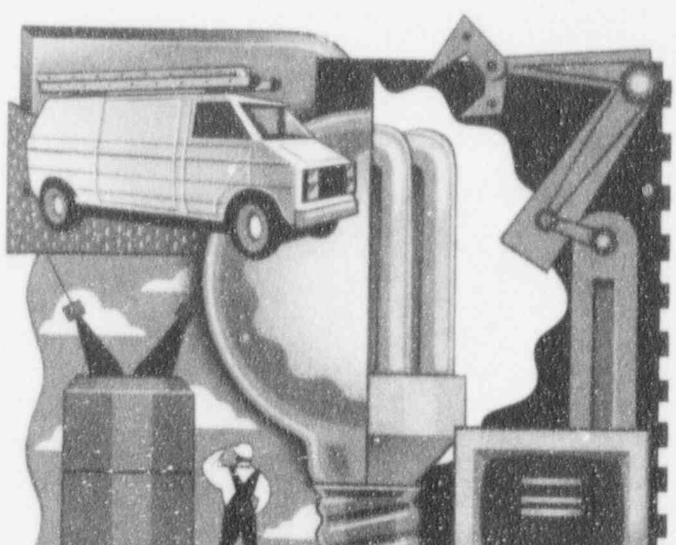
Energy

for

Change

DQE

1993 Annual Report
to Shareholders



DQE FINANCIAL AND OPERATING HIGHLIGHTS

	1993	Change From 1992	1992	Change From 1991	1991
Peak Load	2,499 MW	8.3%	2,308 MW	-3.9%	2,402 MW
Duquesne Customer Sales (millions)	11,851 KWH	2.4%	11,569 KWH	-2.5%	11,861 KWH
Operating Revenues (billions)	$1.196	0.2%	$1.194	-0.8%	$1.204
Net Income (millions)	$144.0	1.8%	$141.5	5.9%	$133.6
Year-End Shares Outstanding (millions)	53.0	—	53.0	0.2%	52.9
Return on Average Common Equity	12.0%	-3.2%	12.4%	1.6%	12.2%
Long-Term Debt (billions)	$1.417	0.3%	$1.413	-0.6%	$1.421
Interest – Long-Term Debt (millions)	$108.5	-12.1%	$123.4	-6.2%	$131.5
Preferred and Preference Dividends of Subsidiary (millions)	$9.2	-2.1%	$9.4	-13.0%	$10.8
Net Operating Cash Flow (millions) (A)	$383.1	-3.4%	$396.6	14.9%	$345.3
Capital Expenditures – Utility (millions)	$100.6	-10.5%	$112.4	-10.4%	$125.4

MW - a megawatt is a measure of electric use at a point in time.
KWH - a kilowatt hour is a kilowatt of electric usage over a period of hours.
(A) - Excludes working capital and other – net changes.

CONTENTS

DQE EARNINGS PER SHARE
(Dollars Per Share)

Earnings per share have increased seven straight years.

DQE ANNUALIZED DIVIDENDS PER SHARE
(Dollars Per Share)

Dividend growth has been in the top quartile of the industry.

1993 Results

- **Earnings per share were $2.72, an increase of 1.9% over 1992 and our seventh consecutive yearly increase.**
- **Sales to Duquesne's customers were up 2.4% in 1993. The company had a system peak demand of 2499 megawatts, our second highest ever.**
- **Residential sales grew 5.3% and commercial sales grew 2.5%, while industrial sales remained at 1992 levels.**

DQE is an energy services holding company nationally and regionally recognized for excellence, quality, integrity and value.

Duquesne Light Company, whose origin dates to 1880, is the principal subsidiary of DQE. Duquesne Light is engaged in the production, transmission, distribution and sale of electric energy. Its service territory is approximately 800 square miles in southwestern Pennsylvania, with a population of 1.5 million. In addition to serving almost 580,000 customers in Allegheny and Beaver counties, the company sells electricity to other utilities.

DQE's other subsidiaries include Duquesne Enterprises and Montauk. Duquesne Enterprises owns Allegheny Development Corporation and Property Ventures, Ltd., and has substantial equity interests in Chester Environmental, Inc. and International Power Machines. These companies are involved in initiatives related to the core business, including energy services, environmental services, power quality equipment, and real estate investment. Montauk makes both short and long term investments for the enterprise, and provides a source of capital for these other subsidiaries.

COMMON STOCK TRENDS

	1993	1992	1991	1990	1989	1988	Five-Year Compound Growth Rate
Earnings Per Share	**$2.72**	$2.67	$2.50	$2.24	$2.03	$1.86	7.9%
Dividends Paid Per Share	**$1.60**	$1.52	$1.44	$1.36	$1.28	$1.20	5.9%
Book Value at Year-End	**$23.21**	$22.12	$21.00	$20.07	$19.27	$18.51	4.6%
Market Price Per Share							
High	**$37**	$32⅜	$31	$25¼	$23⅞	$18⅞	14.4%
Low	**$31⅛**	$26⅞	$23⅜	$20⅜	$17⅜	$11¾	21.7%
Year-End	**$34½**	$32¼	$30⅝	$24⅞	$23⅞	$18¾	13.0%

To Our Shareholders

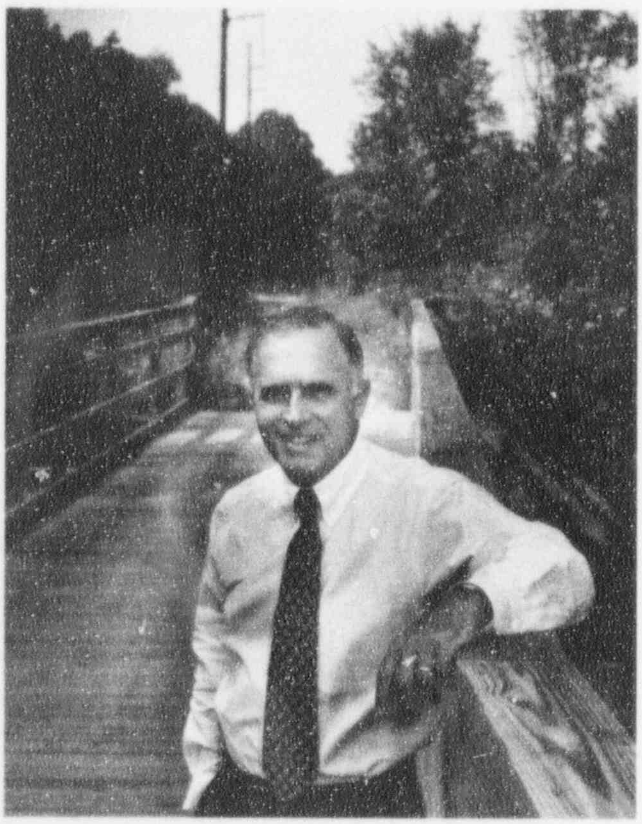
Throughout 1993, our DQE team kept its focus on three basic objectives: delivering a fair return to our shareholders; providing top quality service to our customers; and preparing for emerging changes in the electric utility industry. Our results continue to be good on all three fronts.

Net income for 1993 increased $2.5 million over that for 1992, and earnings per share rose from $2.67 in 1992 to $2.72. Since year end 1988, DQE's earnings per share have increased 46 percent. In November, the annual dividend was increased by 5 percent, to $1.68.

DQE possesses an abundance of energy resources that hold long term promise and opportunity as the market for power grows. A recent industry forecast projects annual growth of 2 percent in electric demand through 2010. To meet such demand, more than 210 gigawatts of additional generation will be required. Less than 20 percent of this additional capacity currently is under construction.

DQE has a total of 3,374 megawatts of environmentally clean generating capacity, of which only 2,834 megawatts currently are in service. This generation provides what we believe is an important long term competitive advantage and a benefit to our customers. For example, during the deep freeze of January 1994 when rolling blackouts disrupted the lives and businesses of millions of people in eastern and central Pennsylvania, New Jersey, Maryland, Delaware, Virginia and the District of Columbia, Duquesne Light fortunately did not have to institute voltage reductions or rolling blackouts.

Wesley W. von Schack at the scenic Montour biking and hiking trail, one of the company's many environmental partnerships (see page 8).



It was, therefore, ironic that our planned sale, to be initiated in January 1994, of 500 megawatts to General Public Utilities (GPU) did not take place. In December 1993, GPU abruptly cancelled its three-year-old agreement to purchase bulk power from Duquesne Light and to construct a jointly owned high voltage transmission line. Termination of the project resulted in a charge to DQE earnings of $15 million (16 cents per share).

As reported to you in last year's annual report, we expect much change in our industry because of the National Energy Policy Act of 1992. This legislation gives federal regulators broad power to mandate the transfer of wholesale bulk power over the nation's high voltage transmission systems. The net result will be increased competition in the electric utility industry.

Electric companies now have one foot in competition and one foot in regulation. Dealing with this dichotomy requires flexible and capable management. Our management team has demonstrated the ability to focus on building a market and customer driven company while at the same time remaining responsive to the requirements and obligations of state regulation. During the last eight years, you have been kept apprised of the excellent progress we've been able to make in positioning our company for the changes ahead.

One strategy continuously evident in all aspects of our business is to be prepared for the market based realities that the industry is experiencing. We are focused on constantly improving performance to lower the cost of production, and our least cost planning and innovative pricing policies reflect our commitment to deliver a competitive product to our customers. In fact, through our continued efforts, we are positioned to reduce average retail rates by approximately 8 percent, as of April 1994.

Also, the marginal cost for us to produce a kilowatt-hour of electricity is competitive. This low cost of production enabled us to sell more than 19 percent of our output to other electric utilities in the bulk power market in 1993.

"OUR FUNDAMENTAL STRATEGY IS TO BE RECOGNIZED FOR EXCELLENCE IN OUR OPERATIONS AND TO PROVIDE A HIGH LEVEL OF CUSTOMER SATISFACTION."

Our fundamental strategy is to be recognized for excellence in our operations and to provide a high level of customer satisfaction. Independent surveys and our own internal measurements indicate that customers are highly satisfied with the way we treat them and the quality of service. Our system reliability is among the top 25 percent in the nation. Duquesne Light customers experience fewer minutes of power interruptions each year than the customers of any other utility in Pennsylvania. Our customers are getting good value.

This commitment to customers was put to the test in 1993 when the "Blizzard of the Century" blanketed the eastern United States. A state-of-the-art automated distribution system pinpointed weather related damage to electrical equipment and allowed our operators to switch service circuits by computer so that customers affected by the blizzard were restored to service in quick order.

Environmental leadership remains a strong component of our overall strategy, and we are proud of maintaining the highest standards in this area of public interest.

All of our wholly owned fossil fuel units currently emit sulfur dioxide (SO_2) at a lower rate than federal standards for the year 2000. In 1993, we completed installation of low nitrogen oxide (NO_x) burners at our Cheswick station. We will need to invest only $35 million more to meet Phase I and Phase II SO_2 and NO_x Clean Air Act of 1990 requirements. Environmental leadership represents good value for shareholders. Utility companies that have not invested in the environmental quality of their operations over the years will see production costs increase as they catch up with our nation's new environmental standards.

For reasons that are both natural and man-made, the electric utility business will continue to be challenging. Our people are up to meeting these challenges. We are grateful for their leadership and contributions, and to you, our shareholders, for your continued confidence in DQE.

On behalf of the Board of Directors,

Wes Von Schack

Wesley W. von Schack
Chairman of the Board
and Chief Executive Officer
February 15, 1994

With passage of the National Energy Policy Act (NEPA) in 1992, we have no doubt that change — and increasing competition — will be constants in our industry. We know that to compete successfully in the new energy marketplace, we must concentrate on providing high levels of customer satisfaction, improving our performance, and reducing costs. Our longstanding corporate objectives, highlighted on the following pages, focus our people's energies on five key areas: shareholders, customers, employees, operations, and community. As we work to meet these all-important objectives, we continue to demonstrate that we have "energy for change."

Objective:
Manage company resources to maximize return on investment.

Customer Satisfaction

Our goal is to deliver customer value through a combination of top quality service and helping our customers increase their efficiency and reduce their overall operating costs.

Independent statistics show that Duquesne Light customers annually experience fewer minutes of power interruptions than the customers of any other utility in Pennsylvania. Thanks to advanced technology and good old-fashioned commitment to quality service, we were able to limit the effect on customers of extreme weather conditions in 1993 and early 1994, including two major winter blizzards; extended periods of hot, humid summer weather; and record-low winter temperatures.

When storms damage electric lines or equipment, our automated distribution system senses the trouble, identifies the problem area, and allows us to use remote control to reroute electricity almost instantly to all customers on the circuit except those in the immediate vicinity. And for those customers, some very determined troubleshooters are on the scene quickly to restore service — usually within an hour.

We strive to provide all of our customers with a high degree of service. Reliability tops the list. We also want to ensure that any interaction, from meter reading to billing to repair of storm-damaged electric circuits, is fast, reliable and accurate.

Monthly opinion surveys give our people high ratings for the way they handle customer concerns. That approval rating is significantly better than the national average, according to a national firm specializing in customer satisfaction measurements.

process not only reduces disposal costs, but also eliminates any potential future liability for untreated infectious waste.

Application of another innovative electrotechnology will help a local university reduce its air-conditioning costs as well as help level the overall customer peak demand on our system during periods of high temperature and humidity. Thermal storage technology will be showcased at Carnegie Mellon University's new research facility, currently under construction at a Pittsburgh-area advanced technology business park located on the site of a former steel mill. Ice-making to supply air-conditioning will occur during off-peak hours. The ice then will be stored for use as needed. This will enable us to achieve more efficient use of our generating capacity. It's another example of the "win-win" solutions we are developing with our customers

Objective:
Be a reliable, low-cost producer of electric energy and be recognized for excellence in our operating performance.

Performance Improvement

Previous annual reports have detailed our strong focus on cost control and performance improvement. Thanks to the initiative and commitment of our people, we continue to find ways to take costs out of our core business without sacrificing customer satisfaction, quality performance, safety, or our environmental commitment. By taking a fresh look at all facets of the way we do business, we are discovering additional measures to improve efficiency, including re-engineering work processes, taking advantage of new technologies, and eliminating less important activities.

Clearly defined performance and budget goals are at the heart of efforts to improve operations performance. We've also benefitted from changes relating to crew size, scheduling and increased work force flexibility. New analytical technology is helping reduce utility pole replacement costs. "Just-in-time" tree-trimming around power lines is improving productivity and system reliability. A new, state-of-the-art customer information and billing system increases our ability to store a wide range of information that helps us provide a quick, comprehensive response when customers call.

Benchmarking is a valuable source of information to improve operations performance, implement process improvements, and reduce costs. We benchmark against the best companies in the industry and leaders outside the industry. In addition to measuring performance, benchmarking provides opportunities to adapt to our operations best practices observed at other companies.

We want to be recognized as a low-cost producer of electric energy and known for excellence in operating performance. Clean, abundant, reasonably priced electricity will be a key competitive advantage as the market responds to NEPA. DQE already is a major supplier of reliable energy to markets outside southwestern Pennsylvania. Sales to other utilities totaled 2.8 billion kilowatt-hours in 1993,

Recyclable Report

The annual report you are reading now is an example of both our environmental and our cost-reduction commitments. Printed on recycled paper, it also is completely recyclable and was produced at a cost approximately 30 percent less than last year's report, and approximately 40 percent less than the 1991 report.

Duquesne Light's electric service is the most reliable in Pennsylvania. That is especially important when you consider the integral role of electricity in improving personal lifestyles and business efficiency.

Objective:
Deliver quality service and provide superior customer satisfaction in a way that differentiates us within the energy services marketplace.

We're increasing the satisfaction of mid- and large-sized commercial and industrial customers by introducing them to electrotechnologies that can improve the efficiency of their businesses while reducing their impact on the environment.

For example, in 1993 we worked closely with hospitals and individual dental and medical practices to introduce electrotechnologies that safely sterilize infectious medical waste. The U.S. Environmental Protection Agency estimates that American hospitals each year generate more than 375,000 tons of soiled bandages and other materials that can cause disease. Through use of these electrotechnologies, such material can be disinfected on-site. It then can be buried in standard landfills, eliminating higher-priced special handling. The

Knowing Our Customers

Duquesne Light's service territory is relatively compact — approximately 800 square miles. Yet the company's almost 580,000 customers hold a wide range of attitudes and preferences concerning their use of electricity and their relationship with the provider of that important service. By monitoring and analyzing that information, we are finding new and better ways to serve our customers.

We've studied various customer surveys and reviewed a wide range of typical interactions with customers, as well as usage patterns and payment histories. Analysis of this research has enabled us to break down the company's service territory into six specific demographic regions — each with its own particular characteristics. This enables us to target programs and services to customers who can best benefit from them.

We recently initiated a whole-house surge protection program for customers who want added protection from lightning and voltage surges for their computers, VCRs, stereos and other sensitive electric equipment. Our analysis helps pinpoint areas where this customer service will be most valuable. We use information from the analysis in a number of ways, from scheduling tree trimming most effectively to placement of cooperative heat pump advertising with local heating contractors.

Another key target audience is the more than 50,000 customers who move into new residences each year. Within three days of their arrival, one of our representatives delivers a welcome package that includes information about our services and coupons to local attractions and other money-saving offers. We also survey these new customers to learn how we can better serve them. For example, we know that many will be making decisions about adding or upgrading cooling and heating equipment. Response to the welcome program has been very favorable. This good first impression provides a solid customer satisfaction foundation to build on.

All of our customer satisfaction activities recognize that as competition increases, the importance of each interaction with each of our customers increases.

Our people recognize that their actions on and off the job affect the world around them. We're proud of our environmental performance — from maintaining clean power plants, to educating youth, to improving the habitat for wildlife.

Objective:
Recognize the value of the individual, encourage increased responsibility and accountability, and provide equal opportunity for personal growth and development.

more than 19 percent of our total sales. That underscores the importance of the wholesale market and our ability to provide it with competitively priced power.

Environmental Stewardship

Through the years, we have earned a reputation as an environmental leader within our industry. Opinion surveys show that environmental quality is a paramount concern to utility customers. Our commitment also provides a competitive advantage as other utilities begin to make investments necessary to comply with new environmental regulations.

We pioneered use of wet scrubber systems to help control power plant emissions. Our Pennsylvania coal-fired generating units are among the cleanest in the United States. We pioneered industrial use of fly ash in highway construction. Our Beaver Valley Power Station is an industry leader in minimizing the volume of low-level radioactive waste.

In 1993, we formalized our long-standing commitment by developing an environmental strategic plan, adopting a corporate environmental charter, and establishing an environmental stewardship program.

In a move we believe is unique to our industry, we have initiated an environmental training program for all Duquesne Light employees — not just those involved in power production and distribution. We want all of our people to be environmentally conscious, competent and responsible, both on and off the job.

Our approach to environmental protection goes beyond simply complying with environmental laws and regulations. We take pride in carrying our commitment into the communities we serve.

Education is a cornerstone of our stewardship activities. A wide variety of programs is helping area youths increase their environmental awareness. For example, a cooperative program with the Western Pennsylvania Conservancy, a regional conservation group, helps elementary through high school students increase their understanding of the environment and their roles in it.

Another very successful program enables grade school students to learn about and plant trees descended from those with historic importance. We received a special commendation from American Forests, the nation's oldest non-profit forestry organization, for the results of this program.

In a cooperative program with Allegheny County, our people helped collect approximately 170 tons of old appliances and a wide range of scrap metal — from hot water tanks and auto parts to metal sinks and paint cans. The material will be recycled for use as feedstock for new steel and metal products. We received commendations from the county and the Pennsylvania Legislature for our participation.

On the job, our people recycled more than 70 tons of paper in 1993, along with scrap metal from various company operations, oil from transformers, and wooden pallets. We also increased the use of environmentally compatible paints, non-hazardous solvents and parts cleaners, and are working with vendors to accept return of boxes, pallets and other packaging/shipping materials.

Our Brunot Island Wildlife Habitat enhancement project continues to demonstrate the ability of our power facilities to coexist with nature. Our participation in a "rails-to-trails" project along a transmission line righ*-of-way provides another example of this facet of our environmental commitr ent. We recently energizec' a new 7.3 mile power line near the new Pittsburgh International Airport. The line runs along an old railroad right-of-way that was developed as a segment of a hiking and biking trail. We worked closely with the Montour Trail Council to ensure our line blended in with the picturesque setting. The right-of-way was constructed using selective tree trimming and state-of-the-art erosion and sedimentation control. The 110 poles that carry the line along the right-of-way are made of a steel that will oxidize to an earthy brown over time. Through this cooperative effort, local residents can enjoy a new recreational facility and better electric service at the same time.

Objective:
Be a community leader in improving the quality of life in our service territory by being recognized as a premier economic development organization and by enhancing the overall value of the human and natural resources of the region.

We expect the community partnership aspect of ou ıvironmental charter to g .n additional momentum with the inaugural Three Rivers Environmental Awards in 1994. The goal of the awards, cosponsored by Duquesne Light and the Pennsylvania Environmental Council, is to honor organizations and individuals that have demonstrated a commitment to environmental excellence, leadership and accomplishment in business, education, community, government, communication, or design and development. We hope to encourage the community to emulate the achievements of the successful nominees, thereby promoting innovative environmental efforts and further enhancing the quality of life.

Another community outreach initiative planned for 1994 will help small and mid-sized businesses learn more about environmental regulations related to their businesses. With the Southwestern Pennsylvania Industrial Resource Center, we are cosponsoring the first of a series of seminars this spring that will link these important customers with regulatory and legal experts who can help them develop cost-effective strategies to meet their environmental obligations.

Chester Environmental Acquisition

In 1993, our Duquesne Enterprises subsidiary acquired a controlling interest in Chester Environmental, Inc., an engineering and consulting company that specializes in environmental matters.

We made this investment because Chester's experience and expertise relate closely to our core business. We believe the strong demand for environmental services will continue to grow in response to new regulations. Investment in Chester provides an opportunity to extend our environmental leadership.

Chester provides water quality, residual solid waste and air quality consulting and analytical laboratory services to industrial and government clients around the world. Two major contracts were signed in 1993 with steel companies in Taiwan and India.

Glossary of Terms

Following are explanations of certain financial and operating terms used in our report and unique in our core business.

Allowance for Funds Used During Construction (AFC)

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

Central Area Power Coordination Group (CAPCO)

These companies (Duquesne Light Company, Ohio Edison Company, Pennsylvania Power Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company) joined together as CAPCO in 1967 to jointly develop power generation and transmission facilities.

Construction Work In Progress (CWIP)

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

Deferred Energy Costs

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

Energy Cost Rate Adjustment Clause (ECR)

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

Federal Energy Regulatory Commission (FERC)

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

Kilowatt (KW)

A kilowatt is a unit of power or capacity. A kilowatt hour (KWH) is a unit of energy or kilowatts times the length of time the kilowatts are used. For example, a 100-watt bulb has a demand of .1 KW and, if burned continuously, will consume 1 KWH in ten hours. One thousand KWs is a megawatt (MW). One thousand KWHs is a megawatt hour (MWH).

Nuclear Decommissioning Costs

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

Peak Load

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

Pennsylvania Public Utility Commission (PUC)

The Pennsylvania governmental body that regulates all utilities (electric, gas, telephone, water, etc.) is made up of five members (one a chairman) appointed by the governor.

Regulatory Asset

Costs that Duquesne Light Company would otherwise have charged to expense are capitalized or deferred because these costs are currently being recovered or because it is probable that the PUC will allow recovery of these costs through rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Corporate Structure

DQE (the Company) is an energy services holding company. Its principal subsidiary, Duquesne Light Company (Duquesne), is an electric utility engaged in the production, transmission, distribution and sale of electric energy. During 1993, Duquesne's operations accounted for most of DQE's total assets, revenues and income.

While electric utility activities will continue to comprise most of DQE's business, the Company has taken important steps to develop its other subsidiaries: Duquesne Enterprises (DE) and Montauk. DE is involved in initiatives related to the core business; these include providing all the energy services for the Pittsburgh International Airport, providing environmental consulting and engineering services, and investing in real estate. Montauk makes both short- and long-term investments for the Company, and provides a source of capital for these other subsidiaries.

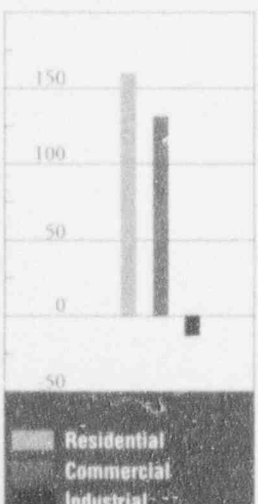
Results of Operations

Operating Revenues

Customer operating revenues result from Duquesne's sales of electricity to ultimate customers and are based on rates authorized by the Pennsylvania Public Utility Commission (PUC). These rates are designed to recover Duquesne's operating expenses and investment in utility assets and to provide a return on the investment. *Current* and *deferred customer revenues* resulted from a $232 million rate increase granted in early 1988. The PUC required Duquesne to phase in this increase during a six-year period. The phase-in plan provided that, with no impact on total reported customer revenues, rates would increase by approximately $85 million in April of each year from 1988 through 1991, remain constant in 1992 and 1993, and decrease by approximately $85 million in April 1994. The phase-in plan also provided for recovery of *deferred revenues* and carrying costs on such deferred revenues. The rate increase has been recognized in *operating revenues* since March 1988. A regulatory asset has been established for that portion of revenues yet to be collected from customers, and carrying charges on this deferred asset have been recognized as a component of *other income* in the Statement of Consolidated Income of DQE. Duquesne expects the remaining balance of this deferred asset to be recovered by April 1994, the end of the phase-in period.

Short-term sales to other utilities are made at market rates and are included, along with Duquesne's non-KWH revenues and revenues of DQE's other subsidiaries, in *other operating revenues* in the Statement of Consolidated Income of DQE.

Duquesne Customer Sales
1993 vs. 1992
(Millions of KWH)



Customer sales were higher due to warmer than normal summer weather.

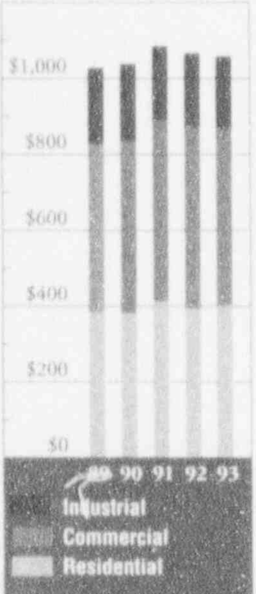
Components of the Change in Operating Revenues from the Prior Year

	1993	1992	1991
	(Amounts in Millions of Dollars)		
Customer Operating Revenues:			
Revenues from sales of electricity to ultimate customers	**$26.9**	$(37.3)	$21.6
Energy Cost Rate Adjustment Clause (ECR) revenues	**(27.0)**	4.8	15.1
State tax adjustment surcharge revenues	**(7.7)**	12.0	11.1
Total Customer Operating Revenues	**(7.8)**	(20.5)	47.8
Other Operating Revenues:			
Revenues from other utilities	**(21.8)**	13.5	13.8
Other revenues	**31.0**	(2.6)	9.1
Total Other Operating Revenues	**9.2**	10.9	22.9
Total	**$ 1.4**	$(9.6)	$70.7

Revenues from sales of electricity to ultimate customers were favorably impacted in 1993 and 1991 by warmer than normal summer temperatures. Mild summer weather in 1992 had the opposite effect on residential and commercial customer sales.

ECR revenues are Duquesne's recovery of fuel and other energy costs not otherwise recovered from customers through base rates. The ECR is based on projected unit costs, is recalculated each year, and is subject to PUC review. This revenue adjustment includes a credit to

Duquesne Customer Revenues
(Millions of Dollars)



Revenue mix remains balanced.

Duquesne's customers for profits from short-term power sales to other utilities, as well as an adjustment for any over- or under-collections from customers that may have occurred in prior years. The 1993 ECR reduced customer costs from 1992 levels and will continue to reduce revenues through the first quarter of 1994 by a greater amount than in the prior year. From April 1994 through March 1995, the ECR is expected to reduce revenues by a lesser amount than in the prior year. This ECR treatment is intended to have no impact on net income.

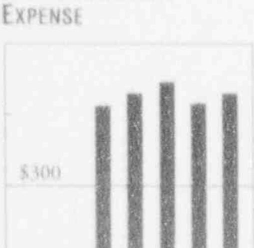
State tax adjustment surcharge revenues result from the August 1991 tax increases enacted by the Pennsylvania legislature. Most of these increases were retroactive to January 1, 1991. The PUC allowed Duquesne to recover these increases in tax expense by applying, as of August 24, 1991, an adjustment to customers' bills. Because of the timing of the increase and the rates applied, Duquesne recovered more state tax adjustment surcharge revenues in 1992 than in 1993 or 1991. This tax recovery is expected, as of April 1994, to become part of base rates. This tax recovery treatment is intended to have no impact on net income.

Revenues from other utilities declined in 1993, from the record level of 1992, because higher system demand and more planned and forced generating station outages in 1993 decreased Duquesne's capacity available for off-system sales. The increase, from 1991 to 1992, in these short-term sales to other utilities resulted from greater availability of transmission and generating capacity, increased demand by other utilities for energy and Duquesne's marketing efforts.

Other revenues include revenues of DE and Montauk, as well as Duquesne's rental income and billings to other companies in the CAPCO group. Revenues of DE increased approximately $23 million in 1993; the increase was partially due to the acquisition of a controlling interest in Chester Environmental, Inc. (See Note A to the consolidated financial statements.) and higher sales to the Pittsburgh International Airport. Primarily as a result of increased leasing activities and other tax advantaged investments, Montauk revenues increased approximately $8 million.

Operating Expenses

Duquesne Other Operating and Maintenance Expense



Reflects ongoing cost-control efforts. (Excludes one-time lease termination charge.)

Yearly fluctuations in *fuel and purchased power* expense result from changes in the cost of fuel, the mix between coal and nuclear generation, the total KWHs generated and the effects of deferred energy costs. In 1993, the impact of the ECR on deferred energy costs decreased fuel expense, in comparison to that for 1992. Also contributing to the decline in fuel expense was a 6 percent decrease in generation that was primarily due to more planned and forced generating plant outages in 1993. Fuel expense for 1992 was greater than that for 1991 because of increased generation of electricity for sale to other utilities; however, the greater fuel expense was partially offset in 1992 by lower coal and nuclear fuel costs per KWH. In 1994, nuclear fuel costs are expected to continue to decline, and coal costs are expected to remain near the 1993 level.

Other operating expenses were higher in 1993 than 1992. In 1993, Duquesne finalized plans to sublease the majority of its office space at corporate headquarters; relocation of its principal business offices is anticipated in 1994. A charge of approximately $13 million was recorded as an operating expense to reflect the shortfall in anticipated sublease revenues from the rental payments related to space leased through January 2003, the date the leasing arrangements expire. Additionally, operating expenses at DE increased approximately $17 million in 1993 as a reflection of the acquisition of a controlling interest in Chester Environmental, Inc. (See Note A to the consolidated financial statements.) Included in 1991 *operating expenses* was an increase, caused by the deterioration of Duquesne's past due customer accounts and increased collection costs, of $11.9 million in the allowance for uncollectible accounts receivable.

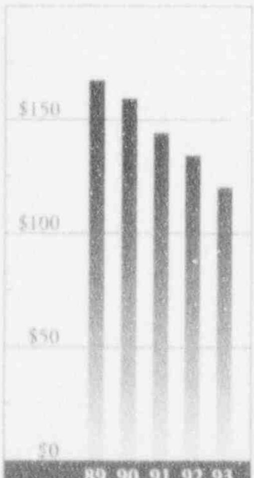
Maintenance expense incurred for scheduled refueling outages at Duquesne's nuclear units is deferred and amortized over the period between scheduled outages. During 1993, amortization of deferred nuclear refueling outage expense increased approximately $3.5 million over the 1992 level. Also increasing *maintenance expense* in 1993 was Duquesne's change, as of January 1, 1993, in its method of accounting for maintenance costs during major fossil station outages. Prior to 1993, maintenance costs incurred for scheduled major outages at fossil stations were charged to expense as the costs were incurred. Under the new accounting policy, Duquesne accrues, over the period between outages, anticipated expenses for scheduled major fossil station outages. (Maintenance costs incurred for non-major scheduled outages and for forced outages continue to be charged to expense as the costs are incurred.) This new method was adopted to match more accurately the maintenance costs with the revenue produced during the periods between scheduled major fossil outages.

Depreciation and amortization expense increased in 1993 by comparison with that for 1992 and 1991. The increase was primarily a result of an increase in depreciable property.

Taxes other than income taxes decreased in 1993, primarily as a result of a favorable resolution of property tax assessments. In 1993, Duquesne recorded, on the basis of this revised assessment, the expected refunds of these overpayments in prior years. By comparison with those for 1991, *taxes other than income taxes* decreased in 1992 as the result of favorable resolution of capital stock tax, gross receipts tax and sales tax matters.

Income taxes increased in 1993 as a result of an increase in taxable income and a 1 percent increase in the corporate federal income tax rate.

DQE Interest Expense and Other Charges
(Millions of Dollars)



Financial restructuring has reduced interest expense by more than 30% over the last 5 years.

Other Income and Deductions

During the fourth quarter of 1993, Duquesne recognized a charge to *other income* of approximately $15.2 million for its investment in the abandoned General Public Utilities (GPU) transmission line project. On December 8, 1993, the New Jersey Board of Regulatory Commissioners (BRC) denied a request by GPU's subsidiary Jersey Central Power and Light Company for approval of long-term power purchase and operating agreements that were originally signed in 1990 by GPU and Duquesne and further amended in 1993. The BRC rejected an administrative law judge's recommended decision that the project be approved and, within hours of the BRC decision, GPU terminated its participation in the project. In view of GPU's decision, Duquesne also terminated its participation in the project and the PUC transmission line siting proceeding.

Other income also decreased in 1993, in comparison with that for 1992, as a result of a decrease of approximately $13 million in *carrying charges on deferred revenues*. During 1993, the deferred revenue balance upon which carrying charges are earned declined in comparison with that for 1992 and since April 1993, Duquesne has not recorded additional *carrying charges on deferred revenues*. (See the discussion of the phase-in plan under the section on *operating revenues*.)

Income taxes related to *other income* decreased $15 million in 1993, in comparison with those for 1992, because of a favorable settlement (related to Duquesne's 1988 tax return and the consolidated 1989 tax return) with the United States Internal Revenue Service. The remaining decrease in 1993 was caused by lower non-operating income.

Other income for 1992 increased, in comparison with that for 1991, primarily as the result of an increase of $3.5 million in interest income and a decrease of $3.7 million in fees related to Duquesne's sale of receivables. *Other income* for 1991 included a $5.3 million regulatory accounting reclassification that decreased *other income*, reduced depreciation expense and had no impact on *net income*.

Interest and Other Charges

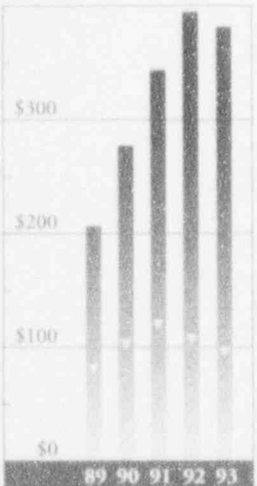
Duquesne achieved reductions in *interest and other charges* in 1993 and 1992 through refinancing first mortgage bonds and through obtaining lower average short-term rates on certain tax exempt pollution control notes. Duquesne also retired $24.2 million of preferred and preference stock during 1992. Interest expense and dividends on preferred and preference stock declined to $121 million in 1993 from $135 million in 1992 and $145 million in 1991. Interest expense and preferred stock dividends are expected to decline in 1994 by approximately $9 million from the 1993 level.

Capital Resources and Liquidity

Construction

During 1993, Duquesne spent approximately $100 million for construction. Duquesne expended these amounts to improve and expand its production, transmission and distribution systems. Duquesne estimates that it will spend approximately $110 million for construction in 1994. Construction expenditures are estimated to be $70 million in 1995 and $80 million in 1996. These amounts exclude AFC, nuclear fuel and expenditures for possible early replacement of steam generators at the Beaver Valley Power Station. (See Note K to the consolidated financial statements.) Duquesne currently has no plans for construction of new base load generating plants and expects that funds generated from operations will continue to be sufficient to finance a large part of its capital needs.

DQE Net Cash Flow from Operations
(Millions of Dollars)



▼ Capital Expenditures—Utility

Cash flow remains strong. (Excludes working capital and other—net changes.)

Investing

Through DE and Montauk, DQE's investments are focused in four principal areas: energy, environmental services, leasing and tax-advantaged investments. After achieving a modest profit of $.02 per DQE share in 1992, these subsidiaries contributed $.13 per share to the Company's 1993 earnings. During 1993, the level of investing activities increased in comparison with that for 1992. On August 17, 1993, DE acquired a controlling interest in Chester Environmental, Inc. for approximately $12 million. Chester provides total environmental consulting and engineering services to a wide range of clients. During 1993, DE also made real estate investments totaling approximately $22 million. Previous DE investments included Allegheny Development Corporation (which provides all energy services for the Pittsburgh International Airport) and International Power Machines (which manufactures products and systems designed to provide non-interruptible electric power). During 1993, Montauk invested approximately $44 million in leases and other tax-advantaged investments. The lease rentals in these transactions are guaranteed by the lessee's parents or affiliates.

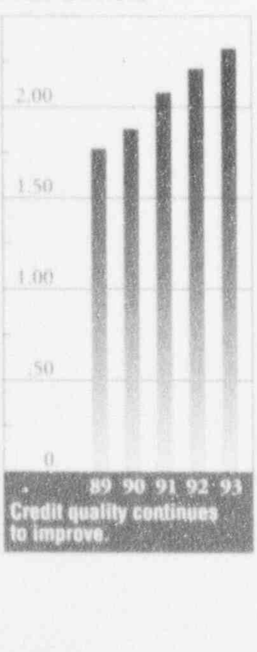
Financing

The Company plans to meet its current obligations and debt maturities through 1998 with funds generated from operations and through new financings. At December 31, 1993, the Company was in compliance with all of its debt covenants.

Duquesne continues to reduce capital costs by refinancing and retiring securities. During 1993, Duquesne issued $695 million of first collateral trust bonds with maturities ranging from the year 1996 through the year 2025 and with an average interest rate of 6.58 percent. The proceeds of these sales were used to redeem $713.7 million of first mortgage bonds with an average interest rate of 8.16 percent.

In June 1993, Duquesne participated in the issuance of $25 million of Beaver County Industrial Development Authority Pollution Control Revenue Bonds. In August 1993, Duquesne participated in the issuance of $20.5 million of Ohio Air Quality Development Authority Pollution Control Revenue Refunding Bonds to refund a like amount of pollution control obligations.

DQE Ratio of Earnings to Fixed Charges



Credit quality continues to improve.

In August 1993, Montauk entered into a revolving credit agreement with a group of banks. Under this agreement, Montauk can borrow, on a revolving basis, up to $50 million for working capital and other general corporate purposes. If the agreement is not extended at the end of its 364-day commitment period, Montauk can convert any outstanding borrowings into a two-year, amortizing term loan. At December 31, 1993, Montauk had borrowed $25 million under this agreement.

On January 14, 1994, Duquesne redeemed all of its outstanding shares of $2.10 preference stock and $7.50 preference stock for approximately $38 million.

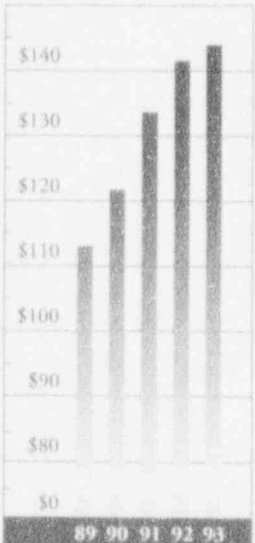
In 1992, Duquesne refinanced $312.9 million and retired $82.1 million of long-term debt.

Duquesne established, as of January 1, 1992, an Employee Stock Ownership Plan (ESOP) to fund a match of a portion of employee contributions for a 401(k) plan. Duquesne may purchase shares of DQE common stock from DQE or on the open market to satisfy the exchange feature of its Preference Stock, Plan Series A. The Company expects the ESOP to have minimal dilutive impact on earnings per share.

Sale of Accounts Receivable

In 1989, Duquesne and an unaffiliated corporation entered into an agreement that entitled Duquesne to sell and the corporation to purchase, on an ongoing basis, up to $100 million of accounts receivable. At December 31, 1993, Duquesne had sold $9 million of receivables. The accounts receivable sales agreement, which expires in June 1994, is one of many sources of funds available to Duquesne. Duquesne is currently evaluating whether to seek an extension of the agreement.

DQE Net Income
(Millions of Dollars)



Net income increased 2% in 1993.

Nuclear Fuel Leasing

Duquesne finances its acquisitions of nuclear fuel through a leasing arrangement under which it may finance up to $75 million of nuclear fuel. As of December 31, 1993, the amount of nuclear fuel financed by Duquesne under this arrangement totaled approximately $65 million. Duquesne plans to continue leasing nuclear fuel to fulfill its requirements at least through 1995, the remaining term of the current leasing arrangement.

Dividends

The Company or its predecessor, Duquesne, has continuously paid dividends on common stock since 1953. The quarterly dividends paid have increased by an average annual rate of 5.9 percent over the past five years, even though the Company has maintained a more conservative payout ratio than the industry in general. The Company expects that funds generated from operations will continue to be sufficient to meet sinking fund and long-term debt maturities and to pay dividends. The Company's need for funds and the availability of those generated from operations will be affected by the level of economic activity in Duquesne's service area and by legislation, rate-related proceedings, competition and environmental and other matters experienced by the Company and the electric utility industry generally.

Dividends may be paid on DQE common stock to the extent permitted by law and as declared by the board of directors. However, in Duquesne's *Restated Articles* of incorporation, provisions relating to preferred and preference stock may restrict the payment of Duquesne's common dividends. No dividends or distributions may be made on Duquesne's common stock if Duquesne has not paid dividends or sinking fund obligations on its preferred or preference stock. Further, the aggregate amount of Duquesne's common stock dividend payments or distributions may not exceed certain percentages of net income if the ratio of common stockholders' equity to total capitalization is less than specified percentages. As all of Duquesne's common stock is owned by DQE, to the extent that Duquesne cannot pay common dividends, DQE may not be able to pay dividends to its common shareholders. No part of the retained earnings of DQE or any of its subsidiaries was restricted at December 31, 1993.

Outlook

Competition

Duquesne, like the electric utility industry in general, faces increasing competition. The Company is continuing to assess the impact of these competitive forces on its future operations. The National Energy Policy Act of 1992 (energy act) was designed, among other things, to foster competition. Among other provisions, the energy act amends the Public Utility Holding Company Act of 1935 (1935 act) and the Federal Power Act. Amendments to the 1935 act create a new class of independent power producers known as Exempt Wholesale Generators (EWGs), which are exempt from the corporate structure regulations of the 1935 act. EWGs, which may include independent power producers as well as affiliates of electric utilities, do not require Securities and Exchange Commission approval or regulation. At the current time, the Company has not made any investment, and has no plans to make any investment, in EWGs. Amendments to the Federal Power Act create the potential for utilities and other power producers to gain increased access to transmission systems of other utilities to facilitate sales to other utilities. The amendments would permit the Federal Energy Regulatory Commission (FERC) to order utilities to transmit power over their lines for use by other suppliers and to enlarge or construct additional transmission capacity to provide these services. The FERC may not, however, issue any order that would unreasonably impair the continuing reliability of affected electric systems. Finally, brokers and marketers, without owning or operating any generation or transmission facilities, have also entered into the business of buying and selling electric capacity and energy.

Industrial and large commercial customers may have the ability to own and operate facilities to generate their own electric energy requirements and, if such facilities are qualifying facilities, to require the displaced electric utility to purchase the output of such facilities. Customers may also have the option of substituting fuels, such as the use of natural gas, oil or wood for heating and/or cooling purposes rather than electric energy or of relocating their facilities to a lower cost environment.

In addition, increased competition may also result from the 1990 Amendments to the Clean Air Act. Such amendments exempt from sulfur dioxide (SO_2) and oxides of nitrogen (NO_x) control requirements existing units with less than 25 MWs of generating capability, and new or existing co-generation units supplying less than one-third of their electric output and less than 25 MWs for commercial sale.

Generating Units Held for Future Use

In 1986, the PUC approved Duquesne's request to remove the Phillips and most of the Brunot Island (BI) power stations from service and place them in cold reserve. Duquesne's capitalized costs and net investment in the plants at December 31, 1993 totaled $130 million. (See Note L to the consolidated financial statements.)

Duquesne expects to recover its net investment in these plants through future sales. Phillips and BI represent licensed, certified, clean sources of electricity that will be necessary to meet expanding opportunities in the power markets. Duquesne believes that anticipated growth in peak load demand for electricity within its service territory will require additional peaking generation. Duquesne looks to BI to meet this need. The Phillips Power Plant is an important component in meeting market opportunities to supply long term bulk power. Recent legislation may permit wider transmission access to these long term bulk power markets. In summary, Duquesne believes its investment in these cold-reserved plants will be necessary in order to meet future business needs. If business opportunities do not develop as expected, Duquesne will consider the sale of these assets. In the event that market demand, transmission access or rate recovery do not support the utilization or sale of the plants, Duquesne may have to write off part or all of their costs.

Environmental Matters

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

In 1990, Congress approved amendments to the Clean Air Act. Among other innovations, this legislation established the Emission Allowance Trading System. Emission allowances are permits to emit one ton of SO_2 for one year. These allowances are issued by the EPA to fossil-fired stations with generating capability of more than 25 megawatts that were in existence as of the passage of the 1990 amendments. Allowances are part of a market-based approach to SO_2 reduction. Emission allowances can also be obtained through purchases on the open market or directly from other sources. Excess allowances may be banked for future use or sold on the open market to other parties for their use in offsetting emissions.

The legislation requires significant reductions of SO_2 and NO_x by 1995 and additional reductions by the year 2000. Duquesne continues to work with the operators of its jointly owned stations to implement cost-effective compliance strategies to meet these requirements. Duquesne's plans for meeting the 1995 SO_2 compliance requirements include increasing the use of scrubbed capacity, switching to fuel with a lower sulfur content and purchasing emission allowances. NO_x reductions under Title IV are required by 1995 at only the Cheswick station; work to achieve the reductions was completed in 1993. The ozone attainment provisions of Title I of the Clean Air Act Amendments will require NO_x reductions by 1995 at Duquesne's Elrama plant and at the jointly owned Mansfield plant. Duquesne plans to achieve such reductions with low NO_x burner technology. The estimated capital costs to achieve 1995 compliance standards are approximately $30 million, of which approximately $15 million has already been spent. Through the year 2000, Duquesne is planning a combination of compliance methods that include fuel switching; increased use of, and improvements in, scrubbed capacity; flue gas conditioning; low NO_x burner technology; and the purchase of emission allowances. The Company currently estimates that additional capital costs to comply with environmental requirements from 1995 through the year 2000 will be approximately $20 million. This estimate is subject to the finalization of federal and state regulations.

Duquesne is closely monitoring other potential air quality programs and air emission control requirements that could be imposed in the future. These areas include additional NO_x control requirements that could be imposed on fossil fuel plants by the Ozone Transport Commission, more stringent ambient air quality and emission standards for SO_2 and particulates, or CO_2 control measures. As these potential programs are in various stages of discussion and consideration, it is impossible to make reasonable estimates of the potential costs and impacts of these programs at this time.

In July 1992, the Pennsylvania Department of Environmental Resources (DER) issued Residual Waste Management Regulations governing the generation and management of non-hazardous waste. Duquesne is currently conducting tests and developing compliance strategies. Capital compliance costs are estimated, on the basis of information currently available, at $10 million through 1995. The expected additional capital cost of compliance from 1995 through 2000 is approximately $25 million; this estimate is subject to the results of ground water assessments and DER final approval of compliance plans.

Duquesne operates the scrubbed Elrama plant and converts the scrubber slurry to a fixated pozolonic material. This material is placed at an off-site disposal area having approximately six years of remaining capacity. Additionally, Duquesne owns 17 percent of the scrubbed Mansfield plant, which is operated by Pennsylvania Power. This plant pumps a similar slurry to an off-site impoundment where the slurry is treated by using a Calcilox fixation process. The site has at least 14 years of remaining capacity. Both plants have limited temporary on-site storage for flue gas desulfurization material and no permanent on-site disposal capacity. While there is no imminent shortage of disposal capacity, Duquesne continues to monitor this situation and to plan for future disposal. The siting of future disposal facilities will be facilitated by the 1993 EPA determination that coal combustion waste products are not hazardous waste and are therefore exempt from the Hazardous Waste Regulations.

Under the Nuclear Waste Policy Act of 1982, which establishes a policy for handling and disposing of spent nuclear fuel and requires the establishment of a final repository to accept spent fuel, the CAPCO companies have entered into contracts with the Department of Energy (DOE) for permanent disposal of spent nuclear fuel and high-level radioactive waste. The DOE has indicated that the repository will not be available for acceptance of spent fuel before 2010. Existing on-site spent fuel storage capacities at Beaver Valley 1, Beaver Valley 2 and Perry are expected to be sufficient until 1996, 2010, and 2009, respectively. Duquesne is currently increasing the storage capacity at Beaver Valley 1 by equipping the spent fuel pool with high density fuel storage racks. Duquesne anticipates that such action will increase the spent fuel storage capacity at Beaver Valley 1 to provide for sufficient storage through 2014.

Other Subsidiary Operations

The continued growth of DE and Montauk is expected to play an increasing role in DQE's overall corporate strategy and future earnings.

Retirement Plan Measurement Assumptions

The Company reduced the discount rate used to determine the projected benefit obligation on the Company's retirement plans at December 31, 1993, to 7 percent. The assumed change in future compensation levels was also decreased by 0.5 percent to reflect current market and economic conditions.

The effects of these changes on the Company's retirement plan obligations are reflected in the amounts shown in Note I to the consolidated financial statements. The resulting increase in related expenses for subsequent years is not expected to be material.

General Electric Settlement

In January 1994, the CAPCO companies reached a settlement in connection with a 1991 lawsuit against General Electric Company (GE) regarding the Perry Plant. The settlement provides for cash payments to the CAPCO companies and discounts on future purchases from GE. This settlement will not materially affect the Company's results of operations in future years.

Other

Duquesne's utility operations are subject to regulation by the PUC and the FERC. This regulation is designed to provide for the recovery of operating costs and investment and the opportunity to earn a fair return on funds invested in the utility business. The regulatory process imposes a time lag during which increases in operating expenses, capital costs or construction costs may not be recovered.

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 that are 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 and such limits are based on recognition that the cost of such a system should not exceed the benefits 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

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

Gary L. Schwass

Gary L. Schwass
Vice President and
Treasurer

Report of Independent Certified Public Accountants

To the Directors and Stockholders of DQE:

We have audited the accompanying consolidated balance sheets of DQE and its subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, common stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1993. 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 and its subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993 in conformity with generally accepted accounting principles.

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

Deloitte & Touche

Deloitte & Touche
Pittsburgh, Pennsylvania
January 25, 1994

Report of the Audit Committee of the Board of Directors of DQE

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 1993, the Audit Committee recommended to the Board of Directors, the selection, subject to shareholder approval, of the Company's independent public accountants. The Audit Committee reviewed the overall scope and details of the independent public accountants' and internal auditors' respective audit plans and reviewed and approved the independent public accountants' general audit fees and non-audit services.

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

The Audit Committee of the Board of Directors of DQE

STATEMENT OF CONSOLIDATED INCOME

		(Thousands of Dollars, Except Per Share Amounts)		
		Year Ended December 31,		
		1993	1992	1991
OPERATING REVENUES	Customers:			
	Current	$1,175,024	$1,180,707	$1,181,332
	Deferred (Note J)	(100,315)	(98,201)	(78,344)
	Other	120,851	111,698	100,846
	Total Operating Revenues	1,195,560	1,194,204	1,203,834
OPERATING EXPENSES	Fuel and purchased power	220,928	265,340	250,755
	Other operating	319,071	282,953	291,253
	Maintenance	80,292	79,146	83,773
	Depreciation and amortization	142,657	127,924	119,264
	Taxes other than income taxes	73,126	85,733	95,175
	Income taxes (Note F)	106,286	97,193	96,690
	Total Operating Expenses	942,360	938,289	936,910
	Operating Income	253,200	255,915	266,924
OTHER INCOME AND (DEDUCTIONS)	Allowance for equity funds used during construction	869	2,598	1,855
	Long-term power sale write-off (Note J)	(15,225)	—	—
	Carrying charges on deferred revenues	1,801	15,145	21,514
	Income taxes (Note F)	19,033	(11,747)	(5,132)
	Other – net	2,187	12,582	(9,398)
	Total Other Income	8,665	18,578	8,839
	Income Before Interest and Other Charges	261,865	274,493	275,763
INTEREST AND OTHER CHARGES	Interest on long-term debt	108,479	123,402	131,499
	Other interest	3,517	2,458	2,316
	Allowance for borrowed funds used during construction	(726)	(2,296)	(2,418)
	Preferred and preference stock dividends of subsidiary	9,188	9,411	10,801
	Total Interest and Other Charges	120,458	132,975	142,198
	Income Before Cumulative Effect on Prior Years of Changes in Accounting Principles	141,407	141,518	133,565
	Adoption of SFAS 109 - Income Taxes (Notes A and F)	8,000	—	—
	Accounting for maintenance costs - net (Note A)	(5,425)	—	—
NET INCOME	**Net Income**	$ 143,982	$ 141,518	$ 133,565
	Average Number of Common Shares Outstanding (000)	52,979	52,913	53,391
EARNINGS PER SHARE	**Earnings Per Share of Common Stock:**			
	Income Before Cumulative Effect on Prior Years of Changes in Accounting Principles	$2.67	$2.67	$2.50
	Adoption of SFAS 109 - Income Taxes (Notes A and F)	.15	—	—
	Accounting for maintenance costs - net (Note A)	(.10)	—	—
	Earnings Per Share of Common Stock	$2.72	$2.67	$2.50
DIVIDENDS DECLARED	**Dividends Declared Per Share of Common Stock**	$1.62	$1.54	$1.46

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

ASSETS

	(Thousands of Dollars) As of December 31, 1993	1992
Property, Plant and Equipment:		
Electric plant in service (Note A)	$4,100,058	$3,860,040
Construction work in progress	59,777	67,435
Property held under capital leases (Note E)	177,800	212,172
Property held for future use (Note J)	216,863	216,893
Total	4,554,498	4,356,540
Less accumulated depreciation and amortization	(1,435,732)	(1,340,846)
Property, Plant and Equipment – Net	3,118,766	3,015,694
Other Property and Investments (at cost)	124,082	43,462
Current Assets:		
Cash and temporary cash investments (at cost which approximates market)	32,234	37,782
Receivables (Note D):		
Electric customer accounts receivable	107,342	109,692
CAPCO receivables	22,937	17,915
Tax receivables	18,857	2,403
Other receivables	43,919	5,785
Less: Allowance for uncollectible accounts	(13,282)	(7,707)
Receivables less allowance for uncollectible accounts	179,773	128,088
Less: Receivables sold	(9,000)	(76,000)
Total Receivables	170,773	52,088
Materials and supplies (at average cost):		
Coal	26,793	39,297
Operating and construction	64,885	66,016
Total Materials and Supplies	91,678	105,313
Other current assets	9,719	11,791
Total Current Assets	304,404	206,974
Other Assets:		
Extraordinary property loss (Note B)	35,781	46,447
Unamortized loss on reacquired debt (Note C)	95,266	70,324
Beaver Valley Unit 2 sale/leaseback premium (Note E)	34,903	36,371
Deferred rate synchronization costs (Note J)	51,149	51,149
Phase-in plan deferrals (Note J)	28,621	127,996
Investment in leveraged leases (Note E)	48,102	32,140
Uncollected deferred income taxes (Note A)	569,555	—
Deferred debits	163,412	157,141
Total Other Assets	1,026,789	521,568
Total Assets	$4,574,041	$3,787,698

See notes to consolidated financial statements.

Capitalization and Liabilities

	(Thousands of Dollars) As of December 31, 1993	1992
Capitalization (Note C):		
Common stock (authorized – 125,000,000 shares, issued – 73,119,436 shares)	$ 73,119	$ 73,119
Capital surplus	928,140	927,925
Retained earnings	554,604	496,711
Less treasury stock (at cost) (20,107,209 and 20,169,349 shares, respectively)	(325,280)	(326,295)
Total common stockholders' equity	1,230,583	1,171,460
Non-redeemable preferred and preference stock	121,906	121,906
Redeemable preferred and preference stock	8,392	8,579
Non-redeemable preference stock, Plan Series A	29,956	29,995
Total preferred and preference stock before deferred ESOP benefit (involuntary liquidation values of \$160,117 and \$160,342 exceed par by \$81,585 and \$81,808, respectively)	160,254	160,480
Deferred employee stock ownership plan (ESOP) benefit	(27,126)	(28,471)
Total preferred and preference stock (Note C)	133,128	132,009
Senior secured debt (excluding Pollution Control Notes)	999,400	1,018,098
Other long-term debt	422,817	398,915
Unamortized debt discount and premium – net	(5,219)	(4,012)
Total long-term debt	1,416,998	1,413,001
Total Capitalization	2,780,709	2,716,470
Obligations Under Capital Leases (Note E)	55,733	71,876
Current Liabilities:		
Notes payable	36,267	—
Current maturities and sinking fund requirements (Notes C and E)	45,741	46,054
Accounts payable	117,191	119,828
Accrued taxes	45,887	42,311
Deferred energy costs (Note A)	10,108	18,893
Accrued interest	14,419	28,258
Dividends declared	26,699	26,445
Total Current Liabilities	296,312	281,789
Other Noncurrent Liabilities:		
Investment tax credits unamortized	129,574	135,580
Accumulated deferred income taxes (Note A)	1,169,148	480,248
Deferred credits (Note A)	142,565	101,735
Total Other Noncurrent Liabilities	1,441,287	717,563
Commitments and Contingencies (Notes B through L)		
Total Capitalization and Liabilities	$4,574,041	$3,787,698

STATEMENT OF CONSOLIDATED CASH FLOWS

		(Thousands of Dollars) Year Ended December 31,		
		1993	1992	1991
Cash Flows From Operating Activities	Net income	$143,982	$141,518	$133,565
	Principal non-cash charges (credits) to net income:			
	Depreciation and amortization per income statement	142,657	127,924	119,264
	Capital lease and other amortization	30,271	49,001	56,437
	Deferred income taxes and investment tax credits – net	(32,305)	(2,318)	(18,974)
	Allowance for equity funds used during construction	(869)	(2,598)	(1,855)
	Deferred revenues and carrying charges recovered	99,375	83,056	56,830
	Changes in working capital other than cash (Note H)	(111,677)	48,670	(43,050)
	Other – net	29,421	(1,958)	32,559
	Net Cash Provided from Operating Activities	300,855	443,295	334,776
Cash Flows Used By Investing Activities	Construction expenditures – utility	(100,628)	(112,409)	(125,358)
	Repurchase of common stock	—	—	(23,703)
	Allowance for borrowed funds used during construction	(726)	(2,296)	(2,418)
	Investments	(85,324)	(19,598)	(16,042)
	Payment for purchase of Chester Environmental, Inc., net of cash acquired	(11,886)	—	—
	Other – net	(4,452)	(7,877)	(6,905)
	Net Cash Used by Investing Activities	(203,016)	(142,180)	(174,426)
Cash Flows Used In Financing Activities	Sale of bonds	740,500	312,925	50,000
	Increase in notes payable	36,267	—	—
	Dividends on common stock	(86,089)	(81,491)	(78,040)
	Reductions of long-term obligations:			
	Preferred and preference stock	(187)	(24,158)	(38,505)
	Long-term debt	(735,048)	(394,951)	(58,782)
	Other obligations	(27,751)	(43,686)	(42,997)
	Beaver Valley Unit 2 sale/leaseback premium (Note E)	—	(36,371)	—
	Premium on reacquired debt	(31,702)	(18,127)	(2,947)
	Other – net	623	(2,719)	(2,410)
	Net Cash Used In Financing Activities	(103,387)	(288,578)	(173,681)
	Net increase (decrease) in cash and temporary cash investments	(5,548)	12,537	(13,331)
	Cash and temporary cash investments at beginning of year	37,782	25,245	38,576
	Cash and temporary cash investments at end of year	$ 32,234	$ 37,782	$ 25,245

SUPPLEMENTAL CASH FLOW INFORMATION

		1993	1992	1991
Cash Paid During the Year	Interest (net of amount capitalized)	$125,304	$126,014	$136,147
	Income taxes	$133,303	$112,859	$ 86,201
Non-Cash Investing and Financing Activities	Capital lease obligations recorded (Note E)	$ 11,811	$ 17,089	$ 22,028
	ESOP preference stock issued	$ —	$ —	$ 30,000

See notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY

		(Thousands of Dollars)			
		1993	1992	1991	1990
COMMON STOCK	**Common stock par value ($1 per share)**	$ 73,119	$ 73,119	$ 73,119	$ 73,119
	Capital stock expense and other (change)	215	(437)	(49)	368
CAPITAL SURPLUS	**Balance at end of year**	928,140	927,925	928,362	928,411
	Net income	143,982	141,518	133,565	121,672
	Dividends declared	(86,089)	(81,491)	(78,040)	(74,972)
RETAINED EARNINGS	**Balance at end of year**	554,604	496,711	436,684	381,159
	Stock reissued (repurchased) – net	1,015	749	(23,496)	(34,117)
TREASURY STOCK	**Balance at end of year**	(325,280)	(326,295)	(327,044)	(303,548)
	Total Common Stockholders' Equity	$1,230,583	$1,171,460	$1,111,121	$1,079,141

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of DQE (the Company) and its subsidiaries. All material intercompany balances and transactions have been eliminated in the preparation of the Consolidated Financial Statements of DQE.

On August 17, 1993, DE acquired a controlling interest in Chester Environmental, Inc. (Chester) for approximately $12 million. The acquisition was accounted for under the purchase method of accounting and Chester's results of operations have been included in the Company's consolidated financial statements since that date.

Basis of Accounting

The consolidated financial statements reflect the rate-making practices of Duquesne Light Company (Duquesne) and, as a result, contain regulatory assets and liabilities as deferred charges and credits in accordance with *Statement of Financial Accounting Standards Number 71, Accounting for the Effects of Certain Types of Regulation (SFAS No. 71).* Duquesne's accounting practices conform to the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the requirements of the Pennsylvania Public Utility Commission (PUC). The Company is also subject to the accounting and reporting requirements of the Securities and Exchange Commission (SEC).

Property, Plant and Equipment

The asset values of properties are stated at original construction cost, which includes related payroll taxes, pensions, and other fringe benefits, as well as administrative and general costs. Also included in original construction cost is an allowance for funds used during construction (AFC), which represents the estimated cost of debt and equity funds used to finance construction. The amount of AFC that is capitalized will vary according to changes in the cost of capital and in the level of construction work in progress (CWIP). On a current basis, Duquesne does not realize cash from the allowance for funds used during construction. Duquesne does realize cash, during the service life of the plant, through increased revenues reflecting a higher rate base (upon which a return is earned) and increased depreciation. The AFC rates applied to CWIP were 9.6 percent in 1993, 10.3 percent in 1992, and 9.6 percent in 1991.

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

Substantially all of Duquesne's properties are subject to a first mortgage lien, and substantially all of Duquesne's electric properties are subject to junior liens.

Depreciation

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

Nuclear Decommissioning

The PUC ruled that recovery of the decommissioning costs for Beaver Valley Unit 1 could begin in 1977 and that recovery for Beaver Valley Unit 2 and Perry Unit 1 could begin in 1988. Duquesne expects to decommission each nuclear plant at the end of its life, a date that currently coincides with the expiration of each plant's operating license. (See Note L.) The total estimated decommissioning costs, including removal and decontamination costs, being recovered in rates are $70 million for Beaver Valley Unit 1, $20 million for Beaver Valley Unit 2, and $38 million for Perry Unit 1. These amounts were based upon the most recent studies available at the time of Duquesne's last rate case.

Since the time of Duquesne's last rate case, site specific studies have been performed to update the estimated decommissioning costs, in current dollars, for each of its nuclear generating units. In 1992, Duquesne's share of the estimated decommissioning costs for Beaver Valley Unit 2 was revised to $35 million. Duquesne's share of decommissioning costs, which is based on preliminary site specific studies to be finalized early in 1994, is estimated to increase to $134 million for Beaver Valley Unit 1 and to $71 million for Perry.

During 1994, it is Duquesne's intention to increase the annual contribution to its decommissioning trusts by $2 million to bring the total annual funding to approximately $4 million per year. Duquesne plans to continue making periodic reevaluations of estimated decommissioning costs, to provide additional funding from time to time, and to seek regulatory approval for recognition of these increased funding levels.

Duquesne records decommissioning costs under the category of depreciation expense and accrues a liability, equal to that amount, for nuclear decommissioning expense. Such nuclear decommissioning funds are deposited in external, segregated trust accounts. Trust fund earnings increase the fund balance and the recorded liability. The aggregate trust fund balances at the end of 1993 totaled $18.1 million. On the Company's consolidated balance sheet, the decommissioning trusts have been reflected in *other property and investments,* and the related liability has been recorded as *other deferred credits.*

Maintenance

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

The cumulative effect (approximately $5.4 million, net of income taxes of approximately $3.9 million) of the change on prior years was included in income in 1993. The effect of the change in 1993 was to reduce income, before the cumulative effect of changes in accounting principles, by approximately $2.4 million or $.05 per share and to reduce net income, after the cumulative effect of changes in accounting principles, by approximately $7.8 million or $.15 per share.

Revenues

Meters are read monthly and customers are billed on the same basis. Revenues are recorded in the accounting periods for which they are billed. Deferred revenues are associated with the Company's 1987 rate case. (See Note J.)

Income Taxes

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

SFAS No. 109 requires that the liability method be used in computing deferred taxes on all differences between book and tax bases of assets. These book tax differences occur when events and transactions recognized for financial reporting purposes are not recognized in the same period for tax purposes. As a utility, Duquesne recognizes *uncollected deferred income taxes* for these deferred tax liabilities that are expected to be recovered from customers through rates. The adoption of *SFAS No. 109* on January 1, 1993, resulted in a $700 million increase in deferred tax liabilities and the recognition of $550 million in net regulatory assets. Prior to the adoption of *SFAS No. 109,* Duquesne recorded certain costs in *electric plant in service* net of taxes. Because *SFAS No. 109* eliminates this "net of tax" accounting, the adoption of *SFAS No. 109* also resulted in an increase in plant assets of $150 million.

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

Energy Cost Rate Adjustment Clause (ECR)

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

Duquesne defers fuel and other energy expenses for recovery through the ECR in subsequent years. The deferrals reflect the difference between the amount that Duquesne is currently collecting from customers and its actual fuel costs. The Pennsylvania Public Utility Commission (PUC) annually reviews Duquesne's fuel costs for the fiscal year April through March, compares them to previously projected fuel costs and adjusts the ECR for over- or under-recoveries and for two PUC-established coal cost standards. (See Note J.)

Over- or under-recoveries from customers are recorded in the Consolidated Balance Sheet of DQE as payable to, or receivable from, customers. At December 31, 1993 and 1992, $10.1 million and $18.9 million were payable to customers and shown as *deferred energy costs.*

Cash Flows

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

Reclassifications

The 1992 and 1991 financial statements have been reclassified to conform with accounting presentations adopted during 1993.

B. Extraordinary Property Loss

In 1984, companies comprising the CAPCO group agreed to minimize construction work and cash expenditures on Perry Unit 2 until several alternatives, including resumption of construction or cancellation of the unit, were evaluated. Duquesne abandoned its interest in the unit in 1986 and subsequently disposed of its interest in 1992.

In 1987, the PUC approved recovery, over a 10-year period, of Duquesne's original $155 million investment in Perry Unit 2. Duquesne is not earning a return on the as yet unrecovered portion (approximately $39.4 million at December 31, 1993) of its investment in the unit.

C. Capitalization

Common Stock

The Company or its predecessor, Duquesne, has continuously paid dividends on common stock since 1953. The quarterly dividend declared in the fourth quarter of 1993 was increased to $.42 per share. This annualized dividend of $1.68 per share was increased from $1.60 per share in 1992. The annualized dividend per share was $1.52 in 1991 and $1.44 in 1990.

Dividends may be paid on DQE common stock to the extent permitted by law and as declared by the board of directors. However, in Duquesne's *Restated Articles* of incorporation, provisions relating to preferred and preference stock may restrict the payment of Duquesne's common dividends. No dividends or distributions may be made on Duquesne's common stock if Duquesne has not paid dividends or sinking fund obligations on its preferred or preference stock. Further, the aggregate amount of Duquesne's common stock dividend payments or distributions may not exceed certain percentages of *net income* if the ratio of *common stockholders' equity* to total *capitalization* is less than specified percentages. As all of Duquesne's common stock is owned by DQE, to the extent that Duquesne cannot pay common dividends, DQE may not be able to pay dividends to its common stockholders. No part of the *retained earnings* of DQE or any of its subsidiaries was restricted at December 31, 1993.

Changes in the Number of Shares of Common Stock Outstanding

	1993	1992	1991
	(Amounts in Thousands of Shares)		
Outstanding as of January 1	52,950	52,905	53,759
Reissuance from treasury stock	62	45	17
Repurchase of common stock	—	—	(871)
Outstanding as of December 31	53,012	52,950	52,905

Preferred and Preference Stock

Holders of Duquesne's preferred stock are entitled to cumulative quarterly dividends. If four quarterly dividends on any series of preferred stock are in arrears, holders of the preferred stock are entitled to elect a majority of Duquesne's board of directors until all dividends have been paid. At December 31, 1993, Duquesne had made all preferred stock dividend payments.

Holders of Duquesne's preference stock are entitled to receive cumulative quarterly dividends if dividends on all series of preferred stock are paid. If six quarterly dividends on any series of preference stock are in arrears, holders of the preference stock are entitled to elect two of Duquesne's directors until all dividends have been paid. At December 31, 1993, Duquesne had made all dividend payments.

Outstanding *preferred and preference stock* is generally callable, on notice of not less than 30 days, at stated prices (See table on page 27.) plus accrued dividends. On January 14, 1994, Duquesne called for redemption of all of its outstanding shares of $2.10 and $7.50 preference stock. None of the remaining preferred or preference stock issues has mandatory purchase requirements.

In December 1991, the Company established an Employee Stock Ownership Plan (ESOP) to provide matching contributions for a 401(k) Retirement Savings Plan for Management Employees. (See Note I.) Duquesne issued and sold 845,070 shares of *redeemable preference stock, plan series A* to the trustee of the ESOP. As consideration for the stock, Duquesne received a note valued at $30 million from the trustee. The preference stock has an annual dividend rate of $2.80 per share, and each share of the preference stock is exchangeable for one share of DQE common stock. At December 31, 1993, $27.1 million of preference stock issued in connection with the establishment of the ESOP had been offset, for financial statement purposes, by the recognition of a deferred ESOP benefit. Dividends on the preference stock and cash contributions from Duquesne will be used to repay the ESOP note. During 1993, Duquesne made cash contributions of approximately $2.1 million, the difference between the ESOP debt service and the amount of dividends on ESOP shares (approximately $2.3 million). As shares of preference stock are allocated to the accounts of participants in the ESOP, the Company recognizes compensation expense, and the amount of the deferred compensation benefit is amortized. In 1993, the Company recognized $1.7 million of compensation expense related to the 401(k) plan.

Preferred and Preference Stock of Duquesne Light Company at December 31

		(Shares and Amounts in Thousands)					
	Call Price	1993		1992		1991	
	Per Share	Shares	Amount	Shares	Amount	Shares	Amount
Preferred Stock Series: (a)							
3.75% (b) (c)	$ 51.00	148	$ 7,407	148	$ 7,407	148	$ 7,407
4.00% (b) (c)	51.50	550	27,486	550	27,486	550	27,486
4.10% (b) (c)	51.75	120	6,012	120	6,012	120	6,012
4.15% (b) (c)	51.73	132	6,643	132	6,643	132	6,643
4.20% (b) (c)	51.71	100	5,021	100	5,021	100	5,021
$2.10 (b) (c)	51.84	159	8,039	159	8,039	159	8,039
$7.20 (c) (d)	101.00	319	31,915	319	31,915	319	31,915
$8.375 (d) (e)	—	—	—	—	—	80	7,945
Total Preferred Stock		1,528	92,523	1,528	92,523	1,608	100,468
Preference Stock Series: (f)							
$2.100 (c) (g) (h)	25.00	1,175	29,383	1,175	29,383	1,175	29,383
$7.500 (d) (e) (h)	101.00	84	8,392	86	8,579	87	8,692
$9.125 (d) (e)	—	—	—	—	—	161	16,100
Plan Series A (c) (i)	37.74	844	29,956	845	29,995	845	30,000
Total Preference Stock		2,103	67,731	2,106	67,957	2,268	84,175
Purchase and sinking fund requirements			—		—		(17,300)
Deferred ESOP benefit			(27,126)		(28,471)		(30,000)
Total Preferred and Preference Stock		3,631	$133,128	3,634	$132,009	3,876	$137,343

(a) Preferred stock: 4,000,000 authorized shares; $50 par value; cumulative
(b) $50 per share involuntary liquidation value
(c) Non-redeemable
(d) $100 per share involuntary liquidation value
(e) Redeemable
(f) Preference stock: 8,000,000 authorized shares; $1 par value; cumulative
(g) $25 per share involuntary liquidation value
(h) Redeemed January 14, 1994
(i) $35.50 per share involuntary liquidation value

Long-Term Debt

At December 31, 1993, Duquesne had $1.433 billion of outstanding debt securities; these consisted of $960 million of first collateral trust bonds, $49 million of first mortgage bonds, $418 million of pollution control notes and $6 million of debentures.

During 1992, Duquesne began issuing secured debt under a new first collateral trust indenture. This indenture will ultimately replace Duquesne's 1947 first mortgage bond indenture.

First collateral trust bonds totaling $695 million and $265 million, and having average interest rates of 6.58 percent and 8.04 percent, were issued in 1993 and 1992.

Since 1985, the Company has reacquired $1.561 billion of first mortgage bonds. The difference between the purchase prices and the net carrying amounts of these bonds has been included in the consolidated balance sheet as *unamortized loss on reacquired debt.* At December 31, 1993, the balance of *unamortized loss on reacquired debt* was $95.3 million.

Long-Term Debt at December 31
Senior Secured Debt

Interest Rate (a)	Maturity	Principal Outstanding (Amounts In Thousands of Dollars) 1993	1992
First Collateral Trust Bonds:			
4.75%	5-15-96	$ 50,000	$ —
6.08%	11-15-97	50,000	50,000
6.15%	2-12-98	35,000	—
5.85%	6-01-98	35,000	—
6.55%	11-15-98	5,000	5,000
5.90%	7-01-99	75,000	—
6.45%	3-01-00	45,000	—
6.10%	5-10-00	55,000	—
6.65%	4-01-03	45,000	—
6.70%	5-15-03	55,000	—
6.625%	6-15-04	100,000	—
8.75%	5-15-22	100,000	100,000
8.20%	11-15-22	10,000	10,000
7.625%	4-15-23	100,000	—
8.375%	5-15-24	100,000	100,000
7.55%	6-15-25	100,000	—
Less current maturities and sinking fund requirements (b)		(9,600)	—
Total First Collateral Trust Bonds		950,400	265,000
First Mortgage Bonds:			
8.25%	6-1-95	49,500	50,000
5.125%	2-1-96	—	22,800
5.25%	2-1-97	—	24,600
6.375%	2-1-98	—	34,700
7.00%	1-1-99	—	30,000
7.75%	7-1-99	—	28,647
8.75%	3-1-00	—	29,700
7.875%	3-1-01	—	34,650
7.50%	12-1-01	—	26,461
7.50%	6-1-02	—	28,470
7.25%	1-1-03	—	32,670
7.75%	7-1-03	—	35,000
8.625%	4-1-04	—	43,650
9.50%	3-1-05	—	49,000
8.375%	4-1-07	—	96,400
9.50%	12-1-16	—	98,000
9.00%	2-1-17	—	99,000
Less current maturities and sinking fund requirements		(500)	(10,650)
Total First Mortgage Bonds		49,000	753,098
Total Senior Secured Debt		999,400	1,018,098

Long-Term Debt at December 31

Other Long-Term Debt

Interest Rate (a)	Maturity	Series	Principal Outstanding (Amounts In Thousands of Dollars) 1993	1992
Pollution Control Notes:				
(c) (d)	9-1-11	1992 Allegheny County Series A	**47,925**	47,925
(c)	12-1-13	1990 Allegheny County Series A	**50,000**	50,000
5.739%	6-1-03	1973 Beaver County Series A	**9,500**	9,800
(c)	8-1-09	1990 Beaver County Series B	**18,000**	18,000
6.90%	9-1-11	1976 Beaver County Series C	**15,000**	15,000
11.625%	12-1-14	1984 Beaver County Series B	**51,000**	51,000
(c)	8-1-20	1990 Beaver County Series A	**13,700**	13,700
(c)	8-1-25	1990 Beaver County Series C	**44,250**	44,250
(c) (d)	9-1-30	1993 Beaver County Series A	**25,000**	—
10.50%	10-1-13	1983 Ohio Development Authority	**—**	20,500
11.125% (d)	2-1-15	1985 Ohio Development Authority	**38,610**	38,610
(c)	9-1-18	1988 Ohio Development Authority	**71,000**	71,000
6.65% (e)	10-1-23	1989 Ohio Development Authority	**13,500**	13,500
(c) (d)	10-1-27	1993 Ohio Development Authority	**20,500**	—
Less current maturities and sinking fund requirements			**(1,719)**	(690)
Total Pollution Control Notes			**416,266**	392,595
5% sinking fund debentures due March 1, 2010 (f)			**6,042**	6,042
Miscellaneous			**509**	278
Less unamortized debt discount and premium – net			**(5,219)**	(4,012)
Total Long-Term Debt			**$1,416,998**	$1,413,001

(a) These interest rates are the average coupon rate for multiple issuances with the same maturity dates.
(b) Sinking fund requirement relates to the first mortgage bonds held by the trustee as collateral for the publicly-held collateral trust bonds. The outstanding collateral trust bonds do not have a sinking fund requirement.
(c) Certain of the pollution control notes have adjustable interest rate periods currently ranging from 1 to 360 days. On 30 days' to 90 days' notice prior to any interest reset date, the Company can change the subsequent interest rate period on the notes to a different interest rate period ranging from 1 day to the final maturity of the bonds.
(d) Issued in the form of first mortgage bonds or first collateral trust bonds.
(e) Fixed rate through first five years, thereafter becoming variable rates as in footnote c.
(f) As of January 1994, the sinking fund requirement for 1995 had been met and the requirement for 1996 had been partially satisfied.

At December 31, 1993 and 1992, the Company was in compliance with all of its debt covenants.

At December 31, 1993, sinking fund requirements and maturities of long-term debt outstanding for the next five years were: $11.8 million and $.1 million in 1994; $11.4 million and $49.6 million in 1995; $11.2 million and $50.1 million in 1996; $10.8 million and $50.0 million in 1997; and $10.1 million and $75.0 million in 1998.

Sinking fund requirements relate primarily to the first mortgage bonds and may be satisfied by cash or the certification of property additions equal to 166⅔ percent of the bonds required to be redeemed. During 1993, annual sinking fund requirements of $.5 million were satisfied by cash and $4.8 million by certification of property additions.

Total interest costs incurred were $118.1 million in 1993, $133.9 million in 1992 and $147.2 million in 1991. Of these amounts, which included AFC, $2.0 million in 1993, $4.7 million in 1992 and $9.3 million in 1991 were capitalized. Debt discount or premium and related issuance expenses are amortized over the lives of the applicable issues.

In 1992, Duquesne was involved in the issuance of $419.0 million of collateralized lease bonds, which were originally issued by an unaffiliated corporation for the purpose of partially financing the lease of Beaver Valley Unit 2. Duquesne is also associated with a letter of credit securing the lessors' $188 million equity interest in the unit and certain tax benefits. If certain specified events occur, the letter of credit could be drawn down by the owners, the leases could terminate and the bonds would become direct obligations of Duquesne.

The pollution control notes arise from the sale of bonds by public authorities for the purposes of financing construction of pollution control facilities at Duquesne's plants or refunding previously issued bonds.

Duquesne is obligated to pay the principal and interest on the bonds. For certain of the pollution control notes, there is an annual commitment fee for an irrevocable letter of credit. Under certain circumstances, the letter of credit is available for the payment of interest on, or redemption of, a portion of the notes. In June 1993, $25 million of pollution control notes were issued; the proceeds were used to reimburse Duquesne for pollution control expenditures related to the Beaver Valley plant. In August 1993, pollution control notes totaling $20.5 million were refinanced at lower interest rates.

At December 31, 1993, the fair value of the Company's long-term debt and redeemable preference stock approximated the carrying value. The fair value of the Company's long-term debt and redeemable preference stock was estimated on the basis of (a) quoted market prices for the same or similar issues or (b) current rates offered to the Company for debt of the same remaining maturities.

D. Receivables

An arrangement between Duquesne and an unaffiliated corporation entitles Duquesne to sell, and the corporation to purchase, up to $100 million of Duquesne's accounts receivable. At December 31, 1993 and 1992, Duquesne had sold $7.1 million and $66.3 million of *electric customer accounts receivable* and $1.9 million and $9.7 million of *CAPCO receivables*, respectively, to the unaffiliated corporation. The sales agreement includes a limited recourse obligation under which Duquesne could be required to repurchase certain of the receivables. The maximum amount of Duquesne's contingent liability was $2.8 million at December 31, 1993.

Other receivables in the Consolidated Balance Sheet of DQE include receivables of DQE's other subsidiaries. These receivables amounted to $31.8 million and $1.0 million at December 31, 1993 and 1992, respectively.

E. Leases

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

Capital Leases at December 31

	1993	1992
	(Amounts in Thousands of Dollars)	
Nuclear fuel	$136,755	$169,837
Electric plant	41,045	42,335
Total	177,800	212,172
Less accumulated amortization	(84,717)	(101,860)
Property Held Under Capital Leases – Net (a)	$ 93,083	$110,312

(a) Includes $3,492 in 1993 and $3,782 in 1992 of capital leases with associated obligations retired.

In 1987, Duquesne sold its 13.74 percent interest in Beaver Valley Unit 2; the sale was exclusive of transmission and common facilities. The total sales price of $537.9 million was the appraised value of Duquesne's interest in the property. Duquesne subsequently leased back its interest in the unit for a term of 29.5 years. The lease provides for semiannual payments and is accounted for as an operating lease. Duquesne is responsible under the terms of the lease for all costs of its interest in the unit. In December 1992, Duquesne participated in the refinancing of collateralized lease bonds originally issued in 1987 for the purpose of partially financing the lease of Beaver Valley Unit 2. In accordance with the Beaver Valley Unit 2 lease agreement, Duquesne paid the premiums of approximately $36.4 million as a supplemental rent payment to the lessors. This amount was deferred and is being amortized over the remaining lease term. At December 31, 1993, the balance was approximately $34.9 million.

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

Summary of Rental Payments

	1993	1992	1991
	(Amounts in Thousands of Dollars)		
Operating leases	$57,398	$ 64,986	$ 65,414
Amortization of capital leases	28,758	43,119	39,323
Interest on capital leases	5,382	7,880	10,057
Total Rental Payments	$91,538	$115,985	$114,794

Future minimum lease payments for capital leases are related principally to the estimated use of nuclear fuel financed through leasing arrangements and building leases. Minimum payments for operating leases are related principally to Beaver Valley Unit 2 and the corporate headquarters.

Future Minimum Lease Payments

	Operating Leases	Capital Leases
Year Ended December 31,	*(Amounts in Thousands of Dollars)*	
1994	$ 53,467	$ 39,500
1995	51,970	24,987
1996	51,949	13,811
1997	51,836	8,041
1998	51,711	4,749
1999 and thereafter	976,176	28,278
Total Minimum Lease Payments	$1,237,109	119,366
Less amount representing interest		(29,775)
Present value of minimum lease payments for capital leases		$ 89,591

Future payments due to the Company, as of December 31, 1993, under subleases of its corporate headquarters space are approximately $1.7 million in 1994, $3.4 million in 1995 and $24.9 million thereafter.

The Company, through its Montauk subsidiary, is the lessor in five leveraged lease arrangements involving manufacturing equipment, mining equipment, rail equipment and natural gas processing equipment. These leases expire in various years beginning 2001 through 2012. The residual value of the equipment, which belongs to the Company after the leases expire, is estimated to approximate 14 percent of the original cost. The Company's aggregate equity investment represents 22 percent of the aggregate original cost of the property and is secured by guarantees of each lessee's parent or affiliate. The remaining 78 percent was financed by non-recourse debt provided by lenders who have been granted, as their sole remedy in the event of default by the lessees, an assignment of rentals due under the leases and a security interest in the leased property. This debt amounted to $143.5 million at December 31, 1993.

Net Investment in Leveraged Leases at December 31

	1993	1992
	(Amounts in Thousands of Dollars)	
Rentals receivable (net of principal and interest on the non-recourse debt)	$52,016	$34,322
Estimated residual value of leased assets	26,470	15,951
Less: Unearned income	(30,384)	(18,133)
Investment in leveraged leases	48,102	32,140
Less: Deferred taxes arising from leveraged leases	(22,845)	(8,910)
Net Investment in Leveraged Leases	$25,257	$23,230

In 1993, the Company's pre-tax and after-tax income from leveraged leasing in 1993 was $5.1 million and $3.2 million, respectively.

F. Income Taxes

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

At December 31, 1993, the accumulated deferred income taxes of the Company totaled $1.169 billion. As discussed in Note A, this includes the deferred tax liability for the book and tax bases differences associated with (i) *electric plant in service* of $855 million; (ii) *uncollected deferred income taxes* of $199 million; and (iii) *unamortized loss on reacquired debt* of $40.9 million. The Company also nets against this liability balance the deferred tax assets associated with (i) *investment tax credits unamortized* of $45.3 million and (ii) the gain on the sale and leaseback of Beaver Valley Unit 2 of $67.1 million. The Company expects to realize these deferred tax assets.

Total Income Tax Expense

		1993	1992	1991
		(Amounts in Thousands of Dollars)		
Included in operating expenses:				
Currently payable:	Federal	$100,360	$ 73,135	$ 85,511
	State	37,975	27,875	32,080
Deferred – net:	Federal	(17,643)	5,369	(4,823)
	State	(9,007)	(3,750)	(10,750)
Investment tax credits deferred – net		(5,399)	(5,436)	(5,328)
Total Included in Operating Expenses		106,286	97,193	96,690
Included in other income and deductions:				
Currently payable:	Federal	(17,557)	7,265	2,131
	State	(1,220)	2,983	1,074
Deferred:	Federal	251	1,654	1,943
	State	100	377	443
Investment tax credits		(607)	(532)	(459)
Total Included in Other Income and Deductions		(19,033)	11,747	5,132
Total Income Tax Expense		$ 87,253	$108,940	$101,822

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

Income Tax Expense Reconciliation

	1993	1992	1991
	(Amounts in Thousands of Dollars)		
Computed federal income tax at statutory rate	$ 83,247	$ 88,355	$ 83,704
Increase (decrease) in taxes resulting from:			
Tax audit settlement	(15,000)	—	—
Excess of book over tax depreciation	7,162	3,830	5,333
State income taxes, net of federal income tax benefit	18,101	18,140	15,079
Amortization of deferred investment tax credits	(6,006)	(5,969)	(5,787)
Other – net	(251)	4,584	3,493
Total Income Tax Expense	$ 87,253	$108,940	$101,822

Sources of Deferred Tax Expense

	1993	1992	1991
	(Amounts in Thousands of Dollars)		
Sources of income taxes deferred and the related tax effects were:			
Excess of tax depreciation	$ 19,141	$ 25,188	$ 20,957
Deferred revenues recorded/(recovered) for book purposes	(37,576)	(30,702)	(21,240)
Allowance for uncollectible accounts	(2,890)	9,760	(5,930)
Fuel costs	4,829	(10,820)	1,047
Loss on early retirement of debt	9,798	20,999	(166)
Other – net	(19,601)	(10,775)	(7,855)
Total Deferred Income Tax Expense (Benefit)	$(26,299)	$ 3,650	$(13,187)

G. Short-Term Borrowing and Revolving Credit Arrangements

The Company, through its subsidiaries, has, with banks, extendable revolving credit agreements totaling $278.5 million. Expiration dates vary during 1994. Interest rates can, in accordance with the option selected at the time of each borrowing, be based on prime, federal funds, Eurodollar or CD rates. Commitment fees are based on the unborrowed amount of the commitments.

There were no short-term borrowings during 1992. During 1993 and 1991, the maximum short-term bank and commercial paper borrowings outstanding were $36 million and $66 million; the average daily short-term borrowings outstanding were $9.9 million and $11.0 million; and the weighted average daily interest rates applied to such borrowings were 3.91 percent and 6.36 percent, respectively. At December 31, 1993, short-term borrowings were $36 million. There were no short-term borrowings at December 31, 1992 or 1991.

H. Changes in Working Capital Other Than Cash

Changes in Working Capital Other Than Cash, Net of Effects From Purchase of Chester Environmental, Inc.

	1993	1992	1991
	(Amounts in Thousands of Dollars)		
Accounts receivable	$(103,188)	$64,088	$(53,829)
Materials and supplies	13,635	(4,151)	(3,122)
Other current assets	4,631	7,140	(8,084)
Accounts payable	(7,961)	(8,818)	(827)
Other current liabilities	(18,794)	(9,589)	22,812
Total	$(111,677)	$48,670	$(43,050)

I. Employee Benefits

Retirement Plans

The Company maintains retirement plans to provide pensions for all full-time employees. Upon retirement, an employee receives a monthly pension based on his or her length of service and compensation. The cost of funding the pension plan is determined by the unit credit actuarial cost method. The Company's policy is to record this cost as an expense and to fund the pension plans by an amount that is at least equal to the minimum funding requirements of the Employee Retirement Income Security Act (ERISA) but not to exceed the maximum tax deductible amount for the year. Pension costs charged to expense or construction were \$9.8 million for 1993, \$11.4 million for 1992 and \$11.2 million for 1991.

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

	1993	1992	1991
	(Amounts in Thousands of Dollars)		
Actuarial present value of benefits rendered to date:			
Vested benefits	\$321,249	\$287,360	\$279,917
Non-vested benefits	16,826	16,252	14,294
Accumulated benefit obligations based on compensation to date	338,075	303,612	294,211
Additional benefits based on estimated future salary levels	74,718	77,017	64,919
Projected benefit obligation	412,793	380,629	359,130
Fair market value of plan assets	434,384	411,440	392,027
Projected benefit obligation under plan assets	\$ 21,591	\$ 30,811	\$ 32,897
Unrecognized net gain	\$ 80,411	\$ 81,971	\$ 86,695
Unrecognized prior service cost	(21,449)	(20,848)	(22,317)
Unrecognized net transition liability	(19,289)	(21,102)	(22,913)
Net pension liability per balance sheet	(18,082)	(9,210)	(8,568)
Total	\$ 21,591	\$ 30,811	\$ 32,897
Assumed rate of return on plan assets	8.00%	8.00%	7.50%
Discount rate used to determine projected benefit obligation	7.00%	7.50%	7.50%
Assumed change in compensation levels	5.25%	5.75%	5.75%

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

Components of Net Pension Cost

	1993	1992	1991
	(Amounts in Thousands of Dollars)		
Service cost (Benefits earned during the year)	\$ 11,657	\$ 11,397	\$ 9,911
Interest on projected benefit obligation	27,423	26,390	24,705
Return on plan assets	(41,725)	(26,736)	(80,716)
Net amortization and deferrals	12,454	325	57,319
Net Pension Cost	\$ 9,809	\$ 11,376	\$ 11,219

Retirement Savings Plan and Other Benefit Options

The Company sponsors separate 401(k) retirement plans for its union-represented employees and its management employees. The 401(k) Retirement Savings Plan for Management Employees provides that the Company will match employee contributions to a 401(k) account up to a maximum of 6 percent of his or her eligible salary. The Company match consists of a $.25 base match and an additional $.25 incentive match, if targets approved by the Company's board of directors are met. The 1993 incentive target was met. The Company is funding its matching contributions with contributions to an ESOP established in December 1991. (See Note C.)

DQE shareholders have approved a long-term incentive plan through which the Company may grant management employees options to purchase, during the years 1987 through 2003, up to a total of five million shares of DQE *common stock* at prices equal to the fair market value of such stock on the dates the options were granted. At December 31, 1993, approximately 2.9 million of these shares were available for future grants.

As of December 31, 1993, 1992 and 1991, respectively, active grants totaled 1,204,000; 848,000; and 1,278,000 shares. Exercise prices of these options ranged from $12.3125 to $34.1875 at December 31, 1993 and from $12.3125 to $28.75 at December 31, 1992 and 1991. Expiration dates of these grants ranged from 1997 to 2003 at December 31, 1993; from 1997 to 2002 at December 31, 1992; and from 1997 to 2001 at December 31, 1991. As of December 31, 1993, 1992 and 1991, respectively, stock appreciation rights (SARs) had been granted in connection with 800,000; 623,000; and 822,000 of the options outstanding. During 1993, 103,000 SARs were exercised; 16,000 options were exercised at prices ranging from $12.3125 to $28.375; and 52,000 options lapsed. During 1992, 108,000 SARs were exercised; 50,000 options were exercised at prices ranging from $12.3125 to $26.375; and 59,000 options lapsed. During 1991, 229,000 SARs were exercised; 11,000 options were exercised at $12.3125; and 48,000 options lapsed. Of the active grants at December 31, 1993, 1992 and 1991, respectively, 578,000; 232,000; and 541,000 were not exercisable.

Other Postretirement Benefits

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

As of January 1, 1993, the Company adopted *Statement of Financial Accounting Standards Number 106, Employers' Accounting for Postretirement Benefits Other Than Pensions,* which requires the actuarially determined costs of the aforementioned postretirement benefits to be accrued over the period from the date of hire until the date the employee becomes fully eligible for benefits. The Company has adopted the new standard prospectively and has elected to amortize the transition liability over 20 years.

In prior years, the Company recognized the cost of providing postretirement benefits by expensing the contributions as they were made. Costs recognized under this method in 1992 approximated $1.2 million. The new accrual method increased the cost recognized for providing postretirement benefits to approximately $6.0 million.

Components of Postretirement Cost

	1993
	(Amounts in Thousands of Dollars)
Service cost (Benefits earned during the period)	$1,779
Interest cost on accumulated benefit obligation	2,497
Amortization of the transition obligation over twenty years	1,700
Total Postretirement Cost	$5,976

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

Funded Status of Postretirement Plan and Amounts Recognized on the Consolidated Balance Sheet of DQE at December 31, 1993

	(Amounts in Thousands of Dollars)
Actuarial present value of benefits:	
Retirees	$ 4,830
Fully eligible active plan participants	3,482
Other active plan participants	24,170
Accumulated postretirement benefit obligation	32,482
Fair market value of plan assets	0
Accumulated benefit obligation in excess of plan assets	$(32,482)
Unrecognized net loss	$ (122)
Unrecognized prior service cost	4,383
Unrecognized net transition liability	(32,296)
Postretirement liability per balance sheet	(4,447)
Total	$(32,482)

For measurement purposes, a 10.5 percent increase in the cost of covered health care benefits was assumed as of January 1, 1993. This rate is assumed to decrease to 5.5 percent by 1999 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. A 1 percent increase in the health care cost trend rate would increase the accumulated postretirement benefit obligation by $4.0 million at January 1, 1994, and the net annual cost by $0.6 million for the year. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7 percent.

J. Rate Matters

1987 Rate Case

In March 1988, the PUC adopted a rate order that increased Duquesne's annual revenues by $232 million. This increase is being phased in from April 1, 1988 through April 1, 1994. Deficiencies which resulted from the phase-in plan in current revenues from customers have been included in the consolidated income statement as deferred revenues. Deferred revenues have been recorded on the balance sheet as a deferred asset for future recovery. As customers are billed for deficiencies related to prior periods, this deferred asset is reduced. As designed, the phase-in plan provides for carrying charges (at the after-tax AFC rate) on revenues deferred for future recovery. Since April 1993, Duquesne has not recorded additional carrying charges on the deferred revenue balance. Duquesne had recovered previously deferred revenues and carrying charges of $285.9 million as of December 31, 1993. Phase-in plan deferrals of $28.6 million remained unrecovered as of that date. Duquesne expects to recover this remaining unrecovered balance by the end of the phase-in period.

At this time, Duquesne has no pending base rate case and has no immediate plans to file a base rate case.

Deferred Rate Synchronization Costs

In 1987, the PUC approved Duquesne's petition to defer initial operating and other costs of Perry Unit 1 and Beaver Valley Unit 2. Duquesne deferred the costs incurred from November 17, when the units went into commercial operation, until March 25, 1988 when a rate order was issued. In its order, the PUC deferred ruling on whether these costs would be recoverable from ratepayers. At December 31, 1993, these costs totaled $51.1 million, net of deferred fuel savings related to the two units. Duquesne is not earning a return on the deferred costs.

Duquesne believes that these deferred costs are recoverable. In 1990, another Pennsylvania utility was permitted recovery, with no return on the unamortized balance, of similar costs over a 10-year period.

Deferred Energy Costs

Duquesne defers fuel and other energy costs for recovery in subsequent years through the ECR. The deferrals reflect the difference between the amount that Duquesne is currently collecting from customers and its actual fuel costs. The PUC reviews Duquesne's fuel costs annually, for the fiscal year April through March, against the previously projected fuel costs and adjusts the ECR for over- or under-recoveries and for two PUC-established coal cost caps.

The PUC has established market price coal cost standards for all Pennsylvania utilities that have interests in mines that supply coal to their generating stations. Duquesne is subject to two such standards. One applies only to coal delivered at the Mansfield plant. The other, the system-wide coal cost standard, applies to coal delivered to the remainder of Duquesne's system. Both standards are updated monthly to reflect prevailing market prices for similar coal. The PUC has directed Duquesne to defer recovery of the delivered cost of coal to the extent that such cost exceeds generally prevailing market prices, as determined by the PUC, for similar coal. The PUC allows deferred amounts to be recovered from customers when the delivered costs of coal fall below such PUC-determined prevailing market prices.

In 1990, the PUC approved a joint petition for settlement that clarified certain aspects of the system-wide coal cost standard and gave Duquesne options to extend the standard through [illegible] 2000. In December 1991, Duquesne exercised the first of two options that extended the [illegible] through March 1996. The unrecovered cost of coal used at Mansfield amounted to [illegible] million and the unrecovered cost of coal used throughout the system amounted to $8.8 million at December 31, 1993. Duquesne believes that all deferred coal costs will be recovered.

Warwick Mine Costs

The 1990 joint petition for settlement (See preceeding section on deferred energy costs.) also recognized costs at Duquesne's Warwick Mine, which had been on standby since 1988, and allowed for recovery of such costs, including the costs of ultimately closing the mine. In 1990, Duquesne entered into an agreement under which an unaffiliated company will operate the mine until March 2000 and sell the coal produced. Production began in late 1990. The mine reached a full production rate in early 1991. The Warwick Mine coal reserves include both high and low sulfur coal; the sulfur content averages in the mid-range at 1.7 percent – 1.9 percent sulfur content. More than 90 percent of the coal mined at Warwick currently is used by Duquesne. Duquesne receives a royalty on sales of coal in the open market. The Warwick Mine currently supplies less than one-fifth of the coal used in the production of electricity at the plants operated by Duquesne and those owned by CAPCO.

Costs at the Warwick Mine and Duquesne's investment in the mine are expected to be recovered through the ECR. Recovery is subject to the system-wide coal cost standard. Duquesne also has an opportunity to earn, through the ECR, a return on its investment in the mine during the period, including extensions, of the system-wide coal cost standard. At December 31, 1993, Duquesne's net investment in the mine was $24.5 million. The estimated current liability for mine closing (including final site reclamation, mine water treatment and certain labor liabilities) is $33.0 million and Duquesne has collected approximately $8.9 million toward these costs.

Property Held for Future Use

In 1986, the PUC approved Duquesne's request to remove the Phillips and most of the Brunot Island (BI) power stations from service and place them in cold reserve. Duquesne's capitalized costs and net investment in the plants at December 31, 1993 totaled $130 million. (See Note L.)

On December 8, 1993, the New Jersey Board of Regulatory Commissioners (BRC) denied a request by General Public Utilities' (GPU) subsidiary Jersey Central Power and Light Company for approval of the long-term power purchase and operating agreements, originally signed in

1990, between GPU and Duquesne and further amended earlier in 1993. The BRC rejected an administrative law judge's recommended decision that the project be approved and, within hours of the BRC decision, GPU terminated its participation in the project. In view of GPU's decision not to proceed, Duquesne terminated its participation in the project and in the PUC transmission line siting proceeding. During the fourth quarter of 1993, Duquesne recognized a charge of approximately $15.2 million for its investment in this abandoned GPU transmission line project.

Duquesne expects to recover its net investment in these plants through future sales. Phillips and BI represent licensed, certified, clean sources of electricity that will be necessary to meet expanding opportunities in the power markets. Duquesne believes that anticipated growth in peak load demand for electricity within its service territory will require additional peaking generation. Duquesne looks to BI to meet this need. The Phillips Power Plant is an important component in meeting market opportunities to supply long term bulk power. Recent legislation may permit wider transmission access to these long term bulk power markets. In summary, Duquesne believes its investment in these cold-reserved plants will be necessary in order to meet future business needs. If business opportunities do not develop as expected, Duquesne will consider the sale of these assets. In the event that market demand, transmission access or rate recovery do not support the utilization or sale of the plants, Duquesne may have to write off part or all of their costs.

K. Commitments and Contingencies

Construction

Duquesne estimates that it will spend approximately $110 million on construction during 1994. Construction expenditures are estimated to be $70 million in 1995 and $80 million in 1996. These amounts exclude AFC, nuclear fuel and expenditures for possible early replacement of steam generators at the Beaver Valley Station.

Westinghouse Lawsuit

The CAPCO companies are owners of various portions of Beaver Valley Units 1 and 2. In 1991, the CAPCO companies filed suit against Westinghouse Electric Corporation (Westinghouse) in the United States District Court for the Western District of Pennsylvania. The suit alleges that six steam generators supplied by Westinghouse for the two units contain serious defects – in particular defects causing tube corrosion and cracking. The Company is seeking monetary and corrective relief. Steam generator maintenance costs have increased as a result of these defects and are likely to continue increasing. The condition of the steam generators is being monitored closely. If the corrosion and cracking continue, replacement of the steam generators could be required prior to the ends of their 40-year design lives. The Company is continuing to conduct a corrective maintenance program and to explore longer term options, including replacement of the steam generators. While the Company has no current plans to replace the steam generators and has not yet completed a detailed, site-specific study, replacement cost per unit is estimated to be between $100 million and $150 million. (Other utilities with similar units have replaced steam generators at costs in this range.) The Company cannot predict the outcome of this matter; however, the Company does not believe that resolution will have a materially adverse effect on the Company's financial position or results of operations. The Company's percentage interests (ownership and leasehold) in Beaver Valley Unit 1 and in Beaver Valley Unit 2 are 47.5 percent and 13.74 percent, respectively. The remainder is held by the other CAPCO companies. Duquesne operates both units on behalf of the CAPCO companies.

Nuclear Insurance

The CAPCO companies maintain the maximum available nuclear insurance for the $5.9 billion total investment in Beaver Valley Units 1 and 2. The insurance program provides $2.7 billion for property damage, decommissioning, and decontamination liabilities. The CAPCO companies have similar property insurance for the $5.4 billion total investment in Perry Unit 1.

Duquesne would be responsible for its share of any damages in excess of insurance coverage. In addition, if the property damage reserves of Nuclear Electric Insurance Limited (NEIL), an industry mutual, are inadequate to cover claims arising from an incident at any United States nuclear site covered by that insurer, Duquesne could be assessed retrospective premiums of as much as $6.5 million for up to seven years.

The Price-Anderson Amendments to the Atomic Energy Act limit public liability from a single incident at a nuclear plant to $9.4 billion. Duquesne has purchased $200 million of insurance, the maximum amount available, which provides the first level of financial protection. Additional protection of $8.8 billion would be provided by an assessment of up to $75.5 million per incident on each nuclear unit in the United States. Duquesne's maximum total assessment, $56.6 million, which is based upon its ownership interests in nuclear generating stations, would be limited to a maximum of $7.5 million per incident per year. A further surcharge of 5 percent could be levied if the total amount of public claims exceeded the funds provided under the assessment program. Additionally, a premium tax of 3 percent would be charged on the assessment and surcharge. Finally, the United States Congress could impose other revenue-raising measures on the nuclear industry if funds prove insufficient to pay claims.

Duquesne carries extra expense insurance; coverage includes the incremental cost of any replacement power purchased (in addition to costs that would have been incurred had the units been operating) and other incidental expense after the occurrence of certain types of accidents at the Company's nuclear units. The amounts of the coverage are 100 percent of the estimated extra expense per week during the 52-week period starting 21 weeks after an accident and 67 percent of such estimate per week for the following 104 weeks. The amount and duration of actual extra expense could substantially exceed insurance coverage.

Guarantees

Duquesne and the other CAPCO companies have guaranteed certain debt and lease obligations related to a coal supply contract for the Bruce Mansfield plant. At December 31, 1993, Duquesne's share of these guarantees was $35.2 million. The prices paid for the coal by the CAPCO companies under this contract are expected to be sufficient to meet debt and lease obligations to be satisfied in the year 2000. (See Note J.) The minimum future payments to be made by Duquesne solely in relation to these obligations are $6.9 million in 1994, $6.6 million in 1995, $6.3 million in 1996, $5.9 million in 1997, $5.6 million in 1998, $5.3 million in 1999 and $4.1 million in 2000. Duquesne's total payments for coal purchased under the contract were $26.5 million in 1993, $25.2 million in 1992 and $32.6 million in 1991.

Residual Waste Management Regulations

In July 1992, the Pennsylvania Department of Environmental Resources (DER) issued residual waste management regulations governing the generation and management of non-hazardous waste. Duquesne is currently conducting tests and developing compliance strategies for these regulations. Capital compliance costs are estimated, on the basis of currently available information, at $10 million through 1995. Through the year 2000, the expected additional capital cost of compliance, which is subject to the results of ground water assessments and DER final approval of compliance plans, is approximately $25 million.

Other

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

L. Generating Units

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

Generating Units at December 31, 1993

Unit	Percentage Interest	Megawatts	Net Utility Plant (Millions of Dollars)	Fuel Source
Cheswick	100.0	570	$ 124.4	Coal
Elrama (a)	100.0	487	91.7	Coal
Ft. Martin 1	50.0	276	39.2	Coal
Eastlake 5	31.2	186	46.9	Coal
Sammis 7	31.2	187	54.7	Coal
Bruce Mansfield 1 (a)	29.3	228	65.3	Coal
Bruce Mansfield 2 (a)	8.0	62	17.5	Coal
Bruce Mansfield 3 (a)	13.74	110	51.0	Coal
Beaver Valley 1 (b)	47.5	385	262.3	Nuclear
Beaver Valley 2 (c)(d)	13.74	113	15.5	Nuclear
Beaver Valley Common Facilities			169.5	
Perry 1 (e)	13.74	164	608.7	Nuclear
Brunot Island	100.0	66	7.4	Fuel Oil
Total		2,834	1,554.1	
Cold-reserved units:				
Brunot Island	100.0	240	44.5	Fuel Oil
Phillips (a)	100.0	300	78.0	Coal
Total Generating Units		3,374	$1,676.6	

(a) The unit is equipped with flue gas desulfurization equipment.
(b) The NRC has granted a license to operate through January 2016.
(c) On October 2, 1987 Duquesne sold its 13.74 percent interest in Beaver Valley Unit 2; the sale was exclusive of transmission and common facilities. Amounts shown represent facilities not sold and subsequent leasehold improvements.
(d) The NRC has granted a license to operate through May 2027.
(e) The NRC has granted a license to operate through March 2026.

M. Quarterly Financial Information (Unaudited)

Summary of Selected Quarterly Financial Data (thousands of dollars, except per share amounts)

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

1993 (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating Revenues	$286,743	$278,731	$336,488	$293,598
Operating Income	60,450	61,762	68,616	62,372
Income Before Cumulative Effect on Prior Years of Changes in Accounting Principles	31,839	33,017	48,294	28,257
Net Income	34,414	33,017	48,294	28,257
Earnings Per Share	.65	.62	.91	.54
Stock price:				
High	36⅜	36	37	36⅞
Low	31⅜	32¾	34⅝	32
1992				
Operating Revenues (b)	$299,596	$291,803	$316,613	$286,192
Operating Income (b)	63,131	59,396	74,941	58,447
Net Income	33,863	30,488	45,877	31,290
Earnings Per Share	.64	.58	.86	.59
Stock price:				
High	30⅝	30½	32	32⅜
Low	26⅞	27¼	29¾	30⅝

(a) Fourth quarter 1993 results included the effects of a $15.2 million charge for the write-off of Duquesne's investment in abandoned transmission line project (See Note J.) and a $14.6 million reduction of taxes other than income as a result of a favorable resolution of tax assessments.
(b) Restated to conform with presentations adopted during 1993.

SELECTED FINANCIAL DATA

Amounts in Thousands of Dollars	1993	1992	1991	1990	1989	1988
Selected Income Statement Items						
Operating Revenues:						
Current revenues from customers	$1,175,024	$1,180,707	$1,181,332	$1,044,314	$ 947,121	$ 867,141
Deferred customer revenues	(100,315)	(98,201)	(78,344)	10,784	96,287	117,544
Other revenues	120,851	111,698	100,846	78,010	75,875	76,132
Total Operating Revenues	1,195,560	1,195,204	1,203,834	1,133,108	1,119,283	1,060,817
Operating Expenses:						
Fuel and purchased power	220,928	265,340	250,755	219,511	215,043	228,172
Other operating & maintenance expenses	399,363	362,0[illegible]	375,026	366,349	356,120	341,942
Depreciation and amortization	142,657	127,92[illegible]	119,264	122,251	119,376	111,023
Income and other taxes	179,412	182,926	191,865	157,819	158,865	135,338
Operating Income	253,200	255,915	266,924	267,178	269,879	244,342
Other Income, excluding AFC	7,796	15,980	6,984	11,275	8,050	47,723
Total AFC (debt and equity)	1,595	4,894	4,273	2,934	2,872	3,027
Less Interest and Other Charges	121,184	135,271	144,616	159,715	167,799	176,526
Cumulative Effect on Prior Years of Changes in Accounting Principles	2,575	—	—	—	—	—
Net Income	$ 143,982	$ 141,518	$ 133,565	$ 121,672	$ 113,002	$ 118,566
Earnings Per Share	$2.72	$2.67	$2.50	$2.24	$2.03	$1.86
Selected Balance Sheet Items						
Property, plant & equipment – net	$3,118,766	$3,015,694	$3,035,115	$3,040,562	$3,055,039	$3,065,922
Total assets	$4,574,041	$3,787,698	$3,860,681	$3,843,205	$3,841,495	$3,799,334
Capitalization:						
Common stockholders' equity	$1,230,583	$1,171,460	$1,111,121	$1,079,141	$1,066,190	$1,070,575
Preferred and preference stock	133,128	132,009	137,343	189,093	219,991	244,816
Long-term debt	1,416,998	1,413,001	1,420,726	1,501,295	1,540,329	1,550,231
Total Capitalization	$2,780,709	$2,716,470	$2,669,190	$2,769,529	$2,826,510	$2,865,622
Capitalization Ratios						
Common stockholders' equity	44.2%	43.1%	41.6%	39.0%	37.7%	37.4%
Preferred and preference stock	4.8%	4.9%	5.2%	6.8%	7.8%	8.5%
Long-term debt	51.0%	52.0%	53.2%	54.2%	54.5%	54.1%
Total Capitalization	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Ratio of Earnings to Fixed Charges (pre-tax)	2.33	2.22	2.09	1.89	1.78	1.72
Selected Common Stock Information						
Shares Outstanding *(In thousands)*:						
Year-end	53,012	52,950	52,905	53,759	55,340	57,831
Average	52,979	52,913	53,391	54,432	55,790	63,748
Dividends declared *(In thousands)*	$86,089	$81,491	$78,040	$74,972	$72,397	$77,571
Dividends paid per share	$1.60	$1.52	$1.44	$1.36	$1.28	$1.20
Dividend payout ratio	58.8%	56.9%	57.6%	60.7%	63.1%	64.5%
Price earnings ratio at year-end	12.7	12.1	12.3	11.1	11.8	10.1
Dividend yield at year-end	4.6%	5.0%	5.0%	5.8%	5.7%	6.8%
Return on average common equity	12.0%	12.4%	12.2%	11.3%	10.6%	10.4%

SELECTED OPERATING DATA

	1993	1992	1991	1990	1989	1988
Sales of Electricity:						
Average annual residential kilowatt-hour use	6,201	5,901	6,331	5,953	6,060	6,168
Electric energy sales billed (millions of KWH):						
Residential	3,231	3,069	3,285	3,078	3,119	3,156
Commercial	5,490	5,358	5,450	5,236	5,145	5,055
Industrial	3,046	3,059	3,042	3,296	3,221	3,302
Miscellaneous	84	83	84	84	84	91
Total Sales to Customers	11,851	11,569	11,861	11,694	11,569	11,604
Sales to other utilities	2,821	4,060	2,979	1,830	2,100	2,716
Total Sales	14,672	15,629	14,840	13,524	13,669	14,320
Percentage Change in Energy Sales:						
Residential	5.3	(6.6)	6.7	(1.3)	(1.2)	3.0
Commercial	2.5	(1.7)	4.1	1.8	1.8	3.2
Industrial	(0.4)	0.6	(7.7)	2.3	(2.5)	13.2
Miscellaneous	1.2	(1.2)	—	—	(7.7)	(7.1)
Total Sales to Customers	2.4	(2.5)	1.4	1.1	(0.3)	5.7
Sales to other utilities	(30.5)	36.3	62.8	(12.9)	(22.7)	12.0
Total Sales	(6.1)	5.3	9.7	(1.1)	(4.5)	6.8
Energy Supply and Production Data:						
Energy supply (millions of KWH):						
Net generation – system plants (net of Company use and losses)	14,056	15,074	14,220	13,266	13,455	14,144
Purchased and net inadvertent power	616	555	620	258	214	176
Total Energy Supply	14,672	15,629	14,840	13,524	13,669	14,320
Generating capability (MWs)	2,834	2,834	2,835	2,835	2,835	2,836
Peak load (MWs)	2,499	2,308	2,402	2,379	2,381	2,372
Cost of fuel per million BTU	143.65¢	140.15¢	153.70¢	149.62¢	143.87¢	145.74¢
BTU per kilowatt-hour generated	10,437	10,370	10,414	10,444	10,411	10,304
Average production cost per kilowatt-hour	2.71¢	2.54¢	2.80¢	2.61¢	2.73¢	2.58¢
Number of Customers – End of Year:						
Residential	522,353	521,152	520,016	518,322	516,801	513,760
Commercial	52,910	52,839	52,617	52,330	51,950	51,456
Industrial	1,995	1,987	2,004	2,026	2,023	2,017
Other	1,866	1,833	1,891	1,847	1,818	1,828
Total Customers	579,124	577,811	576,528	574,525	572,592	569,061

DQE Board of Directors

(All terms 3 years)

DQE/Duquesne Light Committees:
1. Audit
2. Compensation
3. Finance
4. Nominating

Duquesne Light Committees:
5. Employment and Community Relations
6. Nuclear Review

John M. Arthur 71. Term expires 1995 (5, 6). Retired Chairman, Duquesne Light. Directorships include Mine Safety Appliances Company (worker and plant protection equipment and systems) and Chambers Development Company, Inc. (waste management operations).

Daniel Berg 64. Term expires 1994 (1, 6). Institute Professor, Rensselaer Polytechnic Institute. Directorships include Hy-Tech Machine, Inc. (specialty parts), Joachim Machinery Co., Inc. (distributor of machine tools), and Chester Environmental, Inc. (environmental engineering).

Doreen E. Boyce 59. Term expires 1995 (2, 5). President of the Buhl Foundation (support of educational and community programs). Directorships include Microbac Laboratories, Inc. and Dollar Bank, Federal Savings Bank. Trustee of Franklin & Marshall College.

Robert P. Bozzone 60. Term expires 1994 (1, 2). President and Chief Executive Officer of Allegheny Ludlum Corporation (specialty metals production). Directorships include Allegheny Ludlum Corporation; Chairman, Pittsburgh branch of the Federal Reserve Bank of Cleveland.

Sigo Falk 59. Term expires 1996 (2, 3, 4). Management of personal investments. Chairman of Maurice Falk Medical Fund and trustee of Chatham College.

William H. Knoell 69. Term expires 1994 (3, 4, 6). Retired Chairman and Chief Executive Officer of Cyclops Industries, Inc. (basic and specialty steels and fabricated steel products; industrial and commercial construction). Directorships include Cabot Oil and Gas Corporation. Life trustee of Carnegie Mellon University.

G. Christian Lantzsch 69. Term expires 1995 (2, 3). Retired Vice Chairman and Treasurer, Mellon Bank Corporation (bank holding company); retired Vice Chairman and Chief Financial Officer, Mellon Bank, N.A. (commercial banking and trust services). Directorships include Koger Equity, Inc. (real estate investment trust).

Robert Mehrabian 52. Term expires 1995 (1, 5). President, Carnegie Mellon University; Dean, College of Engineering, University of California at Santa Barbara, 1983-90. Directorships include PPG Industries, Inc. (producer of glass, chemicals, coatings and resins), Mellon Bank Corporation and Mellon Bank, N.A.

Thomas J. Murrin 64. Term expires 1994 (3, 6). Dean, A.J. Palumbo School of Business Administration, Duquesne University; former Deputy Secretary of U.S. Dept. of Commerce; former President, Westinghouse Electric Corporation Energy and Advanced Technology Group. Directorships include Motorola, Inc. (manufacturer of electrical equipment and components). Member of the private sector Council on Competitiveness and the NASA Advisory Council.

Robert B. Pease 68. Term expires 1996 (1, 5). Senior Vice President, National Development Corporation (real estate); Executive Director, Allegheny Conference on Community Development, 1968-91. Directorships includ. 3lue Cross of Western Pennsylvania, the Port Authority of Allegheny County, and the Regional Industrial Development Corporation of Southwestern Pennsylvania.

Eric W. Springer 64. Term expires 1996 (1, 4). Partner of Horty, Springer and Mattern, P.C. (attorneys-at-law). Directorships include Presbyterian University Hospital. President of the Allegheny County Bar Association.

Wesley W. von Schack 49. Term expires 1996 (3, 4, 5, 6). Chairman, President and Chief Executive Officer of DQE and Duquesne Light. Directorships include Mellon Bank Corporation, RMI Titanium Co. (producer of titanium metal products), the Pittsburgh branch of the Federal Reserve Bank of Cleveland, the Regional Industrial Development Corporation of Southwestern Pennsylvania, the Pennsylvania Business Roundtable, and the Pittsburgh Cultural Trust.

DQE Officers

Wesley W. von Schack 49. DQE Chairman of the Board, President and Chief Executive Officer; Duquesne Light Chairman of the Board since 1987, President and Chief Executive Officer since 1986, and Chief Financial Officer from 1984 through 1986. Previously Senior Vice President – Finance and Administrative Services for Central Vermont Public Service Corporation. Also served in executive positions with American Electric Power Company and Appalachian Power Company.

David D. Marshall 41. DQE Vice President; Duquesne Light Executive Vice President since 1992, previously Assistant to the President (1990) and Vice President, Corporate Development (1987). Joined Duquesne Light in 1985 as General Manager, Planning, Budgeting and Rates; previously was Assistant Vice President of Finance for Central Vermont Public Service Corporation.

Frederick S. Potter 48. DQE Vice President since 1991; previously a senior banker with Bear, Stearns & Co., Inc.; a vice president for Planmetrics, Inc.; and an investment banker with Merrill Lynch & Co., Inc.

Gary L. Schwass 48. DQE Vice President and Treasurer; Duquesne Light Chief Financial Officer since 1989; Vice President, Finance (1988); and Vice President and Treasurer (1987). Joined Duquesne Light in 1985 as Treasurer; previously served in a variety of senior management positions for Consumers Power Company, including Executive Director of Financial Planning and Projects.

Diane S. Eismont, 49
Secretary

Raymond H. Panza, 43
Controller

James D. Mitchell, 42
Assistant Treasurer

Morgan K. O'Brien, 33
Assistant Controller

Joan S. Senchyshyn, 55
Assistant Secretary

Duquesne Light Company

Wesley W. von Schack, 49
Chairman of the Board, President and Chief Executive Officer

David D. Marshall, 41
Executive Vice President

Gary L. Schwass, 48
Vice President, Finance and Chief Financial Officer

Roger D. Beck, 57
Vice President, Marketing and Customer Services

Gary R. Brandenberger, 56
Vice President, Power Supply

William J. DeLeo, 43
Vice President, Corporate Performance and Information Services

Dianna L. Green, 47
Vice President, Administrative Services

John D. Sieber, 54
Vice President, Nuclear

Edwyna G. Anderson, 64
General Counsel

Diane S. Eismont, 49
Secretary

James D. Mitchell, 42
Treasurer

Raymond H. Panza, 43
Controller

Donald J. Clayton, 39
Assistant Treasurer

William F. Fields, 43
Assistant Treasurer

Morgan K. O'Brien, 33
Assistant Controller

Joan S. Senchyshyn, 55
Assistant Secretary

Duquesne Enterprises

Frederick S. Potter, 48
President

Anthony J. Villiotti, 47
Vice President, Treasurer and Controller

Thomas A. Hurkmans, 28
Vice President

H. Donald Morine, 56
President, Allegheny Development Corporation and Property Ventures, Ltd.

John L. Weinhold, 57
Vice President, Property Ventures, Ltd.

Montauk

Gary L. Schwass, 48
President

James D. Mitchell, 42
Vice President and Treasurer

Donald J. Clayton, 39
Vice President

Lydia E. York, 34
Controller

Common Stock

Trading Symbol: DQE
Stock Exchanges Listed and Traded:
New York, Philadelphia, Chicago
Number of Common Shareholders of Record at Year End: 81,343

Annual Meeting

Shareholders are cordially invited to attend our Annual Meeting of Shareholders at 11 a.m. (local time), April 20, 1994, at the Pittsburgh Theological Seminary, 616 N. Highland Ave., Pittsburgh, PA 15206.

Dividends

The Board of Directors historically has declared quarterly dividends payable on the first business day of January, April, July and October. The record dates for 1994 are expected to be March 7, June 10, September 9 and December 9.

Direct Deposit of Dividends

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

Tax Status of Common Stock Dividends

The company estimates that all of the common stock dividends paid in 1993 are taxable as dividend income. This estimate is subject to audit by the Internal Revenue Service.

Form 10-K

If you hold or are a beneficial owner of our stock as of February 23, 1994, the record date for the 1994 Annual Meeting, we will send you, free upon request, a copy of DQE's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission for 1993. All requests must be made in writing to:

Secretary
DQE
Box 68
Pittsburgh, PA 15230-0068

DQE and its affiliated companies are Equal Opportunity Employers.

Reg. U.S. Pat. & Tm. Off.

Shareholder Services/Assistance

Shareholder inquiries relating to dividends, missing stock certificates, dividend reinvestment, direct deposit, direct debit, change of address notification, and other account information should include your account number and be directed to:

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

Shareholders also can call between 7:30 a.m. and 4:30 p.m., Eastern time, Monday through Friday. Please have your account number handy.

Pittsburgh area: 393-6167
Toll free outside Pittsburgh area:
1-800-247-0400
FAX: 412-393-6087

Questions relating to re-registering stock, including shares held in the Dividend Reinvestment and Stock Purchase Plan, can be answered by our Shareholder Relations Department. To actually transfer stock certificates, contact our transfer agent:

Bank of Boston
Transfer Processing
150 Royall Street 45-01-05
Canton, MA 02021
617-575-2900

Duplicate Mailings

If you hold multiple accounts, you may be receiving duplicate mailings of annual and quarterly reports. Help us eliminate this unnecessary expense by calling our toll free number. Elimination of these duplicate mailings will not affect separate delivery of dividend checks and proxy materials to each account.

Financial Community Inquiries

Analysts, investment managers, and brokers should direct their inquiries to 412-393-4133. Written inquiries should be sent to:

Investor Relations Department
DQE
Box 68
Pittsburgh, PA 15230-0068
FAX: 412-393-6448

DQE

The 1993 DQE Annual Report was printed entirely on recycled paper and is 100 percent recyclable.