DUQUESNE LIGHT COMPANY

Our primary focus is to efficiently and effectively satisfy the needs and requirements of our customers through the commitment and personal involvement of all employees. We will be a profitable supplier of diversified energy services recognized for excellence and quality, from our core business of low-cost production and delivery of safe and reliable electric energy ...to such related opportunities as cogeneration and energy conservation.

1988 ANNUAL REPORT

DUQUESNE LIGHT COMPANY

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1988 ANNUAL REPORT

The mission statement on the front cover and our corporate objectives and goals reflect the changes in our marketplace and in the electric utility industry. Every group, unit, and department in our company has set specific goals to help us meet the following objectives.

CUSTOMERS
Deliver quality service and provide customer satisfaction in such a way that differentiates us within the energy services marketplace.

SHAREHOLDERS
Manage our resources to maximize the shareholders' return on investment, and insure a relationship with our owners that is characterized by integrity, accessibility, and timely communications.

OPERATIONS
Be a low cost producer of electric energy and related services, and be recognized for excellence in our operating performance.

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

COMMUNITY
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.

The photographs on the following pages illustrate how our employees are working to meet these ambitious objectives.

FINANCIAL AND OPERATING HIGHLIGHTS

	1988	*1987*	*Percent Change*
Earnings Per Share of Common Stock	**$1.86**	$1.85	+ 0.5
Book Value Per Share of Common Stock at Year End	**$18.51**	$17.37	+ 6.6
Shares of Common Stock Outstanding at Year End (000)	**57,831**	70,096	−17.5
Dividends Paid	**$1.20**	$1.20	
Peak Load (megawatts)	**2,372**	2,280	+ 4.0
Annual System Generation (megawatt-hours)	**14,996,332**	14,033,842	+ 6.9

COMPANY PROFILE

Duquesne Light Company, headquartered in Pittsburgh, Pa., provides safe and reliable electric service to some 570,000 customers within an area of approximately 800 square miles in Allegheny and Beaver counties in Southwestern Pennsylvania. The company also sells electricity to other electric utilities.

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TO OUR SHAREHOLDERS

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

1988 marked the third year of our DUQUESNE PLAN business strategy. Introduced in early 1986 in response to the unprecedented collapse of the local steel industry and a 50% loss in industrial sales, the DUQUESNE PLAN was designed to revitalize our company and to help accelerate the economic recovery of the Pittsburgh region. We have made significant progress toward both of those objectives. I am pleased to report that in 1988:

- Retail sales increased 5.7% and total operating revenues topped $1 billion, reflecting the strength and diversity of the local economy.
- Our employees displayed a commitment to excellence in all areas of our business...our power plants operated very efficiently...and our distribution personnel provided excellent service to customers, especially during record hot summer months when peak demand increased 4% and reached its highest level in seven years.
- In particular, Beaver Valley Power Station Unit 2 had an outstanding first year of operation...achieving 91.8% availability, compared to a national average of 63.2%.
- Our wholly owned subsidiary, Allegheny Development Corporation, won the energy services contract for the main terminal at Greater Pittsburgh International Airport, scheduled to be completed in 1992.
- We completed a major portion of our stock buy-back program—the largest in modern day utility industry history. As of December 1988, we repurchased about 21% of the shares outstanding at the beginning of the program in October 1987.
- The annual dividend was increased 6.7%, from $1.20 to $1.28, beginning January 1, 1989.

As you recall, the DUQUESNE PLAN comprised six initiatives: expanded marketing and economic development efforts; reshaping our company; assistance for financially troubled customers; rate stabilization; financial improvement; and shareholder interest initiatives.

As I've noted in previous communications, highlights of the past three years include the following.

- Our successful economic development efforts helped add or retain more than 8,100 jobs to an increasingly diverse regional economy. Interestingly, commercial sales, 30% of our customer sales in 1981, now represent 44%.

- We reshaped the company through internal organizational restructuring, and cost effectiveness programs initiated in 1985 whereby costs were reduced by approximately $175 million.

- We helped more than 5,000 of our financially troubled customers through a variety of innovative, need-specific programs, including the Dollar Energy Fund, the Salvation Army Outreach Program, and our new weatherization program.

- Rate stabilization became a reality in March 1988 when the Pennsylvania Public Utility Commission approved a six-year, $232 million rate phase-in.

- We saved $8 million in 1986 interest costs through the early redemption of high-coupon first-mortgage bonds. In 1987, we completed the cornerstone of our financial restructuring program—the sale and leaseback of our interest in Beaver Valley Unit 2. We used proceeds from that sale for the stock buy-back program and to redeem an additional $206 million of high-coupon bonds, which further reduced annual interest expenses by $26 million.

- When we announced the DUQUESNE PLAN, we stated that we would analyze a variety of traditional and non-traditional opportunities to increase shareholder value—including the possibility of forming a holding company. After careful consideration, we believe this is an appropriate course of action. A holding company structure will provide enhanced organizational, managerial, and financial flexibility—each important to our success in a changing industry and a diversified energy services market. We would appreciate your support for this proposal when you vote your proxy.

We are grateful for what the men and women of Duquesne Light have accomplished through the first three years of the DUQUESNE PLAN. Yet we know we cannot rest on those accomplishments. We must continue to get closer to our customers and to meet their individual needs. We also must continue to be innovative and adaptable in today's changing business and regulatory environments. And finally, we must continue to work for balanced public policy.

We enter 1989 with a clear vision of the role we want to play in a changing utility industry and a changing energy services market. Our mission statement and corporate objectives, detailed on the cover of this report, capture our vision of the future. At the heart of our vision is a commitment to operate Duquesne Light as efficiently and effectively as we can. That means satisfying the needs and requirements of our customers as a low cost producer of safe and reliable electric energy. This will continue to be our primary focus. We also will consider undertaking activities in the diversified energy services market that relate to our core business, satisfy customers' needs, and represent a good investment for shareholders.

I commend my fellow employees for their perseverance, innovation, and creativity in dealing with the formidable challenges of the past several years. We look forward to the future.

On behalf of the Board of Directors, thank you for your continuing support.

Wesley W von Schack

February 21, 1989

New York Stock Exchange

SHAREHOLDERS
Gary Schwass, vice president, Finance, and Bill Stein, treasurer, managed the largest stock buy-back program in modern day utility history, improving the value of your investment. Improving shareholder services is the aim of Diane Eismont, corporate secretary, and her staff, who are using information from the recent shareholder survey to develop ways to better serve our individual investors.

PERSPECTIVE ON 1988

Sales, Revenues, Earnings. Sales to retail customers in 1988 totaled 11.6 billion kilowatt-hours, an increase of 5.7% over the previous year. Industrial sales increased 13.2%, primarily due to increased demand from USX Corporation's steel production facilities. Record hot summer temperatures helped commercial sales increase 3.2%, and residential sales increase 3.0%.

For the fifth consecutive year, we set a new record in sales to other utilities. These 1988 sales of 2.8 billion kilowatt-hours represent a 12.5% increase above 1987 sales to other utilities. Total 1988 sales increased 6.9%, to 14.4 billion kilowatt-hours.

We are actively promoting economic development throughout our service territory, and are encouraged by the growth and diversification of the regional economy. No longer easily defined as "the Steel City," today's Pittsburgh and its environs is an economic quilt of high-tech industries…medical research facilities…corporate headquarters…and major financial institutions, in addition to the traditional heavy industries that are our heritage.

Higher retail sales and the March rate increase helped increase 1988 current revenues to $884 million, a 5.7% gain over 1987. Total 1988 operating revenues, which reflect increased sales to other utilities and deferred revenues from the rate case phase-in, increased 19.7%, to $1.06 billion.

1988 earnings per share were $1.86, compared to $1.85 in 1987. In 1988, net income was lower than the previous year because we received less than full recovery of our Beaver Valley Unit 2 and Perry Unit 1 costs in the rate case decision. Financial restructuring and cost effectiveness helped offset some of the disappointing and adverse aspects of the rate case decision. Looking ahead, we expect that our continued emphasis in these areas will have a positive effect on shareholder value.

Operations Results. Our fuel mix is well balanced: 71% coal-fired and 29% nuclear in 1988.

Our power stations operated with a high degree of excellence, especially during the summer months when a record heat wave pushed customer demand to 2,372 megawatts—the highest level in seven years. On July 18, we set an all-time generation record—2,623 megawatts—enabling us to meet customer needs and to sell 451 megawatts to other utilities. It is interesting that, in 1981, we had to purchase 338 megawatts to meet our all-time system peak of 2,522 megawatts. If that peak had occurred last year, we could have met the customer demand with electricity generated solely by our own power plants.

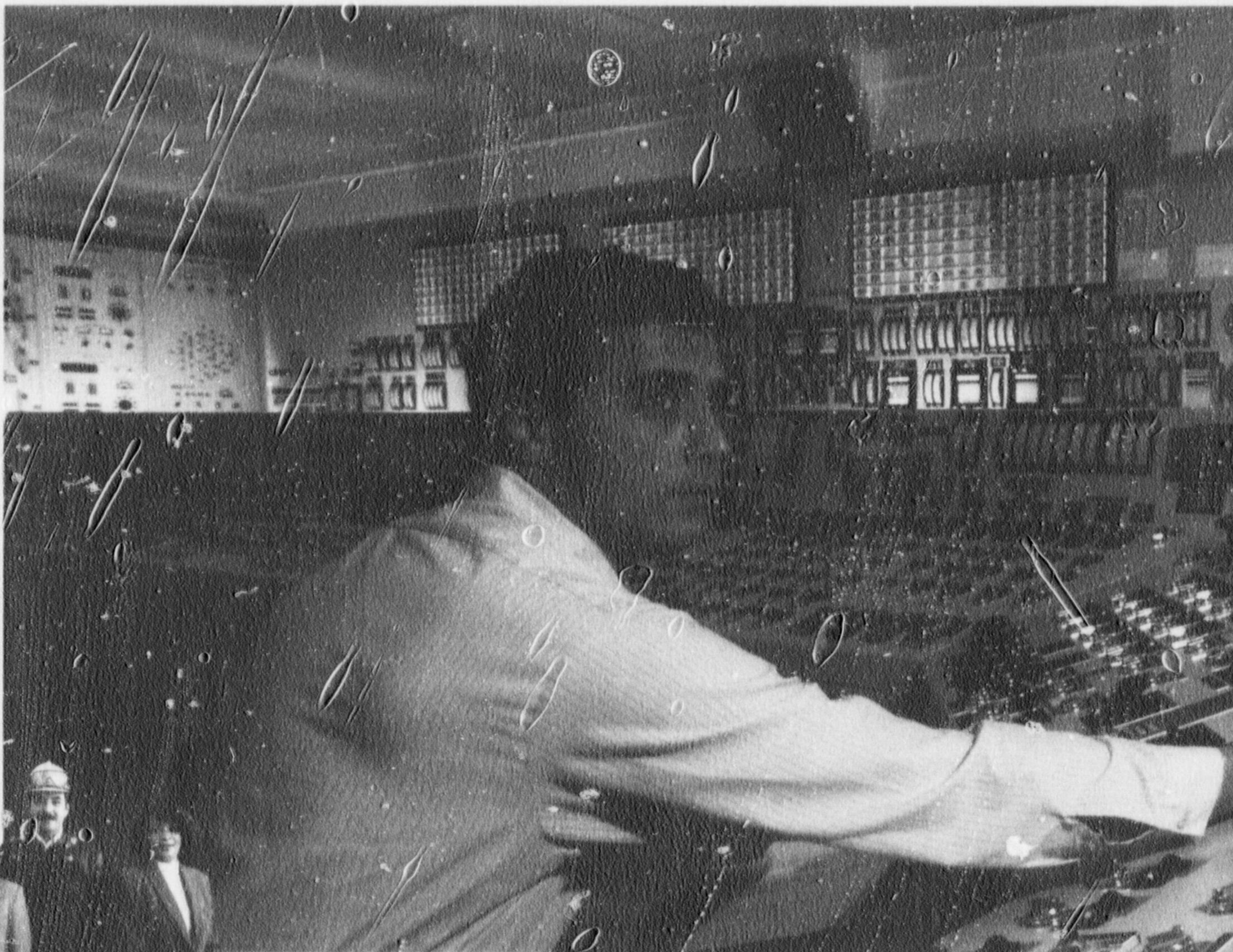
The availability of our company-operated, coal-fired Cheswick and Elrama power stations was 84.9% and 85.3% respectively, compared to

Elrama Power Station

OPERATIONS
Operating efficiency and reliability are key to our ability to be a low cost energy supplier. Gary Brandenberger, vice president, Power Supply; Linda Fox, engineer; and Ralph Covington, boiler operator, are part of a team working to find new operating economies and to extend the life of our older generating stations.

the industry average of 79.2%. As discussed earlier, the nuclear Beaver Valley Unit 2 had an outstanding first year of operation. Even with a scheduled two-month refueling outage, Beaver Valley Unit 1 exceeded the industry average with a 77.4% availability.

Our power station employees worked safely as well as efficiently. During the past five years, the company's overall safety record has consistently been better than the industry average. For the second consecutive year, nuclear station employees compiled one million work hours without a lost-time accident, and earned an award from the Edison Electric Institute.



EMPLOYEES
The success of our business depends on the commitment of our employees and the quality of their contributions. Kent Parkhill, director, management training; Thad Galecki, supervisor, construction training; and Dianna Green, vice president, Human Resources, are helping employees develop the skills needed to achieve excellence.

*I*ndividual innovation and the creative work of employee involvement teams helped improve operating efficiencies. For example: two employees received national recognition for their innovative work at Beaver Valley Power Station—work that will result in significant cost savings for our company and the industry. And at Cheswick Power Station, an employee involvement team's new computerized job tracking system means shorter maintenance outages and improved productivity and safety all year long.

Control room training simulator

Employee Training. We continued to place more emphasis on training and development in 1988. Employees took part in more than a quarter million work hours of skills training, personal development, and managerial and supervisory education. In May, our nuclear training center was fully accredited by the National Academy for Nuclear Training.

Management Changes. Dianna L. Green was elected vice president, Human Resources in September 1988. Prior to joining Duquesne Light as general manager, Human Resources, she was vice president of personnel for the Information Products Division of Xerox Corporation.

Service crew responding to call

CUSTOMERS

The summer of 1988 was the hottest in more than 100 years, placing heavy demands on our people and our system. Our customer service employees—including Joanne Mizgorski, customer service representative; Jim Griffin, manager, construction and engineering; and Sam Shemaka, service crew leader — gave the extra effort to keep the power flowing, despite two fierce storms and 38 days when the mercury hit 90 degrees or better.

Edwyna G. Anderson joined us in September 1988 as general counsel. She is nationally prominent in the field of utility regulation, and has 33 years of public service experience. Other recent upper level management appointments include: Julian A. Chandler, from manager, Central Shops, to general manager, General Services; Robert A. Irvin, from manager, System Operations, to general manager, System Operations and Telecommunications; and A. William Stein, from assistant treasurer, to treasurer.

Getting Closer to Customers. We are striving to become the preferred energy resource in our service territory by continuing our DUQUESNE PLAN efforts to get closer to our customers and to take a lead role in local economic development initiatives.

We have developed specialized electric rates tailored to specific customer end-uses of electricity, including add-on heat pumps and other electric space heating. In addition, our economic development incentive rates have helped commercial and industrial customers expand operations and increase jobs. In 1988, the $1.5 million Duquesne Light Economic Development Fund was established to provide loans for promising business start-ups and expansions in areas particularly hard-hit by the decline of the local steel industry. The fund is held and managed by The Pittsburgh Foundation.

Working closely with three consumer advisory groups, we developed a weatherization and energy education program for low-income customers. These advisory groups also helped us develop a completely

COMMUNITY
Expansion at Greater Pittsburgh International Airport is expected to create more than 17,000 jobs over the next decade as adjacent land becomes prime real estate for business development. Tom Woodske and other members of our economic development team are working with local, county and state leaders, such as Ray Christman, Pennsylvania's Secretary of Commerce, to help attract and retain businesses throughout our service territory.

Commercial growth near airport

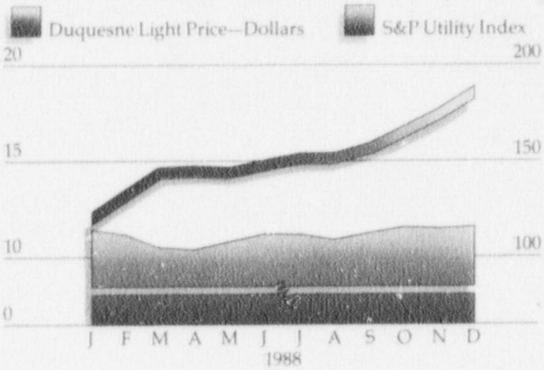
new plain-language bill format which has been very well received by our residential customers and the Pennsylvania Public Utility Commission.

We completed the segmentation of our markets, begun in 1987, and now have an experienced major account sales force in place to service them. Our internal technical support has been augmented to provide faster response to customer inquiries. Our Consumer Services Department was reorganized and merged with our Credit and Collection Department so we can serve our customers more effectively and efficiently.

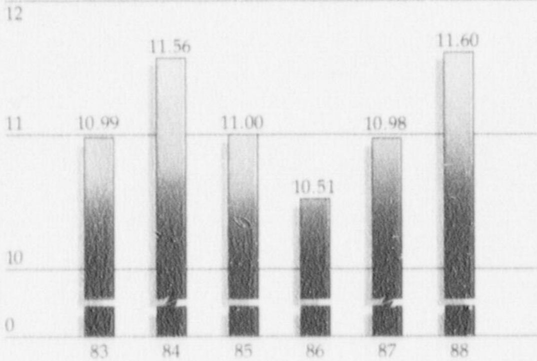
Customer surveys and focus groups last year helped us better understand and then fulfill customers' needs. In 1989, we plan to implement an ongoing program to measure opinion in four areas: new customers, trouble calls, general inquiries, and service reliability. Two other customer service improvements planned for this year include a switch to monthly meter reading and the opening of two full-service field offices.

All of our employees are part of the marketing team. This was epitomized by the outstanding response to an employee involvement program to compose a customer focus slogan. The contest attracted more than 2,600 entries from employees in all sections of our company. The winning entry, "Duquesne Light Company: Focusing Our Energy on Your Needs," capsulizes our marketing thrust in 1989.

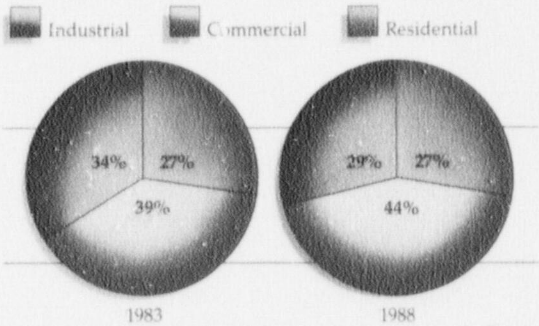
DQU COMMON STOCK PRICE vs S&P UTILITY INDEX



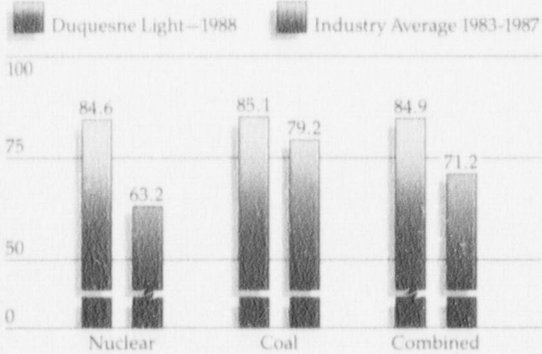
SALES TO RETAIL CUSTOMERS
Billions of Kilowatt Hours



RETAIL CUSTOMER MIX
Percent KWH Sales

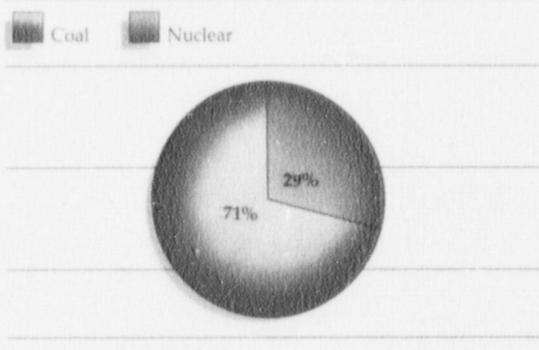


GENERATION AVAILABILITY*
Percent



*Availability is the percent of time a unit is available for service.

1988 FUEL MIX
Percent



FINANCIAL REVIEW

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COMPANY REPORT ON FINANCIAL STATEMENTS

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

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

Wesley W von Schack   Gary L. Schwass

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

Gary L. Schwass
Vice President-Finance

AUDIT COMMITTEE LETTER

The Audit Committee, composed entirely of non-employee directors, meets regularly with the independent public accountants and the internal auditors to discuss the 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 1988, the Audit Committee recommended to the Board of Directors, subject to shareholder approval, the selection of the Company's independent public accountants, reviewed the overall scope and specific plans of the independent public accountants and internal auditors, discussed the independent public accountants' management letter recommendations and reviewed and approved the independent public accountants' general audit fees and non-audit services.

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

The Audit Committee of the Board of Directors

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

TO THE DIRECTORS AND STOCKHOLDERS
OF DUQUESNE LIGHT COMPANY:

We have audited the consolidated balance sheet of Duquesne Light Company as of December 31, 1988 and 1987 and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1988. 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 Duquesne Light Company as of December 31, 1988 and 1987 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

As discussed in Note B to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 90, Accounting for Abandonments and Disallowances of Plant Costs.

Deloitte Haskins & Sells

Deloitte Haskins & Sells
January 30, 1989

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

RESULTS OF OPERATIONS

Operating Revenues

Operating revenues increased (decreased) in the years 1986 through 1988 over the respective preceding years, for the following reasons:

	1988	*1987*	*1986*
	(Millions of Dollars)		
General rate increases	$ 63.3	$ —	$ 10.9
Deferred customer revenues	117.5	—	—
Electrical consumption	22.0	10.8	(23.3)
General rate decrease	(7.7)	(7.6)	—
Energy cost rate revenues	(34.9)	(10.9)	(9.9)
Other	5.1	(7.1)	.6
Revenues from other utilities	9.9	6.5	(.5)
Total	$ 175.2	$ (8.3)	$(22.2)

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

The general rate increase and the deferred customer revenues in 1988 resulted from the rate order received in March 1988. See Note I. The general rate decrease affecting 1988 and 1987 was effective July 1, 1987 and resulted from the final order in the 1986 rate case. The fluctuations in electrical consumption resulted from changes in kilowatt-hour sales to residential, commercial and industrial customers. Additionally, industrial sales increased in 1988 compared to 1987 due to the adverse effect in the first quarter of 1987 of the strike against a major steel producer. The decreases in energy cost rate revenues in 1988 and 1987 were primarily due to decreases in the energy cost rate. Favorable capacity situations and the requirements of neighboring utilities resulted in increased sales to other utilities. Currently, all benefits from sales to other utilities are required by the PUC to be passed through to the Company's customers.

Operation and Maintenance Expenses

Fuel expense decreased in 1988 compared to 1987 due to decreases in the cost per ton of coal and the effect of the increased use of lower cost nuclear fuel, which more than offset increases resulting from higher kilowatt-hour sales. Other operation and maintenance expenses increased in 1988 and 1987 due to expenses related to Beaver Valley 2 and Perry 1, both of which began commercial operation in November 1987, increases in the generation of electricity and increases in general and administrative and marketing expense.

Depreciation and Taxes

Depreciation and amortization increased in 1988 primarily due to depreciation of Perry 1 beginning in April 1988. Additionally, these costs increased in both 1988 and 1987 due to the amortization of Perry 2 costs which began in July 1987. See Note B.

The increase in taxes other than income taxes in 1988 was primarily due to increased Pennsylvania gross receipts taxes, which vary in direct relationship to revenues. The increase in income taxes in 1988 was primarily due to increased taxable income. Income taxes decreased in 1987 compared to 1986 due to decreased taxable income and the amortization of deferred investment tax credits in 1987. Income taxes also were affected by decreases in statutory income tax rates in both 1988 and 1987. The effective income tax rates for 1988, 1987 and 1986 were 31%, (9%) and (3%), respectively.

Other Income and Deductions and Interest Charges

Allowance for funds used during construction (AFC) decreased significantly when the Company stopped recording AFC on Beaver Valley 2 and Perry 1 in late 1987. This decrease was partially offset by carrying charges applicable to those Units recorded through the first quarter of 1988 and included in other income. Interest income increased primarily due to interest on the proceeds of the sale of Beaver Valley 2. Interest expense decreased in 1988 due to the Company's purchases of its first mortgage bonds beginning in October 1987.

The effects in each year on net income and earnings per share resulting from the adoption of Statement of Financial Accounting Standards No. 90 is included in Note B. The adverse effects in 1987 of recording the losses on the cancelled generating units and on the sale of Beaver Valley 2 are discussed in Notes D and E. The adverse effect of the option order refund in 1986 is discussed in Note C.

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

CAPITAL RESOURCES AND LIQUIDITY

Construction

Construction expenditures during 1988, exclusive of equity AFC and nuclear fuel, were $93 million. These expenditures were made to improve and expand production, transmission and distribution systems. The Company completed a major construction program when Perry 1 and Beaver Valley 2 went into commercial operation in November 1987.

The Company currently estimates that its construction expenditures, exclusive of equity AFC and nuclear fuel, will be $105, $110, $115, $115 and $120 million for 1989 through 1993, respectively. These estimates include expenditures of the Company's wholly owned subsidiary, Allegheny Development Corporation, and assume, among other things, that there will be no new environmental regulations, such as "acid rain" legislation, which would require large capital expenditures.

Financing

In October 1987, the Company completed the sale and leaseback of its interest in Beaver Valley 2. Proceeds from this sale were used for the repurchase through December 31, 1988 of 15.3 million shares of common stock for $224 million and 104,000 shares of preferred and preference stock for $8.7 million. The Company also spent $232 million to retire high-interest first mortgage bonds. These transactions reduced interest expense and dividend costs and increased the Company's financial flexibility. The Company's recapitalization program financed by proceeds from the sale of Beaver Valley 2 essentially has been completed. The Company will continue efforts to reduce its capital costs by making additional purchases of its securities to the extent funds are available and the capital markets permit.

In September 1988, $71 million of 30-year pollution control revenue bonds were issued to finance the Company's share of the cost of certain Perry 1 facilities. The Company expects to complete a pollution control financing in 1989 related to Beaver Valley 2, subject to receipt of state allocation. There were no equity securities issued by the Company in 1988.

The Company finances its nuclear fuel requirements primarily by leasing and other arrangements under which it may finance up to $208 million of nuclear fuel. As of December 31, 1988 the Company's share of the costs of nuclear fuel financed under these arrangements was $142 million, including interest, storage and other costs.

In 1988, $26.2 million was required for maturities of long-term debt and sinking fund requirements. It is expected that $18.4 million will be required in 1989 for similar purposes.

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

Dividends may be paid on the common stock to the extent permitted by law and as declared by the Board of Directors, subject to the provisions of the Company's Restated Articles. Pennsylvania law provides that dividends on common stock may be paid only out of positive retained earnings. No dividends or distributions may be made on the common stock if dividends or sinking fund obligations on the preferred or preference stock are unpaid. Further, the aggregate amount of common stock payments is limited to certain percentages of net income and by the ratio of common stockholders' equity to total capitalization. No portion of retained earnings at December 31, 1988 was restricted.

Outlook

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

The Company has been exploring opportunities for long-term power sales to other utilities. In October 1988 a letter of intent was signed between the Company and Delmarva Power and Light Company involving the sale of up to 100 megawatts annually for a period of 20 years beginning in 1990. The Company's ability to make such long-term power sales is dependent upon receiving prompt and equitable regulatory treatment.

The Company's Board of Directors has approved the formation of a holding company structure, and authorized a filing with the Securities and Exchange Commission relating to the proposed holding company and the submission of the plan of merger to the holders of the Company's common, preferred and preference stock.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund) and the Superfund Amendments and Reauthorization Act of 1986 (SARA) established programs addressing the clean-up of hazardous waste disposal sites, emergency preparedness, community Right-To-Know, radon gas and other issues. Pursuant thereto, the Company has been notified of its involvement or potential involvement in the clean-up of four hazardous waste sites. The Company is currently determining the extent, if any, of its liability in this regard. The Company believes that the ultimate outcome of these matters will not have a material adverse effect on its financial position or results of operations.

The extent to which funds from operations will continue to be available to pay dividends and finance the Company's capital needs depends upon its financial condition, earnings, business prospects, regulatory climate and other relevant factors. The Company is affected by rate-related proceedings, changes in accounting principles and other problems which it and the electric utility industry may experience.

STATEMENT OF CONSOLIDATED INCOME

Year Ended December 31, (Thousands of Dollars, Except Per Share Amounts)	*1988*	*1987*	*1986*
OPERATING REVENUES:			
Customers:			
Current	$ 883,725	$835,986	$850,744
Deferred (Note I)	117,544	—	—
Other utilities	61,964	52,018	45,519
Total Operating Revenues	1,063,233	888,004	896,263
OPERATING EXPENSES:			
Fuel	224,900	238,039	233,673
Purchased power	5,688	5,594	3,765
Other operation	268,762	189,783	169,555
Maintenance	73,180	66,380	74,719
Depreciation and amortization	111,023	82,172	74,325
Taxes other than income taxes	80,833	67,442	70,987
Income taxes (Note F)	54,505	52,859	79,724
Total Operating Expenses	818,891	702,269	706,748
OPERATING INCOME	244,342	185,735	189,515
OTHER INCOME AND DEDUCTIONS:			
Allowance for equity funds used during construction	1,323	71,234	81,943
Carrying charges on assets not in rate base (Note I)	23,622	11,093	—
Loss on cancelled generating units (Note D)	—	(34,263)	—
Loss on sale of Beaver Valley 2 (Note E)	—	(23,828)	—
Rate refunds (including interest expense of $1,180, $1,854 and $12,953, respectively) (Note C)	(1,180)	(1,854)	(57,278)
Effects of application of SFAS 90 (Note B)	6,586	7,048	(42,051)
Income taxes-credit (Note F)	(7,277)	65,034	83,689
Other—net	25,972	10,561	2,692
Total Other Income and Deductions	49,046	105,025	68,995
INCOME BEFORE INTEREST CHARGES	293,388	290,760	258,510
INTEREST CHARGES:			
Interest on long-term debt	152,693	163,777	147,483
Other interest	4,977	4,566	8,792
Allowance for borrowed funds used during construction, net of income taxes	(1,704)	(32,343)	(28,641)
Total Interest Charges	155,966	136,000	127,634
NET INCOME	137,422	154,760	130,876
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK	18,856	19,788	20,547
EARNINGS FOR COMMON STOCK	$ 118,566	$134,972	$110,329
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (000)	63,748	72,845	72,930
EARNINGS PER SHARE OF COMMON STOCK	$1.86	$1.85	$1.51
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$1.22	$1.20	$1.415

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

As of December 31, (Thousands of Dollars)	*1988*	*1987*
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric plant in service	$3,512,943	$3,429,422
Construction work in progress	70,980	74,094
Property held under capital leases (Note E)	303,673	290,907
Property held for future use (Note I)	214,982	213,128
Total	4,102,578	4,007,551
Less accumulated depreciation and amortization	1,036,656	908,654
Property, Plant and Equipment—Net	3,065,922	3,098,897
OTHER PROPERTY AND INVESTMENTS (at cost)	21,953	20,477
CURRENT ASSETS:		
Cash and temporary cash investments (at cost which approximates market)	44,941	74,699
Cash held by trustee	616	345,439
Accounts receivable:		
Customers (less allowance for uncollectible accounts of $7,721 and $5,417, respectively)	96,640	90,592
Other (including tax claims of $120 and $14,199, respectively)	58,493	56,538
Materials and supplies (generally at average cost):		
Coal	25,088	40,642
Operating and construction	47,208	44,102
Other current assets	6,941	34,336
Total Current Assets	279,927	686,348
DEFERRED DEBITS:		
Extraordinary property loss (Note B)	107,453	117,570
Unamortized loss on reacquired debt (Note K)	58,015	39,862
Deferred coal costs (Note I)	12,768	16,200
Income taxes on sale of Beaver Valley 2 (Note E)	82,090	85,086
Deferred costs of units not in rate base (Note I)	51,127	11,582
Phase-in plan deferrals (Note I)	117,544	—
Other deferred debits	79,782	75,593
Total Deferred Debits	508,779	345,893
Total Assets	$3,876,581	$4,151,615

See Notes to Consolidated Financial Statements.

	1988	1987
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (Note K):		
Common stock (authorized--90,000,000 shares, issued—73,119,446 shares)	$ 73,119	73,119
Capital surplus	927,446	926,131
Retained earnings	293,854	252,859
Less treasury stock (at cost)(15,288,090 and 3,023,800 shares, respectively)	(223,844)	(34,748)
Total Common Stockholders' Equity	1,070,575	1,217,361
Non-redeemable preferred and preference stock	154,073	156,137
Redeemable preferred and preference stock	90,743	104,768
First mortgage bonds	1,187,903	1,401,669
Other long-term debt	368,694	297,599
Unamortized debt discount and premium—net	(6,366)	(8,668)
Total Capitalization	2,865,622	3,168,866
OBLIGATIONS UNDER CAPITAL LEASES (Note E)	121,793	140,535
CURRENT LIABILITIES:		
Long-term debt and lease obligations due within one year (Notes E and K)	39,852	53,529
Accounts payable	110,669	107,040
Accrued income taxes	8,535	9,968
Deferred income taxes and other accrued taxes	26,257	19,068
Accrued interest	47,475	43,597
Dividends declared	23,810	26,404
Deferred energy costs	12,545	18,064
Sinking fund and purchase requirements (Note K)	19,170	18,645
Rate refunds due within one year (Note C)	4,442	3,500
Total Current Liabilities	292,755	299,815
OTHER NONCURRENT LIABILITIES:		
Investment tax credits unamortized	161,038	165,452
Accumulated deferred income taxes	400,710	351,736
Other deferred credits	34,663	25,211
Total Other Noncurrent Liabilities	596,411	542,399
COMMITMENTS AND CONTINGENCIES (Notes B through L)		
Total Capitalization and Liabilities	$3,876,581	$4,151,615

STATEMENT OF CONSOLIDATED CASH FLOWS

Year Ended December 31, (Thousands of Dollars)	*1988*	*1987*	*1986*
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$137,422	$154,760	$130,876
Principal noncash charges (credits) to net income:			
Depreciation and amortization	154,042	114,002	97,265
Deferred income taxes and investment tax credits—net	44,560	69,866	8,663
Allowance for equity funds used during construction	(1,323)	(71,234)	(81,943)
Effects of application of SFAS 90	(6,586)	(7,048)	42,051
Phase-in plan deferred revenues	(117,544)	—	—
Loss on cancelled generating units	—	34,263	—
Loss on sale of Beaver Valley 2	—	23,828	—
Rate refunds (including accrued interest)	—	—	51,770
Carrying charges on assets not in rate base	(23,622)	(11,093)	—
Changes in working capital other than cash:			
Accounts receivable	(8,003)	(19,630)	(10,498)
Materials and supplies	12,448	(8,605)	4,089
Other current assets	27,395	(569)	1,560
Accounts payable	3,629	9,523	(10,477)
Other current liabilities	1,522	29,626	(12,605)
Other—net	9,392	(15,160)	(11,872)
Net Cash Provided From Operating Activities	233,332	302,529	208,879
CASH FLOWS FROM INVESTING ACTIVITIES:			
Construction expenditures	(93,253)	(187,302)	(207,406)
Sale of Beaver Valley 2	—	537,921	—
Income taxes on sale of Beaver Valley 2	—	(85,086)	—
Other—net	(4,039)	(1,925)	(3,991)
Net Cash Provided From (Used In) Investing Activities	(97,292)	263,608	(211,397)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Sale of bonds	71,000	100,000	100,000
Issuance of common stock	—	—	27,313
Increase (decrease) in notes payable	—	(15,000)	15,000
Dividends on capital stock	(96,427)	(107,084)	(123,645)
Reductions of long-term obligations	(276,464)	(43,853)	(68,360)
Rate refund payments	(3,192)	(47,636)	(1,891)
Repurchase of common stock	(189,096)	(34,858)	—
Premium on reacquired debt	(18,387)	(177)	(2,745)
Other—net	1,945	(212)	(286)
Net Cash (Used In) Financing Activities	(510,621)	(148,820)	(54,614)
Net increase (decrease) in cash and temporary cash investments	(374,581)	417,317	(57,132)
Cash and temporary cash investments at beginning of year	420,138	2,821	59,953
Cash and temporary cash investments at end of year	$ 45,557	$420,138	$ 2,821
Cash paid during the year for:			
Interest (net of amount capitalized)	$132,913	$134,819	$130,689
Income taxes	$ 16,021	$ 36,211	$ 14,460
Noncash investing and financing activities:			
Capital lease obligations recorded	$ 14,811	$ 20,851	$ 20,178

See Notes to Consolidated Financial Statements.

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Year Ended December 31, (Thousands of Dollars)	*1988*	*1987*	*1986*
BALANCE, JANUARY 1, AS PREVIOUSLY REPORTED	$269,965	$225,733	$197,952
CUMULATIVE EFFECT OF RETROACTIVE APPLICATION OF CHANGE IN ACCOUNTING METHOD (NOTE B)	(17,106)	(20,550)	—
BALANCE, JANUARY 1, AS ADJUSTED	252,859	205,183	197,952
NET INCOME FOR THE YEAR	137,422	154,760	130,876
Total	390,281	359,943	328,828
Cash dividends declared:			
Preferred stock	8,664	9,131	9,284
Preference stock	10,192	10,657	11,263
Common stock	77,571	87,296	103,098
Total Cash Dividends Declared	96,427	107,084	123,645
BALANCE AT END OF YEAR	$293,854	$252,859	$205,183

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Duquesne Light Company and its wholly owned subsidiaries—Allegheny Development Corporation and Monongahela Light and Power Company. All significant intercompany balances and transactions have been eliminated in the preparation of the consolidated financial statements.

Property, Plant and Equipment

Properties are stated at the original cost of construction, including related payroll taxes, pensions and other fringe benefits, administrative and general costs and an allowance for funds used during construction (AFC). AFC, which represents the estimated combined debt and equity cost of funds used to finance construction, varies according to changes in the level of construction work in progress (CWIP) and in the cost of capital. AFC is credited to income, and while cash is not realized currently from this allowance, it is realized over the service life of the plant through increased revenues resulting from higher rate base and higher depreciation expense. The AFC rates applied to CWIP, net of the tax effect, were 9.2%, 9% and 9.4% in 1988, 1987 and 1986, respectively.

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

Revenues

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

Depreciation

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

As permitted by the PUC, the Company recovers through rates its share of the estimated future decommissioning costs for three jointly owned nuclear units. These costs are estimated at $70 million for Beaver Valley 1, $20 million for Beaver Valley 2 and $38 million for Perry 1. Amounts collected from customers through rates are deposited in segregated accounts which can be used only for future decommissioning costs.

Income Taxes

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

Certain other timing differences are not deferred. They are recognized for book purposes, and in rates, in the year they affect taxes payable. These timing differences relate primarily to the difference between tax depreciation and book depreciation related to property placed in service prior to 1971. Based upon established PUC ratemaking practices, the Company believes that deferred taxes which have not been provided will be collected from its customers when the taxes become payable. As of December 31, 1988 the cumulative net amount of timing differences for which deferred income taxes have not been provided was approximately $271 million.

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

In December 1987 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 96, "Accounting for Income Taxes", which changes the method of accounting for income taxes. The Company must adopt the Statement by January 1, 1990. When the new standard is adopted, significant adjustments to balances of accumulated deferred income taxes will have to be made to record additional deferred income tax liabilities. Significant adjustments also will be recorded for the net reduction in previously recorded deferred income taxes resulting from income tax rate changes and for the recognition of deferred income tax effects related to unamortized investment tax credits. The Company has not yet determined the amounts of such adjustments. It is expected that the additional deferred income tax assets and liabilities will be offset primarily by regulatory assets and liabilities representing the expected future revenue requirement impact of these adjustments.

Deferred Fuel Costs

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

Nuclear Fuel Costs

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

Restatement of Financial Statements

In 1988 the Company changed its method of accounting for abandonments and disallowances of plant costs. The change was made to conform with SFAS No. 90. The Company's previously issued financial statements for 1987 and 1986 were restated to reflect the abandonment of Perry 2 in March 1986. See Note B.

Also in 1988, the Company adopted the provisions of SFAS 95, "Statement of Cash Flows". The Company has included a statement of cash flows for the year ended December 31, 1988 and restated the previously issued statements of changes in financial position for 1987 and 1986. For the purpose of the statement of cash flows, the Company considers all highly liquid investments which mature in three months or less to be cash equivalents.

B. EXTRAORDINARY PROPERTY LOSS

In 1984 the CAPCO companies agreed to minimize construction work and cash expenditures on Perry 2 pending consideration of several alternatives, including resumption of construction or cancellation of the Unit. The Company believes that any decision to resume construction of the Unit must be approved by all of the CAPCO companies. Based on present conditions, the Company will not approve resuming construction. In 1987 the Company received approval from the PUC to amortize and recover its $155 million investment in Perry 2 over a ten-year period which began July 1, 1987, on the basis that the Company had abandoned its interest in the Unit in March 1986. The Company is not earning a return on the unrecovered cost of the Unit, which was $131.5 million at December 31, 1988.

The effect of adopting SFAS 90 was to decrease the reported cost of the Unit to the present value of the future revenues allowed to recover the investment in the plant, and to record a corresponding loss. Accordingly, the Unit's cost was restated to $106.9 million at March 1986. As restated, retained earnings at January 1, 1987 decreased by $20.6 million.

Net income for 1986 decreased by $20.6 million ($.28 per share), net of taxes of $21.5 million. Net income for 1988 and 1987 increased by $3.2 million ($.05 per share) and $3.4 million ($.04 per share), net of taxes of $3.4 million and $3.6 million, respectively. Adoption of the Statement will increase net income by decreasing amounts over the remainder of the recovery period.

SFAS 90 represents a change in accounting for the financial impact of a plant abandonment. It does not affect cash flows or the actual cost recovery procedure authorized by the PUC. The difference in accounting is merely in the timing of the recognition of the economic effects of the transaction.

C. OPTION ORDER REFUND

In 1986 the PUC ordered the Company to refund $32.8 million of revenues collected under a 1981 PUC option order which later was ruled invalid by the Pennsylvania Supreme Court. Pending an appeal of the PUC's refund order to the Pennsylvania Commonwealth Court, the Company implemented a refund program over an 18-month period which began July 30, 1987.

The Company recorded the $32.8 million principal amount of refunds and $10.3 million of interest in 1986. Additional interest expense is being recorded over the refund period. On December 30, 1987 the Company deposited $30.8 million in an escrow account established for repayment of the unpaid principal amount of the refunds and interest accrued through December 31, 1987. This transaction was accounted for as an extinguishment of debt, so that the liability for the refunds was removed from the balance sheet. The remaining balance in the escrow account at December 31, 1988 was $7 million.

D. LOSS ON CANCELLED GENERATING UNITS

In 1980 the CAPCO companies cancelled construction of four nuclear generating units. The Company received approval from the Federal Energy Regulatory Commission and the PUC to amortize and recover from customers its share of the accumulated costs of the cancelled units ($34.3 million) over a ten-year period which began in 1983. The Company subsequently collected from customers $17 million under the rate order. The PUC's order approving the recovery of these costs was affirmed by the Pennsylvania Commonwealth Court in 1985.

In October 1987 the Pennsylvania Supreme Court found that the Pennsylvania Public Utility Code prohibited the recovery of the cancelled units' costs because the units never provided service to the Company's customers. On January 11, 1989 the United States Supreme Court upheld the October 1987 decision of the Pennsylvania Supreme Court prohibiting the Company's recovery of the cancelled units' costs. Because the Company recorded a loss in September 1987 equal to its original investment in the units of $34.3 million, the Court's decision is not expected to have a significant financial impact on the Company.

E. LEASES

Capital Leases: *(Thousands of Dollars)*	*December 31, 1988*	*1987*
Nuclear fuel	$274,210	$261,444
Electric plant	29,463	29,463
Total	303,673	290,907
Less accumulated amortization	153,179	112,643
Property held under capital leases—net	$150,494	$178,264

Leased nuclear fuel is amortized as the fuel is burned. The amortization of leased electric plant is based on the rental payments made. Amortization of leased property amounted to $40.5 million, $27.6 million and $19.5 million for 1988, 1987 and 1986, respectively.

Lease payments in 1988, 1987 and 1986 amounted to $117.4 million, $59.9 million and $38.6 million, respectively, of which $111 million, $54.1 million and $35.5 million (including deferred nuclear fuel lease payments) were charged to operating expenses.

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

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

Future minimum lease payments for capital leases are related principally to building leases and the estimated usage of nuclear fuel financed through leasing and trust arrangements. Minimum payments for operating leases are related principally to Beaver Valley 2 and the corporate headquarters. Future minimum lease payments at December 31, 1988 were as follows:

Year Ending December 31, (Thousands of Dollars)	*Operating Leases*	*Capital Leases*
1989	$ 66,007	$ 31,337
1990	63,965	40,188
1991	62,858	28,948
1992	62,329	23,483
1993	61,548	22,513
1994 and thereafter	1,482,382	69,255
Total minimum lease payments	$1,799,089	215,724
Less amount representing interest		50,490
Present value of net minimum lease payments		$165,234

F. INCOME TAXES

(Thousands of Dollars)	1988	1987	1986
Included in operating expenses:			
Currently payable:			
Federal	$ (3,954)	$(23,929)	$ 15,913
State	(899)	(1,053)	7,939
Deferred—net:			
Federal	61,661	60,911	40,871
State	2,667	1,434	(34)
Investment tax credits deferred—net	(4,970)	15,496	15,035
Total included in operating expenses	54,505	52,859	79,724
Included in other income:			
Currently payable:			
Federal	3,400	(25,655)	(28,073)
State	929	(5,966)	(6,406)
Deferred:			
Federal	2,742	(9,831)	(39,830)
State	626	(2,414)	(9,089)
Investment tax credits	(420)	(21,168)	(291)
Total included in other income	7,277	(65,034)	(83,689)
Total income tax expense (credit)	$61,782	$(12,175)	$ (3,965)

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

Computed federal income tax at statutory rate	$67,729	$ 56,963	$ 58,378
Increase (decrease) in taxes resulting from:			
Allowance for funds used during construction	(1,029)	(41,379)	(50,869)
Carrying charges on assets not in rate base	(8,032)	—	—
Excess of book over tax depreciation	4,201	(3,986)	(594)
State income taxes, net of federal income tax benefit	2,193	(4,804)	(4,098)
Amortization of deferred investment tax credits	(6,921)	(24,651)	(6,120)
Other—net	3,641	5,682	(662)
Total income tax expense (credit)	$61,782	$(12,175)	$ (3,965)
Sources of income taxes deferred and the related tax effects were:			
Excess of accelerated over straight-line depreciation	$28,336	$ 36,427	$ 34,769
Deferred revenues recorded for book but not for tax purposes	45,367	—	—
Unbilled revenues recorded for tax but not for book purposes	(3,395)	(3,519)	—
Expensed on tax return and deferred on books:			
Loss on early retirement of bonds	6,976	(395)	1,403
Perry 1 test period costs	—	8,319	—
Property taxes	(4,104)	7,038	22
Fuel costs	675	(7,810)	(1,630)
Expensed on books but not deducted for tax purposes:			
Rate refunds (including interest)	1,998	23,196	(27,418)
Loss on cancelled generating units	(56)	(17,016)	—
Amortization of extraordinary property losses	(565)	(565)	(1,738)
Loss on abandonment of Perry 2	(1,912)	1,017	(21,501)
Other-net	(5,624)	3,408	8,011
Total income taxes deferred—net	$67,696	$ 50,100	$ (8,082)

The Company's income tax returns are settled through 1981. The returns for 1982 through 1985 have been examined, and the returns for 1986 and 1987 are currently being reviewed. The Company's management believes that the settlement of federal and state taxes will not have a material adverse effect on the Company's financial position or results of operations. Investment tax credits included in other income in 1987 related principally to the sale and leaseback of Beaver Valley 2.

G. EMPLOYEE BENEFITS

The Company has trusteed retirement plans to provide pensions for all full-time employees, except coal mine employees who are covered under a plan administered by the United Mine Workers of America (UMW). Upon retirement, employees receive a monthly pension based on length of service and compensation. The Company's policy is to expense and fund the pension cost determined using the unit credit actuarial cost method, provided that this amount is at least equal to the minimum funding requirements required by the Employee Retirement Income Security Act (ERISA) and does not exceed the maximum tax deductible amount for the year. Pension costs charged to expense or construction for 1988, 1987 and 1986 were $12.5 million, $12.3 million and $13.5 million, respectively. Costs related to the UMW plan were $1.7 million, $3.1 million and $2.9 million for 1988, 1987 and 1986, respectively.

The Company adopted the provisions of SFAS No. 87, "Employers' Accounting for Pensions", as of January 1, 1987. Adopting this Statement did not have a material effect on the Company's pension expense.

The following sets forth the funded status of the plans and amounts recognized on the balance sheet at December 31, 1988 and 1987. Since the UMW plan is a multi-employer plan, information concerning such plan is not determinable by the Company and is not included in the information below.

(Thousands of Dollars)	*1988*	*1987*
Actuarial present value of benefits rendered to date:		
Vested benefits	$204,906	$191,665
Nonvested benefits	17,275	14,212
Accumulated benefit obligations based on compensation to date	222,181	205,877
Additional benefits based on estimated future salary levels	59,672	60,512
Projected benefit obligation	281,853	266,389
Fair market value of plan assets	266,014	244,060
Projected benefit obligation in excess of plan assets	$ (15,839)	$ (22,329)
Unrecognized net gain	$ 33,524	$ 24,417
Unrecognized prior service cost	(19,407)	(15,159)
Unrecognized net transition liability	(28,349)	(30,160)
Net pension liability per balance sheet	(1,607)	(1,427)
Total	$ (15,839)	$(22,329)
Assumed rate of return on plan assets	8.0%	7.5%
Discount rate used to determine projected benefit obligation	8.0%	8.0%
Assumed change in compensation levels	5.7%	5.7%

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

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

H. SHORT-TERM BORROWING AND REVOLVING CREDIT ARRANGEMENTS

The Company has a revolving credit agreement with a group of banks totaling $225 million available to March 22, 1991. Under certain conditions, borrowings outstanding under this agreement may be converted to term notes. Depending on the option selected by the Company at the time of each borrowing, interest rates fluctuate based on prime, Eurodollar and CD rates. The Company pays a commitment fee on the unused amount of the commitment.

There were no short-term borrowings in 1988. During 1987 and 1986, the maximum short-term bank and commercial paper borrowings outstanding were $46.5 million and $120 million, the average daily short-term borrowings outstanding were $15.4 million and $59.4 million, and the weighted average daily interest rate applicable to such borrowings was 7% and 6.6%, respectively.

I. RATE MATTERS

1987 Rate Case
On March 23, 1988 the PUC adopted an order which increased annual revenues by approximately $232 million. The order reflects the PUC's allowance of a 12.87% return on equity and an overall rate of return of 10.94%. Although the new rates became effective on March 25, 1988, the PUC ordered the increase to be phased in over a period of six years. The deficiencies in revenues resulting from these scheduled rate increases are deferred and will be recovered by the end of the sixth year. The phase-in plan was designed to include a return equal to an after-tax AFC rate on any revenues deferred for later recovery. A $41 million reduction in the Company's energy cost rate reduced the increase during the first year of the phase-in to 5.4%. Deferred revenues of $117.5 million were recorded through December 31, 1988.

As provided in the PUC's earlier orders approving the sale and leaseback of Beaver Valley 2, the Company agreed to a reduction in its revenue request. This reduced revenue level does not provide a complete recovery of the lease payments and related costs. The Company has agreed that this adjustment shall be applicable until at least January 1, 1991. Once the adjustment is removed, the Company expects full recovery of the lease payments and related costs.

The PUC concluded that no adjustments for imprudent construction or physical excess capacity should be applied to the Company's investment in Perry 1 but imposed an "economic" excess capacity penalty related to the Unit. This adjustment will reduce the Company's revenues by $5.7 million annually until the Unit is no longer considered to be economic excess capacity.

Several parties to the rate case, including the Company, have filed appeals primarily relating to the Perry 1 economic excess capacity penalty. The Company contends that no adjustment was warranted. The other parties contend that the amount of the annual adjustment should have been in the range of $50 million. The Company believes that the contentions of the other parties have no merit. As in any complex litigation, the Company is unable to predict the ultimate outcome of this matter. An outcome which ultimately increases the excess capacity adjustment would have an adverse effect on the Company's results of operations. Argument of the appeals before the Pennsylvania Commonwealth Court is scheduled for May 1989.

Deferred Coal Costs
Beginning in 1981, the PUC directed the Company to defer recovery of the cost of coal delivered to the Bruce Mansfield Plant (Mansfield coal) in excess of generally prevailing market prices for similar coal; however, amounts deferred may be recovered from customers during periods that the cost of Mansfield coal is less than generally prevailing market prices. The unrecovered cost of Mansfield coal paid by the Company was $8 million at December 31, 1988. The PUC ordered a similar limit on the recovery of the cost of all coal delivered to the Company's wholly and jointly owned power stations other than the Mansfield Plant, including coal from the Company's wholly owned Warwick Mine. These deferred costs amounted to $4.8 million at December 31, 1988. The Company believes that the deferred coal costs ultimately will be recovered.

In June 1988, as a result of excess coal inventories, the Company temporarily idled the Warwick Mine. The Company believes that the mine will return to operation. The PUC excluded the mine from rate base in 1981. The Company's net investment in the mine was $44.9 million at December 31, 1988.

Deferred Costs of Units Not in Rate Base
On July 16, 1987 the PUC approved the Company's petition to defer for possible recovery in a future rate proceeding, certain operating and other costs of Perry 1 and Beaver Valley 2. The costs deferred were incurred from November 1987 when the Units were placed in commercial operation until March 25, 1988 when the costs of the Units were reflected in rates. Although the PUC refused to consider these costs in the 1987 rate case, the Company believes that the costs eventually will be recovered through rates. These costs, net of income tax and deferred fuel savings related to the two Units, totaled $48.3 million at December 31, 1988. No return is being accrued on the deferred costs.

1986 Rate Case
In 1987 the PUC approved a settlement which concluded all litigation relating to the Company's 1986 rate case and resulted in a rate reduction of $15.8 million on an annual basis. The rate reduction became effective March 10, 1987 but was later revised to July 1, 1987 under terms of the settlement. As a result of extending the old rates through June 30, 1987, the Company is recovering $5.2 million plus interest over an 18-month period which began January 1, 1988. This amount was recorded in revenues in 1987.

Property Held for Future Use
The PUC approved the Company's requests to remove from service and place in "cold reserve" most of the Brunot Island and Phillips Power Stations. The Company's net investment in the cold-reserved units was $104 million at December 31, 1988 and is included in the balance sheet as "Property held for future use". The Company believes that its investment in the cold-reserved units, which has been removed from rate base, eventually will be recovered.

J. COMMITMENTS AND CONTINGENCIES

Construction
The Company estimates that it will spend $565 million on construction, exclusive of nuclear fuel and equity AFC, during the period 1989 through 1993.

Quarto Mining Company
In 1987 the Company, together with the other CAPCO companies, entered into an agreement with Consolidation Coal Company (Consol) under which Consol acquired all the common stock of Quarto Mining Company (Quarto) and restated in its entirety the coal supply contract for the Bruce Mansfield

Plant. Under this contract, Consol is obligated to deliver up to 5 million tons of coal annually through 1999. It is expected that these arrangements will make the supply of coal more secure and economical over the period of the contract.

The CAPCO companies' guarantees of certain Quarto debt and lease obligations, which were incurred in connection with the development and equipping of Quarto's coal properties, were not affected by the changes in the agreement. At December 31, 1988 the Company's share of these guarantees was $55.1 million. In general, the prices paid for the coal by the CAPCO companies under the coal supply contract will be sufficient to satisfy Quarto's debt and lease obligations. Under the coal supply contract, the minimum future payments to be made by the Company which are related solely to the Quarto obligations are:

Year Ending December 31,	*(Thousands of Dollars)*
1989	$ 8,337
1990	8,002
1991	7,807
1992	7,455
1993	7,102
After 1993	36,004
Total	$74,707

The Company's total payments for coal purchased under the current contract with Consol and the previous Quarto contract, including amounts related to the Quarto obligations, were $26.4 million, $25.8 million and $28.9 million in 1988, 1987 and 1986, respectively.

Nuclear Insurance

The CAPCO companies maintain a nuclear insurance program to the maximum extent available. This program currently provides $900 million of primary and excess property insurance and $825 million of decontamination liability and excess property insurance for the $5.7 billion interest in Beaver Valley 1 and 2. The companies have similar property insurance for the $5.3 billion interest in Perry 1. If the property damage reserves of one of the insurers are inadequate to cover claims arising from an incident at any nuclear site in the United States covered by that insurer, the Company is obligated to pay retrospective premiums of up to $4 million per year.

In August 1988 the Price-Anderson Amendments to the Atomic Energy Act were amended and extended to August 1, 2002. The aggregate limit for public liability claims that could arise from a single nuclear incident was increased to approximately $7.3 billion, subject to increases to reflect the effects of inflation and as additional nuclear reactors are licensed for operation. This potential liability would be covered by the maximum amount of liability insurance available from commercial insurance carriers (currently $200 million) and an amount provided by an industry retrospective assessment plan. Under the plan, if any unit in the United States had an incident with losses in excess of private insurance coverage, up to $63 million per incident could be levied against each licensed reactor in the country, but not more than $10 million per year for each reactor. Based on its present interest in three operating reactors, the Company's share of the maximum potential assessment under the retrospective program would be approximately $47 million per incident, limited to $7.5 million per year for each incident. An additional surcharge of 5% could be levied if the total amount of public claims exceeded the funds provided under the retrospective program. The Company's share of the surcharge would be approximately $2.3 million, subject to any increases for inflation. Congress could impose further revenue raising measures on the nuclear industry if funds prove insufficient to pay claims.

Shareholder Suits

Three complaints against the Company and/or its directors are outstanding related to the reduction of the quarterly dividend on the Company's common stock in 1986. The complaints seek compensatory and punitive damages in an undetermined amount for alleged violations of securities laws, as [illegible] as common law fraud and negligent misrepresentation. A hearing has been scheduled for April 14, 1989, at which time the Court will be asked to enter a final order approving a currently proposed settlement agreement under which the suits would be settled for approximately $3 million, substantially all of which would be covered by insurance. The settlement would be on the basis that neither the Company nor its directors committed the violations alleged.

LTV Steel Company

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

Other

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

K. CAPITALIZATION

Common Stock

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

In connection with the Company's recapitalization plan, the Company repurchased 12,264,290 shares of common stock at a total cost of $189.1 million during 1988. The Company expects to purchase additional shares during 1989.

In 1987 the Company's shareholders approved a Long-Term Incentive Plan through which the Company may grant management employees options to purchase up to a total of 3 million shares of its common stock during the period 1987-1997 at not less than the market price of the stock. As of December 31, 1988 active grants were 1,033,998 and 191,000 shares, at exercise prices of $12.3125 and $15.3125 per share, respectively. Stock appreciation rights (SARs) have been granted in connection with 1,033,998 of the options outstanding. During 1988, 6,356 SARs were exercised and 13,491 options lapsed due to terminations. None of the remaining options or SARs could have been exercised prior to January 1, 1989.

Preferred and Preference Stock

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

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

The outstanding preferred and preference stock generally are callable on not less than 30 days' notice at the prices stated in the table on page 31, plus accrued dividends. Certain call prices decline in future years. The preferred and preference stock are subject to various purchase and sinking fund requirements. As of December 31, 1988 the maximum combined aggregate sinking fund and mandatory purchase requirements for preferred and preference stock is $6,430,000 for each of the next five years.

The following summary indicates the changes in the number of shares of common, preferred and preference stock outstanding during 1988, 1987 and 1986:

Year Ended December 31, (Thousands of Shares)	*1988*	*1987*	*1986*
COMMON STOCK—$1 PAR VALUE:			
Outstanding—beginning of year	70,096	73,119	71,488
Issuances:			
Dividend reinvestment	—	—	1,631
Reissuance—treasury stock	—	9	—
Repurchases—common stock	(12,265)	(3,032)	—
Outstanding—end of year	57,831	70,096	73,119
PREFERRED AND PREFERENCE STOCK:			
Outstanding—beginning of year	5,069	5,183	5,355
Purchases and redemptions	(166)	(114)	(172)
Outstanding—end of year	4,903	5,069	5,183

Year Ended December 31, (Thousands of Dollars)	*1988*	*1987*	*1986*
CAPITAL SURPLUS:			
Premium on common stock	$933,326	$933,326	$933,326
Capital stock expense	(7,497)	(7,561)	(7,612)
Other	1,617	366	417
Total capital surplus	$927,446	$926,131	$926,131

PREFERRED AND PREFERENCE STOCK:

Series	Call Price Per Share	December 31, 1988 (Thousands) Shares Outstanding	Amount	December 31, 1987 (Thousands) Shares Outstanding	Amount
PREFERRED STOCK (1):					
4% (3)(7)	$ 51.50	550	$ 27,498	550	$ 27,498
3.75% (3)(7)	51.00	148	7,400	150	7,500
4.15% (3)(7)	51.73	132	6,622	140	7,000
4.20% (3)(7)	51.71	100	5,000	100	5,000
4.10% (3)(7)	51.75	120	6,000	120	6,000
$2.10 (3)(7)	51.84	160	8,000	160	8,000
$7.20 (4)(7)	101.00	334	16,708	350	17,500
$8.64 (4)(6)	104.00	185	9,240	233	11,644
$8.375 (4)(6)	105.03	240	12,000	252	12,600
PREFERENCE STOCK (2):					
$2.315 (5)(7)	25.90	1,200	1,200	1,200	1,200
$2.10 (5)(7)	25.70	1,200	1,200	1,200	1,200
$7.50 (4)(6)	103.00	167	167	214	214
$9.125 (4)(6)	104.80	367	367	400	400
Total			101,402		105,756
Paid-in capital			148,544		160,279
Purchase and sinking fund requirements			(5,130)		(5,130)
Total preferred and preference stock			$244,816		$260,905

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

OTHER LONG-TERM DEBT:
POLLUTION CONTROL OBLIGATIONS *(Thousands of Dollars)*:

Year Issued	Average Interest Rate	Serial Maturity or Mandatory Redemption Beginning	Final Maturity	Principal Amount Outstanding at December 31, 1988	1987
1972	5.49%	1983	2002	$ 20,800	$ 21,400
1973	5.685%	1984	2003	11,000	11,200
1973	5.755%	1984	2003	14,250	14,625
1974	7.97%	1989	2004	14,000	14,000
1975	7.50%	1993	2005	17,000	17,000
1975	8.40%	1991	2005	18,000	18,000
1976	6.90%	1994	2011	15,000	15,000
1981	12.00%	2002	2011	50,000	50,000
1983	10.50%	—	2013	20,500	20,500
1984	11.625%	—	2014	51,000	51,000
1985	7.75%	—	2015	44,250	44,250
1988	6.875%	—	2018	71,000	—
Total				346,800	276,975
Less current maturities and sinking fund requirements				1,600	1,175
Total pollution control obligations				345,200	275,800
Nuclear fuel obligations				14,740	12,695
5% sinking fund debentures (authorized—$20,000,000) due March 1, 2010				8,754	9,104
Total other long-term debt				$368,694	$297,599

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

The nuclear fuel obligations result from a trust arrangement used for the procurement of a portion of the Company's nuclear fuel requirements. Interest is capitalized and included with the nuclear fuel in CWIP. The Company will pay the trust obligations as the related fuel is withdrawn from the trust.

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

Sinking fund requirements and maturities for the next five years of long-term debt outstanding, exclusive of nuclear fuel obligations, as of December 31, 1988 were as follows:

Year Ending December 31,	*Sinking Fund Requirements*	*Maturities*
1989	$14,394,000	$10,900,000
1990	14,440,000	900,000
1991	13,890,000	26,669,000
1992	13,565,000	76,000,000
1993	14,115,000	1,000,000

The sinking fund requirements relate primarily to the first mortgage bonds and may be satisfied by the certification of property additions equal to 166⅔% of the bonds required to be redeemed. During 1988, $3.5 million of the annual sinking fund requirement was satisfied by cash and $11.6 million by certification of property additions.

Total interest costs incurred during 1988, 1987 and 1986 were $174.1 million, $184.3 million and $182.1 million, respectively, of which $41.9 million, $128.7 million and $124.4 million, including AFC, were capitalized or deferred. Debt discount or premium and related expenses are amortized over the lives of the applicable issues.

FIRST MORTGAGE BONDS *(Thousands of Dollars):*

Interest Rate	*Maturity*	*Principal Amount Outstanding at December 31, 1988*	*1987*
3¾%	4-1-88	$ —	$ 15,000
4¼%	3-1-89	10,000	10,000
13⅜%	3-1-91	25,119	49,500
10¼%	12-1-92	75,000	75,000
10¾%	6-1-95	50,000	50,000
5⅛%	2-1-96	22,800	22,800
5¼%	2-1-97	24,600	24,600
6⅜%	2-1-98	34,700	34,700
7%	1-1-99	30,000	30,000
7¾%	7-1-99	28,947	28,947
8¾%	3-1-00	30,000	30,000
7⅞%	3-1-01	35,000	35,000
7½%	12-1-01	26,461	26,461
7½%	6-1-02	28,470	28,470
7¼%	1-1-03	32,670	32,670
7¾%	7-1-03	35,000	35,000
8⅝%	4-1-04	44,100	44,100
9½%	3-1-05	50,000	50,000
9%	6-1-06	80,000	80,000
8⅜%	4-1-07	97,400	97,400
10⅛%	2-1-09	100,000	100,000
12¼%	1-1-10	—	57,400
16¼%	5-1-12	1,672	2,597
12⅛%	4-1-13	—	57,914
13%	12-1-13	—	49,500
11⅛%	2-1-15	39,000	39,000
11⅝%	12-1-15	110,556	123,750
9½%	12-1-16	100,000	100,000
9%	2-1-17	100,000	100,000
Total		1,211,495	1,429,809
Less: Current portion		10,252	15,000
Current sinking fund requirements		13,340	13,140
Total first mortgage bonds		$1,187,903	$1,401,669

During 1987 and 1988 the Company reacquired a total of $210.9 million of first mortgage bonds. The difference between the purchase prices and the net carrying amounts of the bonds was $20.2 million and has been included in the balance sheet as "Unamortized loss on reacquired debt". The Company amortizes and recovers these losses through rates.

L. JOINTLY OWNED GENERATING UNITS

The Company, together with other electric utilities, has an ownership or leasehold interest in certain jointly owned units. The Company is required to pay its share of the construction and operating costs of the units. The operating expenses of the units are included in the income statement. Amounts included on the balance sheet at December 31, 1988 under "Property, plant and equipment" include the following (thousands of dollars):

			Company's Interest		
Unit	*Percentage Interest*	*Megawatts*	*Utility Plant in Service*	*Accumulated Depreciation*	*Construction Work in Progress*
Fort Martin 1	50.0	276	$ 55,927	$ 21,034	$ 4,864
CAPCO Units:					
Eastlake 5	31.2	186	65,367	17,243	3,846
Sammis 7	31.2	187	73,319	20,031	3,512
Bruce Mansfield 1	29.3	228	74,607	25,656	258
Bruce Mansfield 2	8.0	62	20,632	6,493	63
Bruce Mansfield 3	13.74	110	71,937	18,282	32
Bruce Mansfield common and shared facilities			65,470	23,461	438
Beaver Valley 1	47.5	385	388,422	104,410	5,991
Beaver Valley 2	13.74	114	13,953	269	407
Beaver Valley common facilities			197,183	18,333	3,605
Perry 1	13.74	165	747,873	27,985	939
Total		1,713	$1,774,690	$283,197	$23,955

M. QUARTERLY FINANCIAL INFORMATION *(Unaudited)*

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

	First Quarter	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
1988				
Operating revenues	$216,521	$263,250	$306,279	$277,183
Operating income	37,732	60,378	81,275	64,957
Net income	33,336	24,434	45,125	34,527
Earnings per share	.41	.31	.65	.49
Stock price:				
High	14¾	15⅛	15⅞	18⅞
Low	11¾	14⅜	14⅞	15¾
1987(1)				
Operating revenues	$215,928	$212,199	$240,955	$218,922
Operating income	47,599	48,908	59,414	29,814
Net income:				
As reported	45,210	47,806	13,995	44,305
As restated	46,068	48,674	14,863	45,155
Earnings per share:				
As reported	.55	.59	.12	.55(2)
As restated	.56	.60	.14	.55
Stock price:				
High	14⅜	13⅛	12⅞	12¾
Low	12½	11½	11¾	10⅝

(1) Quarterly earnings for 1987 have been restated to reflect the retroactive application of the change in accounting for abandoned plant costs related to Perry 2. See Note B.

(2) In the fourth quarter of 1987, the Company recorded approximately $21 million of investment tax credits related to the sale and leaseback of Beaver Valley 2, which increased fourth quarter earnings by $.29 per share.

SELECTED FINANCIAL DATA AND STATISTICAL SUMMARY

(Thousands of Dollars, Except Per Share Amounts)

	1988	*1987*	*1986*	*1985*	*1984*	*1983*
INCOME STATEMENT ITEMS:						
Total operating revenues	$1,063,233	$888,004	$896,263	$918,460	$897,140	$814,721
Operating income	$244,342	$185,735	$189,515	$190,832	$185,734	$186,672
Earnings for common stock (1)	$118,566	$134,972	$110,329	$154,707	$134,839	$122,815
Earnings for common stock as % of operating revenues	11.2%	15.2%	12.3%	16.8%	15.0%	15.1%
Times interest charges earned before income taxes	2.25	1.84	1.75	2.62	2.69	2.78
BALANCE SHEET ITEMS:						
Property, plant and equipment—net	$3,065,922	$3,098,897	$3,490,599	$3,420,133	$3,139,754	$2,737,840
Total assets (1)	$3,876,581	$4,151,615	$3,997,076	$3,854,468	$3,530,310	$3,145,811
Capitalization:						
Common stockholders' equity (1)	$1,070,575	$1,217,361	$1,204,433	$1,169,831	$1,053,465	$ 958,505
Non-redeemable preferred and preference stock	154,073	156,137	156,137	156,137	156,137	156,137
Redeemable preferred and preference stock	90,743	104,768	110,653	119,653	127,414	134,979
Long-term debt	1,550,231	1,690,600	1,613,787	1,549,468	1,416,736	1,322,900
Total capitalization	$2,865,622	$3,168,866	$3,085,010	$2,995,089	$2,753,752	$2,572,521
CAPITALIZATION RATIOS:						
Common stockholders' equity	37.4%	38.4%	39.0%	39.1%	38.3%	37.3%
Preferred and preference stock	8.5	8.2	8.7	9.2	10.3	11.3
Long-term debt	54.1	53.4	52.3	51.7	51.4	51.4
Total capitalization	100.0	100.0	100.0	100.0	100.0	100.0
COMMON STOCK DATA:						
Shares outstanding (000):						
Year-end	57,831	70,096	73,119	71,488	64,775	58,420
Average	63,748	72,845	72,930	68,543	61,054	55,883
Earnings per share (1)	$1.86	$1.85	$1.51	$2.26	$2.21	$2.20
Return on average common equity	10.4%	11.1%	9.3%	13.9%	13.4%	13.4%
Dividends paid per share	$1.20	$1.20	$1.63	$2.06	$2.045	$1.975
Dividend payout rate	64.5%	64.9%	107.9%	91.2%	92.5%	89.8%
Book value per share at year-end	$18.51	$17.37	$16.47	$16.36	$16.26	$16.41
Market price per share:						
High	18⅞	14¾	19⅜	17½	16⅜	18¼
Low	11¾	10⅝	12¼	14¼	11½	13
Year-end	18¾	11¾	12¼	16¼	15⅛	13½
Market/book—year-end	1.01	.68	.74	.99	.93	.82
Price earnings ratio (2)	8.2	6.8	10.5	7.0	6.3	7.1
Dividend yield (2)	7.8%	9.6%	10.3%	13.0%	14.7%	12.6%

(1) 1987 and 1986 amounts have been restated to reflect a change in accounting standard. See Note B
(2) Based on the average of the high and low market prices for the year.

	1988	1987	1986	1985	1984	1983
AVERAGE REVENUE PER KILOWATT-HOUR—ALL CUSTOMERS	7.473¢	7.517¢	8.032¢	7.832¢	7.389¢	7.215¢
SALES OF ELECTRICITY:						
Average annual residential kilowatt-hour use	6,168	6,019	5,821	5,621	5,768	5,752
Electric energy sales billed (millions of kilowatt-hours):						
Residential	3,156	3,065	2,957	2,848	2,918	2,905
Commercial	5,055	4,899	4,724	4,537	4,393	4,257
Industrial	3,302	2,918	2,734	3,522	4,148	3,717
Other	91	98	99	101	104	111
Total sales to customers	11,604	10,980	10,514	11,008	11,563	10,990
Sales to other utilities	2,797	2,486	2,136	1,981	1,019	327
Total sales	14,401	13,466	12,650	12,989	12,582	11,317
OPERATING REVENUES *(Thousands of Dollars)*:						
Residential revenues	$318,552	$299,562	$297,520	$286,260	$280,647	$267,110
Commercial revenues	362,012	345,585	347,364	335,012	314,129	290,370
Industrial revenues	171,779	165,550	178,425	225,692	244,970	221,107
Other revenues	31,382	25,289	27,435	25,447	25,955	25,663
Current revenues from customers	883,725	835,986	850,744	872,411	865,701	804,250
Deferred customer revenues	117,544	--	—	—	—	—
Revenues from other utilities	61,964	52,018	45,519	46,049	31,439	10,471
Total operating revenues	$1,063,233	$888,004	$896,263	$918,460	$897,140	$814,721
ENERGY SUPPLY AND PRODUCTION DATA:						
Energy supply (millions of kilowatt-hours):						
Net generation-system plants	14,976	14,025	13,264	13,590	12,983	11,900
Purchased and net inadvertent power	257	258	194	184	216	163
Total energy supply	15,233	14,283	13,458	13,774	13,199	12,063
Losses and Company use	(832)	(817)	(808)	(785)	(617)	(746)
Net energy supply	14,401	13,466	12,650	12,989	12,582	11,317
Generating capability (thousands of kilowatts)	2,836	2,852	2,707	3,148	3,148	3,148
Peak load (thousands of kilowatts)	2,372	2,280	2,132	2,127	2,172	2,184
Cost of fuel per million BTU	145.738¢	150.991¢	165.340¢	168.450¢	165.868¢	167.140¢
BTU per kilowatt-hour generated	10,304	10,449	10,624	10,633	10,682	10,635
Average production cost per kilowatt-hour	2.578¢	2.328¢	2.545¢	2.462¢	2.559¢	2.541¢
NUMBER OF CUSTOMERS-END OF YEAR:						
Residential	513,760	510,823	509,054	507,824	506,883	505,781
Commercial	51,456	50,904	50,346	49,927	49,837	49,493
Industrial	2,017	1,978	1,970	1,981	1,990	1,984
Other	1,828	1,831	1,826	1,817	1,588	1,633
Total customers	569,061	565,536	563,196	561,549	560,298	558,891

BOARD OF DIRECTORS

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

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

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

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

Doreen E. Boyce †‡
Director, The Buhl Foundation
Elected to the Board in 1975

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

Sigo Falk †§
President and Chief Executive Officer, Cranberry Emergency and Diagnostic Center
Elected to the Board in 1979

William H. Knoell ★#
Chairman of the Board, Cyclops Industries, Inc.
Elected to the Board in 1980

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

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

★ *Member of Audit Committee*
† *Member of Compensation Committee*
‡ *Member of Employment and Community Relations Committee*
§ *Member of Nominating Committee*
# *Member of Nuclear Review Committee*

COMPANY OFFICERS

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

John J. Carey
Executive Vice President Operations

Roger D. Beck
Vice President Marketing and Customer Services

Gary R. Brandenberger
Vice President Power Supply

Dianna L. Green
Vice President Human Resources

Christine A. Hansen
Vice President Law and Corporate Affairs

David D. Marshall
Vice President Corporate Development

Gary L. Schwass
Vice President Finance

John D. Sieber
Vice President Nuclear

Diane S. Eismont
Secretary

James O. Ellenberger
Controller

A. William Stein
Treasurer

James D. Mitchell
Assistant Treasurer

Joan S. Senchyshyn
Assistant Secretary

UNIT MANAGERS

Edwyna G. Anderson
General Counsel

George E. Bentz
Human Resources

Julian A. Chandler
General Services

Thomas H. Cook
Management Information Services

James O. Crockett
Corporate Nuclear Services

William J. DeLeo
Planning, Budgeting and Business Development

Donald H. DeVos
System Development

C. Eugene Ewing
Nuclear Quality Assurance

Robert A. Irvin
System Operations and Telecommunications

Thomas D. Jones II
Fossil Generation

William S. Lacey
Nuclear Operations

John E. Laudenslager
Corporate Communications

H. Donald Morine
Marketing and Economic Development

Frank M. Nadolny
Rates and Regulatory Affairs

Thomas E. Nist
Customer Services—Eastern Division

Steve L. Pernick Jr.
Environmental Affairs

Robert C. Schopper
Materials Management

Donald A. Shirer Jr.
Fossil Fuels

Ernest M. Varhola
Governmental Relations

Joseph F. Zagorski
Customer Services—Western Division

Armand G. Zitelli
Customer and General Services

CORPORATE OFFICES
Duquesne Light Company
One Oxford Centre
301 Grant Street
Pittsburgh, PA 15279

COMMON STOCK

Trading Symbol .... DQU

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

Number of Common Shareholders of Record at Year End 106,878

ANNUAL MEETING

Shareholders are cordially invited to attend our Annual Meeting of Shareholders at 10 a.m., local time, April 18, 1989, on the campus of Beaver County Community College, Monaca, Pa.

DIVIDENDS

The Board of Directors historically has declared quarterly dividends payable on or about the first day of January, April, July and October. The record dates for dividend payment in 1989 are expected to be March 10, June 9, September 11, and December 8.

SHAREHOLDER SERVICES/ASSISTANCE

Shareholder inquiries relating to changes of address, missing stock certificates, dividend reinvestment, dividends, and other account information should be directed to:

Shareholder Relations Department
Duquesne Light Company
One Oxford Centre (17-5)
301 Grant Street
Pittsburgh, PA 15279.

You may call toll-free from anywhere in the continental United States weekdays between 7:30 a.m. and 4:30 p.m., Eastern Standard Time. Please have your account number handy when calling. The telephone numbers are:

Pittsburgh area 393-6167
Pennsylvania (except Pittsburgh) 1-800-367-6400
Outside Pennsylvania .... 1-800-247-0400.

Questions relating to stock transfer can be handled by our Shareholder Relations Department, but to actually transfer stock, contact our transfer agent:

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

FINANCIAL COMMUNITY INQUIRIES

Analysts or brokers should direct their inquiries to the company's Treasury Unit at 412-393-6420. Written inquiries should be sent to:

Treasurer
Duquesne Light Company
One Oxford Centre (28-1)
301 Grant Street
Pittsburgh, PA 15279.

FORM 10-K OFFER

If you hold or are a beneficial owner of any class of our stock as of the record date for the 1989 Annual Meeting, we will send you, free upon request, a copy of Duquesne Light's Annual Report on Form 10-K, filed with the Securities and Exchange Commission for 1988. All requests must be made in writing to:

Corporate Secretary
Duquesne Light Company
One Oxford Centre (17-6)
301 Grant Street
Pittsburgh, PA 15279.

TAX STATUS OF COMMON STOCK DIVIDENDS

The company estimates that portions of the common stock dividends paid in 1988 represent a return of capital and are not taxable as dividend income, as shown on the following chart.

Payment Date	*Taxable as Dividend Income*	*Not Taxable as Dividend Income (Return of Capital)*
January 1	100.00%	0.00%
April 1	100.00%	0.00%
July 1	54.36%	45.64%
October 1	25.06%	74.94%

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

Duquesne Light Company is an Equal Opportunity Employer.

Duquesne Light
One Oxford Centre
Pittsburgh, PA 15279