, Duquesne received investment tax credits which resulted in a reduction of federal income taxes payable. Investment tax credits generally are deferred when used and reflected as reductions to tax expense over the lives of the related assets.

In December 1987 the FASB issued SFAS No. 96, "Accounting for Income Taxes", which changes the method of accounting for income taxes. The Company must adopt the Statement by January 1, 1992. When the new standard is adopted, significant adjustments to balances of accumulated deferred income taxes will have to be made to record additional deferred income tax liabilities. Significant adjustments also will be recorded for the net reduction in previously recorded deferred income taxes resulting from income tax rate changes and for the recognition of deferred income tax effects related to unamortized investment tax credits. The Company has not yet determined the amounts of such adjustments. It is expected that the additional deferred income tax assets and liabilities will be offset primarily by regulatory assets and liabilities representing the expected future revenue requirement impact of these adjustments.

Deferred Fuel Costs

Duquesne recovers from customers fuel and other energy costs not otherwise recovered through base rates, through an annual energy cost rate (ECR). The ECR is based on projected costs and is recalculated each year. It includes an adjustment for any previous over or undercollections from customers. Duquesne defers the difference between actual energy costs and the amounts currently recovered from customers through the ECR and records the difference as payable to or receivable from customers.

Nuclear Fuel Costs

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

Cash Flows

For the purpose of the statement of cash flows, the Company considers all highly liquid investments which mature in three months or less to be cash equivalents.

B. Extraordinary Property Loss

In 1984 the CAPCO companies agreed to minimize construction work and cash expenditures on Perry 2 pending consideration of several alternatives, including resumption of construction or cancellation of the Unit. Duquesne believes that any decision to resume construction of the Unit must be approved by all of the CAPCO companies. Based on present conditions, Duquesne will not approve resuming construction. In 1987 Duquesne received approval from the PUC to amortize and recover its $155 million investment in Perry 2 over a ten-year period which began July 1, 1987, on the basis that Duquesne had abandoned its interest in the Unit in March 1986. Duquesne is not earning a return on the unrecovered cost of the Unit, which was $116 million at December 31, 1989.

In 1988 the Company changed its method of accounting for abandonments to conform with SFAS 90. The effect of adopting SFAS 90 was to decrease the reported cost of the Unit to the present value of the future revenues allowed to recover the investment in the plant, and to record a corresponding loss. Adoption of the Statement is increasing net income by decreasing amounts over the remainder of the recovery period. SFAS 90 represents a change in accounting for the financial impact of a plant abandonment. It does not affect cash flows or the actual cost recovery procedure authorized by the PUC. The difference in accounting is merely in the timing of the recognition of the economic effects of the transaction.

C. Sales of Receivables

In mid 1989 Duquesne completed the sale of $90 million of accounts receivable to an unaffiliated third party. The receivables sales agreement permits sales of up to $90 million.

As part of its ongoing sale of receivables, Duquesne currently has sold $77 million of customer receivables and $13 million of other receivables. The sales agreement includes a limited recourse obligation under which Duquesne could be required to repurchase certain of the receivables. The maximum amount for which Duquesne is contingently liable was $18.2 million at December 31, 1989.

D. Short-Term Borrowing and Revolving Credit Arrangements

Duquesne has a revolving credit agreement with a group of banks totaling $225 million available to November 30, 1992. Depending on the option selected by Duquesne at the time of each borrowing, interest rates fluctuate based on prime, federal funds, Eurodollar and CD rates. Duquesne pays a commitment fee of 1/8% per year based on the unborrowed amount of the commitment.

The maximum short-term bank and commercial paper borrowings outstanding during 1989 were $104.9 million, the average daily short-term borrowings outstanding were $15.6 million and the weighted average daily interest rate was 10%. There were no short-term borrowings in 1988. In 1987 the maximum short-term bank and commercial paper borrowings outstanding were $46.5 million, the average daily short-term borrowings outstanding were $15.4 million and the weighted average rate applicable to such borrowings was 7%.

E. Leases

Capital Leases: (Thousands of Dollars)	December 31, 1989	1988
Nuclear fuel	$311,367	$274,210
Electric plant	35,920	29,463
Total	347,287	303,673
Less accumulated amortization	179,868	153,179
Property held under capital leases--net	$167,419	$150,494

Leased nuclear fuel is amortized as the fuel is burned. The amortization of leased electric plant is based on the rental payments made. Amortization of leased property amounted to $29.4 million, $40.5 million and $27.6 million for 1989, 1988 and 1987, respectively.

Lease payments in 1989, 1988 and 1987 amounted to $104.6 million, $117.4 million and $59.9 million, respectively, of which $103.1 million, $111 million and $54.1 million were charged to operating expenses.

On October 2, 1987 Duquesne sold its 13.74% interest in Beaver Valley 2, exclusive of transmission and common facilities. The total sales price was $537.9 million, which was the appraised value of Duquesne's interest in the property. Simultaneous with the sale, Duquesne leased back its interest in the Unit for a term of 29½ years. The leases provide for semiannual payments and are accounted for as operating leases. Duquesne remains responsible under the terms of the leases for all operation, maintenance and decommissioning costs of the Unit.

Due to the difference between the Unit's cost at completion and its appraised value, Duquesne recorded a book loss of $23.8 million, or $.33 per share, in September 1987. Because AFC was not included in the tax basis of the Unit, the sale resulted in a taxable gain. Duquesne received permission from the PUC to recover the related taxes through rates over the term of the leases.

Future minimum lease payments for capital leases are related principally to building leases and the estimated usage of nuclear fuel financed through leasing arrangements. Minimum payments for operating leases are related principally to Beaver Valley 2 and the corporate headquarters. Future minimum lease payments at December 31, 1989 were as follows:

Year Ending December 31, (Thousands of Dollars)	*Operating Leases*	*Capital Leases*
1990	$ 65,027	$ 50,799
1991	63,942	37,475
1992	63,099	34,691
1993	62,143	23,792
1994	60,779	18,208
1995 and thereafter	1,422,265	47,742
Total minimum lease payments	$1,737,255	212,707
Less amount representing interest		45,288
Present value of net minimum lease payments		$167,419

F. Income Taxes

(Thousands of Dollars)	1989	1988	1987
Included in operating expenses:			
Currently payable: Federal	$ 5,639	$ (3,954)	$(23,929)
State	(1,144)	(899)	(1,053)
Deferred—net: Federal	62,269	61,661	60,911
State	2,535	2,667	1,434
Investment tax credits deferred-net	(4,760)	(4,970)	15,496
Total included in operating expenses	64,539	54,505	52,859
Included in other income and deductions:			
Currently payable: Federal	8,998	3,400	(25,655)
State	2,459	929	(5,966)
Deferred: Federal	(5)	2,742	(9,831)
State	(113)	626	(2,414)
Investment tax credits	(459)	(420)	(21,168)
Total included in other income and deductions	10,880	7,277	(65,034)
Total income tax expense (credit)	$75,419	$61,782	$(12,175)

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

Computed federal income tax at statutory rate	$69,773	$67,729	$ 56,963
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	(976)	(1,029)	(41,379)
Carrying charges on assets not in rate base	—	(8,032)	—
Excess of book over tax depreciation	7,329	4,201	(3,986)
State income taxes, net of federal income tax benefit	2,466	2,196	(4,804)
Amortization of deferred investment tax credits	(5,982)	(6,921)	(24,651)
Other—net	2,809	3,638	5,682
Total income tax expense (credit)	$75,419	$61,782	$(12,175)

Sources of income taxes deferred and the related tax effects were:			
Excess of accelerated over straight-line depreciation	$28,740	$28,336	$ 36,427
Deferred revenues recorded for book but not for tax purposes	43,298	45,367	—
Unbilled revenues recorded for tax but not for book purposes	(5,157)	(3,395)	(3,519)
Expensed on tax return and deferred on books:			
Nuclear plants maintenance outage costs	3,891	224	(593)
Property taxes	—	(4,104)	7,038
Expensed on books but not deducted for tax purposes:			
Loss on early retirement of bonds	(1,340)	6,976	(395)
Provision for bad debts	(4,290)	(1,426)	(107)
Perry Unit 1 test period costs	—	—	8,319
Fuel costs	(1,477)	675	(7,810)
Rate refunds (including interest)	2,895	1,998	23,196
Loss on cancelled generating units	—	(56)	(17,016)
Loss on abandonment of Perry 2	(2,041)	(1,912)	1,017
Other—net	167	(4,987)	3,543
Total income taxes deferred—net	$64,686	$67,696	$ 50,100

The Company's income tax returns are settled through 1983, and the returns for 1984 and 1985 have been examined. The returns for 1986 and 1987 are currently being reviewed, and the 1988 return is subject to review. The Company's management believes that the settlement of federal and state taxes will not have a material adverse effect on the Company's financial position or results of operations. Investment tax credits included in other income in 1987 relate principally to the sale and leaseback of Beaver Valley 2.

G. Employee Benefits

Duquesne has trusteed retirement plans to provide pensions for all full-time employees, except coal mine employees who are covered under a plan administered by the United Mine Workers of America (UMW). Upon retirement, employees receive a monthly pension based on length of service and compensation. The Company's policy is to expense and fund the pension cost determined using the unit credit actuarial cost method, provided that this amount is at least equal to the minimum funding requirements required by the Employee Retirement Income Security Act (ERISA) and does not exceed the maximum tax deductible amount for the year. Pension costs charged to expense or construction for 1989, 1988 and 1987 were $11.7 million, $12.5 million and $12.3 million, respectively. Costs related to the UMW plan were $1.2 million, $1.7 million and $3.1 million for 1989, 1988 and 1987, respectively.

The following sets forth the funded status of the plans and amounts recognized on the balance sheet at December 31, 1989 and 1988. Since the UMW plan is a multi-employer plan, information concerning such plan is not determinable by the Company and is not included in the information below.

(Thousands of Dollars)	1989	**1988**
Actuarial present value of benefits rendered to date:		
Vested benefits	$226,532	$204,906
Nonvested benefits	19,009	17,275
Accumulated benefit obligations based on compensation to date	245,541	222,181
Additional benefits based on estimated future salary levels	58,308	59,672
Projected benefit obligation	303,849	281,853
Fair market value of plan assets	322,065	266,014
Projected benefit obligation under (over) plan assets	$ 18,216	$ (15,839)
Unrecognized net gain	$ 66,156	$ 33,524
Unrecognized prior service cost	(18,888)	(19,407)
Unrecognized net transition liability	(26,538)	(28,349)
Net pension liability per balance sheet	(2,514)	(1,607)
Total	$ 18,216	$ (15,839)
Assumed rate of return on plan assets	7.75%	8.0%
Discount rate used to determine projected benefit obligation	7.75%	8.0%
Assumed change in compensation levels	5.75%	5.75%

Plan assets consist primarily of common stocks, United States obligations and corporate debt securities. Net pension cost for 1989, 1988 and 1987 was computed as follows:

(Thousands of Dollars)	1989	1988	1987
Service cost benefits earned during the year	$ 8,458	$ 8,212	$ 8,449
Interest on projected benefit obligation	21,700	20,782	18,645
Return on plan assets	(58,653)	(22,827)	(22,458)
Net amortization of deferrals	40,168	6,323	7,662
Net pension cost	$11,673	$12,490	$12,298

H. Rate Matters

1987 Rate Case

On March 23, 1988 the PUC adopted an order which increased annual revenues by approximately $232 million. The order reflects the PUC's allowance of a 12.87% return on equity and an overall rate of return of 10.94%. Although the new rates became effective on March 25, 1988, the PUC ordered the increase to be phased in over a period of six years. The deficiencies in revenues resulting from these scheduled rate increases are deferred and will be recovered by the end of the sixth year. The phase-in plan was designed to include a return equal to the after-tax AFC rate on any revenues deferred for later recovery. Deferred revenues and related carrying charges of $234.1 million were recorded through December 31, 1989. Several parties to the rate case, including Duquesne, had filed appeals primarily relating to a Perry 1 economic excess capacity penalty.

On July 20, 1989 the PUC approved a Comprehensive Settlement Agreement among Duquesne, the Pennsylvania Office of Consumer Advocate, the City of Pittsburgh and a number of commercial customers in Pittsburgh which had intervened in the 1987 Rate Case and other rate proceedings (Joint Petitioners). Under the terms of the Agreement Duquesne's base rate revenues were temporarily reduced by $25.4 million over a 12-month period which began September 1, 1989. The Agreement also settled and disposed of all proceedings pending between the Joint Petitioners before the PUC, the Pennsylvania Commonwealth Court and the Pennsylvania Supreme Court, including the 1987 Rate Case and proceedings relating to the cancelled CAPCO units' amortization and an option order refund.

Under the terms of the Agreement, Duquesne will not be permitted to obtain additional base rate relief (over and above the phase-in increases approved in the 1987 Rate Case) until January 1, 1993, unless any federal, state or local legislative body, judicial authority or administrative agency, including the PUC, (a) orders or enacts changes in any statutes, regulations, regulatory policies or interpretations thereof affecting Duquesne's base rates or (b) imposes new programs or procedures directly resulting in costs, savings, or changes in rate treatment, revenues or expenses, not provided for or at issue in the Agreement. Moreover, Duquesne can file for and, subject to PUC approval, obtain additional base rate relief effective January 1, 1992 or any time thereafter if the annual rate of inflation, as measured by the GNP Implicit Price Deflator, exceeds an annual percentage of 7% during any 12-month rolling period prior to the filing. The Agreement will have no effect on any claim which Duquesne or any other party may make in any future rate proceeding with respect to certain operating and other costs of Perry 1 and Beaver Valley 2 which were deferred in the 1987 Rate Case. The parties have taken the appropriate steps to discontinue the various appeals, thus finalizing the settlement.

Deferred Costs of Units Not in Rate Base

On July 16, 1987 the PUC approved Duquesne's petition to defer for possible recovery in a future rate proceeding, initial operating and other costs of Perry 1 and Beaver Valley 2. The costs deferred were incurred from November 1987 when the Units were placed in commercial operation until the March 25, 1988 decision of the PUC on the 1987 rate case. In the 1987 rate case the PUC deferred ruling on the recoverability of these costs. These costs, net of income tax and deferred fuel savings related to the two Units, totaled $48.3 million at December 31, 1989. No current return is being earned on the deferred costs.

On February 28, 1990 an Administrative Law Judge (ALJ) in a proceeding involving another Pennsylvania utility recommended disallowance of similar costs. The recommended decision is not binding on the PUC and a final PUC decision is expected by April 20, 1990.

Duquesne continues to believe that its deferred costs eventually will be recovered through rates. Should the PUC adopt the ALJ's recommended decision, the Company would reevaluate its position.

Deferred Coal Costs

Beginning in 1981, the PUC directed Duquesne to defer recovery of the cost of coal delivered to the Bruce Mansfield Plant (Mansfield coal) in excess of generally prevailing market prices for similar coal; however, amounts deferred may be recovered from customers during periods that the cost of Mansfield coal is less than generally prevailing market prices. The unrecovered cost of Mansfield coal paid by Duquesne was $6 million at December 31, 1989. The Company believes that the deferred coal costs ultimately will be recovered.

The PUC ordered a similar limit on the recovery of the cost of all coal delivered to Duquesne's wholly and jointly owned power stations other than the Mansfield Plant, including coal from Duquesne's wholly owned Warwick mine. All deferred costs related to the system wide coal cost standard have been recovered as of December 31, 1989.

The PUC excluded the Warwick mine from rate base in 1981. In June 1988, as a result of excess coal inventories, Duquesne temporarily idled the mine. Duquesne's net investment in the mine was $44.8 million at December 31, 1989. Duquesne believes that its interest in Warwick mine will be recovered.

In October 1989 Duquesne filed a petition with the PUC for revision of the system-wide coal cost standard. If approved, only coal obtained from the Warwick mine would be subject to a cost standard.

Property Held for Future Use

The PUC approved Duquesne's request to remove from service and place in "cold reserve" most of the Brunot Island and Phillips Power Stations. Duquesne's net investment in the cold-reserved units was $105 million at December 31, 1989. Duquesne believes that its investments in the cold-reserved units, which have been removed from rate base, eventually will be recovered.

Cancelled Generating Units

In 1980 the CAPCO companies cancelled construction of four nuclear generating units. The Company subsequently collected from customers $17 million of its $34.3 million investment under a PUC rate order permitting such recovery. In October 1987 the Pennsylvania Supreme Court found that the Pennsylvania Public Utility Code prohibited the recovery of the cancelled units' costs because the units never provided service to the Company's customers. On January 11, 1989 the United States Supreme Court upheld the October 1987 decision. The Company recorded a loss in September 1987 equal to its original investment in the units of $34.3 million. The refund of the $17 million previously collected from customers was resolved as a part of the 1987 rate case settlement agreement discussed above.

I. Commitments and Contingencies

Construction

The Company estimates that it will spend $500 million on construction, exclusive of nuclear fuel and AFC, during the period 1990 through 1994.

Guarantees

Duquesne, together with the other CAPCO companies, has guaranteed certain debt and lease obligations in connection with a coal supply contract for the Bruce Mansfield plant. At December 31, 1989 Duquesne's share of these guarantees was $50.6 million. In general, the prices paid for the coal by the CAPCO companies under the coal supply contract will be sufficient to satisfy the debt and lease obligations. Under the coal supply contract, the minimum future payments to be made by Duquesne which are related solely to these obligations are:

Year Ending December 31,	*(Thousands of Dollars)*
1990	$ 8,563
1991	8,336
1992	7,952
1993	7,567
1994	7,184
After 1994	30,254
Total	$69,856

Duquesne's total payments for coal purchased under the contract, including amounts related to the debt and lease obligations, were $30 million, $26.4 million and $25.8 million in 1989, 1988 and 1987, respectively.

Nuclear Insurance

The CAPCO companies maintain a nuclear insurance program to the maximum extent available. This program currently provides $1.06 billion of primary and excess property insurance and $975 million of decontamination liability and excess property insurance for the $5.8 billion total investments in Beaver Valley 1 and 2. The CAPCO companies have similar property insurance for the $5.3 billion total investment in Perry 1. If the property damage reserves of one of the insurers are inadequate to cover claims arising from an incident at any nuclear site in the United States covered by that insurer, Duquesne is obligated to pay retrospective premiums of up to $4 million per year.

Under the Price-Anderson Amendments to the Atomic Energy Act, the aggregate limit for public liability claims that could arise from a single nuclear incident is approximately $7.4 billion, subject to increases to reflect the effects of inflation and as additional nuclear reactors are licensed for operation. This potential liability would be covered by the maximum amount of liability insurance available from commercial insurance carriers (currently $200 million) and an amount provided by an industry retrospective assessment plan. Under the plan, if any unit in the United States had an incident with losses in excess of private insurance coverage, up to $63 million per incident could be levied against each licensed reactor in the country, but not more than $10 million per year for each reactor. Based on its present interest in three operating reactors, Duquesne's share of the maximum potential assessment under the retrospective program would be approximately $47 million per incident, limited to $7.5 million per year for each incident. An additional surcharge of 5% could be levied if the total amount of public claims exceeded the funds provided under the retrospective program. Duquesne's share of the surcharge would be approximately $2.3 million, subject to any increases for inflation. Congress could impose further revenue raising measures on the nuclear industry if funds prove insufficient to pay claims.

LTV Steel Company

Duquesne was involved in various regulatory and court proceedings with LTV Steel Company, Inc. (LTV), which filed for reorganization under Chapter 11 of the federal bankruptcy laws in 1986. On August 13, 1987 the federal bankruptcy court approved an agreement between LTV and Duquesne covering all items except the electric service contract at LTV's Midland works. Under the agreement, the amount of Duquesne's claim in bankruptcy for $9.7 million for past service and $35.8 million under a long-term electric service contract was reduced to a total of $30 million. This amount was further reduced to $26 million due to LTV's portion of a refund. The agreement also permitted Duquesne to offset against the amount of the claim LTV's share of certain other refunds due from Duquesne. Duquesne also filed identical claims of $56.9 million against both LTV Corporation and LTV Steel for guarantees under the electric service contracts at the Midland works. These claims have not yet been approved by the bankruptcy court. Recovery of all or part of the remaining $26 million approved claim and the $56.9 million claim, if approved, will depend upon the amount of funds ultimately available to pay all of LTV's unsecured creditors.

Other

The Company is involved in various other legal proceedings. The Company believes such proceedings in the aggregate will not have a material adverse effect on its financial position or results of operations.

J. Capitalization

Common Stock

The Company has paid a regular quarterly common stock dividend each year since 1953. Dividends for each quarter in 1987 and 1988 were 30 cents per share. The quarterly dividend was increased to 32 cents per share, effective with the dividend paid January 1, 1989 and was further increased to 34 cents per share effective with the dividend paid January 1, 1990.

In 1987 the Company's shareholders approved a Long-Term Incentive Plan through which the Company may grant management employees options to purchase up to a total of 3 million shares of its common stock during the period 1987-1997 at not less than the market price of the stock. As of December 31, 1989 active grants totaled 857,103; 191,000; and 10,000 shares, at exercise prices of $12.3125, $15.3125 and $18.125 per share, respectively. Stock appreciation rights (SARs) have been granted in connection with 857,103 of the options outstanding. During 1989 and 1988, respectively, 164,162 and 6,356 SARs were exercised and 5,680 and 13,491 options lapsed due to terminations.

Preferred and Preference Stock

The preferred stock is entitled to quarterly cumulative dividends. If four quarterly dividends on any series of preferred stock are in arrears, holders of the stock are entitled to elect a majority of the Board of Directors until all dividends have been paid.

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

The outstanding preferred and preference stock generally are callable on not less than 30 days' notice at the prices stated in the table on page 29, plus accrued dividends. Certain call prices decline in future years. The preferred and preference stock are subject to various purchase and sinking fund requirements. As of December 31, 1989 the maximum combined aggregate sinking fund and mandatory purchase requirements for preferred and preference stock is $6,430,000 for each of the next five years.

The following summary indicates the changes in the number of shares of common, preferred and preference stock outstanding during 1989, 1988 and 1987:

Year Ended December 31, (Thousands of Shares)	1989	1988	1987
Common Stock—$1 Par Value:			
Outstanding-beginning of year	57,831	70,096	73,119
Reissuance—treasury stock	10	—	9
Repurchase—common stock	(2,501)	(12,265)	(3,032)
Outstanding—end of year	55,340	57,831	70,096
Preferred and Preference Stock:			
Outstanding—beginning of year	4,903	5,069	5,183
Purchases and redemptions	(248)	(166)	(114)
Outstanding—end of year	4,655	4,903	5,069

Year Ended December 31, (Thousands of Dollars)	1989	1988	1987
Capital Surplus:			
Premium on common stock	$933,326	$933,326	$933,326
Capital stock expense	(7,156)	(7,497)	(7,561)
Other	1,873	1,617	366
Total capital surplus	$928,043	$927,446	$926,131

Preferred and Preference Stock:

Series	Call Price Per Share	December 31, 1989 (Thousands) Shares Outstanding	December 31, 1989 Amount	December 31, 1988 (Thousands) Shares Outstanding	December 31, 1988 Amount
Preferred stock (1):					
4% (3)(7)	$ 51.50	550	$ 27,486	550	$ 27,498
3.75% (3)(7)	51.00	148	7,400	148	7,400
4.15% (3)(7)	51.73	132	6,622	132	6,622
4.20% (3)(7)	51.71	100	5,000	100	5,000
4.10% (3)(7)	51.75	120	6,000	120	6,000
$2.10 (3)(7)	51.84	159	7,970	160	8,000
$7.20 (4)(7)	101.00	334	16,708	334	16,708
$8.64 (4)(6)	101.00	175	8,760	185	9,240
$8.375(4)(6)	104.69	146	7,304	240	12,000
Preference stock (2):					
$2.315(5)(7)	25.90	1,200	1,200	1,200	1,200
$2.10 (5)(7)	25.70	1,200	1,200	1,200	1,200
$7.50 (4)(6)	101.00	96	96	167	167
$9.125(4)(6)	104.32	294	294	367	367
Total			96,040		101,402
Paid-in capital			129,081		148,544
Purchase and sinking fund requirements			(5,130)		(5,130)
Total preferred and preference stock			$219,991		$244,816

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

Other Long-Term Debt: Pollution Control Obligations *(Thousands of Dollars):*

Year Issued	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	Principal Amount Outstanding at December 31, 1989	Principal Amount Outstanding at December 31, 1988
1972	5.49%	1983	2002	$ 20,200	$ 20,800
1973	5.685%	1984	2003	10,700	11,000
1973	5.755%	1984	2003	13,850	14,250
1974	7.97%	1989	2004	13,700	14,000
1975	7.50%	1993	2005	17,000	17,000
1975	8.40%	1991	2005	18,000	18,000
1976	6.90%	1994	2011	15,000	15,000
1981	12.00%	2002	2011	50,000	50,000
1983	10.50%	—	2013	20,500	20,500
1984	11.625%	—	2014	51,000	51,000
1985	7.75%	—	2015	44,250	44,250
1988	6.875%	—	2018	71,000	71,000
1989	6.65%	—	2023	13,500	—
Total				358,700	346,800
Less current maturities and sinking fund requirements				1,600	1,600
Total pollution control obligations				357,100	345,200
Nuclear fuel obligations				—	14,740
5% sinking fund debentures (authorized—$20,000,000) due March 1, 2010				8,168	8,754
Total other long-term debt				$365,268	$368,694

Notes (continued)

The pollution control obligations arise from the sale of bonds by public authorities to finance the construction of pollution control facilities at Duquesne's plants. Duquesne is obligated to pay the principal of and interest on the bonds. For certain of the pollution control obligations, there is an annual commitment fee for an irrevocable letter of credit. The letter of credit is available, under certain circumstances, for the payment of interest on or redemption of a portion of the bonds.

First Mortgage Bonds *(Thousands of Dollars)*:

Interest Rate	*Maturity*	*Principal Amount Outstanding at December 31,* 1989	1988
4¼%	3-1-89	$ —	$ 10,000
13⅜%	3-1-91	24,619	25,119
10¼%	12-1-92	74,250	75,000
10¾%	6-1-95	49,500	50,000
5⅛%	2-1-96	22,800	22,800
5¼%	2-1-97	24,600	24,600
6⅜%	2-1-98	34,700	34,700
7%	1-1-99	30,000	30,000
7¾%	7-1-99	28,947	28,947
8¾%	3-1-00	30,000	30,000
7⅞%	3-1-01	35,000	35,000
7½%	12-1-01	26,461	26,461
7½%	6-1-02	28,470	28,470
7¼%	1-1-03	32,670	32,670
7¾%	7-1-03	35,000	35,000
8⅜%	4-1-04	44,100	44,100
9½%	3-1-05	50,000	50,000
9%	6-1-06	80,000	80,000
8⅜%	4-1-07	97,400	97,400
10⅛%	2-1-09	99,000	100,000
16¼%	5-1-12	1,022	1,672
11⅛%	2-1-15	38,610	39,000
11⅜%	12-1-15	107,204	110,556
9½%	12-1-16	100,000	100,000
9%	2-1-17	100,000	100,000
Total		1,194,353	1,211,495
Less: Current maturities		—	10,252
Current sinking fund requirements		13,340	13,340
Total first mortgage bonds		$1,181,013	$1,187,903

During 1988 and 1989 Duquesne reacquired a total of $210.5 million of its first mortgage bonds. The difference between the purchase prices and the net carrying amounts of the bonds was $20.2 million and has been included in the balance sheet as "Unamortized loss on reacquired debt". Duquesne amortizes and recovers these losses through rates.

Sinking fund requirements and maturities for the next five years of long-term debt outstanding as of December 31, 1989 were as follows:

Year Ending December 31,	*Sinking Fund Requirements*	*Maturities*
1990	$14,208,000	$ 900,000
1991	13,890,000	26,169,000
1992	13,565,000	75,250,000
1993	14,115,000	1,000,000
1994	14,715,000	700,000

The sinking fund requirements relate primarily to the first mortgage bonds and may be satisfied by the certification of property additions equal to 166⅔% of the bonds required to be redeemed. During 1989, $5.0 million of the annual sinking fund requirement was satisfied by cash and $8.3 million by certification of property additions.

Total interest costs incurred during 1989, 1988 and 1987 were $172 million, $174.1 million and $184.3 million, respectively, of which $18 million, $41.9 million and $128.7 million, including AFC, were capitalized or deferred. Debt discount or premium and related expenses are amortized over the lives of the applicable issues.

Duquesne was involved in the issuance of $421.6 million of collateralized lease bonds, of which $420.2 million remains outstanding, by an unaffiliated corporation for the purpose of financing the lessors' purchases of Beaver Valley 2. Duquesne is also associated with a letter of credit securing the lessors' $116.3 million equity interest in the Unit and certain tax benefits. If certain specified events occur, the leases could terminate and the letter of credit and/or the bonds would become direct obligations of Duquesne.

K. Jointly Owned Generating Units

Duquesne, together with other electric utilities, has an ownership or leasehold interest in certain jointly owned units. Duquesne is required to pay its share of the construction and operating costs of the units. The operating expenses of the units are included in the income statement. Amounts included on the balance sheet at December 31, 1989 as property, plant and equipment include the following (thousands of dollars):

			Duquesne's Interest		
Unit	*Percentage Interest*	*Megawatts*	*Utility Plant in Service*	*Accumulated Depreciation*	*Construction Work in Progress*
Fort Martin 1	50.0	276	$ 62,687	$ 23,196	$ 995
CAPCO Units:					
Eastlake 5	31.2	186	68,994	19,642	1,045
Sammis 7	31.2	187	72,357	22,775	7,620
Bruce Mansfield 1	29.3	228	74,085	27,259	412
Bruce Mansfield 2	8.0	62	20,786	7,064	183
Bruce Mansfield 3	13.74	110	72,101	20,532	120
Bruce Mansfield Common and Shared Facilities			65,911	25,847	129
Beaver Valley 1	47.5	385	393,349	115,114	4,913
Beaver Valley 2	13.74	114	13,425	702	685
Beaver Valley Common Facilities			201,839	23,734	1,375
Perry 1	13.74	164	750,399	51,808	2,990
Total		1,712	$1,795,933	$337,673	$ 20,467

L. Quarterly Financial Information (Unaudited)

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

	First Quarter	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
1989				
Operating revenues	$270,028	$273,079	$301,055	$276,518
Operating income	66,697	64,816	80,964	58,036
Net income (1)	27,722	19,756	36,326	29,198
Earnings per share	.49	.36	.66	.52
Stock price:				
High	18⅛	20⅞	23½	23⅞
Low	17⅜	17½	20⅜	21⅜
1988				
Operating revenues	$216,521	$263,250	$306,279	$277,183
Operating income	37,732	60,378	81,275	64,957
Net income (1)	28,586	19,731	40,424	29,825
Earnings per share	.41	.31	.65	.49
Stock price:				
High	14¾	15⅛	15⅞	18⅞
Low	11¾	14⅜	14⅞	15¾

(1) Quarterly net income prior to the July 7, 1989 restructuring has been restated to reflect the preferred and preference stock dividends of Duquesne as interest and other charges in computing net income.

Selected Financial Data and Statistical Summary

(Thousands of Dollars, Except Per Share Amounts)	1989	1988	1987	1986	1985	1984
Income Statement Items:						
Total operating revenues	$1,120,680	$1,063,233	$ 888,004	$ 896,263	$ 918,460	$ 897,140
Operating income	$ 270,563	$ 244,342	$ 185,735	$ 189,515	$ 190,832	$ 185,734
Net income	$ 113,002	$ 118,566	$ 134,972	$ 110,329	$ 154,707	$ 134,839
Net income as % of operating revenues	10.1%	11.2%	15.2%	12.3%	16.8%	15.0%
Times interest charges earned before income taxes	2.31	2.25	1.84	1.75	2.62	2.69
Balance Sheet Items:						
Property, plant and equipment-net	$3,055,039	$3,065,922	$3,098,897	$3,490,599	$3,420,133	$3,139,754
Total assets	$3,920,590	$3,881,424	$4,151,615	$3,997,076	$3,854,468	$3,530,310
Capitalization:						
Common stockholders' equity	$1,066,190	$1,070,575	$1,217,361	$1,204,433	$1,169,831	$1,053,465
Non-redeemable preferred and preference stock	154,030	154,073	156,137	156,137	156,137	156,137
Redeemable preferred and preference stock	65,961	90,743	104,768	110,653	119,653	127,414
Long-term debt	1,540,329	1,550,231	1,690,600	1,613,787	1,549,468	1,416,736
Total capitalization	$2,826,510	$2,865,622	$3,168,866	$3,085,010	$2,995,089	$2,753,752
Capitalization Ratios:						
Common stockholders' equity	37.7%	37.4%	38.4%	39.0%	39.1%	38.3%
Preferred and preference stock	7.8	8.5	8.2	8.7	9.2	10.3
Long-term debt	54.5	54.1	53.4	52.3	51.7	51.4
Total capitalization	100.0	100.0	100.0	100.0	100.0	100.0
Common Stock Data:						
Shares outstanding (000):						
Year-end	55,340	57,831	70,096	73,119	71,488	64,775
Average	55,790	63,748	72,845	72,930	68,543	61,054
Earnings per share	$2.03	$1.86	$1.85	$1.51	$2.26	$2.21
Return on average common equity	10.6%	10.4%	11.1%	9.3%	13.9%	13.4%
Dividends paid per share	$1.28	$1.20	$1.20	$1.63	$2.06	$2.045
Dividend payout rate	63.1%	64.5%	64.9%	107.9%	91.2%	92.5%
Book value per share at year-end	$19.27	$18.51	$17.37	$16[illegible]7	$16.36	$16.26
Market price per share:						
High	23⅞	18⅞	14⅜	19⅜	17½	16⅛
Low	17⅜	11¾	10⅝	12¼	14¼	11½
Year-end	23⅞	18¾	11¾	12¼	16¼	15⅛
Market/book at year-end	1.24	1.01	.68	.74	.99	.93
Price earnings ratio at year-end (1)	11.8	10.1	6.4	8.1	7.2	6.8
Dividend yield at year-end (1)	5.7%	6.8%	10.2%	9.8%	12.7%	13.6%

(1) Based on year-end market price per share.

	1989	1988	1987	1986	1985	1984
Average Revenue Per Kilowatt-Hours— All Customers	8.187¢	7.473¢	7.517¢	8.032¢	7.832¢	7.389¢
Sales of Electricity:						
Average annual residential kilowatt-hour use	6,060	6,168	6,019	5,821	5,621	5,768
Electric energy sales billed (millions of kilowatt-hours):						
Residential	3,119	3,156	3,065	2,957	2,848	2,918
Commercial	5,145	5,055	4,899	4,724	4,537	4,393
Industrial	3,221	3,302	2,918	2,734	3,522	4,148
Other	84	91	98	99	101	104
Total sales to customers	11,569	11,604	10,980	10,514	11,008	11,563
Sales to other utilities	2,170	2,797	2,486	2,136	1,981	1,019
Total sales	13,739	14,401	13,466	12,650	12,989	12,582
Operating Revenues *(Thousands of Dollars):*						
Residential revenues	$ 346,142	$ 318,552	$299,562	$297,520	$286,260	$280,647
Commercial revenues	403,506	362,012	345,585	347,364	335,012	314,129
Industrial revenues	181,781	171,779	165,550	178,425	225,692	244,970
Other revenues	43,015	31,382	25,289	27,435	25,447	25,955
Current revenues from customers	974,444	883,725	835,986	850,744	872,411	865,701
Deferred customer revenues	96,287	117,544	—	—	—	—
Revenues from other utilities	49,949	61,964	52,018	45,519	46,049	31,439
Total operating revenues	$1,120,680	$1,063,233	$888,004	$896,263	$918,460	$897,140
Energy Supply and Production Data:						
Energy supply (millions of kilowatt-hours):						
Net generation-system plants	14,316	14,976	14,025	13,264	13,590	12,983
Purchased and net inadvertent power	284	257	258	194	184	216
Total energy supply	14,600	15,233	14,283	13,458	13,774	13,199
Losses and Company use	(861)	(832)	(817)	(808)	(785)	(617)
Net energy supply	13,739	14,401	13,466	12,650	12,989	12,582
Generating capability (thousands of kilowatts)	2,835	2,836	2,852	2,908	3,148	3,148
Peak load (thousands of kilowatts)	2,381	2,372	2,280	2,132	2,127	2,172
Cost of fuel per million BTU	143.867¢	145.738¢	150.991¢	165.340¢	168.450¢	165.868¢
BTU per kilowatt-hour generated	10,411	10,304	10,449	10,624	10,633	10,682
Average production cost per kilowatt-hour	2.732¢	2.578¢	2.328¢	2.545¢	2.462¢	2.559¢
Number of Customers-End of Year:						
Residential	516,801	513,760	510,823	509,054	507,824	506,883
Commercial	51,950	51,456	50,904	50,346	49,927	49,837
Industrial	2,023	2,017	1,978	1,970	1,981	1,990
Other	1,818	1,828	1,831	1,826	1,817	1,588
Total customers	572,592	569,061	565,536	563,196	561,549	560,298

Company Report on Financial Statements

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

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

Wesley W. von Schack   Gary L. Schwass

Wesley W. von Schack
Chairman of the Board, President and Chief Executive Officer

Gary L. Schwass
Vice President and Treasurer

Audit Committee Letter

The Audit Committee, composed entirely of non-employee directors, meets regularly with the independent public accountants and the internal auditors to discuss results of their audit work, their evaluation of the adequacy of the internal accounting controls and the quality of financial reporting.

In fulfilling its responsibilities in 1989, the Audit Committee recommended to the Board of Directors, subject to shareholder approval, the selection of the Company's independent public accountants. The Audit Committee reviewed the overall scope and specific plans of the independent public accountants' and internal auditors' respective audit plans, discussed the independent public accountants' management letter recommendations, and reviewed and approved the independent public accountants' general audit fees and non-audit services.

The committee meetings are designed to facilitate open communications with the internal auditors and the independent public accountants. To ensure auditor independence, both the independent public accountants and internal auditors have full and free access to the Audit Committee.

The Audit Committee of the Board of Directors

Report of Independent Certified Public Accountants

DELOITTE & TOUCHE
Certified Public Accountants
2400 One PPG Place
Pittsburgh, Pennsylvania 15222

To the Directors and Stockholders of DQE:
We have audited the consolidated balance sheet of DQE as of December 31, 1989 and 1988, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 DQE as of December 31, 1989 and 1988, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

Deloitte & Touche

Deloitte & Touche
January 31, 1990
(March 9 as to Note H)

Henry G. Allyn Jr.

John M. Arthur

Daniel Berg

Doreen E. Boyce

Robert P. Bozzone

John H. Demmler

Sigo Falk

William H. Knoell

G. Christian Lantzsch

Robert B. Pease

Eric W. Springer

- • Member of Audit Committee
- * Member of Compensation Committee
- * Member of Employment and Community Relations Committee
- • Member of Nominating Committee
- * Member of Nuclear Review Committee

DOE Board of Directors

Henry G. Allyn Jr.
Retired President and Chief Executive Officer,
The Pittsburgh and Lake Erie Railroad Company
Elected to the Board in 1981
• •

John M. Arthur
Retired Chairman of the Board,
Duquesne Light Company
Elected to the Board in 1967
• •

Daniel Berg
Institute Professor,
Rensselaer Polytechnic Institute
Elected to the Board in 1983
• •

Doreen E. Boyce
Chief Executive Officer and Director,
The Buhl Foundation
Elected to the Board in 1975
• •

Robert P. Bozzone
President and Chief Operating Officer
Allegheny Ludlum Corporation
Elected to the Board on Feb. 27, 1990

John H. Demmler
Partner, Reed, Smith, Shaw & McClay
Attorneys-at-Law
Elected to the Board in 1977
• •

Sigo Falk
Personal Investments
Elected to the Board in 1979
• •

William H. Knoell
Retired Chairman of the Board
and Chief Executive Officer,
Cyclops Industries, Inc.
Elected to the Board in 1980
• •

G. Christian Lantzsch
Retired Vice Chairman, Mellon Bank, N.A.,
and Retired Vice Chairman and Treasurer,
Mellon Bank Corporation
Elected to the Board in 1973
• •

Robert B. Pease
Executive Director,
Allegheny Conference on Community Development
Elected to the Board in 1989
•

Eric W. Springer
Partner, Horty, Springer and Mattern, P.C.
Attorneys-at-Law
Elected to the Board in 1977
• •

Wesley W. von Schack
Chairman of the Board,
President and Chief Executive Officer
Elected to the Board in 1986
• • •

Officers

DQE

Wesley W. von Schack
Chairman of the Board, President and Chief Executive Officer

David D. Marshall
Vice President

Gary L. Schwass
Vice President and Treasurer

Diane S. Eismont
Secretary

James D. Mitchell
Assistant Treasurer

Joan S. Senchyshyn
Assistant Secretary

Duquesne Light Company

Wesley W. von Schack
Chairman of the Board, President and Chief Executive Officer

John J. Carey
Executive Vice President, Operations

Roger D. Beck
Vice President, Marketing and Customer Services

Gary R. Brandenberger
Vice President, Power Supply

William J. DeLeo
Vice President, Corporate Planning and Management Information Services

Dianna L. Green
Vice President, Administrative Services

David D. Marshall
Vice President, Corporate Development

Gary L. Schwass
Vice President, Finance, Chief Financial Officer

John D. Sieber
Vice President, Nuclear

Edwyna G. Anderson
General Counsel

George E. Bentz
Assistant Vice President, Human Resources

Diane S. Eismont
Secretary

James O. Ellenberger
Controller

James D. Mitchell
Treasurer

Joan S. Senchyshyn
Assistant Secretary

Duquesne Enterprises

David D. Marshall
President

Allegheny Development Corporation

H. Donald Morine
President

Donald O. Messner
Vice President

Property Ventures, Ltd.

H. Donald Morine
President

Shareholder Reference Guide

Corporate Offices
DQE
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

Common Stock
Trading Symbol .... DQE

Stock Exchanges
Listed and Traded .... New York, Philadelphia

Number of Common Shareholders
of Record at Year End 97,000

Annual Meeting
Shareholders are cordially invited to attend our Annual Meeting of Shareholders at 10 a.m., local time, May 22, 1990, at the Tampa Bay Performing Arts Center in Tampa, Fla.

Dividends
The Board of Directors historically has declared quarterly dividends payable on or about the first day of January, April, July and October. The record dates for 1990 are expected to be March 12, June 11, Sept. 10 and Dec. 10.

Direct Deposit of Dividends
Your DQE quarterly dividend payments can be deposited automatically into a personal checking or savings account. Through this free shareholder service, your dividend income is available for immediate use on the payment date. Standing in bank lines is eliminated, as well as the fear of misplacing or losing your dividend check before you cash it. Call us toll free to receive more information.

Form 10-K Offer
If you hold or are a beneficial owner of our stock as of March 12, 1990, the record date for the 1990 Annual Meeting, we will send you, free upon request, a copy of DQE's Annual Report Form 10-K, filed with the Securities and Exchange Commission for 1989. All requests must be made in writing to:

Secretary
DQE
One Oxford Centre (17-6)
301 Grant Street
Pittsburgh, PA 15279

Shareholder Services / Assistance
Shareholder inquiries relating to dividends, missing stock certificates, dividend reinvestment, direct deposit, change of address notification, and other account information should be directed to:

Shareholder Relations Department
DQE
Box 68
Pittsburgh, PA 15230-0068.

You may call weekdays between 7:30 a.m. and 4:30 p.m., Eastern time. Please have your account number handy when calling. The telephone numbers are:

Pittsburgh area 393-6167
Toll-Free Pennsylvania 1-800-367-6400
Outside Pennsylvania 1-800-247-0400
(Within the continental United States).

Questions relating to re-registering stock can be answered by our Shareholder Relations Department, but to actually transfer stock, contact our transfer agent.

Mellon Securities Trust Company
Attention: Joseph Varca
Stock Transfer Department
Fort Lee Executive Park
One Executive Drive
Fort Lee, NJ 07024-3309
201-592-4053

Financial Community Inquiries
Analysts or brokers should direct their inquiries to 412-393-4133. Written inquiries should be sent to:

Assistant Treasurer
DQE
One Oxford Centre (28-3)
301 Grant Street
Pittsburgh, PA 15279.

Tax Status of Common Stock Dividends
The company estimates that portions of the common stock dividends paid in 1989 represent a return of capital and are not taxable as dividend income, as shown on the following chart.

Payment Date	*Taxable as Dividend Income*	*Not Taxable as Dividend Income (Return of Capital)*
Duquesne Light Company		
January 1	100.00%	0.00%
April 1	100.00%	0.00%
July 1	100.00%	0.00%
DQE		
October 1	71.73%	28.27%

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

DQE is an Equal Opportunity Employer.

DQE

One Oxford Centre

Pittsburgh, PA 15279