CAPTION SHEET CASE MANAGEMENT SYSTEM

1. REPORT DATE: 00/00/00 :
2. BUREAU: FUS :
3. SECTION(S): : 4. PUBLIC MEETING DATE: 00/00/00
5. APPROVED BY: :
DIRECTOR: :
SUPERVISOR: :
6. PERSON IN CHARGE: : 7. DATE FILED: 07/18/00
8. DOCKET NO: A-110142 : 9. EFFECTIVE DATE: 00/00/00

PARTY/COMPLAINANT:

RESPONDENT/APPLICANT: VALUSOURCE ENERGY SERVICES LLC

COMP/APP COUNTY: UTILITY CODE: 110142

ALLEGATION OR SUBJECT

APPLICATION OF VALUSOURCE ENERGY SOLUTIONS SERVICES, LLC FOR APPROVAL TO OFFER RENDER, FURNISH, OR SUPPLY ELECTRICITY OR ELECTRIC GENERATION SERVICES AS A BROKER/MARKETER, AGGREGATOR AND OTHER (SERVICE PROVIDER) TO THE PUBLIC IN THE COMMONWEALTH OF PENNSYLVANIA. (ATTACHMENTS I AND J CONFIDENTIAL)

DOCKETED
JUL ~~26~~ 26 2000

DOCUMENT
FOLDER

Kirkpatrick & Lockhart LLP

Payne Shoemaker Building
240 North Third Street
Harrisburg, PA 17101-1507
717.231.4500
www.kl.com

July 18, 2000

ORIGINAL

James P. Melia
717.231.5842
Fax: 717.231.4501
jmelia@kl.com

VIA HAND DELIVERY

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
North Office Building, Room B-20
Harrisburg, PA 17105

RE: Application of ValuSource Energy Services LLC for Electric Generation Supplier License
Docket No. A-110142

Dear Secretary McNulty:

Enclosed for filing please find an original and eight copies of the Application of ValuSource Energy Services LLC for an Electric Generation Supplier License. Also please treat as confidential Attachments I and J which are being filed separately.

Copies of this Application are being served on all other jurisdictional electric utilities and required governmental parties.

Very truly yours,

James P. Melia

James P. Melia

JPM/cet
Enclosures

cc: Service List

HA - 94294.1

23

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of ValuSource Energy Services LLC, for approval to Offer, Render, Furnish, or Supply Electricity or Electric Generation Services as Service Provider and a Broker/Marketer/Aggregator to the Public in the Commonwealth of Pennsylvania.	:	Docket No. A-110142

RECEIVED
00 JUL 18 PM 4:13
PA.P.U.C.
SECRETARY'S BUREAU

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing Application and materials upon the parties, listed below, in accordance with the requirements of Section 1.54 (relating to service by a participant).

Via First Class Mail, postage prepaid

Irwin A. Popowsky, Esquire
Consumer Advocate
Forum Place, 5th Floor
555 Walnut Street
Harrisburg, PA 17101

Office of Attorney General
Bureau of Consumer Protection
Strawberry Square. 14th Floor
Harrisburg, PA 17120

Bernard A. Ryan, Jr., Esquire
Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101

Hon. Robert A. Judge, Sr.
Department of Revenue
Strawberry Square, 11th Floor
Harrisburg, PA 17128-1100

Office of General Counsel
Pennsylvania Power & Light Company
Two North Ninth Street
Allentown, PA 18101

Office of General Counsel
Allegheny Power
800 Cabin Hill Drive
Greensburg, PA 15601

Office of General Counsel
PECO Energy Company
2301 Market Street, S23-1
Philadelphia, PA 19103

Office of General Counsel
GPU Energy
2800 Pottsville Pike
Reading, PA 19605

Office of General Counsel
UGI Utilities, Inc. - Electric Division
P.O. Box 858
Valley Forge, PA 19482

Office of General Counsel
Pennsylvania Power Company
P.O. Box 891
New Castle, PA 16103-0891

Office of General Counsel
Citizens Electric Company
P.O. Box 551
Lewisburg, PA 17837-0551

Office of General Counsel
Duquesne Light Company
411 Seventh Avenue
16th Floor
Pittsburgh, PA 15219

James P. Melia

James P. Melia, Esquire

Counsel for ValuSource Energy Services LLC

Kirkpatrick & Lockhart LLP
240 North Third Street
Harrisburg, PA 17101-1507
(717) 231-4500
(717) 231-4501 (Fax)

Dated: July 18, 2000

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of ValuSource Energy Services, LLC, for Approval to Offer, Render, Furnish, or Supply Electricity or Electric Generation Services as a Service Provider and a Broker/Marketer/Aggregator to the Public in the Commonwealth of Pennsylvania.

Docket No. A- A-110142

ORIGINAL

RECEIVED
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PA.P.U.C.
SECRETARY'S BUREAU

To the Pennsylvania Public Utility Commission:

1. **IDENTITY OF THE APPLICANT:** The name, address, telephone number, and FAX number of the Applicant are:

ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220
(412) 937-4850
(412) 919-7546 (Fax)

Please identify any predecessor(s) of the Applicant and provide other names under which the Applicant has operated within the preceding five (5) years, including name, address, and telephone number.

None

2. a. **CONTACT PERSON:** The name, title, address, telephone number, and FAX number of the person to whom questions about this Application should be addressed are:

John Morris
Electric Procurement Manager
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220
(412) 919-7528
(412) 919-7546 (Fax)

b. **CONTACT PERSON-PENNSYLVANIA EMERGENCY MANAGEMENT AGENCY:** The name, title, address telephone number and FAX number of the person with whom contact should be made by PEMA:

John Zbihley
President
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220
(412) 919-7574
(412) 919-7546 (Fax)

DOCKETED
JUL ~~25~~ 26 2000

3.a. **ATTORNEY:** If applicable, the name, address, telephone number, and FAX number of the Applicant's attorney are:

James P. Melia
Kirkpatrick & Lockhart LLP
240 North Third Street
Harrisburg, PA 17101-1507
(717) 231-5842
(717) 231-4501 (Fax)
jmelia@kl.com

DOCUMENT FOLDER

b. REGISTERED AGENT: If the Applicant does not maintain a principal office in the Commonwealth, the required name, address, telephone number and FAX number of the Applicant's Registered Agent in the Commonwealth are:

N/A

4. **FICTITIOUS NAME:** (select and complete appropriate statement)

☐ The Applicant will be using a fictitious name or doing business as ("d/b/a"):

Attach to the Application a copy of the Applicant's filing with the Commonwealth's Department of State pursuant to 54 Pa. C.S. §311, Form PA-953.

or

☒ The Applicant will not be using a fictitious name.

5. **BUSINESS ENTITY AND DEPARTMENT OF STATE FILINGS:** (select and complete appropriate statement)

☐ The Applicant is a sole proprietor.

If the Applicant is located outside the Commonwealth, provide proof of compliance with 15 Pa. C.S. §4124 relating to Department of State filing requirements.

or

☐ The Applicant is a:

- ☐ domestic general partnership (*)
- ☐ domestic limited partnership (15 Pa. C.S. §8511)
- ☐ foreign general or limited partnership (15 Pa. C.S. §4124)
- ☐ domestic limited liability partnership (15 Pa. C.S. §8201)
- ☐ foreign limited liability general partnership (15 Pa. C.S. §8211)
- ☐ foreign limited liability limited partnership (15 Pa. C.S. §8211)

Provide proof of compliance with appropriate Department of State filing requirements as indicated above.

Give name, d/b/a, and address of partners. If any partner is not an individual, identify the business nature of the partner entity and identify its partners or officers.

☐ * If a corporate partner in the Applicant's domestic partnership is not domiciled in Pennsylvania, attach a copy of the Applicant's Department of State filing pursuant to 15 Pa. C.S. §4124.

or

☒ The Applicant is a :

- ☐ domestic corporation (none)
- ☐ foreign corporation (15 Pa. C.S. §4124)
- ☐ domestic limited liability company (15 Pa. C.S. §8913)
- ☒ foreign limited liability company (15 Pa. C.S. §8981)
- ☐ Other ______________________________

Provide proof of compliance with appropriate Department of State filing requirements as indicated above. Additionally, provide a copy of the Applicant's Articles of Incorporation.

See Attachments A and B to this Application. Attachment A is a certificate from the Department of State of the Commonwealth of Pennsylvania demonstrating that ValuSource Energy Services, LLC is qualified to do business under the laws of the Commonwealth of Pennsylvania. A copy of Applicant's Certificate of Formation as an LLC in the state of Delaware is attached as Attachment B.

Give name and address of officers.

John Zbihley
President
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220

Carole Klocko
Treasurer/Controller
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh 15220

Martin Ryan, Esq.
Secretary
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220

The Applicant is organized in the state of **Delaware**.

6. **AFFILIATES AND PREDECESSORS WITHIN PENNSYLVANIA:** (select and complete appropriate statement)

☒ Affiliate(s) of the Applicant doing business in Pennsylvania are:

See Attachment C.

Give name and address of the affiliate(s) and state whether the affiliate(s) are jurisdictional public utilities.

See Attachment C.

☒ If the Applicant or an affiliate has a predecessor who has done business within Pennsylvania, give name and address of the predecessor(s) and state whether the predecessor(s) were jurisdictional public utilities.

See Attachment C.

or

☐ The Applicant has no affiliates doing business in Pennsylvania or predecessors which have done business in Pennsylvania.

7. **APPLICANT'S PRESENT OPERATIONS:** (select and complete the appropriate statement)

☐ The Applicant is presently doing business in Pennsylvania as a

- ☐ vertically-integrated provider of generation, transmission, and distribution services.
- ☐ municipal electric corporation providing service outside its municipal limits.
- ☐ electric cooperative
- ☐ local gas distribution company
- ☐ nonintegrated provider of electric generation, transmission or distribution services.
- ☐ Other. (Identify the nature of service being rendered.)

or

☒ The Applicant is not presently doing business in Pennsylvania.

8. **APPLICANT'S PROPOSED OPERATIONS:** The Applicant proposes to operate as a:

☐ Generator and supplier of electric power.
☐ Municipal generator and supplier of electric power.
☐ Electric Cooperative and supplier of electric power
☒ Broker/Marketer engaged in the business of supplying electricity.
☒ Aggregator engaged in the business of supplying electricity
☒ Other (Describe):

ValuSource Energy Services, LLC ("ValuSource") would operate as a Service Provider to its customers and utilize certain services provided by its Affiliate, Enermetrix. Enermetrix was previously known as North American Power Brokers. Enermetrix maintains an online electric generation and natural gas auction site. Enermetrix operates the secured internet site on which a retail energy auction is conducted.

ValuSource, once it is licensed, would solicit commercial, industrial, and governmental customers. As a Service Provider, ValuSource, would provide the customer information to be posted on the Enermetrix website. Licensed EGSs would review the proposed customer postings and submit a bid to provide service to that customer. The EGS whose bid best meets the posted requirement is then matched with the customer. The agreement for sale of electric energy is then executed on behalf of the customer and the selected supplier. ValuSource, in its role as a Service provider, does not actually provide electricity to the customer. ValuSource acts as an agent for the customer and utilizes the Enermetrix online electric generation auction to fulfill the customer's procurement needs. ValuSource would be paid a fee by the EGS, not the customer.

Applicant also requests authority to operate as a broker/marketer/aggregator to provide electric service to commercial, industrial and governmental customers within Pennsylvania. Initially, ValuSource would utilize its EGS authority to make retail sales to certain facilities of Duquesne Light Company. These retail sales to DLC are necessitated by virtue of DLC's wholesale "provider of last resort" ("POLR") arrangement with Orion Power approved at PUC Docket No. A-00110150 F0023. Ultimately, ValuSource may also utilize its EGS authority to engage in retail sales in the service territory of DLC and elsewhere in Pennsylvania.

9. **PROPOSED SERVICES:** Generally describe the electric services or the electric generation services which the Applicant proposes to offer.

Applicant proposes to operate as a Service Provider for other licensed EGSs. See also response to item #8. ValuSource would also operate as a broker/marketer/aggregator to provide retail service to commercial, industrial and governmental customers, including certain facilities of DLC.

10. **SERVICE AREA:** Generally describe the geographic area in which Applicant proposes to offer services.

Applicant intends to provide its services throughout the entire state of Pennsylvania.

11. **CUSTOMERS:** Applicant proposes to initially provide services to:

- ☐ Residential Customers
- ☒ Commercial Customers - (25 kW and Under)
- ☒ Commercial Customers - (Over 25 kW)
- ☒ Industrial Customers
- ☒ Governmental Customers
- ☐ All of above
- ☐ *Other (Describe)*:

12 **FERC FILING**: Applicant has:

☐ Filed an Application with the Federal Energy Regulatory Commission to be a Power Marketer.

☐ Received approval from FERC to be a Power Marketer at Docket or Case Number ____________.

☒ Not applicable_

13. **START DATE:** The Applicant proposes to begin delivering services on or before **August 30, 2000**.

14. **NOTICE:** Pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14, serve a copy of the signed and verified Application with attachments on the following:

Irwin A. Popowsky
Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Office of the Attorney General
Bureau of Consumer Protection
Strawberry Square, 14th Floor
Harrisburg, PA 17120

Bernard A. Ryan, Jr.
Commerce Building, Suite 1102
Small Business Advocate
300 North Second Street
Harrisburg, PA 17101

Commonwealth of Pennsylvania
Department of Revenue
Bureau of Compliance
Harrisburg, PA 17128-0946

Any of the following Electric Distribution Companies through whose transmission and distribution facilities the applicant intends to supply customers:

Nancy J. Krajovic
Manager of Regulatory Affairs Unit
Duquesne Light Company
411 Seventh Street
P.O. Box 1930
Pittsburgh, PA 15230-1930

John P. Litz, Division Controller
UGI Utilities, Inc.
Electric Division
400 Stewart Road
P.O. Box 3200
Hanover Industrial Estates
Wilkes-Barre, PA 18773-3200

(Metropolitan Edison Company or Pennsylvania Electric Company)
Blaine W. Uplinger, Jr., Director of Governmental and Regulatory Affairs
GPU Energy
100 APC Building
800 North third Street
Harrisburg, PA 17102-2025

Paul E. Russell, Associate General Counsel
Pennsylvania Power & Light Company
Two North Ninth Street
Allentown, PA 18108-1179

Thomas P. Hill, Vice President and Controller
PECO Energy Company
2301 Market Street
Philadelphia, PA 19101-8699

Stephen L. Feld, Attorney
Pennsylvania Power Company
First Energy Corporation
76 South Main Street
Akron, OH 44308

John L. Munsch, Attorney
Allegheny Power
800 Cabin Hill Drive
Greensburg, PA 15601-1689

Pursuant to Sections 1.57 and 1.58 of the Commission's Regulations, 52 Pa. Code §§1.57 and 1.58, attach Proof of Service of the Application and attachments upon the above named parties. Upon review of the Application, further notice may be required pursuant to Section 5.14 of the Commission's Regulations, 52 Pa. Code §5.14.

15. **TAXATION:** Complete the TAX CERTIFICATION STATEMENT attached as Appendix B to this application.

See Attachment D to this Application.

16. **COMPLIANCE:** State specifically whether the Applicant, an affiliate, a predecessor of either, or a person identified in this Application has been convicted of a crime involving fraud or similar activity. Identify all proceedings, by name, subject and citation, dealing with business operations, in the last five (5) years, *whether before an administrative body or in a judicial forum, in which the Applicant, an affiliate, a predecessor* of either, or a person identified herein has been a defendant or a respondent. Provide a statement as to the resolution or present status of any such proceedings.

Neither Applicant, its affiliates, predecessors or any persons identified in this Application have been convicted of crimes involving fraud, or similar activities within the last five years, either before an administrative body or in a judicial forum.

17. **STANDARDS, BILLING PRACTICES, TERMS AND CONDITIONS OF PROVIDING SERVICE AND CONSUMER EDUCATION:** Electricity should be priced in clearly stated terms to the extent possible. Common definitions should be used. All consumer contracts or sales agreements should be written in plain language with any exclusions, exceptions, add-ons, package offers, limited time offers or other deadlines prominently communicated. Penalties and procedures for ending contracts should be clearly communicated.

a. Contacts for Consumer Service and Complaints: Provide the name, title, address, telephone number and FAX number of the person and an alternate person responsible for addressing customer complaints. These persons will ordinarily be the initial point(s) of contact for resolving complaints filed with Applicant, the Electric Distribution Company, the Pennsylvania Public Utility Commission or other agencies.

	Alternate:
John Morris	**Keith Malinoski**
ValuSource Energy Services, LLC	***ValuSource Energy Services, LLC***
875 Greentree Road	**875 Greentree Road**
Suite 440	**Suite 440**
Pittsburgh, PA 15220	**Pittsburgh, PA 15220**
(412) 919-7528	**(412) 919-7560**
(412) 919-7546 (Fax)	**(412) 919-7546 (Fax)**

b. Provide a copy of all standard forms or contracts that you use, or propose to use, for service provided to residential customers.

Applicant is not applying to directly serve residential customers.

c. If proposing to serve Residential and/or Small Commercial (under 25 kW) customers, provide a disclosure statement. A sample disclosure statement is provided as Appendix C to this Application.

Applicant will utilize the Retail Energy Exchange Service Request form at Attachment J which Applicant believes supplies the required disclosure information including an agency agreement contained in Section 2.

18. **BONDING:** In accordance with 66 PA. C.S. Section 2809(C) (1)(I), the Applicant is:

☒ *Furnishing a copy of initial bond , letter of credit or proof of bonding to the Commission in the amount of* $250,000. **See Attachment E to this Application.**

☐ Furnishing proof of other initial security for Commission approval, to ensure financial responsibility.

☐ Filing for a modification to the $250,000 and furnishing a copy of an initial bond, letter of credit or proof of bonding to the Commission for the amount of $__________. Applicant is required to provide information supporting an amount less than $250,000.

At the conclusion of Applicant's first year of operation it is the intention of the Commission to tie security bonds to a percentage of Applicant's gross receipts resulting from the sale of generated electricity consumed in Pennsylvania. The amount of the security bond will be reviewed and adjusted on an annual basis.

19. **FINANCIAL FITNESS:**

A. Applicant shall provide sufficient information to demonstrate financial fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- Actual (or proposed) organizational structure including parent, affiliated or subsidiary companies.
- Published parent company financial and credit information.
- Applicant's balance sheet and income statement for the most recent fiscal year. Published financial information such as 10K's and 10Q's may be provided, if available.
- Evidence of Applicant's credit rating. Applicant may provide a copy of its Dun and Bradstreet Credit Report and Robert Morris and Associates financial form or other independent financial service reports.
- A description of the types and amounts of insurance carried by Applicant which are specifically intended to provide for or support its financial fitness to perform its obligations as a licensee.
- Audited financial statements
- Such other information that demonstrates Applicant's financial fitness.

See Attachment F to this Application which is DQE's 1999 Annual Report to Shareholders.

B. Applicant must provide the following information:

- Identify Applicant's chief officers including names and their professional resumes.

John Zbihley
President
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220
(412) 919-7574
(412) 919-7546 (Fax)

Carole Klocko
Treasurer/Controller
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220
(412) 393-1246
(412) 393-1075 (Fax)

Martin Ryan, Esq.
Secretary
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220
(412) 393-6129
(412) 393-6645 (Fax)

See Attachment G to this Application.

- Provide the name, title, address, telephone number and FAX number of Applicant's custodian for its accounting records.

Carol Klocko
Treasurer/Controller
ValuSource Energy Services, LLC
875 Greentree Road
Suite 440
Pittsburgh, PA 15220
(412) 393-1246
(412) 393-1075 (Fax)

20. **TECHNICAL FITNESS:** To ensure that the present quality and availability of service provided by electric utilities does not deteriorate, the Applicant shall provide sufficient information to demonstrate technical fitness commensurate with the service proposed to be provided. Examples of such information which may be submitted include the following:

- The identity of the Applicant's officers directly responsible for operations, including names and their professional resumes.

Copies of resumes for Applicant's officers responsible for operations are included as Attachment H to this Application.

- Proposed staffing and employee training commitments

Proposed staffing and employee training commitments are included as Attachment I to this Application. This response includes information which is confidential and proprietary and is being filed pursuant to a request for confidential treatment.

- Business plans

Applicant's business plan is included as Attachment J to this Application. Applicant considers this information to be confidential and proprietary and is being filed pursuant to a request for confidential treatment.

- Documentation of membership in ECAR, MAAC or other regional reliability councils shall be submitted if applicable to the scope and nature of the applicant's proposed services.

Membership in a regional reliability council has not been determined to be necessary because of the limited scope of retail service to be provided initially. Scheduling and coordination of retail electric sales will occur through facilities of DLC pursuant to provisions of DLC's Electric Generation Supplier Coordination Tariff.

- An affidavit stating that you will adhere to the reliability protocols of the North American Electric Reliability Council, the appropriate regional reliability council(s), and the Commission, and that you agree to comply with the operational requirements of the control area(s) within which you provide retail service.

N/A

21. **TRANSFER OF LICENSE:** The Applicant understands that if it plans to transfer its license to another entity, it is required to request authority from the Commission for permission prior to transferring the license. See 66 Pa. C.S. Section 2809(D). Transferee will be required to file the appropriate licensing application.

22. **ASSESSMENT:** The Applicant acknowledges that Title 66, Chapter 5, Section 510 grants to the Commission the right to make assessments to recover regulatory expenses and that as a supplier of electricity or an electric generation supplier it will be assessed under that section of the Pennsylvania Code. The Applicant also acknowledges that the continuation of its license as a supplier of electricity or an electric generation supplier will be dependent upon the payment of all prior years assessments.

23. **UNIFORM STANDARDS OF CONDUCT AND DISCLOSURE:** As a condition of receiving a license, Applicant agrees to conform to any Uniform Standards of Conduct and Disclosure as set forth by the Commission.

24. **REPORTING REQUIREMENTS**: Applicant agrees to provide the following information to the Commission or the Department of Revenue, as appropriate:

a. Reports of Gross Receipts: Applicant shall report its Pennsylvania intrastate gross receipts to the Commission on a quarterly and year to date basis no later than 30 days following the end of the quarter.

b. The Treasurer or other appropriate officer of Applicant shall transmit to the Department of Revenue by March 15, an annual report, and under oath or affirmation, of the amount of gross receipts received by Applicant during the prior calendar year.

c. Applicant shall report to the Commission the following information on an annual basis:

- the percentages of total electricity supplied by each fuel source

Applicant will be required to meet periodic reporting requirements as may be issued by the Commission to fulfill the Commission's duty under Chapter 28 pertaining to reliability and to inform the Governor and Legislature of the progress of the transition to a fully competitive electric market.

25. **FURTHER DEVELOPMENTS:** Applicant is under a continuing obligation to amend its application if substantial changes occur in the information upon which the Commission relied in approving the original filing.

26. **FALSIFICATION:** The Applicant understands that the making of false statement(s) herein may be grounds for denying the Application or, if later discovered, for revoking any authority granted pursuant to the Application. This Application is subject to 18 Pa. C.S. §§4903 and 4904, relating to perjury and falsification in official matters.

27. **FEE:** The Applicant has enclosed the required initial licensing fee of $350.

Applicant: ValuSource Energy Services, LLC

By: [signature]

Title: President, ValuSource Energy Services, LLC

ATTACHMENT A

CERTIFICATE OF FORMATION AS A DELAWARE LLC

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF FORMATION OF "VALUSOURCE ENERGY SERVICES, LLC", FILED IN THIS OFFICE ON THE SIXTEENTH DAY OF MAY, A.D. 2000, AT 3:35 O'CLOCK P.M.

Edward J. Freel, Secretary of State

3229593 8100

001249207

AUTHENTICATION: 0443103

DATE: 05-17-00

**CERTIFICATE OF FORMATION
OF
VALUSOURCE ENERGY SERVICES, LLC**

This Certificate of Formation of ValuSource Energy Services, LLC, (the "Limited Liability Company") has been duly executed and is being filed by the undersigned authorized person to form a limited liability company under the Delaware Limited Liability Company Act (6 Del. C. §18-101, et seq.).

1. Name. The name of the limited liability company formed hereby is ValuSource Energy Services, LLC.

2. Registered Office. The address of the registered office of the Limited Liability Company in the State of Delaware, County of New Castle 1105 North Market Street, Suite 1300, Wilmington, DE 19801.

3. Registered Agent. The registered agent for service of process on the Limited Liability Company in the State of Delaware, County of New Castle is Delaware Corporate Management, Inc. at the above address.

IN WITNESS WHEREOF, the undersigned authorized person has duly executed this Certificate of Formation as of May 9, 2000.

Martin L. Ryan

Martin L. Ryan, Authorized Person

PT: #47155 v1 (10X3011.WPD)

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 03:35 PM 05/16/2000
001249907 – 3229593

ATTACHMENT B

REGISTRATION AS A FOREIGN CORPORATION IN PENNSYLVANIA

Microfilm Number ____________________ Filed with the Department of State on ____________________

Entity Number ____________________ ____________________

Secretary of the Commonwealth

APPLICATION FOR REGISTRATION AS A FOREIGN LIMITED LIABILITY COMPANY

In compliance with the requirements of 15 Pa.C.S.§8981 (relating to registration), the undersigned foreign limited liability company, desiring to register to do business in this Commonwealth, hereby states that:

1. The name of the limited liability company is: ValuSource Energy Services, LLC

2. (If the name set forth in paragraph 1 is not available for use in this Commonwealth, complete the following): The name under which the limited liability company proposes to register and do business in this Commonwealth is:

3. The name of the jurisdiction under the laws of which the limited liability company was organized and the date of its formation are:

   Jurisdiction: Delaware Date of Formation: May 16, 2000

4. The (a) address of this limited liability company's initial registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is:

   (a) 875 Greentree Road, Seven Parkway Center, Suite 440 Pittsburgh, PA 15220 Allegheny
   Number and Street City State Zip County

   (b) c/o: ____________________
   Name of Commercial Registered Office Provider County

   For a limited liability company represented by a commercial registered office provider, the county in (b) shall be deemed the county in which the limited liability company is located for venue and official publication purposes.

5. (Check and complete one of the following):

   X The address of the office required to be maintained by it in the jurisdiction of its organization by the laws of that jurisdiction is:

   1105 North Market Street, Suite 1300, Wilmington, DE 19801
   Number and Street City State Zip

   ___ It is not required by the laws of its jurisdiction of organization to maintain an office therein and the address of its principal office is:

   Number and Street City State Zip

6. ~~(Strike out if inapplicable): The company is a restricted professional company organized to render the following restricted professional service(s):~~

PT: #47859 v1 (10XF011.WPD)

PA. DEPT. OF STATE
2000 MAY 17 PM 3:06

IN TESTIMONY WHEREOF, the undersigned limited liability company has caused this Application for Registration as a Foreign Limited Liability Company to be signed by a duly authorized member or manager thereof this 9th day of May, 2000.

ValuSource Energy Services, LLC
(Name of Limited Liability Company)

BY: Martin L. Ryan
(Signature)

TITLE: Martin L. Ryan, Secretary

DOCKETING STATEMENT DSCB: 15-134A (Rev 96)
DEPARTMENTS OF STATE AND REVENUE

THIS FORM MUST ACCOMPANY A FILING

BUREAU USE ONLY:
Dept. of State Entity Number ________
Revenue Box Number ________
Filing Period ______ Date 3 4 5 ______
SIC ______ Report Code ______

This form (file in triplicate) and all accompanying documents shall be mailed to:
COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF STATE
CORPORATION BUREAU
P.O. BOX 8722
HARRISBURG, PA 17105-8722

Check proper box:

__ Pa. Business stock __ Pa. Business-nonstock __ Pa. Business-Management __ Pa. Professional
__ Pa. Business-statutory close __ Pa. Business-cooperative __ Pa. Nonprofit-stock __ Pa. Nonprofit-nonstock
__ Foreign-business __ Foreign-nonprofit __ Motor Vehicle for Hire __ Insurance
__ Foreign-Certificate of Authority to D/B/A ________
__ Business Trust
__ Pa. Limited Liability Company __ Pa. Restricted Professional Limited Liability Company
X Foreign Limited Liability Company __ Foreign Restricted Professional Limited Liability Company

Entity registering as a result of (check box):

__ Incorporation (Pa.) __ Domestication __ Consolidation
X Authorization of a foreign association __ Division __ Summary of Record
__ Organization (Pa.)

1. Name of entity: ValuSource Energy Services, LLC

2. Location of (a) initial registered office in Pennsylvania or (b) the name and county of the commercial registered office provider:

(a) 875 Greentree Road, Seven Parkway Center, Suite 440 | Pittsburgh | PA | 15220 | Allegheny
Number and Street/RD number and Box | City | State | Zip Code | County

(b) c/o: ________
Name of commercial registered office provider | County

3. State or County of Incorporation/Organization: Delaware

4. Specified effective date, if applicable: Upon filing

5. Federal Identification Number: Applied for

6. Describe principal Pennsylvania activity to be engaged in, within one year of this application date: To perform energy supplier brokering services.

7. Names, residences and social security numbers of the chief executive officer, secretary and treasurer or individual responsible for maintaining financial records:

Name	Address	Title	Social Security #
John Zbihley	One NorthShore Center Pittsburgh, PA 15212	President	164-40-6026
Carole A. Klocko	411 Seventh Avenue Pittsburgh, PA 15219	Treasurer/Controller	167-56-6147
Martin L. Ryan	411 Seventh Avenue Pittsburgh, PA 15219	Secretary	184-62-4176

8. Location of principal place of business:

875 Greentree Road, Seven Parkway Center, Suite 440 Pittsburgh, PA 15219

Number and Street/RD number and Box City State Zip

9. Mailing address if different than #8 (Location where correspondence, tax report form, etc. are to be sent):

Number and Street/RD number and Box City State Zip

10. This entity is organized or incorporated under the Business Corporation Law of 1988, as amended. (Not applicable if a foreign entity)

11. Act of General Assembly or authority under which you are organized or incorporated (foreign entity only:)

Delaware Limited Liability Company Act

12. Date and state of incorporation or organization (foreign entity only): May 16, 2000 Delaware

13. Date business started in Pennsylvania (foreign entity only): May 17, 2000

14. Is the entity authorized to issue capital stock? ___ Yes X No

15. Entity's fiscal year ends: December 31

16. Has the association solicited or does it intend to solicit contributions with the Commonwealth of Pennsylvania?

___ Yes X No

If yes, provide date solicitation commenced or will commence: N/A

This statement shall be deemed to have been executed by the individual who executed the accompanying submittal. See 18 Pa.C.S. §4904 (relating to unsworn falsification to authorities).

Instructions for Completion of Form:

A. A separate completed set of copies of this form shall be submitted for each entity or registration resulting from the transaction.

B. The Bureau of Corporation Taxes in the Pennsylvania Department of Revenue should be notified of any address changes. Notification should be sent to the Account Maintenance, Bureau of Corporation Taxes, Pa. Department of Revenue, Dept. 280901, Harrisburg, PA 17128-0901.

C. All Pennsylvania corporate tax reports, except those for motor vehicle for hire, must be filed with the Commonwealth on the same fiscal basis as filed with the U.S. government. Motor vehicle for hire, i.e., gross receipts tax reports, must be filed on a calendar year basis only.

D. The disclosure of the social security numbers of the corporate officers in Paragraph 7 is voluntary. The numbers are used to assure the proper identification of corporation officers by the Department of Revenue in accordance with the Fiscal Code.

ATTACHMENT C

DESCRIPTION OF AFFILIATE RELATIONSHIPS

ATTACHMENT C

ValuSource Energy Services, LLC is a subsidiary of Mononghahela Light & Power Company ("ML&P"). ML&P is the sole member of Applicant. ML&P holds a certificate of public convenience to provide retail electric service in Pennsylvania but does not currently provide retail electric service to the public. All of ML&P's common stock is owned by Duquesne Light Company ("DLC"), a jurisdictional public utility providing retail electric service in portions of western Pennsylvania. All of DLC's stock is owned by DQE, Inc., which also owns all common stock of Duquesne Enterprises, the unregulated affiliate of DLC.

A subsidiary of Duquesne Enterprises, On-Demand Energy, Inc. ("On-Demand"), is licensed in Pennsylvania as an EGS as marketer/broker pursuant to an EGS certificate issued at Docket No. A-110107. On-Demand is also licensed as a natural gas supplier with a certificate issued at Docket No. A-125076.

Duquesne Enterprises also has a 23% ownership interest in Enermetrix. (See Item 8 of Application for a description of Enermetrix).

ATTACHMENT D

TAX CERTIFICATION STATEMENT

A-110142

ATTACHMENT E

INITIAL BOND IN THE AMOUNT OF $250,000

RECEIVED

JUL 18 2000

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Bond No. 9[illegible]42057

KNOW ALL MEN BY THESE PRESENTS:

THAT, WE, ValuSource Energy Services, LLC as Principal, and National Fire Insurance Company of Hartford, a Connecticut Corporation with principal office at C N A Plaza, Chicago, IL 60685, as Surety, are held and firmly bound unto Commonwealth of Pennsylvania Public Utility Commission in the sum of Two Hundred Fifty Thousand and no/100------------------ DOLLARS ($250,000.00------------), for the payment of which sum, well and truly to be made, we bind ourselves, our personal representatives, successors and assigns, jointly and severally, firmly by these presents.

SIGNED, SEALED AND DATED this 15th of May, 2000.

The Condition of this obligation is such, that Whereas Principal is desirous of obtaining a license from the Commonwealth of Pennsylvania Public Utility Commission to carry on business as Energy Generation Supplier in the Commonwealth of Pennsylvania commencing on the 15th day of May, 2000.

This bond in accordance with Section 2809(c)(1)(i), to assure compliance with applicable provisions of the Public Utility Code, 66 Pa. C.S. §2809 (c)(1)(i), to assure compliance with the Public Utility Code, 66 Pa. C.S. §101, et seq., and the rules and regulations of the Pennsylvania Public Utility Commission by the Principal as a licensed electric generation supplier, to ensure the payment of Gross Receipts Tax as required by Section 2810 of the Public Utility Code, 66 Pa. C.S. §2810; and to ensure the supply of electricity at retail in accordance with contracts, agreements or arrangements. Payment of claims shall have the following priority: (I) The Commonwealth; (II) Electric Distribution Companies for the reimbursement of Gross Receipts Tax; and (III) Private individuals. Proceeds of the bond may not be used to pay any penalties or fines levied against the Principal for violations of the law, or for the payment of any other tax obligations owed to the Commonwealth.

NOW THEREFORE, if the Principal shall, during the period commencing on the aforesaid date, faithfully observe and honestly comply with such rules, regulations and statutes that are applicable to an electric generation supplier licensed in Pennsylvania and fulfills its obligation to pay the Gross Receipts Tax to the Commonwealth, and to deliver electricity at retail in accordance with contracts, agreements and arrangements, as require the execution of this bond, then this obligation shall become void and of no effect.

Provided, the Surety may terminate its future liability under this Bond sixty (60) days after furnishing written notice of such intention to terminate. This termination shall not affect the liability of the Surety and the Principal for any liability incurred by the Principal prior to the effective date of such termination. Any claim under this bond must be instituted within three (3) months of the effective date of termination.

ValuSource Energy Services, LLC
Principal

National Fire Insurance Company of Hartford
Surety

By Colleen A. Locher

Colleen A. Locher, Attorney-In-Fact

POWER OF ATTORNEY APPOINTING INDIVIDUAL ATTORNEY-IN-FACT

Know All Men By These Presents, That CONTINENTAL CASUALTY COMPANY, an Illinois corporation, NATIONAL FIRE INSURANCE COMPANY OF HARTFORD, a Connecticut corporation, AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA, a Pennsylvania corporation (herein collectively called "the CCC Surety Companies"), are duly organized and existing corporations having their principal offices in the City of Chicago, and State of Illinois, and that they do by virtue of the signature and seals herein affixed hereby make, constitute and appoint Donald G. Backes, Mary Gallagher, Kathleen C. Dzon, Colleen A. Locher, Richard G. Scherer, Individually

of Pittsburgh, Pennsylvania

their true and lawful Attorney(s)-in-Fact with full power and authority hereby conferred to sign, seal and execute for and on their behalf bonds, undertakings and other obligatory instruments of similar nature

- In Unlimited Amounts -

and to bind them thereby as fully and to the same extent as if such instruments were signed by a duly authorized officer of their corporations and all the acts of said Attorney, pursuant to the authority hereby given are hereby ratified and confirmed.

This Power of Attorney is made and executed pursuant to and by authority of the By-Laws and Resolutions, printed on the reverse hereof, duly adopted, as indicated, by the Boards of Directors of the corporations.

In Witness Whereof, the CCC Surety Companies have caused these presents to be signed by their Group Vice President and their corporate seals to be hereto affixed on this 1st day of June, 1998.

CONTINENTAL CASUALTY COMPANY CORPORATE SEAL 1897 — NATIONAL FIRE INSURANCE COMPANY OF HARTFORD — AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA INCORPORATED JULY 31, 1902

CONTINENTAL CASUALTY COMPANY
NATIONAL FIRE INSURANCE COMPANY OF HARTFORD
AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA

Marvin J. Cashion

Marvin J. Cashion Group Vice President

State of Illinois, County of Cook, ss:

On this 1st day of June, 1998, before me personally came *Marvin J. Cashion, to me known, who, being by me duly sworn, did depose and say: that he resides in the City of Chicago, State of Illinois; that* he is a Group Vice President of CONTINENTAL CASUALTY COMPANY, NATIONAL FIRE INSURANCE COMPANY OF HARTFORD, and AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA described in and which executed the above instrument; that he knows the seals of said corporations; that the seals affixed to the said instrument are such corporate seals; that they were so affixed pursuant to authority given by the Boards of Directors of said corporations and that he signed his name thereto pursuant to like authority, and acknowledges same to be the act and deed of said corporations.

Mary Jo Abel NOTARY PUBLIC Cook Co., Ill.

Mary Jo Abel

My Commission Expires March 6, 2000 — Mary Jo Abel — Notary Public

CERTIFICATE

I, Mary A. Ribikawskis, Assistant Secretary of CONTINENTAL CASUALTY COMPANY, NATIONAL FIRE INSURANCE COMPANY OF HARTFORD, and AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA do hereby certify that the Power of Attorney herein above set forth is still in force, and further certify that the By-Law and Resolution of the Board of Directors of each corporation printed on the reverse hereof are still in force. In testimony whereof I have hereunto subscribed my name and affixed the seals of the said corporations this 15th day of May, 2000.

CONTINENTAL CASUALTY COMPANY CORPORATE SEAL 1897 — NATIONAL FIRE INSURANCE COMPANY OF HARTFORD — AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA INCORPORATED JULY 31, 1902

CONTINENTAL CASUALTY COMPANY
NATIONAL FIRE INSURANCE COMPANY OF HARTFORD
AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA

Mary A. Ribikawskis

Mary A. Ribikawskis Assistant Secretary

(Rev 10/1/97)

Authorizing By-Laws and Resolutions

ADOPTED BY THE BOARD OF DIRECTORS OF CONTINENTAL CASUALTY COMPANY:

This Power of Attorney is made and executed pursuant to and by authority of the following By-Law duly adopted by the Board of Directors of the Company.

"Article IX—Execution of Documents

Section 3. Appointment of Attorney-in-fact. The Chairman of the Board of Directors, the President or any Executive, Senior or Group Vice President may, from time to time, appoint by written certificates attorneys-in-fact to act in behalf of the Company in the execution of policies of insurance, bonds, undertakings and other obligatory instruments of like nature. Such attorneys-in-fact, subject to the limitations set forth in their respective certificates of authority, shall have full power to bind the Company by their signature and execution of any such instruments and to attach the seal of the Company thereto. The Chairman of the Board of Directors, the President or any Executive, Senior or Group Vice President or the Board of Directors, may, at any time, revoke all power and authority previously given to any attorney-in-fact."

This Power of Attorney is signed and sealed by facsimile under and by the authority of the following Resolution adopted by the Board of Directors of the Company at a meeting duly called and held on the 17th day of February, 1993.

"Resolved, that the signature of the President or any Executive, Senior or Group Vice President and the seal of the Company may be affixed by facsimile on any power of attorney granted pursuant to Section 3 of Article IX of the By-Laws, and the signature of the Secretary or an Assistant Secretary and the seal of the Company may be affixed by facsimile to any certificate of any such power and any power or certificate bearing such facsimile signature and seal shall be valid and binding on the Company. Any such power so executed and sealed and certified by certificate so executed and sealed shall, with respect to any bond or undertaking to which it is attached, continue to be valid and binding on the Company."

ADOPTED BY THE BOARD OF DIRECTORS OF AMERICAN CASUALTY COMPANY OF READING, PENNSYLVANIA:

This Power of Attorney is made and executed pursuant to and by authority of the following By-Law duly adopted by the Board of Directors of the Company.

"Article VI—Execution of Obligations and Appointment of Attorney-In-Fact

Section 2. Appointment of Attorney-in-fact. The Chairman of the Board of Directors, the President or any Executive, Senior or Group Vice President may, from time to time, appoint by written certificates attorneys-in-fact to act in behalf of the Company in the execution of policies of insurance, bonds, undertakings and other obligatory instruments of like nature. Such attorneys-in-fact, subject to the limitations set forth in their respective certificates of authority, shall have full power to bind the Company by their signature and execution of any such instruments and to attach the seal of the Company thereto. The President or any Executive, Senior or Group Vice President may at any time revoke all power and authority previously given to any attorney-in-fact."

This Power of Attorney is signed and sealed by facsimile under and by the authority of the following Resolution adopted by the Board of Directors of the Company at a meeting duly called and held on the 17th day of February, 1993.

"Resolved, that the signature of the President or any Executive, Senior or Group Vice President and the seal of the Company may be affixed by facsimile on any power of attorney granted pursuant to Section 2 of Article VI of the By-Laws, and the signature of the Secretary or an Assistant Secretary and the seal of the Company may be affixed by facsimile to any certificate of any such power and any power or certificate bearing such facsimile signature and seal shall be valid and binding on the Company. Any such power so executed and sealed and certified by certificate so executed and sealed shall, with respect to any bond or undertaking to which it is attached, continue to be valid and binding on the Company."

ADOPTED BY THE BOARD OF DIRECTORS OF NATIONAL FIRE INSURANCE COMPANY OF HARTFORD:

This Power of Attorney is made and executed pursuant to and by authority of the following Resolution duly adopted on February 17, 1993 by the Board of Directors of the Company.

"RESOLVED: That the President, an Executive Vice President, or any Senior or Group Vice President of the Corporation may, from time to time, appoint, by written certificates, Attorneys-in-Fact to act in behalf of the Corporation in the execution of policies of insurance, bonds, undertakings and other obligatory instruments of like nature. Such Attorney-in-Fact, subject to the limitations set forth in their respective certificates of authority, shall have full power to bind the Corporation by their signature and execution of any such instrument and to attach the seal of the Corporation thereto. The President, an Executive Vice President, any Senior or Group Vice President or the Board of Directors may at any time revoke all power and authority previously given to any Attorney-in-Fact."

This Power of Attorney is signed and sealed by facsimile under and by the authority of the following Resolution adopted by the Board of Directors of the Company at a meeting duly called and held on the 17th day of February, 1993.

"RESOLVED: That the signature of the President, an Executive Vice President or any Senior or Group Vice President and the seal of the Corporation may be affixed by facsimile on any power of attorney granted pursuant to the Resolution adopted by this Board of Directors on February 17, 1993 and the signature of a Secretary or an Assistant Secretary and the seal of the Corporation may be affixed by facsimile to any certificate of any such power, and any power or certificate bearing such facsimile signature and seal shall be valid and binding on the Corporation. Any such power so executed and sealed and certified by certificate so executed and sealed, shall with respect to any bond or undertaking to which it is attached, continue to be valid and binding on the Corporation."

ATTACHMENT F

FINANCIAL FITNESS INFORMATION
DQE 1999 ANNUAL REPORT TO SHAREHOLDERS

EGS

Financial Fitness Information

1. Attached is an organization chart showing ValuSource's internal organization.

2. ValuSource Energy Services, LLC is a subsidiary of Mononghahela Light & Power Company ("ML&P"). ML&P is the sole member of Applicant. ML&P holds a certificate of public convenience to provide retail electric service in Pennsylvania but does not currently provide retail electric service to the public. All of ML&P's common stock is owned by Duquesne Light Company ("DLC"), a jurisdictional public utility providing retail electric service in portions of western Pennsylvania. All of DLC's stock is owned by DQE, Inc., which also owns all common stock of Duquesne Enterprises, the unregulated affiliate of DLC. Financial and credit information for DQE, Inc. may be found in the attached "1999 Annual Report to Shareholders" for DQE, Inc.

3. ValuSource's financial information is part of the consolidated statements of DQE. However, ValuSource maintains separate books under DQE. See the attached DQE, Inc. Annual Report.

4. ValuSource's subsidiary relationships with its parent organization, DQE, Inc., provides solid support of its financial fitness to become a Broker/Marketer/Aggregator engaged in the business of supplying electricity in the Commonwealth of Pennsylvania.

5. Major insurance coverage applicable to ValuSource:

   ValuSource is a wholly-owned subsidiary of DQE, a Pittsburgh-based energy services company. ValuSource is insured under the master programs of DQE with limits and deductibles appropriate for a company of its size and financial resources. DQE insurance coverages include public liability, automobile liability, fiduciary liability, and blanket crime – each with limits in excess of $5 million.

   Separately, ValuSource maintains insurance in full compliance with the Workers' Compensation and Occupational Disease Act of Pennsylvania.

ValuSource Organization

John Zbihley
President

Keith Malinoski
Director
Sales and Operations

Energy Procurement
- John Morris

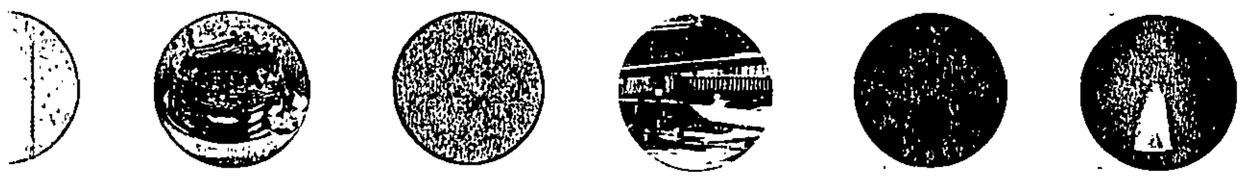
Account Management
- Phil Susie
- William Zollars
- Len Raffa
- Glenn Zabarowski

Administration
- Janice Tarson
- Mary Ann Laba

ValuSource

ring Results

Delivering Results



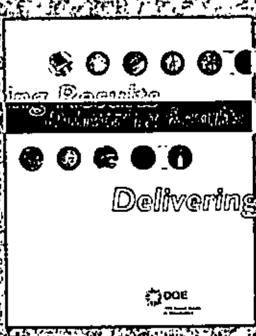
Delivering

DQE

1999 Annual Report
to Shareholders

DQE is a growth utility, delivering essential products, including electricity, water and gas. Our business lines optimize corporate performance and shareholder value by applying leading-edge technology and leveraging core competencies to create greater value through our customer relationships.

Table of Contents



DQE Corporate Profile

Duquesne Light

A leader in the transmission and distribution of electric energy, offering technological innovation and superior customer service and reliability to more than half a million direct customers throughout southwestern Pennsylvania.
(pages 10-11)

DQE Enterprises*

A recognized leader in the acquisition and development of businesses that use technology to give customers greater value from essential products, such as electricity, water, natural gas, communications and information.
(pages 12-13)

DQE Systems*

A solutions company that provides growth, efficiency and value through the delivery of propane and telecommunications, and through utility contract operations.
(pages 14-15)

AquaSource

A water and wastewater management company that increases efficiency and provides better customer service through aggregation.
(pages 16-17)

DQE Energy Services

A diversified energy services company offering a wide range of energy outsourcing solutions for industrial, manufacturing, airport and institutional markets, including ownership, operation and maintenance of energy facilities and the development of specialty fuels.
(page 18)

DQE Financial Corp.*

An investment and portfolio management organization focusing its financial expertise in structured finance and alternative energy markets.
(page 19)

* *Name was changed, effective Jan. 1, 2000, to better reflect its relationship to the parent company.*

The Stability of a Utility. The Spirit of a Dot Com.

Imagine a utility with all of the solid returns that you'd expect from a long-term investment. Now add the energy, entrepreneurship, and cutting edge technology that's at the heart and soul of every dot com out there. • **That's us, DQE.** • Sure we deliver electricity, but we deliver a lot of other things as well. • We deliver water. We deliver propane. We even deliver advanced communication services. • And with our continuing expansion into e-commerce, we also deliver profitable ideas that capitalize on expanding markets. In short, we're a whole new breed of utility that delivers life's most basic needs. • Including value and growth.

DQE: The Growth Utility

DQE Highlights

Financial and Operating (in millions, except per share amounts)	1999	1998	Change
Earnings per share:			
Total	$2.65	$2.52*	5.2%
Expanded business lines	$0.70	$0.66	6.1%
Dividends paid per common share	$1.52	$1.44	5.6%
Net income:			
Total	$201	$197*	2.0%
Expanded business lines	$53	$51	3.9%
DQE return on average common equity	14.1%	13.1%	–
Common stock outstanding:			
Average shares	75.5	77.7	-2.8%
Actual shares	71.8	77.4	-7.2%
Operating revenues:			
Total	$1,341	$1,255	6.9%
Expanded business lines	$200	$91	119.8%
Assets:			
Total	$5,609	$5,366	4.5%
Expanded business lines	$1,421	$1,206	17.8%
Customers (in thousands):			
Total	1,088	898	21.2%
Electric	584	583	0.2%
Water	433	315	37.5%
Propane	71	–	–

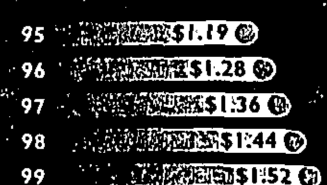
Market Price Per Share

	1999	1998	1997	1996	1995	1994	Five-Year Compound Growth Rate
High	$44.19	$43.94	$35.13	$31.50	$30.75	$23.00	14.0%
Low	$33.88	$31.63	$26.88	$25.75	$19.63	$18.42	13.0%
Year-end	$34.63	$43.94	$35.13	$29.00	$30.75	$19.75	11.9%

Earnings Per Share

Five-year compound growth rate of 6.0%

Dividends Paid Per Share



Five-year compound growth rate of 6.3%

** Excludes extraordinary $83 million ($1.06 per share) Pennsylvania restructuring charge in 1998.*

Dear Fellow Shareholders

David D. Marshall
Chairman, President and Chief Executive Officer

Delivering Results

I am particularly pleased with our Annual Report theme because it focuses on something every investor is concerned about: results. During 1999, and amidst the fundamental restructuring of our electric business, your company successfully accomplished each of the strategic initiatives discussed in the previous year's annual report. These results are the product of a sound, consistent strategy that is geared toward enhancing the value of your investment, satisfying customers and creating an enriching work environment for our employees.

Earnings and Dividend Growth Continues

Our earnings per share for the year were $2.65, a 5.2% increase from the previous year's operating earnings per share. This is attributable to continued growth of our expanded business lines and another solid year at Duquesne Light. Dividends paid per common share increased by 5.6% over the 1998 level. Our five-year earnings per share growth rate is among the industry's highest, averaging 6%. At the same time, DQE is one of only two utilities to have increased its dividend by 5% or more annually throughout the last decade. Our payout ratio — the portion of our earnings paid to investors in the form of a dividend — remains among the lowest in the industry at 58%. This low payout ratio, combined with our expected generation auction proceeds, gives us the liquidity to continue to increase our dividends, repurchase shares of stock, and make investments that increase shareholder value.

Court Ruling Allows Generation Swap and Sale to Proceed

Late last year, the U.S. District Court for the Western District of Pennsylvania ruled that DQE properly terminated its merger agreement with Allegheny Energy, and that Allegheny's claim of breach of contract had no merit. That same day, DQE subsidiary Duquesne Light finalized its generation exchange with FirstEnergy, completely ending our involvement in nuclear generation.

The completion of the exchange allows the sale of Duquesne's generation plants to proceed, with an expected closing in the second quarter of 2000. While Allegheny has since appealed the District Court judge's opinion, we are moving forward with the generation sale.

The auction results were very positive for both shareholders and customers because we were able to take advantage of a seller's market. The sale price of $1.7 billion is nearly double the national average received in auctions of this type. We will use the proceeds from the generation sale to retire debt and equity at a much smaller Duquesne Light Company, while providing DQE additional resources to pursue our growth and diversification strategy.

The exceptional result from the generation sale will allow us to end the collection of transition costs from most customers in 2001. This is the earliest — by five years — of any other major electric utility in Pennsylvania and one of the earliest in the nation. Elimination of the transition cost charge will result in an estimated 25% rate reduction for most of our electric customers as our wires company transforms into a performance-based regulated business.

Our Low-Risk Delivery Business Continues to Grow

We believe that your interest is best served through our ongoing focus on the delivery business in this rapidly changing environment. We see continuing aggregation of delivery systems as an opportunity to produce solid returns with limited risk. We made tremendous progress in the aggregation of both propane and water customers last year.

DQE Systems' ProAm subsidiary now serves approximately 71,000 customers, and has quietly become the 14th largest propane delivery company in the country. We are working to capture economies of scale and achieve geographic diversity to mitigate the potential for variability in sales due to weather.

AquaSource is focusing on realizing the benefits of our strategy to cluster groups of small companies in high growth regions of the country. AquaSource currently provides water and wastewater services to more than 400,000 customers while maintaining a good track record for customer service and community leadership.

"These results are the product of a sound, consistent strategy geared toward enhancing the value of your investment."

Optimizing the Core

We have the ability to achieve synergies in a delivery services acquisition strategy by capitalizing on our existing corporate services infrastructure. In particular, our regulatory and customer service focus will enable us to continue to provide earnings growth from investments in low-risk, regulated industries. At the same time, we seek out other investment opportunities where we can put to work our utility expertise in technology, environmental management and regulatory matters.

For example, as one of the largest independent collectors and processors of landfill gas, DQE Financial Corp. currently has the rights to the landfill gas at 26 sites. Our strategy is not only to maintain and grow our presence in landfill gas investments, but also to leverage our industry expertise by providing a comprehensive solution to existing landfills in need of gas collection system design, construction and operation.

DQE Energy Services is building a portfolio of innovative energy solutions, including a state-of-the-art energy facility to service the new Detroit Airport Midfield Terminal Complex.

In addition, DQE Systems is stepping into the world of telecommunications in a unique, entrepreneurial way that has little downside risk. Local officials hailed our recent introduction of a state-of-the-art metropolitan fiber optic network. It provides the infrastructure for the most densely populated business districts in the Pittsburgh region to obtain local access to advanced telecommunications and data services.

The Value of Customers

We already have begun to see that the value of our company is more than the value derived from our growing stream of delivery business profits. There is significant value in providing immediate customer outlets for our investments in early-stage energy technology, telecommunications and e-commerce businesses. DQE Enterprises' incubation of these types of businesses has captured the attention of the financial community. DQE stock reached an all-time high of $53 on January 24, 2000. We believe there will be continued long-term growth in our company's value as we execute on these types of investments. As of the end of February, your investment in DQE has delivered a total return of 434% over the last 10 years, comparing favorably to the 425% achieved by the Standard & Poor's 500 Index. During the same time frame, the Standard & Poor's Electric Utility Index achieved a total return of 108%.

Thanks and Farewell to Key Board Members

With an incredible year of accomplishments behind us and yet another promising year ahead of us, I am grateful for the counsel of our knowledgeable and committed Board of Directors. I'd especially like to thank Bill Knoell, a former lead director, and Tom Murrin, another key contributor, who are concluding their valuable service with our board, following this year's annual meeting. Their wisdom and stewardship helped guide us through some of the most challenging years in our company's history. At the same time, I am pleased to announce that Steven Rogers, a professor of entrepreneurship at Northwestern University's Kellogg Graduate School of Management, has joined the board.

I am thankful for the experience, dedication and hard work of my colleagues throughout this company. In these exciting times, I cannot imagine a better business to be in. And I certainly cannot imagine a more talented, devoted group of people with whom I could work.

Our Mission: Creating Value

As your company continues to evolve, we will balance short-term results and long-term value creation. Each initiative that I have outlined is designed to fulfill our mission of creating value for you. We are confident and excited about DQE's future. We see opportunities to continue to grow our business and your investment, and we intend to take advantage of them. We have a clear game plan, and the determination and confidence to make DQE a leader in the delivery business — electricity, water, propane, landfill gas, telecommunications, energy technologies and e-commerce — while delivering results.

David D. Marshall
Chairman, President and Chief Executive Officer
March 10, 2000

DQE 1999 Results

- Earnings per share growth of 5.2% amidst fundamental industry changes
- Dividend growth of 5.6% among highest in the industry
- Generation exchange eliminates nuclear involvement
- DQE prevails over Allegheny Energy in U.S. District Court merger litigation
- Water & propane investments achieving increasing returns while diversifying products & geographic reach
- Investments in energy-related technology & e-commerce businesses enhance value
- Expansion of landfill gas collection and processing continues
- Work begins on new Detroit Airport energy facility
- State-of-the-art metropolitan fiber optic network completed

Q&A With David Marshall

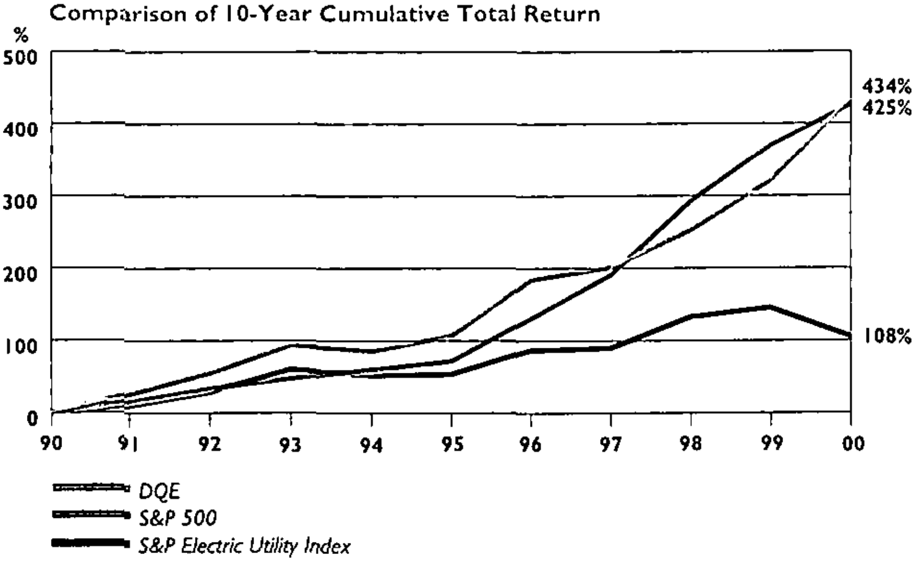
David Marshall Responds to Frequently Asked Shareholder Questions

Q Why did electric utility stocks experience a tough year in 1999?

A The market's focus on technology stocks throughout 1999 created price weakness in a number of industries that attract traditional value investors. Moreover, last year's interest rate increases also caused capital intensive electric utility stocks to languish. Even though DQE outperformed the Standard & Poor's Electric Utility Index, its price dropped by 21%. We saw this as a great buying opportunity and purchased approximately 5.7 million shares of our common stock in the open market.

The stock price has rebounded significantly in the new year, and DQE has enjoyed a 34.3% price appreciation through the end of February, while the Standard & Poor's 500 Index has experienced a negative return in this same time frame.

Comparison of 10-Year Cumulative Total Return



Assumes $100 investment on February 28, 1990
For the 12 months ended February 28

Q Why has DQE's stock price appreciated so significantly thus far in 2000?

A We believe the market is reacting favorably to DQE's strategic investments in energy-related technology – principally e-commerce and fuel cells. These types of companies, as well as other utilities with interests in these sectors, have garnered the attention of savvy investors and have appreciated notably. Combine these investments with the steady cash flow of our utility delivery businesses and you have a winning investment combination. The financial community has readily recognized our strong shareholder orientation and ability to deliver results. And the price of our stock is reflective of that.

Q Why should investors consider DQE a solid investment opportunity?

A DQE provides a "kicker" to a prospective investor with a growth and value orientation. We have been positioning DQE as an evolving utility delivery company, providing essential products to homes and businesses, and developing technologies that make these delivered products more valuable for customers. We offer the stability of a utility investment...with the entrepreneurial spirit of a dot com business. While DQE has provided investors with one of the strongest earnings and dividend records in the industry over the past decade, it has identified market opportunities earlier than other utilities, enabling the company to carve out the most profitable business niches within industries that focus on the delivery of essential products.

Q ***What other factors make DQE a good investment?***

A Our company is comprised of many talented, diverse and dedicated people. While we have a solid core of utility experience and expertise, 75 percent of our top 50 managers came from industries outside the electric business.

We have fostered a culture where each business has an opportunity to share in the rewards of creating shareholder value. Each one of our subsidiaries has the autonomy to design its own business, within corporate guidelines. As a result, we now have six diverse yet related initiatives that add value for DQE.

Q ***Why are we selling our generation assets?***

A We do not have sufficient generation capacity to compete effectively in a wholesale electricity market that is newly deregulated and will be volatile. Consequently, we do not want to expose shareholders to the associated risks.

"Our company is comprised of many talented, diverse and dedicated people."

The extremely hot weather that gripped most sections of the country last July again demonstrated the volatility of the generation market and the direct impact it can have on shareholders. The prolonged heat wave led to unprecedented market prices for purchased power, record demand by customers and regional generation capacity constraints. While our power plants were able to produce and sell large amounts of electricity, we needed more to serve our customers. As a result, we had to purchase power on the open market at prices as much as 20 times the typical price for a kilowatt-hour of electricity. Due to these unexpected costs, July's earnings were reduced by approximately 18 cents per share of common stock.

This real-time, real-life experience clearly demonstrates the advantage large multi-region generators have in the new competitive marketplace. While we are proud of our history in electric generation, we firmly believe it is not prudent to expose our shareholders to risks of this nature. As other states have gone through customer choice restructuring, many companies – larger than we are – have agreed to sell their power plants to ensure their shareholders are treated fairly regarding transition cost recovery. We see the auction of Duquesne Light's generating stations and provider of last resort obligation as a means to further reduce shareholder risk and customer costs.

"We offer the **stability** of a utility investment...with the *entrepreneurial spirit* of a dot com business."

Q ***As you look beyond 2000, what is your vision for the company?***

A We believe we can continue to be a growth utility with higher-than-average utility returns. Each of our businesses is an important building block in our ongoing efforts to create shareholder value. Each has its specific business strategies and initiatives, yet recognizes the importance of leveraging our core competencies and cross-pollinating expertise to create synergies.

Rather than focusing exclusively on the electric business, we are carving out a niche for the distribution portion of all utilities. We focus on distribution because it is a stable, low-risk type of business. Moreover, we have all of the professional corporate services that are needed to run any kind of mass utility service.

In addition, the growing and successful e-commerce businesses incubated by our DQE Enterprises subsidiary are helping our customers derive greater value from the essential products we provide. We have a proven track record of success in this area: success in terms of increased shareholder value, as well as benefits that accrue to the small companies that have been incubated. These win-win initiatives attract additional deal flow as our pipeline of businesses provides an ever-increasing number of services to a growing number of delivery customers. Periodically monetizing some of these investments at opportunistic junctures delivers short-term results that help balance long-term shareholder objectives.

As the electric utility business continues to consolidate because of deregulation, we recognize that we are a smaller player. However, by virtue of our relatively small size, we've learned to be nimble and react quickly to opportunities. We look at shareholder value as a stairway process. And while we can't predict exactly what our company will look like five years from now, we have a history of accurately forecasting and identifying trends, and an instinct for opportunity. From our formation of the holding company in 1989, which enabled us to grow and diversify our business lines, to our early entrance into energy technology and e-commerce, to our swap out of nuclear generation, we have earned a reputation of being ahead of the pack...for leading the game. We have been able to capitalize on our extensive experience in energy delivery and our position as an early leader in deregulation to grow and prosper in new and exciting ways that profitably expand the boundaries of the traditional utility business. We want to make sure that we continue to create value with each step we take.

Board of Directors

Daniel Berg

70. Term expires 2000 (1, 2, 7). Institute Professor, Rensselaer Polytechnic Institute. Chairman of the Board and Director, Crystek Crystal Corporation (manufacturer of high reliability crystals for microprocessors and oscillators). Other directorships include Hy Tech Machine, Inc. (specialty parts), and Joachim Machinery Co., Inc. (distributor of machine tools).

Doreen E. Boyce

65. Term expires 2001 (3, 5). President of the Buhl Foundation (supports educational and community programs). Directorships include Microbac Laboratories, Inc. (analytical testing laboratory group) and Dollar Bank, Federal Savings Bank. Chair of Franklin & Marshall College Board of Trustees.

*Robert P. Bozzone **

66. Term expires 2000 (1, 3, 6). Vice Chairman of Allegheny Technologies, Inc. (specialty metals production). Life member of ASM International (engineering technical society). Directorships include Allegheny Technologies, Inc., Teledyne Technologies, Inc., and The Pittsburgh Foundation. Non-executive Chairman of Waterpik Technologies, Inc. Former Chairman, Pittsburgh branch of the Federal Reserve Bank of Cleveland. Trustee of Rensselaer Polytechnic Institute.

Sigo Falk

65. Term expires 2002 (2, 3, 4, 6). Management of personal investments. Chairman of Maurice Falk Medical Fund, the Leon Falk Family Trust, and the Chatham College Board of Trustees. Directorships include the Historical Society of Western Pennsylvania and the Allegheny Land Trust.

*William H. Knoell **

75. Term expires 2000 (2, 4, 6, 7). Retired Chairman and Chief Executive Officer of Cyclops Industries, Inc. (basic and specialty steels and fabricated steel products; industrial and commercial construction). Directorships include Cabot Oil and Gas Corporation and St. Clair Memorial Hospital. Life trustee of Carnegie Mellon University.

David D. Marshall

47. Term expires 2001 (2, 5, 6, 7). Chairman, President and Chief Executive Officer of DQE. Directorships include the Allegheny Conference on Community Development and the Duquesne Club.

Thomas J. Murrin

70. Term expires 2000 (2, 7). Dean, A.J. Palumbo School of Business and John F. Donahue Graduate School of Business, Duquesne University; former Deputy Secretary of U.S. Dept. of Commerce; former President, Westinghouse Electric Corporation Energy and Advanced Technology Group. Member of the Executive Committee of the U.S. Council on Competitiveness, the Airport Authority of Pittsburgh International Airport and Chairman of the Pittsburgh Tissue Engineering Institute.

Steven S. Rogers

42. Term expires 2000 (1,2). Clinical Professor of Finance & Management, J. L. Kellogg Graduate School of Management, Northwestern University. Directorships include S.C. Johnson & Son, Inc. (manufacturer of household cleaning, personal care and insecticide products) and Supervalu, Inc. (supermarket retailer and food distributor).

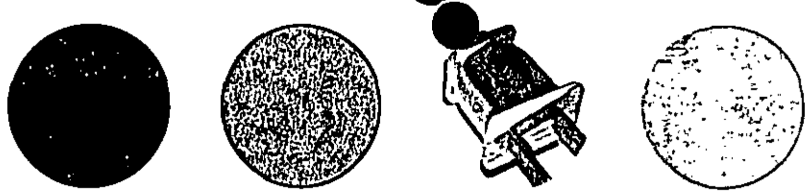
Eric W. Springer

70. Term expires 2002 (1, 5). Of Counsel, Horty, Springer and Mattern, P.C. (attorneys-at-law). Trustee of the Maurice Falk Medical Fund and Trustee Emeritus of the University of Pittsburgh Medical Center. Past President of the Allegheny County Bar Association.

DQE Committees:

1. Audit
2. Business Development
3. Compensation
4. Corporate Governance
5. Employment and Community Relations
6. Executive
7. Nuclear Review (dissolved 12/99)

* Lead Director (8/96-6/99)



For more than a century, Duquesne Light has been in the forefront of the electric energy market, with a history rooted in technological innovation and superior customer service. Today the company again is an industry leader — this time in the transition to electric competition in Pennsylvania.

In about one year's time, Duquesne Light is transitioning from a vertically integrated utility into a much smaller transmission and distribution services company. While smaller, it will have the same focus on customers, technology and shareholders.

1999 was an extraordinary year for Duquesne Light by every measure. The auction of its generating assets was extremely successful, capturing a price of $1.7 billion, which will virtually eliminate the company's transition costs related to the implementation of customer choice in Pennsylvania by 2001. Overall reliability levels significantly exceeded the targets set for the company by the state Public Utility Commission. Customer satisfaction averages reached the highest levels Duquesne has ever achieved, no doubt helped by the fact that customers are experiencing the opportunity to choose their electric generation supplier for the first time. The successful start-up of a new customer service telephone call center in 1999 helped improve current performance in that area, and enhanced future capability.

Evolving at the Speed of Light

Duquesne Light

www.duquesnelight.com

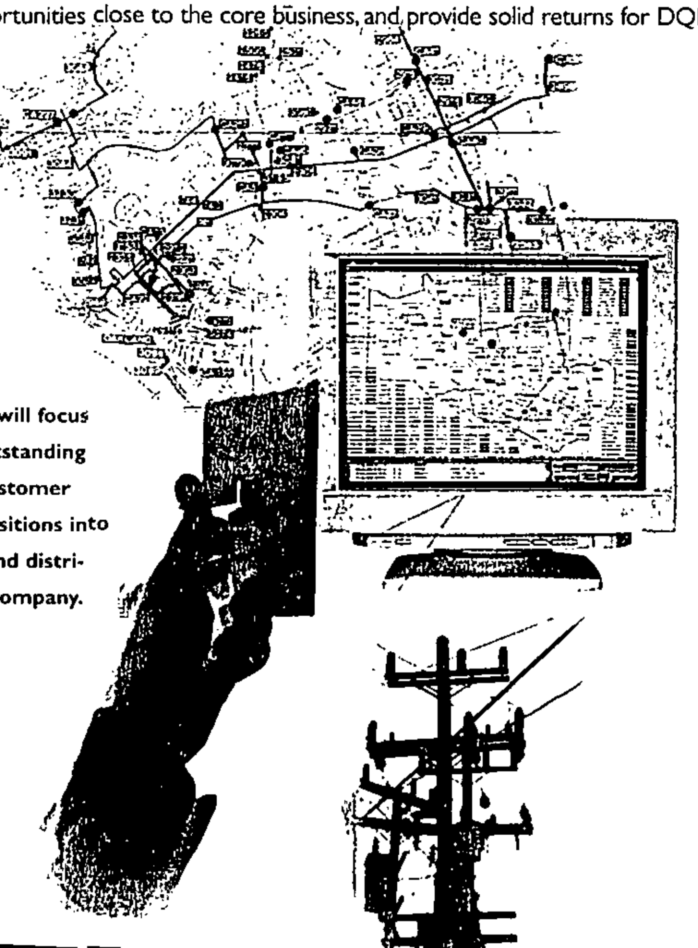
As a result of its decision to exit the electricity generation business, and the expected closing of its generation sale in the second quarter of 2000, Duquesne Light will be able to offer its customers the shortest transition to competition of any major electric utility in the state. In 2001, almost all of Duquesne's customers will experience a watershed event — a 25 percent decrease in rates. Duquesne will end the collection of transition costs five years earlier than any other Pennsylvania utility.

Leading the movement to customer choice presents some major challenges. Duquesne Light now must match its capabilities and costs to fit a much smaller revenue stream from customers. That means the utility must work smarter to provide customers with a reliable system and excellent customer service, but with fewer people and at a lower overall cost.

As its rates begin to fall with the expiration of the Competitive Transition Charge, and as generation competition heats up, Duquesne Light will have an opportunity to take customer satisfaction to even higher levels. Two operating priorities will be to improve effectiveness during outages as well as the quality of call center operations. In addition, the utility's customer base has expanded from residential, commercial and industrial customers to include the companies that have assumed Duquesne Light's role as generator of electricity. They now are key accounts for the utility, and present new opportunities for growth. With the company's transition to a delivery-only utility, reliability takes on increased importance — especially with performance-based ratemaking on the horizon in Pennsylvania. The company will continue to implement new technology to improve reliability and customer service. Duquesne Light is one of only a few utilities in the world offering the comprehensive package of services available through its Customer Advanced Reliability System. In addition to currently providing electronic meter reading, it also is a critical link in the company's new outage management system. This system, to be fully operational by the end of 2000, is designed not only to directly detect outages at individual homes and businesses, but also to pinpoint the causes, calculate restoration-time estimates, help coordinate repair efforts and store all of this information for after-storm analysis.

Over the next year, the new Pennsylvania energy marketplace will continue to evolve. Market participants will experiment with various operations and strategies. Customers will make choices. Since Duquesne Light is not affiliated with any particular electricity supplier, it can objectively offer customers services from companies such as DQE Enterprises' Enermetrix.com (see page 13) to help facilitate competitive market prices, without the financial risks of energy trading.

As it transitions toward becoming the very best wires and customer service company, Duquesne Light will pursue best-in-class utility performance, explore innovative opportunities close to the core business, and provide solid returns for DQE.



Duquesne Light will focus on delivering outstanding reliability and customer service as it transitions into a transmission and distribution services company.

Growth Through New Services

As Duquesne Light transforms into a transmission and distribution services company, it will continue to create unique sources of value by developing services that stem from new and innovative ways of thinking about its core utility delivery business.

In late 1999, the company began offering customers an extensive array of electrical repair and installation services, ranging from rewiring of houses and safety inspections to the installation of ceiling fans and light switches. Initial response to Duquesne Light Home Services is promising — approximately 100 calls per day.

ElectriLoad, an Internet-based product that enables commercial and industrial customers to view their electricity consumption via a secure web site, currently is being tested in a pilot program. ElectriLoad provides a variety of load and usage information for both individual meters and a composite of multiple meter sites.

By building these and other extended services around its core utility business, Duquesne Light will grow, add shareholder value and find new ways of leveraging its brand to include expanded offerings in today's evolving energy marketplace.

An important part of DQE's growth strategy is the provision of services that extend the customer value of essential products, such as electricity, water and natural gas. DQE Enterprises acquires, develops and invests in businesses that use technology to make products like these more useful and cost-effective.

Incubating Growth & Value

DQE Enterprises

www.dqeenterprises.com

Name Change

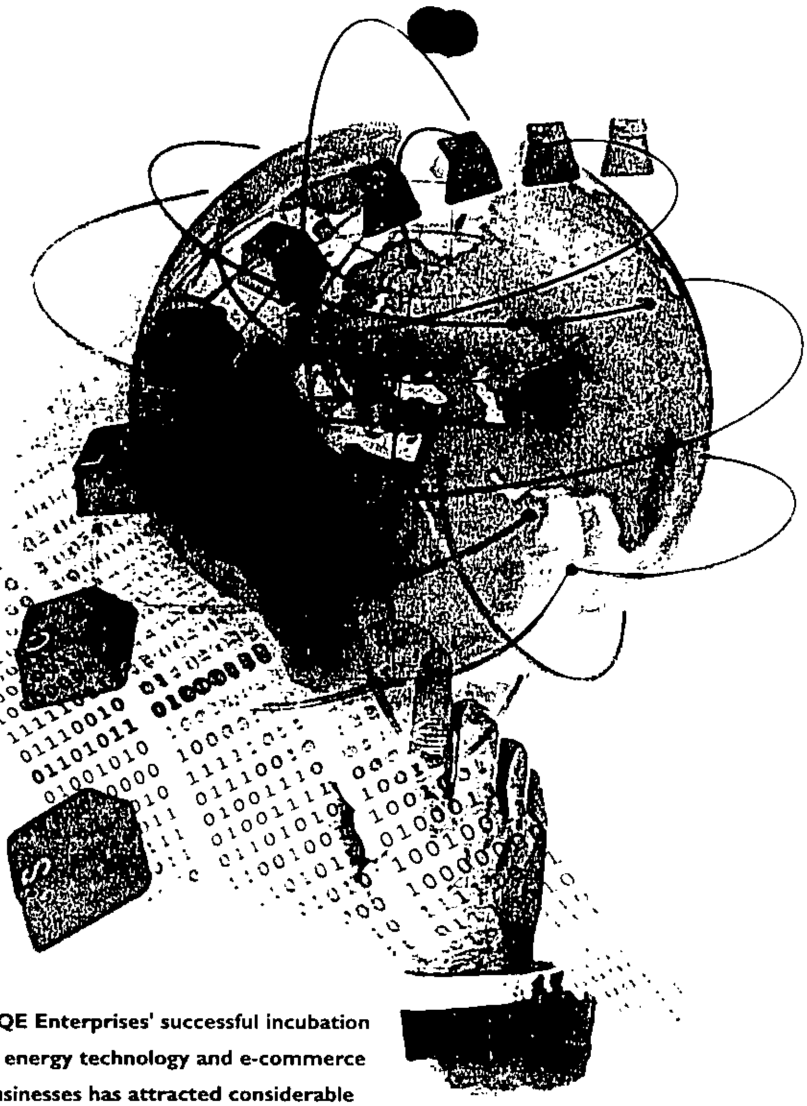
Our name was changed to DQE Enterprises, effective Jan. 1, 2000, to better reflect our relationship to the parent company.

DQE Enterprises has built a business equipped with motivated, focused teams that have proven track records and the ability to provide products and services that link to, or expand, DQE's current offerings. Enterprises not only brings to the table strategic and financial oversight, it also fosters the entrepreneurial spirit that has created its partners' successes. DQE Enterprises' companies are developed as stand-alone businesses, each with its own specialized management team, whose interests are carefully aligned with those of DQE. These businesses have attractive fundamentals and are expected to be particularly synergistic with DQE's core utility delivery businesses. Synergies and linkages with DQE affiliates are offered as options, not mandates, to enhance competitiveness, reduce time to market and increase profitability.

DQE Enterprises' proven track record of success in incubating promising businesses attracts additional deal flow as Enterprises' pipeline of businesses provides an ever-increasing number of services to a growing number of utility delivery customers. Just as DQE Enterprises seeks out investment opportunities, e-businesses are seeking out DQE Enterprises to help them develop and position their companies, recognizing its business acumen.

DQE Enterprises currently has investments in a number of businesses, in various stages of development, which are involved in electronic commerce and energy services and technologies. Enterprises is gaining increasing recognition as an "e-lectricity" incubator, both from the financial community and publications such as *Barron's, Forbes, Information Week, Fortune, Power Executive, The Wall Street Journal* and *Red Herring*. Many of the higher growth companies Enterprises has invested in differentiate their services through the application of technology and the development of intense, interactive and automated relationships with customers through the Internet. Among DQE Enterprises' e-business ventures are:

- *Enermetrix.com (see related story), the most active U.S. retail Internet energy auction procurement service for industrial and commercial energy users.*
- *OnlineChoice.com, which uses the Internet to aggregate customers into buying pools to purchase electricity, natural gas, communications and other essential services at lower rates through volume discounts.*



DQE Enterprises' successful incubation of energy technology and e-commerce businesses has attracted considerable interest from the financial community.

- *Broadpoint Communications' FreeWay service, which enables customers to earn free long-distance telephone calling time in return for listening to short audio advertisements.*
- *Predictive Data's DepositSaver.com service, which replaces a landlord's requirement for a cash deposit with a first-of-its-kind insurance product.*

DQE Enterprises also owns an interest in three companies involved in energy technology, including distributed generation and fuel cells, and has a strong presence in the energy services field.

As these companies develop and demonstrate their business models, Enterprises encourages them to bring on third-party investors and partners, often from other industries and the venture capital community, to help develop and position their businesses. Many of these platform companies continue to evaluate the variety of financial alternatives available to them, including initial public offerings. Each recognizes the benefits of public ownership, such as efficient access to capital and the commercial visibility that accrues to companies that are the first in their business space to become public companies.

Internet Energy Commerce Leader

Enermetrix.com is the leader in Internet commerce for energy. A member of Information Week's E-Business 100 List. Twice awarded the prestigious CIO WebBusiness 50/50 Award. Nominated by Microsoft Chairman Bill Gates for the renowned Smithsonian Award in the energy category. Enermetrix.com uses the web to better facilitate energy transactions, bringing enormous savings of time and money to thousands of businesses throughout North America.

Enermetrix.com's award-winning Internet commerce system is the nation's most active Internet exchange for commercial, industrial and other energy transactions. Users of electricity and natural gas post energy requirements on a secure web site and use an on-line Internet auction, involving more than 55 energy suppliers, to purchase energy at the lowest possible price. Enermetrix.com currently has more than 4,000 industrial and commercial customers, facilitating millions of dollars in energy transactions in 1999 alone. Enermetrix.com revolutionizes the way its users manage deregulated energy business issues.

A third round of equity financing, totaling $20 million, will allow Enermetrix.com, in conjunction with GE Power Systems, to accelerate its development and deployment of Internet technology and services to deregulating energy markets around the globe.

DQE Systems is providing growth, efficiency and value through the delivery of propane and telecommunications, and through utility contract operations.

Delivering Growth, Efficiency and Value

DQE Systems

A natural extension of DQE's energy delivery business and aggregation strategy, **ProAm**, "**Pro**pane for **Am**erica," currently is the 14th largest retail propane company in the United States, with approximately 71,000 customers.

Industry consolidation is providing market opportunities in this highly fragmented business. In addition, key segments of the consumer population are migrating to rural and resort community areas that provide an expanding customer base for propane sales, while technological developments and environmental regulations are improving consumer economics for use of this fuel.

Name Change

Our name was changed to DQE Systems, effective Jan. 1, 2000, to better reflect our business focus and our relationship to the parent company.

ProAm's success in implementing a growth through acquisition strategy is predicated on leveraging its competitive advantages:

- *a structured acquisition process that includes continuous identification of opportunities, thorough due diligence, and timely access to capital*
- *scale and scope of operations, whereby ProAm captures economies that are unachievable by small, independent operations*
- *marketing acumen, and*
- *environmental expertise that ensures compliance with health and safety requirements*

In addition, ProAm is maintaining its focus on meeting critical success factors, such as achieving regional diversity to mitigate the effects of weather variability, adhering to strict investment criteria to ensure financial results are achievable, and maintaining a management framework to control operations throughout this aggregation process. ProAm's vision is to become one of the nation's leading propane retailers. Its national presence assures customers of competitive pricing, while local retail operators emphasize meeting customers' needs.

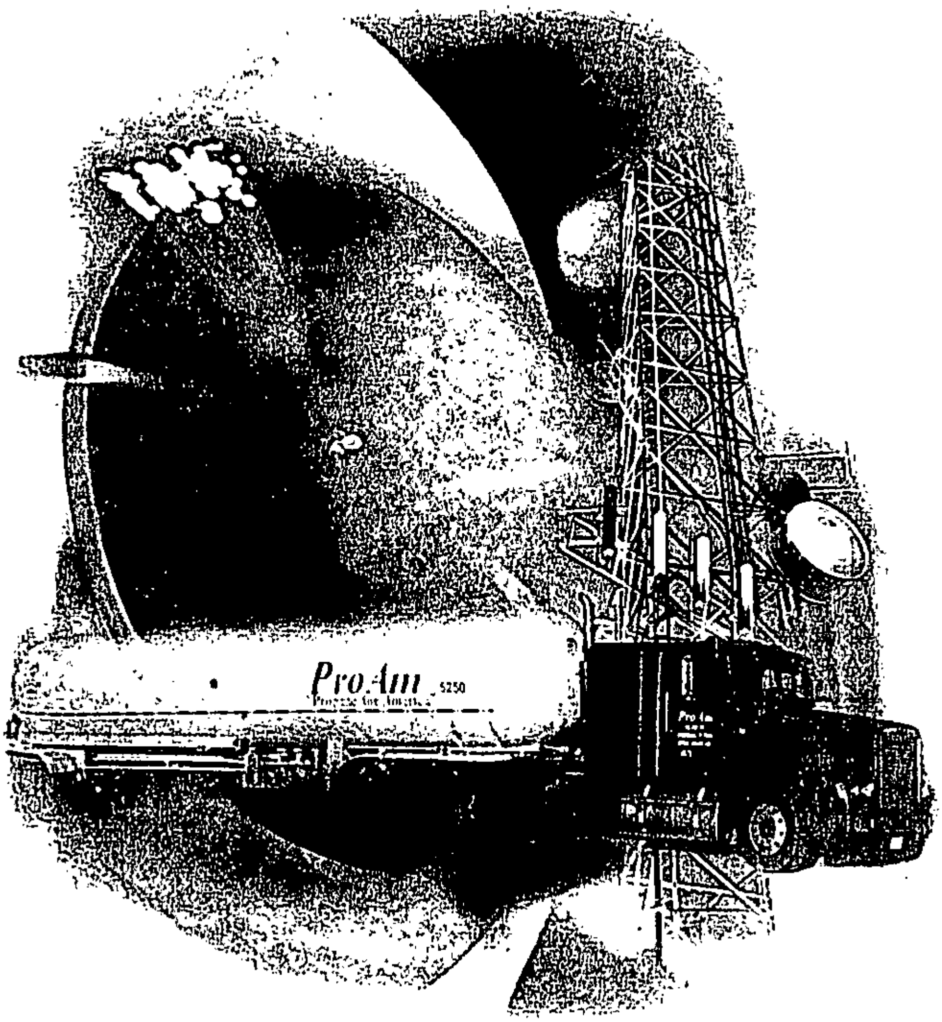
DQE Communications Provides Fiber Optic Gateway

DQE also has expanded its entry into the world of telecommunications in a way that is entrepreneurial, yet has little downside risk. Late in 1999, DQE Communications completed an ambitious new construction project — a build-out of a state-of-the-art metropolitan fiber optic network. The Fiber Optic Gateway is available for leasing by businesses as well as telecommunications and data service providers. This high capacity dark fiber 200-mile backbone — featuring

50,000 fiber miles — will accelerate innovative broadband services and advanced telecommunications and launch the Pittsburgh metropolitan region into a new era of high performance business and communications applications.

An ever-increasing dependency on the Internet, the daily emergence of new video and data applications, and the heightened need for secure transmission have created a dramatic demand for telecommunications capacity. This competitor-neutral, dark fiber infrastructure enables customized, secure, unmetered networks that are immediately available.

DQE Systems provides growth, efficiency and value through the delivery of propane and telecommunications, and through utility contract operations.



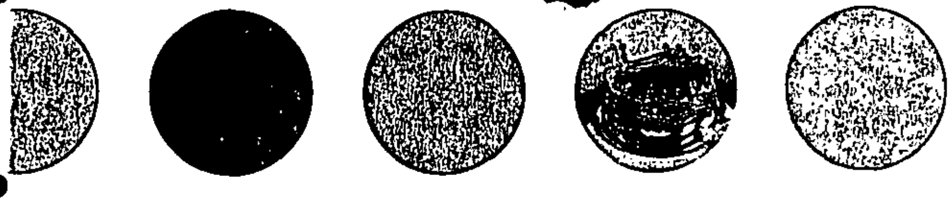
Utility Contract Operations Extend Core Expertise

Efficient operation of multi-utility distribution systems, in partnership with government and municipal system owners, offers another natural extension of DQE's core expertise. DQEnergy Partners works with government facilities and municipal utilities to better meet the needs of customers and the community through the efficient operation of delivery systems — electric, gas, water and telecommunications.

Managing a utility in today's complex energy markets requires expertise across a broad range of areas. Through the implementation of "best practices," such as streamlined business processes, practical applications of technology and advanced energy procurement methods, DQEnergy Partners offers operational improvements and expert guidance that enhance a system's operational performance, making it more efficient, cost-effective and customer responsive. DQEnergy Partners' collective experience provides a unique ability to work with multiple types of delivery systems, creating economies of scale and efficiencies in key functions that public sector owners often cannot achieve on a stand-alone basis.

With a focus on providing efficient operation of distribution systems under long-term operating contracts, this strategy is geared toward generating a steady revenue and earnings stream with minimal capital investment.

The combined expertise of DQE Systems and other DQE affiliates enables the company to offer a full scope of utility services, expert guidance and operational improvements at a greater value.



AquaSource provides DQE with a unique opportunity to enhance profitability and leverage its utility management expertise through the aggregation of water and wastewater companies and the contract operation of municipal and water utility systems throughout the country.

Traditionally, the water and wastewater industry has been a fragmented one, including more than 60,000 small, privately owned water systems. In addition, municipalities provide more than 85% of water and wastewater service. These system owners are faced with a growing number of unfunded regulatory mandates. As a result, more and more owners and operators, including municipalities, are partnering in creative ways to improve the efficiency of their water and wastewater utilities. Regulators across the country continue to look favorably on consolidation of smaller water and wastewater utilities. And there is a growing trend toward private company contract operation of municipal systems.

Delivering Water and Quality Service

AquaSource

www.aquasource.com

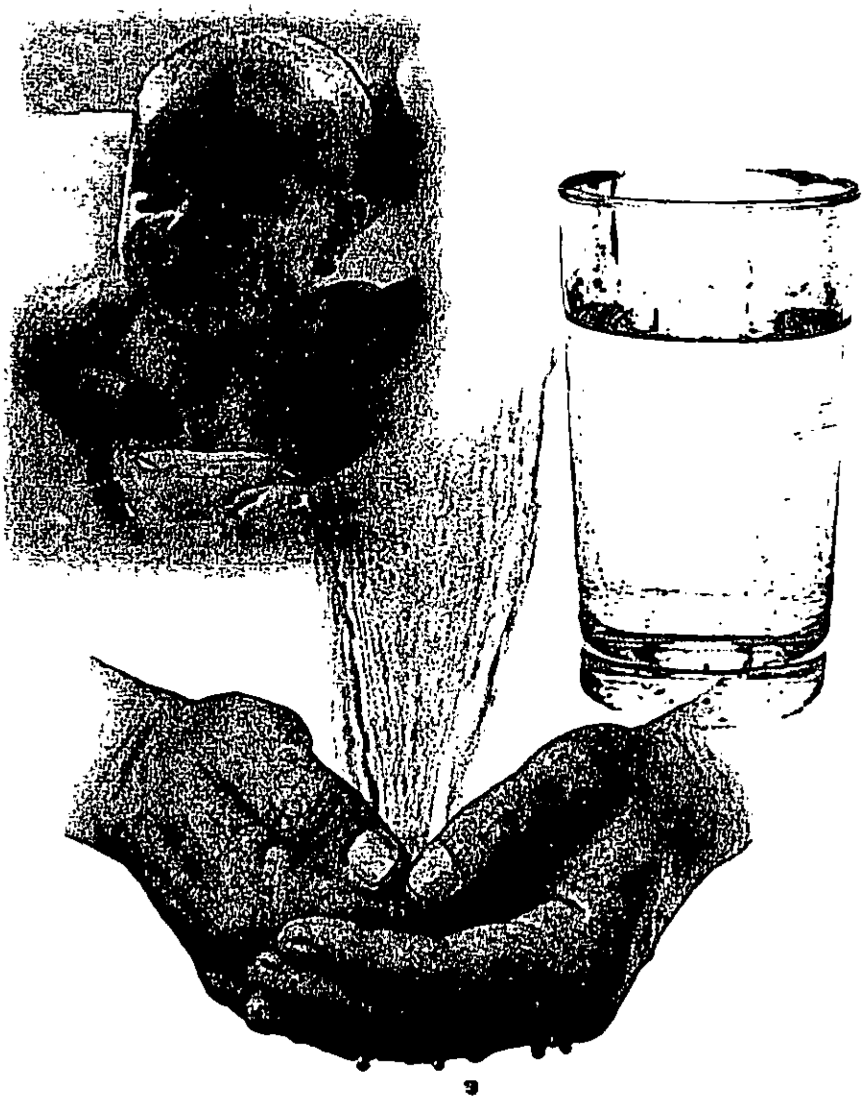
AquaSource's mission is to acquire or operate water systems in high-growth regions. The company is made up of hundreds of water and wastewater systems, the majority being small to mid-sized systems serving 1,000 to 3,000 households. The largest investor-owned water utility in Texas, AquaSource increases efficiency and provides better service through economies of scale that smaller systems cannot always offer.

AquaSource currently is focusing on realizing the benefits of its cluster strategy. Management is implementing performance measures and master plans for each region that concentrate on increasing revenue, driving out duplicate costs, controlling expenses, and increasing accountability.

DQE is enhancing AquaSource's focus on improving efficiency by providing information technology and regulatory expertise, as well as our successful management discipline. Two such initiatives currently under way are an integrated rate filing for all of AquaSource's Texas acquisitions as well as the introduction of automated meter reading.

At the same time, AquaSource is building a corporate culture that fosters the drive and energy that has fueled the company's growth, yet adds the controls and processes necessary to run a successful water utility.

In addition to providing a plentiful supply of safe, clean water at the lowest possible price, AquaSource is committed to being accessible and responsive. An industry leader in customer service, AquaSource provides convenient on-line access to everything from customer service representatives to annual reports on water quality.



By aggregating small water companies, AquaSource improves customer service and adds shareholder value.

Moving forward, AquaSource will be working to further increase its customer base through the contract operation of small and mid-sized systems, in conjunction with DQE Systems. With continued growth through contract operations and the Service Area Development program (see related story), increased efficiency of existing clusters, and selected aggregation, AquaSource is poised to become one of the top water companies in the country.

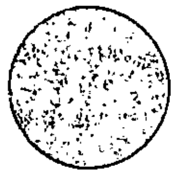
Service Area Development Program Has Promising Start

Partnerships with homebuilders and land developers to provide water and wastewater facilities offer promising prospects for long-term customer growth while complementing AquaSource's aggregation strategy.

More than 50 projects currently are in development in Texas, with the potential for water and wastewater connections to 20,000 homes. As a result of this promising start, the System Area Development program is being rolled out in other high-growth regions of the country.

Experienced AquaSource professionals are trained in multi-phase design, which greatly enhances the company's ability to control costs, select construction materials and provide innovative solutions to site and construction problems. The goal is to provide customers the highest level of service and satisfaction while AquaSource achieves a solid return on its investment.

The Energy Facility Solution



DQE Energy Services

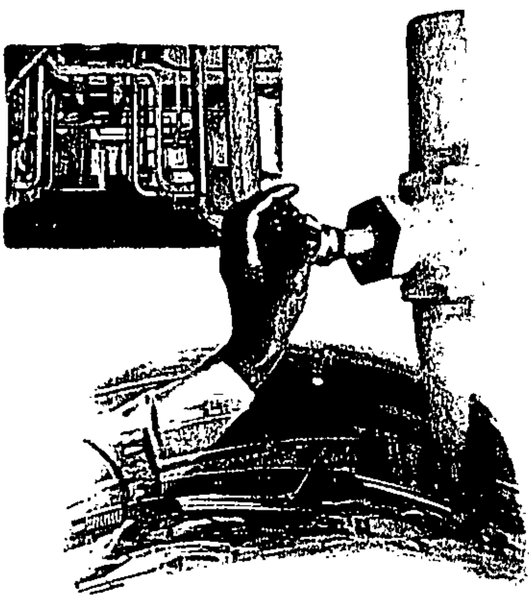
DQE Energy Services offers a wide range of solutions for industrial, manufacturing, airport and institutional markets. A diversified energy services company, DQE Energy Services has the expertise to develop, own, operate, upgrade and maintain central energy facilities serving customer-specific sites. Core competencies include the innovative design, engineering, construction, project management, operation and maintenance of power, thermal generation and alternative fuel facilities.

As domestic and international competition increases, many industrial and institutional entities are taking a much harder look at energy costs to try to gain an advantage. However, corporate and institutional managers often lack energy procurement and energy management skills, and many energy facilities are old, inadequately maintained and inefficient. An industry trend toward outsourcing of non-core utility assets and contracting for operation and maintenance services continues as a result of these pressures.

Airport Energy Expertise

Leveraging its demonstrated performance at the Pittsburgh International Airport Energy Facility, and the recent award of the nationally bid Detroit Airport contract, DQE Energy Services is well positioned to become an industry leader in the airport energy facility niche market.

Development of the Detroit Airport Energy Facility project is ahead of schedule and on budget. This state-of-the-art central utility complex will provide all of the electric, heating and cooling requirements for the new Midfield Terminal Complex.

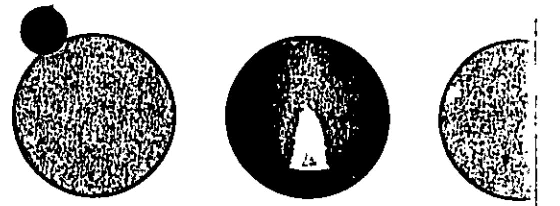


DQE Energy Services helps customers to focus on their core businesses and optimize energy assets by providing a range of outsourced support for energy facility projects.

DQE Energy Services optimizes performance by applying a flexible, innovative approach to solving each customer's specific energy needs. Moreover, customers can take advantage of a wide range of synergies and linkages with other DQE affiliates in the energy facility/utility services marketplace. DQE is strategically positioned to capitalize on the diverse portfolio of utility and energy services contained within its corporate umbrella, including:

- *full scope municipal utility management services with AquaSource and DQE Systems*
- *combined landfill gas operations and power generation projects with DQE Financial Corp., and*
- *use of Enermetrix.com's energy exchange for the purchase of electricity and gas as part of an energy facility management package*

DQE Energy Services' current energy facility contracts include: operations and maintenance for the Pittsburgh International Airport Energy Facility; operations, maintenance, facility optimization and energy supply for H.J. Heinz factories in Pittsburgh, Pa., and Leamington, Ontario; a joint venture with MichConGas to build, operate and maintain the new energy facility for the Detroit Airport Midfield Terminal Project; and the ownership/operation of a 10-megawatt landfill gas energy facility in Monmouth, N.J. Although competition for these types of projects is keen, DQE Energy Services is focused on finding unique opportunities to aggregate an attractive project portfolio, leveraging its operations and maintenance expertise to deliver results and added value.



Financial Expertise Optimizes Investment Performance

DQE Financial Corp.

Since its inception as Montauk in 1990, it has been DQE Financial Corp.'s primary mission to achieve near term earnings growth through an investment portfolio that provides flexibility and diversification.

Through a combination of business, financial and technical professionals, DQE Financial Corp. is able to analyze even the most complex projects and design the proper business and financial transactions geared to produce optimal project returns. In 1999, DQE Financial Corp. formed a joint venture with Waste Energy Technology, a leading provider of landfill gas engineering, construction and operations services. As government bodies continue to introduce environmental regulations that require more aggressive landfill gas recovery efforts, Waste Energy Technology expects to see a dramatic rise in demand for its services from the landfill gas management industry. A strategic partner such as DQE Financial Corp. provides the economic firepower and market expertise to assist in serving the landfill gas industry. From concept to completion, DQE Financial Corp. and its network of affiliated energy resource companies, like Waste Energy Technology, can produce a turnkey solution for a wide variety of energy investment opportunities.

Name Change

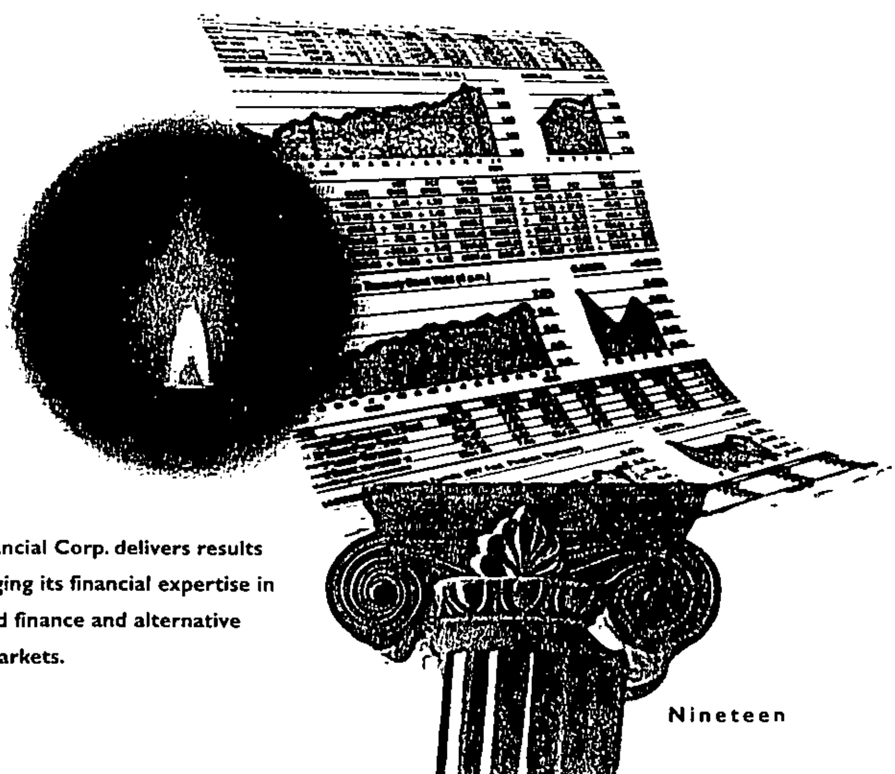
To better reflect its relationship to the parent company, Montauk's name was changed to DQE Financial Corp., effective Jan. 1, 2000.

DQE Financial Corp.'s future strategic focus includes continuing to aggregate landfill gas investments and other alternative-fuel investments while expanding and optimizing structured financial transactions.

Full Range of Services

DQE Financial Corp. provides a full complement of services for the energy investment marketplace:

- *Gas rights acquisition*
- *Energy project financing*
- *Energy project development & management*
- *Landfill gas recovery services*



DQE Financial Corp. delivers results by leveraging its financial expertise in structured finance and alternative energy markets.

1999 Financial Statements at a Glance

Detailed financial information can be found beginning on page 27.

Selected Financial Data

	1999	1998	1997	1996
Selected Income Statement Items:				
Revenues from sales of electricity	**$1,094**	$1,127	$1,124	$1,144
Fuel and purchased power expenses	**225**	263	223	237
Net electric revenues	**869**	864	901	907
Water revenues	**122**	31	2	—
Other revenues	**125**	97	104	93
Net operating revenues	**1,116**	992	1,007	1,000
Operating and maintenance expenses	**513**	419	403	388
Depreciation and amortization	**196**	220	240	223
Taxes other than income taxes	**88**	81	83	86
Non-energy operating expenses	**797**	720	726	697
Operating income	**319**	272	281	303
Investment and other income	**152**	135	130	73
Interest and other charges	**159**	109	116	110
Income taxes	**111**	101	96	87
Net income	**$ 201**	$ 197*	$ 199	$ 179
Basic EPS	**$ 2.65**	$ 2.52*	$ 2.57	$ 2.32
Diluted EPS	**$ 2.62**	$ 2.49*	$ 2.56	$ 2.31
Expanded Business Lines EPS	**$ 0.70**	$ 0.66	$ 0.79	$ 0.43
Capitalization Ratios:				
Common shareholders' equity	**41.4%**	47.8%	48.3%	45.6%
Preferred and preference stock	**8.4%**	8.4%	7.3%	7.3%
Long-term debt	**50.2%**	43.8%	44.4%	47.1%
Total capitalization	**$3,253**	$3,099	$3,103	$3,055
Selected Common Stock Information:				
Average shares outstanding	**75.5**	77.7	77.5	77.3
Shares outstanding at year-end	**71.8**	77.4	77.7	77.3
Market capitalization	**$2,485**	$3,400	$2,729	$2,241
Dividends declared	**$116**	$ 113	$ 107	$ 101
Dividends paid per share	**$1.52**	$ 1.44	$ 1.36	$ 1.28
Book value per share at year-end	**$18.78**	$19.18	$19.30	$18.01
Dividend payout ratio	**57.4%**	57.1%	52.9%	55.2%
Dividend yield at year-end	**4.6%**	3.5%	4.1%	4.7%
Price-earnings ratio at year-end	**13.1**	17.4	13.7	12.5
Other Financial Information:				
Ratio of earnings to fixed charges (pre-tax)	**2.89**	2.92*	2.76	2.69
Return on average common equity	**14.1%**	13.1%	13.8%	13.2%

** Net income after Pennsylvania restructuring charge: $114; Basic EPS after Pennsylvania restructuring charge: $1.46; Diluted EPS after Pennsylvania restructuring charge: $1.46; Ratio of earnings to fixed charges (pre-tax) after Pennsylvania restructuring charge: 2.39.*

*** Adjusted for 3-for-2 stock split in 1995.*

1995	1994	1993	1992	1991	1990	1989
$1,149	$1,146	$1,132	$1,127	$1,163	$1,110	$1,097
232	244	238	239	254	229	220
917	902	894	888	909	881	877
—	—	—	—	—	—	—
81	90	63	37	38	31	48
998	992	957	925	947	912	925
384	421	415	365	385	388	353
203	166	158	132	123	123	123
89	88	71	84	94	80	93
676	675	644	581	602	591	569
322	317	313	344	345	321	356
52	43	31	42	36	46	(3)
107	110	120	132	142	157	165
96	93	80	112	105	88	75
$ 171	$ 157	$ 144	$ 142	$ 134	$ 122	$ 113
$ 2.20	$ 1.98	$ 1.81	$ 1.78	$ 1.67	$ 1.49	$ 1.35
$ 2.18	$ 1.98	$ 1.81	$ 1.78	$ 1.66	$ 1.48	$ 1.34
$ 0.32	$ 0.19	$ 0.07	$ 0.01	—	—	—
47.5%	46.4%	44.2%	43.1%	41.6%	39.0%	37.7%
2.5%	3.5%	4.8%	4.9%	5.2%	6.8%	7.8%
50.0%	50.1%	51.0%	52.0%	53.2%	54.2%	54.5%
$2,801	$2,750	$2,781	$2,716	$2,669	$2,770	$2,827
77.7	79.0**	79.5**	79.4**	80.1**	81.6**	83.7**
77.6	78.5**	79.5**	79.4**	79.4**	80.6**	83.0**
$2,386	$1,550	$1,829	$1,708	$1,621	$1,337	$1,321
$ 94	$ 89	$ 86	$ 81	$ 78	$ 75	$ 73
$ 1.19	$ 1.12	$ 1.07	$ 1.01	$ 0.96	$ 0.91	$ 0.85
$17.13	$16.27	$15.47	$14.75	$14.00	$13.38	$12.85
54.1%	56.4%	58.8%	56.9%	57.6%	60.7%	63.1%
4.2%	5.7%	4.6%	5.0%	5.0%	5.8%	5.7%
14.0	9.9	12.7	12.1	12.3	11.1	11.8
2.73	2.57	2.29	2.24	2.10	1.90	1.78
13.1%	12.5%	12.0%	12.4%	12.2%	11.3%	10.6%

Selected Operating Data

	1999	1998	1997	1996
Sales of Electricity (kilowatt-hours):				
Average annual residential use	**6,725**	6,458	6,256	6,362
Electric energy sales delivered (millions):				
Residential	**3,526**	3,382	3,273	3,321
Commercial	**5,954**	5,826	5,704	5,737
Industrial	**3,481**	3,412	3,501	3,285
Miscellaneous	**70**	70	82	83
Total sales to customers	**13,031**	12,690	12,560	12,426
Sales to other utilities	**3,347**	1,909	1,444	3,310
Total sales	**16,378**	14,599	14,004	15,736
Annualized Sales of Water (millions of gallons):				
Direct water sales	**6,721**	3,029	—	—
Water sales managed	**20,063**	17,269	—	—
Annualized Sales of Propane (thousands of gallons):				
Residential	**26,819**	—	—	—
Commercial	**14,380**	—	—	—
Agricultural	**7,925**	—	—	—
Industrial	**3,359**	—	—	—
Total sales	**52,483**	—	—	—
Customer Data (in thousands):				
Electric	**584**	583	582	581
Water*	**433**	315	—	—
Propane	**71**	—	—	—
Total customers	**1,088**	898	582	581
Selected Balance Sheet Information:				
Assets (in millions):				
Electric	**4,188**	4,160	3,677	3,763
Water	**446**	232	10	—
Propane	**91**	—	—	—
Other	**884**	974	1,007	876
Total assets	**5,609**	5,366	4,694	4,639
Other Operating Information:				
Methane Recovery Rights (landfill gas reserves) (Bcf)	**313**	350	224	171
Propane Storage Capacity (thousands of gallons)	**4,965**	—	—	—

* *Includes water and wastewater customers and customers served through contract operations.*

1995	1994	1993	1992	1991	1990	1989
6,474	6,170	6,201	5,901	6,331	5,953	6,060
3,378	3,219	3,231	3,069	3,285	3,078	3,119
5,729	5,563	5,490	5,358	5,450	5,236	5,145
3,237	3,256	3,046	3,059	3,042	3,296	3,221
84	84	84	83	84	84	84
12,428	12,122	11,851	11,569	11,861	11,694	11,569
2,975	3,212	2,821	4,060	2,979	1,830	2,100
15,403	15,334	14,672	15,629	14,840	13,524	13,669
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
581	580	579	578	577	575	573
—	—	—	—	—	—	—
—	—	—	—	—	—	—
581	580	579	578	577	575	573
4,005	4,150	4,388	3,778	3,851	3,834	3,921
—	—	—	—	—	—	—
—	—	—	—	—	—	—
454	277	162	—	—	—	—
4,459	4,427	4,550	3,778	3,851	3,834	3,921
—	—	—	—	—	—	—
—	—	—	—	—	—	—

Condensed Financial Statements

Condensed Statement of Consolidated Income

(millions of dollars, except per share amounts)

Stable utility sales with increased customer switching

Acquisition of water and propane distribution businesses

Gains from the disposition of non-strategic investments

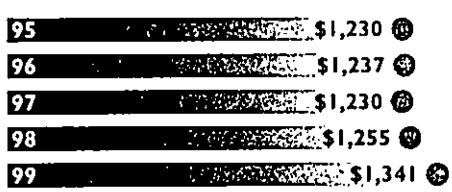
Beaver Valley 2 lease debt classification and short-term borrowings

5.2% increase in EPS

	Year Ended December 31, 1999	1998
Revenues from sales of electricity	**$1,094**	$1,127
Fuel and purchased power expenses	**225**	263
Net electric revenues	**869**	864
Other revenues	**247**	128
Net operating revenues	**1,116**	992
Operating and maintenance expenses	**513**	419
Depreciation and amortization	**196**	220
Taxes other than income taxes	**88**	81
Non-energy operating expenses	**797**	720
Operating income	**319**	272
Investment and other income	**152**	135
Interest and other charges	**159**	109
Income before income taxes and extraordinary item	**312**	298
Income taxes	**111**	101
Net income	**$ 201**	$ 197*
Earnings per share - before extraordinary item	**$ 2.65**	$ 2.52*

** Excludes extraordinary $83 million ($1.06 per share) Pennsylvania restructuring charge in 1998.*

Operating Revenues
(millions of dollars)



Revenues from sources other than electricity sales have grown from 7 percent of operating revenues in 1995 to 18 percent in 1999, reflecting the increasing diversification of DQE's delivery businesses.

Condensed Consolidated Balance Sheet

(millions of dollars)

$1.7 billion expected to be received in second quarter 2000

Non-strategic investments sold, with proceeds reinvested in water and propane delivery businesses and e-commerce initiatives

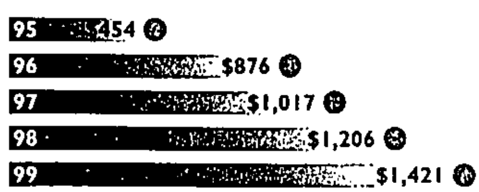
Debt and equity to be reduced with divestiture proceeds

Beaver Valley 2 lease termination

	As of December 31, 1999	1998
Net assets:		
Transition and divestiture costs	**$2,227**	$2,134
Property, plant and equipment	**1,828**	1,715
Long-term investments	**639**	686
Working capital	**204**	121
Regulatory assets	**224**	199
Net assets	**$5,122**	$4,855
Financed by:		
Long-term debt	**$1,633**	$1,358
Equity	**1,348**	1,477
Deferred taxes	**1,042**	934
Short-term debt	**812**	105
Preferred stock	**272**	264
Capital leases and other	**15**	717
Total financing	**$5,122**	$4,855

Expanded Business Lines' Assets

(millions of dollars)



Assets of water and propane delivery businesses, energy services businesses, and energy-related technology businesses have added value while effectively diversifying our expanded business lines.

Condensed Consolidated Cash Flows

(millions of dollars)

Continued strong cash flow provides financial flexibility

Growth in expanded business lines through aggregation strategy

Sale of non-strategic investments

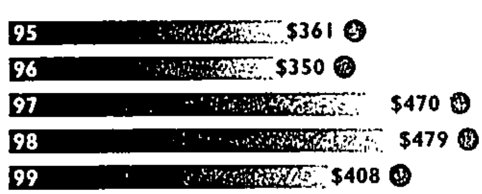
Issued debt to terminate Beaver Valley 2 lease and repurchase stock

Repurchased 5.7 million shares of common stock

	Year Ended December 31,	
	1999	1998
Operating cash flows	**$ 408**	$ 479
Changes in working capital	**(76)**	(37)
Other	**6**	(82)
Cash from operating activities	**338**	360
Purchase of companies	**(196)**	(122)
Capital expenditures	**(147)**	(191)
Long-term investments	**(90)**	(69)
Disposition of investments	**143**	7
Other	**(59)**	(22)
Cash used in investing activities	**(349)**	(397)
Net change in debt and leases	**319**	(71)
Common and preferred stock dividends	**(117)**	(114)
Common stock repurchases	**(217)**	(14)
Other	**(28)**	(12)
Cash used in financing activities	**(43)**	(211)
Net change in cash	**$ (54)**	$(248)

Net Operating Cash Flow*

(millions of dollars)



Positive cash flow allows DQE to meet its operating and construction requirements and develop its expanded business lines.

** Excludes working capital and other balance sheet changes*

1999 Financial Information

Contents

Company Report on Financial Statements

DQE management is responsible for the financial information and representations contained in the financial statements and other sections of this annual report to shareholders.

Management believes that the consolidated financial statements have been prepared in conformity with generally accepted accounting principles that are appropriate in the circumstances to reflect, in all material respects, the substance of events and transactions that should be included in the statements, and that the other information in the annual report to shareholders is consistent with those statements. In preparing the financial statements, management makes informed judgments and estimates based on currently available information about the effects of certain events and transactions. Management maintains a system of internal accounting control designed to provide reasonable assurance that DQE's assets are safeguarded, and that transactions are executed and recorded in accordance with established procedures. There are limits inherent in any system of internal control, and such limits are based on recognition that the cost of such a system should not exceed the benefits derived. The system of internal accounting control is supported by written policies and guidelines, and is supplemented by a staff of internal auditors. Management believes that the internal accounting control system provides reasonable assurance that its assets are safeguarded, and the financial information is reliable.

David D. Marshall

David D. Marshall
Chairman, President and Chief Executive Officer

Gary L. Schwass
Executive Vice President and Chief Financial Officer

James E. Wilson

James E. Wilson
Controller and Principal Accounting Officer

GLOSSARY OF TERMS

Competitive Transition Charge (CTC) — *During the* electric utility restructuring from the traditional Pennsylvania regulatory framework to customer choice, electric utilities have the opportunity to recover transition costs from customers through a per kilowatt-hour charge.

Customer Choice — The Pennsylvania Electricity Generation Customer Choice and Competition Act (see "Rate Matters" on page 38) gives consumers the right to contract for electricity at market prices from PUC-approved electric generation suppliers.

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

Deferred Energy Costs — In conjunction with the Energy Cost Rate Adjustment Clause, we historically recorded Duquesne Light's deferred energy costs to offset differences between actual energy costs and the level of energy costs recovered from our rate-regulated electric utility customers.

Divestiture — The selling of major assets. We anticipate completing the divestiture of our generation assets through the sale to Orion Power Holdings, Inc.

Electronic Commerce — The transaction of business using electronic media, such as the Internet.

Energy Cost Rate Adjustment Clause (ECR) — Until May 29, 1998, we had historically recovered, through the ECR, Duquesne Light's cost of nuclear fuel, fossil fuel and purchased power costs, when such amounts were not included in base rates.

Federal Energy Regulatory Commission (FERC) — The FERC is an independent five-member commission within the United States Department of Energy. Among its many responsibilities, the FERC sets rates and charges for the wholesale transportation and sale of electricity.

Pennsylvania Public Utility Commission (PUC) — The governmental body that regulates all utilities (electric, gas, telephone, water, etc.) that do business in Pennsylvania.

Price to Compare — The PUC-determined market price of electric generation for each utility during the CTC collection period. Customers will experience savings if they can purchase power from an alternative electric generation supplier at a lower price than the amount determined by the PUC.

Provider of Last Resort — Under Pennsylvania's Customer Choice Act, the local distribution utility is required to provide electricity for customers who cannot or do not choose an alternative generation supplier, or whose supplier fails to deliver. (See "Rate Matters" on page 38.)

Regulatory Assets — Pennsylvania ratemaking practices grant regulated utilities exclusive geographic franchises in exchange for the obligation to serve all customers. Under this system, certain prudently-incurred costs are approved by the PUC for deferral and future recovery with a return from customers. These deferred costs are capitalized as regulatory assets by the regulated utility.

Restructuring Plan — Our plan, approved by the PUC, for restructuring and recovery of Duquesne Light's transition costs under Pennsylvania's Customer Choice Act.

Transition Costs — Transition costs are the net present value of a utility's known or measurable costs related to electric generation that are recoverable through the CTC.

Transmission and Distribution — These terms have a special meaning in the electric utility industry. Transmission is the flow of electricity from generating stations over high voltage lines to substations where voltage is reduced. Distribution is the flow of electricity over lower voltage facilities to the ultimate customer (businesses and homes).

Watt — A watt is the rate at which electricity is generated or consumed. A kilowatt is equal to 1,000 watts. A kilowatt-hour (KWH) is a measure of the quantity of electricity generated or consumed in one hour by one kilowatt of power. A megawatt (MW) is 1,000 kilowatts or one million watts.

CORPORATE STRUCTURE

DQE 1999 Financial Information

DQE, Inc. is a multi-utility delivery and services company. Our subsidiaries are Duquesne Light Company; AquaSource, Inc.; DQE Capital Corporation; DQE Energy Services, Inc.; DQE Enterprises, Inc. (formerly Duquesne Enterprises, Inc.); DQE Financial Corp. (formerly Montauk, Inc.); and DQE Systems, Inc. (formerly DQEnergy Partners, Inc.).

Duquesne Light, our largest operating subsidiary, is an electric utility engaged in the supply, transmission, distribution and sale of electric energy. On December 3, 1999, Duquesne Light completed a power station asset exchange with FirstEnergy Corp. This was the first phase of our Pennsylvania Public Utility Commission (PUC)-approved plan to divest our generation assets. We expect to complete this divestiture through the pending sale of our remaining generation assets to Orion Power Holdings, Inc. Final sale agreements must be approved by various regulatory agencies, including the PUC. We expect the sale to close in the second quarter of 2000. After that time, we expect to meet our energy supply obligations through a provider of last resort service agreement with Orion. (See "Restructuring Plan" discussion on page 38.)

AquaSource, our second largest operating subsidiary, is a water resource management company that acquires, develops and manages water and wastewater utilities, bottled water operations and complementary businesses.

Our expanded business lines engage in a wide range of initiatives, including: the distribution of propane; the production of landfill gas and synthetic fuels; investments in electronic commerce, energy-related technology and communications systems; energy facility development and operation; and independent power production. DQE Capital provides financing for DQE and various affiliates.

Service Areas

Duquesne Light's electric utility operations provide service to approximately 580,000 direct customers in southwestern Pennsylvania (including in the City of Pittsburgh), a territory of approximately 800 square miles. We have also historically sold electricity to other utilities, and will continue to do so until the generation asset sale is complete. (See "Restructuring Plan" discussion on page 38.)

AquaSource's water operations currently provide service to approximately 430,000 water and wastewater customer connections in 18 states.

Our expanded business lines have operations and investments in several states and Canada.

Regulation

DQE and Duquesne Light are subject to the accounting and reporting requirements of the Securities and Exchange Commission (SEC). In addition, Duquesne Light's electric utility operations are subject to regulation by the PUC, including regulation under the *Pennsylvania Electricity Generation Customer Choice and Competition Act* (Customer Choice Act), and the Federal Energy Regulatory Commission (FERC) under the *Federal Power Act* with respect to rates for interstate sales, transmission of electric power, accounting and other matters.

As a result of the PUC's May 29, 1998, final order regarding our restructuring plan under the Customer Choice Act (see "Rate Matters" on page 38), the electricity supply segment of our business does not meet the criteria of *Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation* (SFAS No. 71). Pursuant to the PUC's final restructuring order, our generation-related regulatory assets are being recovered through a competitive transition charge (CTC) collected in connection with providing transmission and distribution services, and these assets have been reclassified accordingly. The balance of transition costs will be adjusted by receipt of the proceeds from the pending generation asset sale. The electricity delivery business segment continues to meet SFAS No. 71 criteria, and accordingly reflects regulatory assets and liabilities consistent with cost-based ratemaking regulations. The regulatory assets represent probable future revenue, because provisions for these costs are currently included, or are expected to be included, in charges to electric utility customers through the ratemaking process. (See "Rate Matters" on page 38.)

On December 15, 1999, the FERC issued its Order No. 2000, which calls on transmission-owning utilities such as Duquesne Light to voluntarily join regional transmission organizations. The goal of the order is to put transmission facilities in a region under common control in an effort to reduce costs. The order requires utilities to file a proposal for a regional transmission organization, a description of efforts to join one, or reasons for not joining one, by October 15, 2000. We are currently studying Order No. 2000, and have not yet determined our response.

AquaSource's water utility operations are subject to regulation by the utility regulatory bodies in their respective states. In the second quarter of 2000, we anticipate filing a consolidated rate case in Texas, AquaSource's largest state.

RESULTS OF OPERATIONS

Overall Performance

In the second quarter of 1998, the PUC issued an order related to our plan to recover our transition costs from electric utility customers. As a result of the order, we recorded an extraordinary charge against earnings of $82.5 million, or $1.06 per share. The following discussion of results of operations excludes the impact of that charge.

1999 Compared to 1998

Our basic earnings per share were $2.65 in 1999 compared to $2.52 in 1998, an increase of 5.2 percent. Earnings available for common shareholders increased by $4.0 million, or 2.1 percent, due to additional acquisitions at AquaSource, gains on the disposition of certain non-strategic investments, and higher sales of electricity. Additionally, the average shares of outstanding common stock declined by 2.2 million, or 2.9 percent. The lower average shares outstanding reflect the 5.7 million shares of common stock we repurchased in 1999 for approximately $217 million.

1998 Compared to 1997

Our basic earnings per share were $2.52 in 1998 compared to $2.57 in 1997, a decrease of 1.9 percent. Earnings available for common shareholders decreased by $3.3 million, or 1.6 percent, due to gains recorded on the disposition of Chester Engineers and of Exide Electronics Group stock in 1997.

Dividends

Once all dividends on our Preferred Stock, Series A (Convertible), $100 liquidation preference per share (DQE Preferred Stock), have been paid, dividends may be paid on our common stock as permitted by law and as declared by the board of directors. However, payments of dividends on Duquesne Light's common stock may be restricted by Duquesne Light's obligations to holders of preferred and preference stock pursuant to Duquesne Light's Restated Articles of Incorporation and by obligations of Duquesne Light's subsidiaries to holders of their preferred securities. No dividends or distributions may be made on Duquesne Light's common stock if Duquesne Light has not paid dividends or sinking fund obligations on its preferred or preference stock. Further, the aggregate amount of Duquesne Light's common stock dividend payments or distributions may not exceed certain percentages of net income if the ratio of total common shareholder's equity to total capitalization is less than specified percentages. Because we own all of Duquesne Light's common stock, if Duquesne Light cannot pay common dividends, we may not be able to pay dividends on our common stock or DQE Preferred Stock.

We have continuously paid dividends on common stock since 1953. Our annualized dividends per share were $1.60, $1.52 and $1.44 at December 31, 1999, 1998 and 1997. During 1999, we paid a quarterly dividend of $0.38 per share on each of January 1, April 1, July 1 and October 1. We increased the quarterly dividend declared in the fourth quarter of 1999 from $0.38 to $0.40 per share, payable January 1, 2000. We expect that funds generated from operations will continue to be sufficient to pay dividends. Our need for and the availability of funds will be influenced by, among other things: new investment opportunities; the economic activity within our service territories; environmental legislation; the anticipated closing of our generation asset sale to Orion; and the planned recapitalization of Duquesne Light. (See "Future Cash Requirements and Availability" discussion on page 37 and "Rate Matters" on page 38.)

Results of Operations by Business Segment

Historically, Duquesne Light was treated as a single integrated business segment, due to its regulated operating environment. The PUC authorized a combined rate for supplying and delivering electricity to customers, that was (1) cost-based, (2) designed to recover operating expenses and investment in electric utility assets, and (3) designed to provide a return on the investment. As a result of the Customer Choice Act, supply of electricity is deregulated and charged at a separate rate from the delivery of electricity. For the purposes of complying with the *SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information*, we are required to disclose information about our business segments separately. Accordingly, we have used the PUC-approved separate rates for 1999 to develop the financial information of the business segments for the periods ended December 31, 1999, 1998 and 1997.

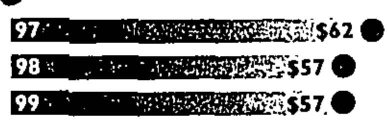
We report our results by the following four principal business segments, determined by products, services and regulatory environment: (1) the transmission and distribution by Duquesne Light of electricity (electricity delivery business segment), (2) the supply by Duquesne Light of electricity (electricity supply business segment), (3) the collection by Duquesne Light of transition costs (CTC business segment), and (4) the distribution by AquaSource of water (water distribution business segment). Upon the anticipated completion of the sale of our generation assets, the electricity supply business segment will be comprised solely of provider of last resort service. We also report an "all other" category, which includes our expanded business lines and Duquesne Light investments below the quantitative threshold for separate disclosure. Revenues in the "all other" category are comprised of approximately one-third energy facility operations, one-third landfill gas operations and one-third propane and other operating investments. Income from financial investments is included in other income. Assets in the "all other" category are comprised of approximately two-thirds financial investments. The remaining one-third includes an equal portion of energy facility assets, landfill gas recovery and processing assets and propane distribution assets. Intercompany eliminations primarily relate to intercompany sales of electricity, property rental, management fees and dividends.

We have changed the composition of our business segments, separately reporting water distribution for the first time. We have provided the corresponding information for earlier periods. Note O, "Business Segments and Related Information," in the Notes to the Consolidated Financial Statements on page 64 shows the financial results of each principal business segment in tabular form. These results are discussed below.

1999 Compared to 1998

Electricity Delivery Business Segment. The electricity delivery business segment contributed $56.5 million to net income in 1999 compared to $57.2 million in 1998, a decrease of $0.7 million or 1.2 percent.

Electricity Delivery Business
Net Income
(millions of dollars)



Operating revenues for this business segment are primarily derived from the delivery of electricity. Sales to residential and commercial customers are influenced by weather conditions. Warmer summer and colder winter seasons lead to increased customer use of electricity for cooling and heating. Commercial sales also are affected by regional development. Sales to industrial customers are influenced primarily by national and global economic conditions.

Operating revenues increased by $17.1 million or 5.3 percent compared to 1998 due to an increase in sales to electric utility customers of 2.7 percent in 1999. Residential and commercial sales increased as a result of warmer summer temperatures during 1999 compared to 1998. Industrial sales increased primarily due to an increase in electricity consumption by steel manufacturers. The following table sets forth kilowatt-hours (KWH) delivered to electric utility customers.

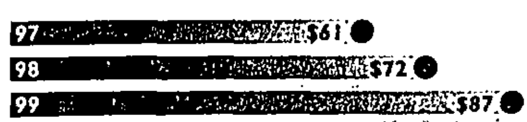
	KWH Delivered (In Millions)		
	1999	1998	Change
Residential	**3,526**	3,382	4.3 %
Commercial	**6,024**	5,896	2.2 %
Industrial	**3,481**	3,412	2.0 %
Sales to Electric Utility Customers	**13,031**	12,690	2.7 %

Operating expenses for the electricity delivery business segment primarily are made up of costs to operate and maintain the transmission and distribution system; meter reading and billing costs; customer service; collection; administrative expenses; and non-income taxes, such as gross receipts, property and payroll taxes. Operating expenses increased by $15.0 million or 10.1 percent compared to 1998, due to higher meter reading costs, higher gross receipts taxes, and increased costs related to customer assistance programs. We have completed installation of our Customer Advanced Reliability System, which replaced the traditional meter-reading process by providing information on customer electricity consumption on a real-time basis. This direct link with customers will serve as a platform for offering additional services and products, and is expected to reduce future costs.

Interest and other charges include interest on long-term debt, other interest and preferred stock dividends of Duquesne Light. In 1999, there was $6.9 million or 18.3 percent more interest and other charges allocated to the electricity delivery business segment compared to 1998. The increase was the result of additional short-term borrowings at Duquesne Light during the fourth quarter of 1999. Given the pending generation asset sale to Orion, all remaining Duquesne Light financing costs after recapitalization will be borne by the electricity delivery business segment.

Electricity Supply and CTC Business Segments. In 1999, the electricity supply and CTC business segments reported net income of $86.6 million compared to $71.9 million in 1998, an increase of $14.7 million or 20.4 percent.

Electricity Supply/CTC Business
Net Income
(millions of dollars)



For the electricity supply and CTC business segments, operating revenues are derived primarily from the supply of electricity for delivery to retail customers, the supply of electricity to wholesale customers and, beginning in 1999, the collection of generation-related transition costs from electricity delivery customers. Under fuel cost recovery provisions effective through May 29, 1998, fuel revenues generally equaled fuel expense, as costs were recoverable from customers through the Energy Cost Rate Adjustment Clause (ECR), including the fuel component of purchased power, and thus did not affect net income. In 1999, due to the PUC's final restructuring order, fuel costs were expensed as incurred, which impacted net income by the amount that fuel costs exceeded amounts included in Duquesne Light's authorized supply rates. (See "Rate Matters" on page 38.)

Energy requirements for our retail electric utility customers are reduced as more customers participate in customer choice. Energy requirements for residential and commercial customers are also influenced by weather conditions. Warmer summer and colder winter seasons lead to increased customer use of electricity for cooling and heating. Commercial energy requirements are also affected by regional development. Energy requirements for industrial customers are primarily influenced by national and global economic conditions.

Short-term sales to other utilities are made at market rates. Fluctuations in electricity sales to other utilities are related to customer energy requirements, the energy market and transmission conditions, and the availability of generating stations. We no longer will make short-term sales to other utilities after the generation asset sale. (See "Rate Matters" on page 38.)

Operating revenues decreased by $39.7 million or 4.6 percent compared to 1998. The decrease in revenues resulted primarily from two factors: (1) 26.4 percent less energy supplied to electric utility customers due to greater participation in customer choice, and (2) the 1998 inclusion in revenues of $23.3 million related to deferred energy costs. Partially offsetting this decrease was a 75.3 percent increase in energy supplied to other utilities in 1999, due to our decision to make 600 megawatts (MW) available during the first six months of 1999 to licensed generation suppliers to stimulate competition, and increased capacity available to sell as a result of participation in customer choice. The following table sets forth KWH supplied for customers who have not chosen an alternative generation supplier.

	KWH Supplied (In Millions)		
	1999	1998	Change
Residential	**2,533**	3,190	(20.6)%
Commercial	**3,811**	5,580	(31.7)%
Industrial	**2,581**	3,358	(23.1)%
Sales to Electric Utility Customers	**8,925**	12,128	(26.4)%
Sales to Other Utilities	**3,347**	1,909	75.3 %
Total Sales	**12,272**	14,037	(12.6)%

Operating expenses for the electricity supply business segment are primarily made up of energy costs; costs to operate and maintain the power stations; administrative expenses; and non-income taxes, such as gross receipts, property and payroll taxes.

Fluctuations in energy costs generally result from changes in the cost of fuel; the mix between coal, nuclear generation and purchased power; total KWH supplied; and generating station availability.

Operating expenses decreased $64.9 million or 12.0 percent from 1998, as a result of lower energy costs and the reclassification of Beaver Valley Unit 2 lease costs to financing charges in 1999. (See "Power Station Exchange" discussion on page 39.)

In 1999, fuel and purchased power expense decreased by $37.4 million or 14.2 percent compared to 1998. This decrease was the result of reduced energy supply requirements, due to customer choice, and a favorable energy supply mix. Generating station availability was improved in 1999.

Depreciation and amortization expense includes the depreciation of the power stations' plant and equipment and accrued nuclear decommissioning costs and amortization of transition costs. There was a decrease of $36.5 million or 23.0 percent compared to 1998. During 1998, prior to the PUC's May 29 final restructuring order, we accelerated depreciation of generation assets to minimize potential transition costs. Depreciation for the remainder of 1998 and CTC amortization for 1999 were in accordance with PUC-approved rates.

Interest and other charges include interest on long-term debt, other interest and preferred stock dividends of Duquesne Light. In 1999 there was a $30.7 million or 52.4 percent increase in interest and other charges compared to 1998. The increase reflects $35.2 million of Beaver Valley Unit 2 lease-related costs reclassified as financing costs in

999, partially offset by a reduced allocation of total nancing cost to the electricity supply business segment.

Water Distribution Business Segment. The water distribution usiness segment contributed $4.7 million to net income in 999, compared to $1.6 million in 1998, an increase of 3.1 million or 193.8 percent. During 1999, AquaSource cquired 46 water distribution utilities for $142 million, of hich $133 million was cash and $9 million was DQE referred Stock. These acquisitions more than doubled the ize of this business segment, and resulted in increases in perating revenues, operating expenses and depreciation.

Vater Distribution Business
Net Income
millions of dollars)

Operating revenues for this business segment are derived rom the following: billings related to water and sewer ervices for utilities owned by AquaSource and utilities for which AquaSource is a contract operator; bottled water delivery sales; and water-related construction and engineering rojects. Operating revenues increased by $91.5 million during 1999. The increase was primarily the result of ncreased revenues from utility customers (approximately $43 million), increased contract operations (approximately $22 million), and bottled water delivery sales approximately $21 million).

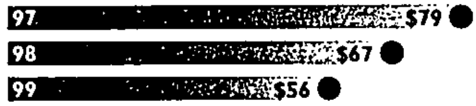
Operating expenses for the water distribution business segment are primarily made up of costs to operate and maintain the water distribution systems; bottled water costs; administrative expenses; and non-income taxes, such as property and payroll taxes. Operating expenses increased y $71.2 million as a result of the 1999 acquisitions.

Depreciation and amortization expense includes depreciation of utility delivery systems and the amortization of goodwill on acquisitions. The $10.4 million increase was attributable to increases in both depreciation and nortization related to the larger size of the business.

Interest and other charges in the water delivery business segment are primarily intercompany and are eliminated in consolidation. During 1999, intercompany borrowings for acquisitions increased substantially.

All Other. The all other category contributed $56.1 million to net income in 1999 compared to $67.3 million in 1998, a decrease of $11.2 million or 16.6 percent.

All Other Businesses
Net Income
(millions of dollars)



Operating revenues increased in 1999 by $17.0 million or 28.1 percent compared to 1998. This increase was primarily the result of increased revenues from our propane delivery business acquisitions and other new investments through the activities of the expanded business lines.

In 1999, operating expenses increased $49.2 million or 76.3 percent over 1998. This increase was primarily the result of increased expenses from our propane delivery business acquisitions and the growth of the expanded business lines' start-up and developmental activities.

Depreciation and amortization expense primarily includes the depreciation of plant and equipment of the expanded business lines and amortization of certain investments. In 1999, depreciation and amortization expense increased by $2.8 million or 21.9 percent, primarily due to the acquisition of propane delivery companies during 1999.

Other income primarily includes gains on investment dispositions, long-term investment income, and interest and dividend income related to the expanded business lines. Other income in 1999 was $27.9 million or 22.3 percent higher than in 1998. This increase was the result of gains on the disposition of real estate investments (approximately $29.4 million), and leases and other non-strategic investments (approximately $14.6 million). The increase was also the result of new investments made by the expanded business lines during late 1998 and throughout 1999.

Interest and other charges are made up of interest on long-term debt, other interest and preferred stock dividends of the expanded business lines. An increase of $13.7 million or 100.7 percent in 1999 was the result of higher long-term debt interest expense, primarily related to the growth in our propane delivery business. This debt and interest expense is primarily intercompany, and is eliminated in consolidation.

1998 Compared to 1997

Electricity Delivery Business Segment. The electricity delivery business segment contributed $57.2 million to net income in 1998 compared to $61.9 million in 1997, a decrease of $4.7 million or 7.6 percent. Operating revenues for this business segment are primarily derived from the delivery of electricity.

Operating revenues increased by $4.6 million or 1.5 percent compared to 1997, due to an increase in sales to electric utility customers of 1.0 percent in 1998. Residential and commercial sales increased as a result of warmer summer temperatures during 1998 compared to 1997. Industrial sales decreased primarily due to a reduction in electricity consumption by steel manufacturers, which experienced a decline in demand. The following table sets forth KWH delivered to electric utility customers.

	KWH Delivered (In Millions)		
	1998	1997	Change
Residential	3,382	3,273	3.3 %
Commercial	5,896	5,786	1.9 %
Industrial	3,412	3,501	(2.5)%
Sales to Electric Utility Customers	12,690	12,560	1.0 %

Operating expenses increased $10.1 million or 7.3 percent from 1997, primarily as a result of higher costs of maintenance of the transmission and distribution system, and costs related to start-up and installation of the Customer Advanced Reliability System. The increase in system maintenance was primarily due to the increase in frequency and severity of storms during 1998.

Depreciation and amortization expense increased $1.7 million or 3.8 percent in 1998, due to additions to the plant and equipment balance throughout the year, which was partially offset by retirements.

A decrease in other income of $1.5 million or 22.1 percent was the result of lower interest income from a smaller amount of cash available for investing, compared to the prior year.

In 1998, there was $0.9 million or 2.3 percent less in interest and other charges compared to 1997. The decrease was the result of the refinancing of long-term debt at lower interest rates and the maturity of approximately $75 million of long-term debt during 1998.

Electricity Supply Business Segment. In 1998, the electricity supply business segment reported net income of $71.9 million compared to $60.5 million in 1997, an increase of $11.4 million or 18.8 percent.

Operating revenues decreased by $3.7 million or 0.4 percent compared to 1997. The decrease in revenues can be attributed to a decrease in energy supplied to electric utility customers due to initial participation in customer choice, and a decrease in energy costs that were recovered through the ECR. Partially offsetting these decreases were increased energy supplied to other utilities of 32.2 percent in 1998, due to higher demand from other utilities and increased capacity available to sell as a result of participation in customer choice. The following table sets forth KWH supplied for customers who had not chosen an alternative generation supplier.

	KWH Supplied (In Millions)		
	1998	1997	Change
Residential	3,190	3,268	(2.4)%
Commercial	5,580	5,778	(3.4)%
Industrial	3,358	3,500	(4.1)%
Sales to Electric Utility Customers	12,128	12,546	(3.3)%
Sales to Other Utilities	1,909	1,444	32.2 %
Total Sales	14,037	13,990	0.3 %

Operating expenses increased $14.6 million or 2.8 percent from 1997 as a result of increased energy costs, partially offset by decreased maintenance costs and reduced Beaver Valley Unit 2 lease costs.

In 1998, fuel and purchased power expense increased by $39.1 million or 17.5 percent compared to 1997. This increase was the result of increased energy costs due to an unfavorable power supply mix and higher purchased power prices. Reduced availability of nuclear generating stations due to an increase in outage hours required us to purchase power and generate power from higher fuel cost fossil stations.

Maintenance expense decreased in 1998, primarily related to the reversal of fossil station maintenance outage accruals for outages scheduled after the planned divestiture of generation. (See "Rate Matters" on page 38.) A reduction in nuclear station outage cost amortization in 1998 also contributed to the decrease in maintenance expense.

A decrease in depreciation and amortization expense of $32.5 million, or 17.0 percent compared to 1997, was the result of reduced depreciation of generation assets in accordance with the PUC's final restructuring order.

Other income decreased $3.7 million or 29.1 percent as the result of lower interest income, due to a smaller amount of cash available for investing compared to the prior year.

Interest and other charges decreased $5.2 million or 8.2 percent compared to 1997. The decrease reflected the refinancing of long-term debt at lower interest rates and the maturity of approximately $75 million of long-term debt during 1998.

Water Distribution Business Segment. The water distribution business segment contributed $1.6 million to net income in 1998 compared to a $0.4 million net loss in 1997. During 1998, AquaSource acquired 33 water distribution utilities for $156 million, of which $122 million was cash and $34 million was DQE Preferred Stock. These acquisitions more than doubled the size of this business segment, and resulted in increases in operating revenues, operating expenses, and depreciation.

All Other. The all other category contributed $67.3 million to net income in 1998 compared to $78.6 million in 1997, a decrease of $11.3 million or 14.4 percent.

Operating revenues decreased in 1998 by $2.8 million, or 1.4 percent compared to 1997. This decrease was primarily the result of the loss of operating revenues from the sale of Chester Engineers by DQE Enterprises in the second quarter of 1997.

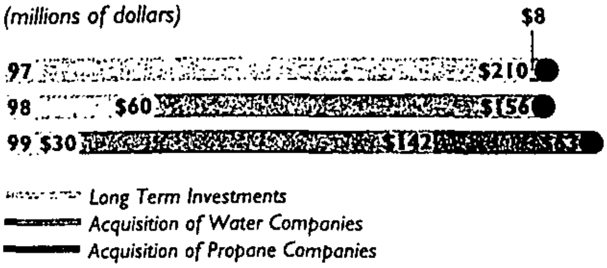
In 1998, operating expenses increased $3.6 million or 5.9 percent over 1997. The growth of the expanded business lines' start-up and developmental activities and acquisitions accounted for most of the increase. Also, in the third quarter of 1998 we wrote off costs related to the terminated merger with Allegheny Energy, Inc. (AYE), resulting in an increase to other operating expenses of $14.1 million. (See "Rate Matters" on page 38.) Offsetting in part the increases to operating expenses was the 1997 sale of Chester Engineers, which resulted in reduced operating costs of $7.8 million, and the recognition of the favorable resolution of certain associated contingencies in 1998.

Other income primarily includes long-term investment income, and interest and dividend income related to the expanded business lines and Duquesne Light investments. Other income in 1998 was $6.0 million or 5.0 percent higher than in 1997. This increase was the result of new investments made by the expanded business lines during late 1997 and throughout 1998, and a new investment made at Duquesne Light in the fourth quarter of 1997. Other income in 1997 included the gains on the sale of Chester Engineers and of Exide Electronics stock in 1997 of approximately $23 million ($13 million, net of tax), net of costs of the sale and reserves for contingencies realized for the sale of Chester Engineers.

LIQUIDITY AND CAPITAL RESOURCES

During 1999, we continued our strategy of acquiring and aggregating small to mid-sized water distribution companies. Additionally, we began a similar aggregation strategy with propane delivery companies, clustering our acquisitions in three geographically diverse regions. These acquisition-related investments have grown from $8 million in 1997 to $156 million in 1998 to $205 million in 1999. This acquisition focus corresponds with a decrease in our other long-term investment level, which declined from $210 million in 1997 to $60 million in 1998 to $30 million in 1999.

Investment Mix
(millions of dollars)



Capital Expenditures

We spent approximately $147.2 million in 1999, $190.5 million in 1998 and $116.0 million in 1997 for capital expenditures, of which $100.3 million in 1999, $113.3 million in 1998 and $90.4 million in 1997 was spent for electric utility construction. Approximately $27.2 million was spent in 1999 for water utility construction. The remaining capital expenditures were related to the expanded business lines and other investments. The 1998 capital expenditure level was higher, as it included $41 million related to facility construction for the production of E-Fuel®, a synthetic fuel. We estimate that we will spend, excluding allowance for funds used during construction (AFC), approximately $85 million, $75 million and $75 million for electric utility construction in 2000, 2001 and 2002; and $45 million, $19 million and $24 million for water utility construction in 2000, 2001 and 2002.

Acquisitions and Dispositions

In 1999 we invested $205 million in the acquisition of companies and closed on the power station exchange with FirstEnergy. AquaSource acquired 46 water and water-related companies for a total investment of approximately $142 million. Of this total investment, $133 million was cash and $9 million was the issuance of 86,337 shares of DQE Preferred Stock. Also in 1999, DQE Systems acquired 18 propane delivery companies for a total investment of approximately $63 million, all of which was cash. In the power station exchange with FirstEnergy, Duquesne Light acquired three power plants and disposed of its partial interests in five power plants. (See "Power Station Exchange" discussion on page 39.) During 1999, we also disposed of several non-strategic real estate and lease investments. Proceeds from these dispositions totaled $143 million. We expect to continue to sell non-strategic investments. In early 2000 we signed a non-binding memorandum of understanding with Itron, Inc., for the potential purchase of the Itron-designed Customer Advanced Reliability System, which we currently lease.

In 1998, AquaSource acquired 33 water and water-related companies for a total investment of approximately $156 million. Of this total investment, $122 million was cash and $34 million was the issuance of 337,262 shares of DQE Preferred Stock. Dispositions in 1998 relate to assets acquired through leasehold interest investments. Dispositions in 1997 relate primarily to the sale of Chester Engineers and of Exide Electronics stock.

Long-Term Investments

We have made long-term investments in the following areas: leases, affordable housing, landfill and coal-bed methane gas reserves, and deposits in nuclear decommissioning funds. The decommissioning trust held funding for nuclear decommissioning costs related to Duquesne Light's nuclear-powered plants. During 1999, Duquesne Light invested approximately $60 million in the decommissioning trust funds, in order to fully fund the decommissioning liability, prior to transferring both the trust funds and the liability to FirstEnergy in the power station exchange. (See "Power Station Exchange" discussion on page 39.) Cash related to this funding was collected during the year through the CTC component of customer bills. Other long-term investing activities during 1999, primarily engaged in by the expanded business lines, totaled $30 million and included landfill gas reserves, a joint venture that designs, engineers and constructs landfill gas collection systems, affordable housing partnerships, and various electronic commerce investments. These electronic commerce investments include investments in securities convertible into 51 percent of the common stock of Predictive Data, Inc., which offers an insurance product to replace security deposits, and in securities convertible into 34 percent of the common stock of OnLine Choice.com, which uses the Internet to create customer pools to purchase goods and services, such as electricity, natural gas and telephone service at lower prices through volume discounts.

During 1998, Duquesne Light invested approximately $9 million in the nuclear decommissioning trust funds. Other long-term investing activities during 1998, primarily engaged in by the expanded business lines, totaled $60 million and included a joint venture in a commercial and industrial heating, ventilation and air conditioning service and energy controls company, affordable housing partnerships, landfill gas reserves, and various electronic commerce investments. These electronic commerce investments include investments in securities convertible into 26 percent of the equity of BroadPoint Communications, Inc., which offers its more than 400,000 subscribers free long-distance telephone service in exchange for listening to targeted advertisements, and in securities convertible into 23 percent of the common stock of Enermetrix.com, which provides an Internet auction-based service for the purchase of electricity and natural gas by commercial and industrial customers from over 55 energy suppliers.

Investing activities during 1997 included approximately $9 million in the nuclear decommissioning trust funds. Other long-term investing activities during 1997, primarily engaged in by the expanded business lines, totaled $210 million, including $180 million in lease investments. We also invested in the common stock of SatCon Technologies, a provider of energy management products and components used in telecommunications, factory automation, aircraft, satellites, and the automotive and fuel cell industries. We currently hold approximately seven percent of SatCon common stock on a fully-diluted basis.

Financing

During 1999, in addition to capital provided from operations, we raised capital to continue our water and propane delivery company acquisition program, to effect the termination of the Beaver Valley Unit 2 lease, and to begin our recapitalization program in anticipation of the generation divestiture. As discussed on page 35, we invested $205 million in acquisitions, $147 million in capital expenditures, and $90 million in nuclear decommissioning and other long-term investments during 1999. Additionally, in connection with the power station exchange, we paid approximately $234 million in termination costs and $43 million in related taxes to cancel the Beaver Valley Unit 2 lease. Of this total amount, $107 million represents costs previously approved for recovery through the CTC. The remaining $170 million is included on the consolidated balance sheet as divestiture costs. As part of this transaction, the lease liability recorded on the consolidated balance sheet was eliminated; however, the underlying collateralized lease bonds ($359 million upon lease termination) became obligations of Duquesne Light and are now recorded on the consolidated balance sheet as debt, $9 million of which will mature in 2000. (See "Power Station Exchange" discussion on page 39.) Prior to cancelling the Beaver Valley Unit 2 lease, we paid approximately $42 million to terminate our nuclear fuel lease (the nuclear fuel was transferred to FirstEnergy in the power station exchange). During 1999 we repurchased 5.7 million shares of DQE common stock on the open market for approximately $217 million. These purchases occurred primarily in the fourth quarter. Additional capital was required for the maturity of $75 million of mortgage bonds, the repurchase of approximately $2 million of DQE Preferred Stock and the payment of $117 million of dividends.

ommon Stock Outstanding
t December 31
lions of shares)

To meet these capital requirements, and to serve as a ridge until the anticipated receipt of our generation ivestiture proceeds, we undertook several financing iitiatives during 1999. At year-end, we had $343 million of ommercial paper borrowings outstanding, and $469 million f current debt maturities. During 1999, the maximum nount of bank loans and commercial paper borrowings utstanding was $368.9 million, the amount of average daily orrowings was $46.3 million, and the weighted average daily iterest rate was 5.6 percent. In the fourth quarter of 1999, e issued $290 million of first mortgage bonds with a one-ar term, callable in May 2000. The interest rate on the bonds 6.53 percent. This debt was used to fund the Beaver Valley Jnit 2 lease termination costs. On a longer-term basis, in the hird quarter we issued $100 million of 8 3/8 percent notes, lue in September 2039. In addition to these financings, as reviously discussed, we issued $9 million of DQE Preferred ock in conjunction with acquisitions by AquaSource.

During 1998, our requirement to access new sources of unding was much more modest. While we invested $122 nillion in acquisitions, $191 million in capital expenditures, and $69 million in nuclear decommissioning and other ng-term investments, our cash balance of $356 million at the beginning of the year allowed us to minimize new inancing activities. Additional capital was required during the year for the retirement of approximately $200 million of current maturities, the payment of $114 million of dividends, and common stock repurchases of $14 million. uring 1998, we issued $140 million of first mortgage bonds to accomplish these debt retirements. Additionally, we issued $34 million of DQE Preferred Stock and assumed approximately $22 million in long-term debt in conjunction with acquisitions by AquaSource. We also issued a $25 illion note, maturing in 2019 with an annual interest rate of 8.0 percent, in connection with an investment in landfill gas property and equipment.

During 1997, we invested $219 million in nuclear decommissioning and other long-term investments, $116 million in capital expenditures and $8 million as we began ur water delivery acquisition program. These expenditures were all funded with available capital and capital from internal sources. We also retired approximately $50 million of maturing debt and paid $107 million of dividends.

Future Capital Requirements and Availability

We have entered into an agreement to sell Duquesne Light's generation assets to Orion for $1.71 billion. (See "Auction Plan" discussion on page 39.) We anticipate using the proceeds from this sale (currently estimated to be $1.1 billion, net of estimated tax and transaction costs) to recapitalize Duquesne Light. This process will include the retirement of short-term debt, the redemption of long-term debt and the continued aggressive repurchase of outstanding common stock. Through February 29, 2000 we have repurchased 1.4 million shares of DQE common stock for approximately $61 million. Additionally, maturing during 2000 will be $390 million of first mortgage bonds, $65 million of term loans, and $9 million of collateralized lease bonds.

We expect to meet our current obligations and debt maturities through 2004 with funds generated from operations, through new financings and short-term borrowings, and through the proceeds from the sale of generation assets to Orion. During January 2000, we issued $150 million of floating rate two-year notes, callable in July 2000. The proceeds of this issuance were used to reduce the amount of outstanding commercial paper.

We maintain two separate revolving credit agreements, one for $250 million expiring in June 2000 and one for $225 million expiring in September 2000. We have the option to convert each revolver into a term loan facility for a period of one or two years, respectively, for any amounts then outstanding upon expiration of the revolving credit period. Interest rates can, in accordance with the option selected at the time of the borrowing, be based on one of several indicators, including prime, Eurodollar, or certificate of deposit rates. Facility fees are based on the unborrowed amount of the commitment. At December 31, 1999 and 1998, no borrowings were outstanding. Related to these and other credit facilities, we are subject to financial covenants requiring certain cash coverage and debt-to-capital ratios. At December 31, 1999, we were in compliance with all of our financial covenants.

Duquesne Light and an unaffiliated corporation have an agreement that entitles Duquesne Light to sell, and the corporation to purchase, on an ongoing basis, up to $50 million of accounts receivable. At various times during 1999 and in the first quarter of 2000, Duquesne Light had sold receivables under the facility. No amounts were outstanding at December 31, 1999 and 1998. The accounts receivable sales agreement, which expires in February 2001, is one of many sources of funds available to us. We may elect to extend the agreement upon expiration, replace it with a similar facility, or terminate it.

In connection with customer choice, customer revenues from Duquesne Light's operations are reduced by an amount equal to the generation rate applicable to those customers choosing alternative generation suppliers. This reduction is expected to be offset by lower generation and purchased power costs. An additional impact is anticipated when the provider of last resort service agreement with Orion takes effect, and all customers will be buying generation either directly from alternative suppliers or indirectly from Orion. A further impact on customer revenues is expected to occur when the CTC has been fully collected, which is currently expected to occur in 2001 for most major rate classes; elimination of the CTC will reduce customer rates, on average, by 25 percent for those rate classes. The foregoing statements are forward-looking regarding the impact on cash flows of customer choice and Duquesne Light's divestiture. Actual results could materially differ from those implied by such statements due to known and unknown risks and uncertainties, including, but not limited to, the timing of the generation asset sale closing and the receipt of sale proceeds. (See "Restructuring Plan" on page 38.)

RATE MATTERS

Competition and the Customer Choice Act

Under Pennsylvania ratemaking practice, regulated electric utilities were granted exclusive geographic franchises to sell electricity, in exchange for making investments and incurring obligations to serve customers under the then-existing regulatory framework. Through the ratemaking process, those prudently incurred costs were recovered from customers, along with a return on the investment. Additionally, certain operating costs were approved for deferral for future recovery from customers (regulatory assets). As a result of this process, utilities had assets recorded on their balance sheets at above-market costs, thus creating transition costs.

The Customer Choice Act (effective January 1, 1997) enables Pennsylvania's electric utility customers to purchase electricity at market prices from a variety of electric generation suppliers (customer choice). As of January 2000, all customers have customer choice. As of February 29, 2000, approximately 23 percent of Duquesne Light's customers had chosen alternative generation suppliers, representing approximately 30 percent of Duquesne Light's non-coincident peak load. Customers who have chosen an electricity generation supplier other than Duquesne Light pay that supplier for generation charges, and pay Duquesne Light the CTC (discussed below) and charges for transmission and distribution. Customers who continue to buy their generation from Duquesne Light pay for their service at current regulated tariff rates divided into generation, transmission and distribution charges, and the CTC. Electricity delivery (including transmission, distribution and customer service) remains regulated in substantially the same manner as under historical regulation.

Rate Cap

An overall four-and-one-half-year rate cap from January 1, 1997, was originally imposed on the transmission and distribution charges of Pennsylvania electric utility companies under the Customer Choice Act. As part of a settlement regarding recovery of deferred fuel costs (discussed below), we have agreed to extend this rate cap for an additional six months through the end of 2001.

Provider of Last Resort

Duquesne Light is required not only to deliver electricity, but also to serve as the provider of last resort for all customers in its service territory. As the provider of last resort, Duquesne Light must provide electricity for any customer who cannot or does not choose an alternative electric generation supplier, or whose supplier fails to deliver. While collecting the CTC, Duquesne Light may charge only PUC-approved rates for the supply of electricity as the provider of last resort. As part of the pending generation asset sale, Orion has agreed to supply Duquesne Light, under a provider of last resort service agreement, with all of the electric energy necessary to satisfy Duquesne Light's provider of last resort obligations during the CTC collection period. Under the Customer Choice Act, after the CTC collection period Duquesne Light anticipates that it will supply electricity at market prices to fulfill its provider of last resort obligations.

Restructuring Plan

In its May 29, 1998, final restructuring order, the PUC determined that Duquesne Light should recover most of the above-market costs of its generation assets, including plant and regulatory assets, through the collection of the CTC from electric utility customers. The $1.49 billion of transition costs, net of tax, was originally to be recovered over a seven-year period ending in 2005. However, by applying expected net proceeds of the pending generation asset sale to Orion (discussed below) to reduce transition costs, we currently anticipate early termination of the CTC collection period in 2001 for most major rate classes. In addition, the transition costs as reflected on the consolidated balance sheet are being amortized over the same period that the CTC revenues are being recognized. Duquesne Light is allowed to earn an 11 percent pre-tax return on the unrecovered, net of tax balance of transition costs, as adjusted following the generation asset sale.

As part of our restructuring plan filing, we requested recovery of $11.5 million ($6.7 million, net of tax) through the CTC for energy costs previously deferred under the ECR. Recovery of this amount was approved in the PUC's final restructuring order. We also requested recovery of an additional $31.2 million ($18.2 million, net of tax) in deferred fuel costs. Although the PUC initially denied recovery of this additional amount, on October 26, 1999, Duquesne Light and the Pennsylvania Office of the Consumer Advocate reached a settlement on this issue which would permit recovery of the entire $42.7 million ($24.9 million, net of tax) in deferred fuel costs. The PUC approved this settlement on February 11, 2000.

On December 18, 1998, the PUC approved Duquesne Light's auction plan, which included an auction of its provider of last resort service obligations, as well as an agreement to carry out the power station exchange with FirstEnergy.

Power Station Exchange. On December 3, 1999, Duquesne Light completed the exchange of its partial interests in five power plants for three wholly owned power plants of subsidiaries of FirstEnergy. Duquesne Light received three fossil-powered plants (located in Avon Lake and Niles, Ohio, and in New Castle, Pennsylvania) having an aggregate net demonstrated capacity of 1,323 MW. The ownership interests transferred by Duquesne Light included its interests in the nuclear-powered Beaver Valley, Pennsylvania and Perry, Ohio plants, and the fossil-powered Bruce Mansfield, Pennsylvania and Sammis and Eastlake, Ohio plants, having an aggregate net demonstrated capacity of 1,435 MW. Along with ownership of the nuclear-powered plants, FirstEnergy assumed the decommissioning liability for Beaver Valley and Perry, in exchange for the fully funded balance in decommissioning trust funds previously maintained by Duquesne Light. During 1999, we funded approximately $60 million into the decommissioning trusts. These amounts, which were collected through the CTC during the year, brought the fund balances to approximately $122 million. In connection with the power station exchange, we terminated the Beaver Valley Unit 2 lease in the fourth quarter of 1999. (See "Financing" discussion on page 36.)

Auction Plan. On September 24, 1999, Duquesne Light and the winning auction bidder, Orion, entered into definitive agreements pursuant to which Orion will purchase Duquesne Light's wholly owned Cheswick, Elrama, Phillips and Brunot Island power stations, and the stations received from FirstEnergy in the power station exchange, for approximately $1.71 billion (estimated to be $1.1 billion, net of tax and transaction expenses). Under a provider of last resort service agreement, Orion will supply Duquesne Light with all of the electric energy necessary to satisfy Duquesne Light's obligations to its customers who have not chosen an alternative electric generation supplier. This agreement, which expires upon Duquesne Light's final collection of the CTC, in general effectively transfers to Orion the financial risks and rewards associated with Duquesne Light's provider of last resort obligations. While we retain the collection risk for the electricity sales, a component of our regulated delivery rates is designed to cover the cost of a normal level of uncollectible accounts. Duquesne Light and Orion are currently discussing an extension of this provider of last resort arrangement beyond the final CTC collection.

The Orion transactions must be approved by various regulatory agencies, including the PUC, the FERC, and the Federal Trade Commission. Duquesne Light currently expects the sale to close in the second quarter of 2000. The final accounting for the sale proceeds remains subject to PUC approval. Through December 31, 1999, we have deferred approximately $219 million of costs related to the power station exchange and the asset sale. Additional divestiture-related costs will be deferred as incurred. We expect to fully recover these costs through the divestiture process; however, any disallowed costs will be written off.

Until the divestiture is complete, Duquesne Light is required to use an interim CTC and price to compare for each rate class (approximately 2.9 cents per KWH on average for the CTC, and approximately 3.8 cents per KWH on average for the price to compare).

Termination of the AYE Merger

On October 5, 1998, we announced our unilateral termination of our merger agreement with Allegheny Energy, Inc. (AYE). AYE filed suit in the United States District Court for the Western District of Pennsylvania, seeking to compel us to proceed with the merger, or in the alternative seeking an unspecified amount of money damages. After holding a trial from October 20 through 28, 1999, the District Court ruled on December 3, 1999, that we had properly terminated the merger agreement without breach, and granted judgment in our favor on all claims and all requests for injunctive relief. On December 14, 1999, AYE appealed this ruling to the Third Circuit. We expect argument to be heard in the first quarter of 2000. We cannot determine the ultimate outcome of AYE's appeal at this time.

YEAR 2000

We took comprehensive steps to ensure a smooth transition into the Year 2000. Since 1994, we planned for the Year 2000 with an aggressive strategy to identify information needs, replace or upgrade equipment and coordinate resources to anticipate the new millennium. We experienced normal operations during the transition, and continue to do so.

The total cost of implementing our Year 2000 plan was approximately $49 million, which includes costs related to total system replacements (i.e., the Year 2000 solution comprised only a portion of the benefit resulting from such replacements). These costs were primarily incurred as a result of software and system changes and upgrades. Approximately $35 million was capital costs attributable to the licensing and installation of new software for total system replacements. The remaining $14 million was expensed as it was incurred.

EMPLOYEES

At December 31, 1999, DQE and its subsidiaries had 3,578 employees. This reflects a reduction by approximately 1,100 employees through transfers to FirstEnergy following the power station exchange and early retirement under the divestiture-related program discussed below. In connection with the pending generation asset sale to Orion, we anticipate a further reduction by approximately 400 employees. Duquesne Light is party to a labor contract expiring in September 2001 with the International Brotherhood of Electrical Workers (IBEW), which represents the majority of Duquesne Light's employees. The contract provides, among other things, employment security, income protection and, in September 2000, a 3 percent wage increase. Duquesne Light and the IBEW have agreed on a package of additional benefits and protections for union employees affected by the divestiture of generation assets.

In connection with the power station exchange with FirstEnergy and the pending generation asset sale to Orion, Duquesne Light developed early retirement programs and enhanced available separation packages for eligible IBEW and management employees. Duquesne Light expects to recover related costs through the sale proceeds.

PROPERTY, PLANT AND EQUIPMENT (PP&E)

Investment in PP&E and Accumulated Depreciation

Our total investment in PP&E and the related accumulated depreciation balances for major classes of property at December 31, 1999 and 1998 are as follows:

PP&E and Related Accumulated Depreciation at December 31,

(Millions of Dollars) 1999	Investment	Accumulated Depreciation	Net Investment
Electric delivery	**$1,913.1**	**$ 726.8**	**$1,186.3**
Electric production	**2,013.0**	**1,764.2**	**248.8**
Water distribution	**185.5**	**10.2**	**175.3**
Capital leases	**26.3**	**7.6**	**18.7**
Other	**231.4**	**32.4**	**199.0**
Total	**$4,369.3**	**$2,541.2**	**$1,828.1**

1998	Investment	Accumulated Depreciation	Net Investment
Electric delivery	$1,858.4	$ 684.6	$1,173.8
Electric production	2,600.9	2,393.7	207.2
Water distribution	91.9	1.7	90.2
Capital leases	123.4	63.6	59.8
Other	206.1	22.1	184.0
Total	$4,880.7	$3,165.7	$1,715.0

Electric delivery PP&E includes: (1) high voltage transmission wires used in delivering electricity from generating stations to substations; (2) substations and transformers; (3) lower voltage distribution wires used in delivering electricity to customers; (4) related poles and equipment; and (5) internal telecommunication equipment, vehicles and office equipment. Electric production PP&E includes fossil and, in 1998, nuclear generating stations. Electric production accumulated depreciation reflects the write-down of production plant values to the PUC-determined market value. (See "Restructuring Plan" discussion on page 38.) Water distribution PP&E includes water systems and water treatment facilities. Our capital leases are primarily associated with leased nuclear fuel in 1998 and other electric plant. The Other PP&E is comprised of various buildings and land, E-Fuel® facilities, landfill gas recovery equipment and property related to our other expanded business lines.

ELECTRIC UTILITY OPERATIONS

We anticipate completing the divestiture of generation assets through the sale to Orion in the second quarter of 2000. Certain obligations related to the divested assets have been transferred to FirstEnergy, and others will be transferred to Orion.

Duquesne Light's fossil plants operated at an availability factor of 86 percent in 1999 and 80 percent in 1998. Duquesne Light's nuclear plants (which all were acquired by FirstEnergy in December 1999) operated at an availability factor of 84 percent in 1999 and 52 percent in 1998. The timing and duration of scheduled maintenance and refueling outages, as well as the duration of forced outages, affect the availability of power stations. Duquesne Light normally experiences its peak demand in the summer. The 1999 customer system peak demand of 2,756 MW occurred on July 6, 1999.

Fossil Fuel

Duquesne Light believes that sufficient coal for its coal-fired generating units will be available from various sources to satisfy its requirements through the closing of the pending generation asset sale. During 1999, approximately 2.0 million tons of coal were consumed at Duquesne Light's two wholly owned coal-fired stations, Cheswick Power Station (Cheswick) and Elrama Power Station (Elrama).

Duquesne Light owns Warwick Mine, an underground mine located in southwestern Pennsylvania. The current estimated liability for mine closing, including final site reclamation, mine water treatment and certain labor liabilities, is $49.3 million. Duquesne Light has recorded a liability for this amount on the consolidated balance sheet.

During 1999, 52 percent of Duquesne Light's coal supplies were provided by contracts, including Warwick Mine, with the remainder satisfied through purchases on the spot market.

ENVIRONMENTAL MATTERS

Various federal and state authorities regulate DQE and our subsidiaries with respect to air and water quality and other environmental matters. Environmental compliance obligations with respect to the plants transferred to FirstEnergy in the power station exchange have been assumed by FirstEnergy. In addition, FirstEnergy has contractually retained responsibility for operating the plants we acquired in the exchange, including the day-to-day environmental compliance. Upon completion of the generation asset sale, Orion will assume the environmental obligations related to all of the plants sold, both those originally owned by Duquesne Light and those acquired in the power station exchange. The following discussion of air quality and acid rain compliance primarily addresses environmental matters at the plants we both own and operate: Cheswick, Elrama, Brunot Island and Phillips.

As required by Title V of the *Clean Air Act Amendments* (Clean Air Act), we filed comprehensive air operating permit applications for Cheswick, Elrama, Brunot Island and Phillips in 1995. Approval is still pending for these applications. We filed our Title IV Phase II Clean Air Act compliance plan with the PUC on December 27, 1995. We also filed Title IV Phase II permit applications for oxides of nitrogen (NO_x) emissions from Cheswick, Elrama and Phillips with the Allegheny County Health Department and the Pennsylvania Department of Environmental Protection (DEP) on December 23, 1997. On December 30, 1999, we amended the Cheswick and Elrama applications, and filed a Phase II NO_x Averaging Plan. Approval also is pending for these applications.

Acid Rain Program Requirements. We believe we have satisfied all of the Phase I Acid Rain Program requirements of the Clean Air Act. However, the Phase II Acid Rain Program requires significant additional reductions of sulfur dioxide (SO_2) through the end of 2000. We currently own and operate 611 MW of coal capacity equipped with SO_2 emission-reducing equipment.

In 1999 we installed gas reburn NO_x reduction technology at Elrama Units 1, 2 and 3, and installed new, improved low NO_x burner technology at Elrama Unit 4. In 1998, Duquesne Light installed low-cost burner modifications to existing low NO_x burner technology, and a new flue gas conditioning system, to maximize the effects of combustion-related controls at Cheswick.

Ozone Reduction Requirements. In addition to the Phase II Acid Rain Program requirements, we are responsible for NO_x reduction requirements to meet the current Ozone Ambient Air Quality Standards under Title I of the Clean Air Act. Compliance with the current ozone standard is based on pre-1997 ozone data, using a one-hour average value approach. During the 1998 summer ozone season, the western Pennsylvania "area" achieved compliance with the one-hour ozone standard. Duquesne Light believes it will continue its current low NO_x emission levels under the maintenance plan being established by the DEP. Duquesne Light further believes it will be able to meet any additional NO_x reduction levels specified under the maintenance plan, through reductions required in 1999 under the Ozone Transport Commission control program described below.

In September 1998, the Environmental Protection Agency (EPA) issued additional ozone-related NO_x reduction requirements under Section 110 of the Clean Air Act, which may affect our power plants and supersede reduction levels specified for 2003 by the Ozone Transport Commission control program. Under this program, the EPA requires states in the northeast and midwest to amend their implementation plans to impose more stringent NO_x allowance caps on emissions during the May to September control period. In response to a Federal court stay of this program, the DEP has not finalized proposed implementation regulations, but has indicated it will proceed with a similar control program under Section 126 of the Clean Air Act. Until the Federal stay is resolved and regulations are implemented, the costs of compliance cannot be determined. However, we anticipate that compliance would require additional capital and operational costs beyond those already estimated through 2000. Such compliance costs will be the responsibility of Orion following the generation asset sale.

Other. On November 3, 1999, the EPA and the Department of Justice filed suit against seven electric utility companies, including FirstEnergy. The suit alleges that the companies made illegal modifications to certain power plants, including Sammis Unit 7. FirstEnergy acquired Duquesne Light's interest in Sammis in the power station exchange. The ultimate outcome of this suit, and any potential impact it may have on Duquesne, cannot be determined at this time.

In 1992, the DEP issued *Residual Waste Management Regulations* governing the generation and management of non-hazardous residual waste, such as coal ash. We have assessed our residual waste management sites, and the DEP has approved our compliance strategies. We incurred capital costs of $0.5 million in 1999 to comply with these DEP regulations. We expect the capital cost of compliance to be approximately $5.0 million over the next two years with respect to sites we will continue to own after the generation asset sale.

Under the *Emergency Planning and Community Right-to-Know Act of 1986*, certain manufacturing and industrial companies are required to file annual toxic release inventory reports. The first submission by coal- and oil-fired electric utility generating stations was made on July 1, 1999, to report on emissions and discharges for 1998. Toxic release inventory reporting does not involve emission reductions. We do not anticipate any material impact resulting from this requirement.

The *Comprehensive Environmental Response, Compensation and Liability Act of 1980* and the *Superfund Amendments and Reauthorization Act of 1986* established a variety of informational and environmental action programs. Through our investment in GSF Energy (GSF), we indirectly became involved in three hazardous waste sites. GSF was a minor contributor of materials to each site, and other solvent potentially responsible parties are involved. GSF believes that available defenses, along with its overall limited involvement, will limit any potential liability it may have for clean-up costs. Additionally, as part of the GSF investment we are indemnified for any costs that GSF may incur related to these sites by at least one financially responsible party. Accordingly, we believe that these matters will not have a material adverse effect on our financial position, results of operations or cash flows.

AquaSource's water and water-related operations are subject to the federal *Safe Drinking Water Act*, which provides for uniform minimum national water quality standards, as well as governmental authority to specify treatment processes to be used for drinking water. In the fourth quarter of 1999, AquaSource met the water quality reporting requirement under the act by providing timely reports to its customers. AquaSource's operations are also subject to the federal *Clean Water Act*, which regulates the discharge of pollutants into waterways. In connection with its acquisition strategy, AquaSource is aware of various compliance issues at its water and wastewater facilities, and is communicating and working closely with appropriate regulators to correct those issues in a timely manner. We do not believe that any of these compliance issues will have a material effect on DQE's financial position, results of operations or cash flows.

We are involved in various other environmental matters. We believe that such matters, in total, will not have a materially adverse effect on our financial position, results of operations or cash flows.

OUTLOOK

As discussed previously, we expect to close on the sale of our generation assets to Orion during the second quarter of 2000. However, if the closing is delayed we will experience electricity market price risks during the volatile summer months. In that event, we would evaluate entering into advance purchase power contracts to mitigate the risk of price spikes similar to those seen during the summer of 1999. If the closing is delayed beyond September 24, 2000, Orion could, under certain circumstances, terminate the transaction. In that event, while exploring other divestiture options, we would continue to operate the generating plants and would continue to collect CTC revenues at current levels.

Prospectively, assuming that the sale to Orion closes as expected, the electricity supply business will be a much smaller part of DQE than it has been historically. Among the challenges we will face is changing the role of our administrative infrastructure. While the number of electricity customers that we serve will not change, our margins from these customers will decline to reflect the fact that we are providing only the delivery service and not the electricity itself. Our reduced electricity margins will necessitate a lower level of support costs at the electricity business. We expect to retrain and redeploy some of our administrative employees, but we must also reduce our overall administrative costs to maintain profitability.

Also related to the generation divestiture, we will be changing the capital structure of Duquesne Light. With the proceeds from the sale, we expect to retire higher-cost series of outstanding debt and to reduce the level of equity accordingly to create a capital structure appropriate for an electricity delivery company.

As we continue our evolution into a multi-utility delivery company, we expect to continue our aggregation strategy in the water distribution and propane delivery businesses. Efforts during the beginning of 2000 will focus on continuing to increase operating efficiencies, clustering investments in geographic regions and increasing returns on existing investments. Once operating efficiencies have been realized, we expect to proceed with a disciplined approach to growing these strategic businesses.

In addition to service-oriented delivery companies and an efficient support infrastructure, another integral component of our multi-utility vision is the use of electronic commerce channels to more efficiently offer products and services to our growing customer base. We expect to continue adding to our portfolio of technology-based investments, including those in electronic commerce. We expect some of the companies in our current technology-based portfolio of investments will consider additional capital raising activities, including potential public stock offerings, during 2000 and beyond. Related to such opportunities for market valuation of our investments, we see the potential for substantial increases in the value of some of our investments. However, as is the case with most early-stage companies, there is also the risk that the companies we have invested in will not continue to develop and will not produce acceptable returns. We have performed extensive due diligence and structured these investments to mitigate these risks.

In summary, we will continue to focus on targeted investment opportunities that add incremental value to our shareholders. We will maintain a disciplined approach to evaluating opportunities to expand our distribution businesses, and offer new products and services to our existing customer base. We face considerable challenges in completing the transformation of our business from a fully integrated electric utility into a multi-utility delivery company of the future. We expect that with continued successful negotiation of these challenges will come the opportunity for continued improvement in shareholder value.

OTHER

Retirement Plan Measurement Assumptions

The discount rate used to determine the projected benefit obligation on our retirement plans at December 31, 1999, increased to 7.5 percent. The effect of this change on our retirement plan obligations is reflected in the amounts shown in "Employee Benefits," Note N to the consolidated financial statements, on page 61. The resulting change in related expenses for subsequent years is not expected to be material.

Recent Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued *SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities.* This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. We are evaluating the impact on our financial statements and disclosures.

Market Risk

Market risk represents the risk of financial loss that may impact our consolidated financial position, results of operations or cash flows due to adverse changes in market prices and rates.

We manage our interest rate risk by balancing our exposure between fixed and variable rates while attempting to minimize our interest costs. Currently, our variable interest rate debt is approximately 25 percent of long-term borrowings. This variable rate debt is low-cost, tax-exempt debt. We also manage our interest rate risk by retiring and issuing debt from time to time and by maintaining a balance of short-term, medium-term and long-term debt. A 10 percent increase in interest rates would have affected our variable rate debt obligations by increasing interest expense by approximately $1.6 million for the years ended December 31, 1999, 1998 and 1997. A 10 percent reduction in interest rates would have increased the market value of our fixed rate debt by approximately $32.5 million and $22.8 million as of December 31, 1999 and 1998. Such changes would not have had a near-term effect on our future earnings or cash flows.

Except for historical information contained herein, the matters discussed in this annual report are forward-looking statements that involve risks and uncertainties including, but not limited to: the timing of the anticipated transfer of generation assets to Orion; the nature of final regulatory approvals regarding the generation asset sale; the final outcome of AYE's merger-related litigation; economic and business conditions with respect to Internet and energy technology companies; economic, competitive, governmental and technological factors affecting operations, markets, products, services and prices; and other factors discussed in our filings with the Securities and Exchange Commission.

Report of Independent Auditors

To the Directors and Shareholders of DQE, Inc.:

We have audited the accompanying consolidated balance sheet of DQE, Inc. and its subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, comprehensive income, retained earnings and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of DQE, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of DQE, Inc. and its subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
Pittsburgh, Pennsylvania
January 28, 2000

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

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

In fulfilling its responsibilities in 1999, the Audit Committee recommended to the Board of Directors, subject to shareholder approval, the selection of DQE's independent auditors. The Audit Committee reviewed the overall scope and details of the independent auditors' and internal auditors' respective audit plans, and reviewed and approved the independent auditors' general audit fees and non-audit services.

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

The Audit Committee of the Board of Directors of DQE

Statement of Consolidated Income

		1999	1998	1997
		(Thousands of Dollars, Except Per Share Amounts) *Year Ended December 31,*		
OPERATING REVENUES	Electricity sales	**$1,093,537**	$1,126,789	$1,124,318
	Water sales	**122,389**	30,941	1,568
	Other	**125,275**	96,821	104,288
	Total Operating Revenues	**1,341,201**	1,254,551	1,230,174
OPERATING EXPENSES	Fuel and purchased power	**225,182**	262,560	223,411
	Other operating	**437,679**	343,442	320,610
	Maintenance	**75,400**	74,908	82,869
	Depreciation and amortization	**196,319**	219,920	239,980
	Taxes other than income taxes	**87,779**	81,318	82,567
	Total Operating Expenses	**1,022,359**	982,148	949,437
OPERATING INCOME	**Operating Income**	**318,842**	272,403	280,737
OTHER INCOME	Long-term investment income	**90,363**	105,139	64,464
	Gain on dispositions	**44,027**	6,809	34,364
	Interest and other income	**17,613**	22,853	30,979
	Total Other Income	**152,003**	134,801	129,807
	Interest and Other Charges	**158,707**	109,534	115,638
	Income Before Income Taxes and Extraordinary Item	**312,138**	297,670	294,906
	Income Taxes	**110,722**	100,982	95,805
	Income Before Extraordinary Item	**201,416**	196,688	199,101
	Extraordinary Item, Net of Tax	**—**	(82,548)	—
NET INCOME	**Net Income, After Extraordinary Item**	**201,416**	114,140	199,101
	Dividends on Preferred Stock	**1,569**	866	—
	Earnings Available for Common Stock	**$ 199,847**	$ 113,274	$ 199,101
	Average Number of Common Shares Outstanding (Thousands of Shares)	**75,463**	77,683	77,492
EARNINGS PER SHARE	**Basic Earnings Per Share of Common Stock:**			
	Before Extraordinary Item	**$ 2.65**	$ 2.52	$ 2.57
	Extraordinary Item	**—**	$(1.06)	—
	After Extraordinary Item	**$ 2.65**	$ 1.46	$ 2.57
	Diluted Earnings Per Share of Common Stock:			
	Before Extraordinary Item	**$ 2.62**	$ 2.49	$ 2.56
	Extraordinary Item	**—**	$(1.03)	—
	After Extraordinary Item	**$ 2.62**	$ 1.46	$ 2.56
DIVIDENDS DECLARED	**Dividends Declared Per Share of Common Stock**	**$ 1.54**	$ 1.46	$ 1.38

See notes to consolidated financial statements.

ASSETS

LIAB
CAP

Consolidated Balance Sheet

	(Thousands of Dollars) As of December 31, 1999	1998
Current Assets:		
Cash and temporary cash investments	$ 54,229	$ 108,176
Receivables:		
Electric customer accounts receivable	82,314	87,262
Other electric utility receivables	32,582	25,412
Water customer accounts receivable	21,352	10,591
Other receivables	57,280	42,260
Less: Allowance for uncollectible accounts	(9,280)	(9,415)
Total Receivables – Net	184,248	156,110
Materials and supplies (at average cost):		
Operating and construction	37,536	58,747
Coal	17,705	25,702
Total Materials and Supplies	55,241	84,449
Other current assets	81,939	15,233
Total Current Assets	375,657	363,968
Long-Term Investments:		
Leveraged leases	409,461	388,113
Gas reserves	89,390	103,270
Affordable housing	79,752	131,395
Other leases	17,162	38,783
Nuclear decommissioning trust fund	—	62,697
Other	43,519	24,549
Total Long-Term Investments	639,284	748,807
Property, Plant and Equipment:		
Electric plant in service	3,856,719	4,379,703
Water plant in service	170,509	91,850
Construction work in progress	84,313	79,644
Property held under capital leases	26,327	123,374
Other	231,435	206,112
Gross property, plant and equipment	4,369,303	4,880,683
Less: Accumulated depreciation and amortization	(2,541,236)	(3,165,651)
Total Property, Plant and Equipment – Net	1,828,067	1,715,032
Other Non-Current Assets:		
Transition costs	2,008,171	2,132,980
Regulatory assets	224,002	199,066
Divestiture costs	218,653	1,338
Other	315,158	204,787
Total Other Non-Current Assets	2,765,984	2,538,171
Total Assets	$5,608,992	$5,365,978

See notes to consolidated financial statements.

LIABILITIES AND CAPITALIZATION	(Thousands of Dollars) As of December 31, 1999	1998
Current Liabilities:		
Current debt maturities	$ 469,248	$ 105,347
Notes payable	342,804	—
Accounts payable	106,143	117,911
Accrued liabilities	32,970	84,754
Dividends declared	31,427	33,009
Other	1,051	6,864
Total Current Liabilities	983,643	347,885
Non-Current Liabilities:		
Deferred income taxes – net	1,020,103	910,228
Beaver Valley lease liability	—	475,570
Deferred income	126,434	156,579
Deferred investment tax credits	22,208	24,076
Capital lease obligations	16,863	36,596
Nuclear decommissioning liability	—	62,697
Other	186,617	253,649
Total Non-Current Liabilities	1,372,225	1,919,395
Commitments and Contingencies (Notes B through N)		
Capitalization:		
Long-Term Debt	1,633,077	1,357,749
Preferred and Preference Stock:		
DQE preferred stock	42,170	35,274
Preferred stock of subsidiaries	215,608	215,608
Preference stock of subsidiaries	25,279	26,914
Total preferred and preference stock before deferred employee stock ownership plan (ESOP) benefit	283,057	277,796
Deferred ESOP benefit	(10,875)	(14,240)
Total Preferred and Preference Stock	272,182	263,556
Common Shareholders' Equity:		
Common stock – no par value (authorized – 187,500,000 shares; issued – 109,679,154 shares)	994,935	993,404
Retained earnings	953,785	869,671
Treasury stock (at cost) (37,912,995 and 32,305,726 shares)	(602,689)	(385,976)
Accumulated other comprehensive income	1,834	294
Total Common Shareholders' Equity	1,347,865	1,477,393
Total Capitalization	3,253,124	3,098,698
Total Liabilities and Capitalization	$5,608,992	$5,365,978

See notes to consolidated financial statements.

Statement of Consolidated Cash Flows

		(Thousands of Dollars)		
		Year Ended December 31,		
		1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES	Net income	$ 201,416	$ 114,140	$ 199,101
	Principal non-cash charges (credits) to net income:			
	Depreciation and amortization	196,319	219,920	239,980
	Deferred taxes	73,461	119,945	60,811
	Capital lease, nuclear fuel and investment amortization	60,470	80,574	67,671
	Gain on disposition of investments	(44,027)	(6,809)	(34,364)
	Investment income	(79,747)	(111,904)	(66,246)
	Changes in working capital other than cash	(75,668)	(36,995)	(36,758)
	Extraordinary item, net of tax	—	82,548	—
	Increase in ECR	—	(19,219)	(25,318)
	Other	5,644	(81,857)	(37,175)
	Net Cash Provided from Operating Activities	337,868	360,343	367,702
CASH FLOWS FROM INVESTING ACTIVITIES	Capital expenditures	(147,236)	(190,548)	(116,004)
	Acquisition of water companies	(133,023)	(122,007)	(6,611)
	Acquisition of propane companies	(63,364)	—	—
	Funding of nuclear decommissioning trust	(59,861)	(8,878)	(8,762)
	Generating stations divestiture costs	(47,449)	—	—
	Long-term investments	(29,671)	(60,017)	(210,360)
	Proceeds from disposition of investments	143,094	6,809	86,300
	Other	(11,506)	(22,466)	(1,132)
	Net Cash Used in Investing Activities	(349,016)	(397,107)	(256,569)
CASH FLOWS FROM FINANCING ACTIVITIES	Issuance of debt	386,624	140,000	—
	Issuance of notes payable	342,804	—	—
	Reductions of long-term obligations:			
	Capital leases	(42,423)	(12,897)	(13,551)
	Long-term debt	(90,667)	(198,272)	(52,100)
	Dividends on common and preferred stock	(117,302)	(114,218)	(106,959)
	Repurchase of common stock	(216,713)	(14,155)	(30)
	Beaver Valley 2 lease termination	(277,226)	—	—
	Other	(27,896)	(11,930)	6,941
	Net Cash Used in Financing Activities	(42,799)	(211,472)	(165,699)
	Net decrease in cash and temporary cash investments	(53,947)	(248,236)	(54,566)
	Cash and temporary cash investments at beginning of year	108,176	356,412	410,978
	Cash and temporary cash investments at end of year	$ 54,229	$ 108,176	$ 356,412

Supplemental Cash Flow Information

CASH PAID DURING THE YEAR	Interest (net of amount capitalized)	$ 100,083	$ 91,462	$ 95,413
	Income taxes	$ 35,108	$ 27,978	$ 66,703

See notes to consolidated financial statements.

Statement of Consolidated Comprehensive Income

	(Thousands of Dollars) Year Ended December 31,		
	1999	1998	1997
Net income	$ 201,416	$ 114,140	$ 199,101
Other comprehensive income:			
Unrealized holding gains (losses) arising during the year, net of tax of $1,081, $(2,445) and $3,776	1,540	(3,448)	6,007
Less: reclassification adjustment for gains included in net income, net of tax of $0, $0 and $4,440	—	—	(6,260)
Total Other Comprehensive Income (Loss)	1,540	(3,448)	(253)
Comprehensive Income	$ 202,956	$ 110,692	$ 198,848

See notes to consolidated financial statements.

Statement of Consolidated Retained Earnings

	(Thousands of Dollars) As of December 31,		
	1999	1998	1997
Balance at beginning of year	$ 869,671	$ 869,749	$ 777,607
Net income	201,416	114,140	199,101
Dividends declared	(117,302)	(114,218)	(106,959)
Balance at End of Year	$ 953,785	$ 869,671	$ 869,749

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

DQE, Inc. is a multi-utility delivery and services company. Our subsidiaries are Duquesne Light Company; AquaSource, Inc.; DQE Capital Corporation; DQE Energy Services, Inc.; DQE Enterprises, Inc. (formerly Duquesne Enterprises, Inc.); DQE Financial Corp. (formerly Montauk, Inc.); and DQE Systems, Inc. (formerly DQEnergy Partners, Inc.).

Duquesne Light, our largest operating subsidiary, is an electric utility engaged in the supply, transmission, distribution and sale of electric energy. On December 3, 1999, Duquesne Light completed a power station asset exchange with FirstEnergy Corp. This was the first phase of our Pennsylvania Public Utility Commission (PUC)-approved plan to divest our generation assets. We expect to complete this divestiture through the pending sale of our remaining generation assets to Orion Power Holdings, Inc. Final sale agreements must be approved by various regulatory agencies, including the PUC. We expect the sale to close in the second quarter of 2000. After that time, we expect to meet our energy supply obligations through a provider of last resort service agreement with Orion. (See "Restructuring Plan" discussion, Note F, on page 54.)

AquaSource, our second largest operating subsidiary, is a water resource management company that acquires, develops and manages water and wastewater utilities, bottled water operations and complementary businesses.

Our expanded business lines engage in a wide range of initiatives, including: the distribution of propane; the production of landfill gas and synthetic fuels; investments in electronic commerce, energy-related technology and communications systems; energy facility development and operation; and independent power production. DQE Capital provides financing for DQE and various affiliates.

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

Basis of Accounting

DQE and Duquesne Light are subject to the accounting and reporting requirements of the Securities and Exchange Commission (SEC). In addition, Duquesne Light's electric utility operations are subject to regulation by the PUC, including regulation under the *Pennsylvania Electricity Generation Customer Choice and Competition Act* (Customer Choice Act), and the Federal Energy Regulatory Commission (FERC) under the *Federal Power Act* with respect to rates for interstate sales, transmission of electric power, accounting and other matters.

As a result of the PUC's May 29, 1998, final order regarding our restructuring plan under the Customer Choice Act (see "Rate Matters," Note F, on page 53), the electricity supply segment of our business does not meet the criteria of *Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation* (SFAS No. 71). Pursuant to the PUC's final restructuring order, our generation-related regulatory assets are being recovered through a competitive transition charge (CTC) collected in connection with providing transmission and distribution services, and these assets have been reclassified accordingly. The balance of transition costs will be adjusted by receipt of the proceeds from the pending generation asset sale. The electricity delivery business segment continues to meet SFAS No. 71 criteria, and accordingly reflects regulatory assets and liabilities consistent with cost-based ratemaking regulations. The regulatory assets represent probable future revenue, because provisions for these costs are currently included, or are expected to be included, in charges to electric utility customers through the ratemaking process. (See "Rate Matters," Note F, on page 53.) These regulatory assets consist of a regulatory tax receivable, unamortized debt costs and deferred employee costs.

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

Energy Cost Rate Adjustment Clause

Through the Energy Cost Rate Adjustment Clause (ECR), Duquesne Light previously recovered (by the amount that such expenses were not included in base rates) nuclear fuel, fossil fuel and purchased power expenses. Also through the ECR, Duquesne Light passed to its customers the profits from short-term power sales to other utilities. As a consequence of the PUC's final order regarding Duquesne Light's restructuring plan, such costs are no longer recoverable through the ECR. Instead, effective May 29, 1998 (the date of the PUC's final restructuring order), such costs are expensed as incurred and thus impact net income. (See "Restructuring Plan" discussion, Note F, on page 54.)

Revenues from Utility Sales

Duquesne Light's electric utility operations provide service to approximately 580,000 direct customers in southwestern Pennsylvania (including in the City of Pittsburgh), a territory of approximately 800 square miles. We have also historically sold electricity to other utilities, and will continue to do so until the generation asset sale is complete. (See "Restructuring Plan" discussion, Note F, on page 54.) Duquesne Light's meters are read monthly and electric utility customers are billed on the same basis. Revenues are recorded in the accounting periods for which they are billed, with the exception of energy cost recovery revenues. (See "Energy Cost Rate Adjustment Clause" discussion above.)

AquaSource's water utility operations currently provide service to approximately 430,000 water and wastewater customer connections in 18 states.

Maintenance

Effective January 1, 1999, as a result of the PUC's final restructuring order, all electric utility maintenance costs are expensed as incurred. Historically, incremental maintenance costs incurred for refueling outages at Duquesne Light's nuclear units (which all were acquired by FirstEnergy in December 1999) were deferred for amortization over the period between refueling outages (generally 18 months). Duquesne Light would accrue, over the periods between outages, anticipated costs for scheduled major fossil generating station outages. Maintenance costs incurred for non-major scheduled outages and for forced outages were charged to expense as such costs were incurred.

Depreciation and Amortization

Depreciation of property, plant and equipment is recorded on a straight-line basis over the estimated remaining useful lives of properties. Goodwill, representing the excess of the cost over the net tangible and identifiable assets of acquired businesses, is stated at cost and is amortized on a straight-line basis over the estimated future periods to be benefited (25 to 40 years). Goodwill is included in other non-current assets on the consolidated balance sheet. Amortization of gas reserve investments and depreciation of related property are on a units of production method over the total estimated gas reserves. Amortization of interests in affordable housing partnerships is based upon a method that approximates the equity method; amortization of certain other leases is on the basis of benefits recorded over the lives of the investments. Depreciation and amortization of other properties are calculated on various bases. Amortization of transition costs represents the difference between CTC revenues billed to customers and the allowed return on our unrecovered net transition cost balance (11 percent pre-tax).

In 1998 and 1997, Duquesne Light recorded nuclear decommissioning costs under the category of depreciation and amortization expense, and accrued a liability, equal to that amount, for nuclear decommissioning expense. In 1999, these costs are included in transition cost amortization. On the consolidated balance sheet, in 1998 the decommissioning trusts have been reflected in other long-term investments, and the related liability has been recorded as other non-current liabilities. Historically, trust fund earnings increased the fund balance and the recorded liability. Fully funded trust funds and decommissioning liability were transferred to FirstEnergy in the power station exchange. (See "Power Station Exchange" discussion, Note F, on page 54.)

Income Taxes

We use the liability method in computing deferred taxes on all differences between book and tax bases of assets. These book/tax differences occur when events and transactions recognized for financial reporting purposes are not recognized in the same period for tax purposes. The deferred tax liability or asset is also adjusted in the period of enactment for the effect of changes in tax laws or rates.

For the electricity delivery business segment, we recognize a regulatory asset for the deferred tax liabilities that are expected to be recovered from customers through rates. (See "Rate Matters," Note F, and "Income Taxes," Note H, on pages 53 and 55.) Reversals of accumulated deferred income taxes are included in income tax expense.

Investment tax credits (ITC) related to the electricity delivery business segment generally were deferred. These prior credits are subsequently reflected, over the lives of the related assets, as reductions to income tax expense.

Other Operating Revenues and Other Income

Other operating revenues include non-kilowatt-hour (KWH) electric utility revenues and revenues from AquaSource's and the expanded business lines' operating activities. Other income primarily is made up of income from long-term investments entered into by the expanded business lines. The income is separated from other revenues as the investment income does not result from operating activities.

Property, Plant and Equipment

The asset values of our utility properties are stated at original construction cost, which includes related payroll taxes, pensions and other fringe benefits, as well as administrative costs. Also included in original construction cost is an allowance for funds used during construction (AFC), which represents the estimated cost of debt and equity funds used to finance construction.

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

The asset values of the electricity supply business segment properties were written down to market value in accordance with *SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* in conjunction with the PUC's final restructuring order.

Substantially all of the electric utility properties are subject to a first mortgage lien.

Temporary Cash Investments

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

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of the outstanding Employee Stock Ownership Plan shares, DQE Preferred Stock and stock options. The treasury stock method is used in computing the dilutive effect of stock options. This method assumes any proceeds obtained upon the exercise of options would be used to purchase common stock at the average market price during the period. The following table presents the numerators and denominators used in computing the diluted earnings per share before 1998 extraordinary charge for 1999, 1998 and 1997.

Diluted Earnings Per Share for the Year Ended December 31,

	1999	1998	1997
(Thousands of Dollars)			
Earnings for common	$199,847	$195,822	$199,101
Dilutive effect of:			
ESOP dividends	2,121	2,183	2,269
Preferred stock dividends	1,569	866	—
Diluted earnings for common	$203,537	$198,871	$201,370
Basic average shares	75,463	77,683	77,492
Dilutive effect of:			
ESOP shares	1,128	1,169	1,226
DQE Preferred Stock	1,066	928	—
Stock options	19	59	3
Diluted average shares	77,676	79,839	78,721
Diluted Earnings Per Share	$ 2.62	$ 2.49	$ 2.56

Stock-Based Compensation

We account for stock-based compensation using the intrinsic value method prescribed in *APB Opinion No. 25, Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of DQE common stock at the date of the grant over the amount any employee must pay to acquire the stock. Compensation cost for stock appreciation rights is recorded based on the quoted market price of the stock at the end of the year.

Reclassification

The 1998 and 1997 consolidated financial statements have been reclassified to conform with 1999 presentation.

Recent Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued *SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities*. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. We are evaluating the impact on our financial statements and disclosures.

B. CHANGES IN WORKING CAPITAL OTHER THAN CASH

Changes in Working Capital Other than Cash (Net of Dispositions and Acquisitions) for the Year Ended December 31,

	(Thousands of Dollars)		
	1999	1998	1997
Receivables	$ (17,303)	$ (19,080)	$ (14,476)
Materials and supplies	40,347	(10,942)	(1,740)
Other current assets	(67,634)	(1,020)	(519)
Accounts payable	(15,859)	30,745	(4,993)
Other current liabilities	(15,219)	(36,698)	(15,030)
Total	$ (75,668)	$ (36,995)	$ (36,758)

C. PROPERTY, PLANT AND EQUIPMENT

Following the power station exchange with FirstEnergy, we own the operating generating units listed in the following table. We anticipate selling all of these units to Orion in the second quarter of 2000. (See "Rate Matters," Note F, on page 53.)

Generating Units

Unit	Generating Capability *(Megawatts)*	Fuel Source
Cheswick	570	Coal
Elrama Units 1, 2, 3 and 4	487	Coal
Brunot Island Units 1a, 1b, 1c, 2a, 2b and 3	234	Fuel Oil
Avon Lake Units 6, 7, 9 and 10 (a)	739	Coal
New Castle Units 3, 4, 5, A and B (a)	338	Coal
Niles Units 1, 2 and A (a)	246	Coal
Total Generating Units	2,614	

(a) Acquired from FirstEnergy in the December 3, 1999 power station exchange.

Orion also will acquire our ownership interest in cold-reserved generating units at Brunot Island Unit 4 and Phillips Power Station, with a combined capacity of approximately 450 MW.

D. LONG-TERM INVESTMENTS

We have made equity investments in affordable housing and gas reserve partnerships as a limited partner. At December 31, 1999, we had investments in 11 affordable housing funds and 26 gas reserve sites. In 1999, we invested $8.2 million to acquire a 50 percent interest in a joint venture that designs, engineers and constructs landfill gas collection systems. We are the lessor in 7 leveraged lease arrangements involving mining equipment, fossil generating stations, waste-to-energy facilities, high speed service ferries and natural gas processing equipment. These leases expire in various years beginning in 2011 through 2037. The recorded residual value of the equipment at the end of the lease terms is approximately one percent of the original cost. Our aggregate investment represents 20 percent of the aggregate original cost of the property, and is either leased to a creditworthy lessee or is secured by guarantees of the lessee's parent or affiliate. The remaining 80 percent was financed by non-recourse debt, provided by lenders who have been granted, as their sole remedy in the event of default by the lessees, an assignment of rentals due under the leases and a security interest in the leased property. This debt amounted to $944 million and $992 million at December 31, 1999 and 1998.

Net Leveraged Lease Investments at December 31,

	(Thousands of Dollars)	
	1999	**1998**
Rentals receivable - net	**$ 613,458**	$ 632,879
Estimated residual value	**11,510**	22,029
Less: Unearned income	**(215,507)**	(266,795)
Leveraged lease investments	**409,461**	388,113
Less: Deferred taxes	**(232,366)**	(185,639)
Net Leveraged Lease Investments	**$ 177,095**	$ 202,474

Our other leases include investments in fossil generating stations, a waste-to-energy facility, computers, vehicles and equipment. Our other investments are primarily in marketable securities. Deferred income, as shown on the consolidated balance sheet, primarily relates to our other lease investments and certain gas reserve investments. Deferred amounts will be recognized as income over the lives of the underlying investments for periods not exceeding 15 years from the time of investment.

E. ACQUISITIONS

Through December 31, 1999, we had invested approximately $305 million for AquaSource to acquire the stock or assets of water and water-related companies through the purchase method of accounting. Approximately $43 million was in the form of Preferred Stock, Series A (Convertible), $100 liquidation preference per share (DQE Preferred Stock).

In 1999, DQE Systems invested approximately $63 million in the acquisition of 18 propane delivery companies in five states. These companies serve approximately 71,000 customers. With respect to propane delivery company acquisitions, we are implementing an aggregation strategy similar to that used by AquaSource.

F. RATE MATTERS

Competition and the Customer Choice Act

Under Pennsylvania ratemaking practice, regulated electric utilities were granted exclusive geographic franchises to sell electricity, in exchange for making investments and incurring obligations to serve customers under the then-existing regulatory framework. Through the ratemaking process, those prudently incurred costs were recovered from customers, along with a return on the investment. Additionally, certain operating costs were approved for deferral for future recovery from customers (regulatory assets). As a result of this process, utilities had assets recorded on their balance sheets at above-market costs, thus creating transition costs.

The Customer Choice Act (effective January 1, 1997) enables Pennsylvania's electric utility customers to purchase electricity at market prices from a variety of electric generation suppliers (customer choice). As of January 2000, all customers have customer choice. As of February 29, 2000, approximately 23 percent of Duquesne Light's customers had chosen alternative generation suppliers, representing approximately 30 percent of Duquesne Light's non-coincident peak load. Customers who have chosen an electricity generation supplier other than Duquesne Light pay that supplier for generation charges, and pay Duquesne Light the CTC (discussed below) and charges for transmission and distribution. Customers who continue to buy their generation from Duquesne Light pay for their service at current regulated tariff rates divided into generation, transmission and distribution charges, and the CTC. Electricity delivery (including transmission, distribution and customer service) remains regulated in substantially the same manner as under historical regulation.

Rate Cap

An overall four-and-one-half-year rate cap from January 1, 1997, was originally imposed on the transmission and distribution charges of Pennsylvania electric utility companies under the Customer Choice Act. As part of a settlement regarding recovery of deferred fuel costs (discussed below), we have agreed to extend this rate cap for an additional six months through the end of 2001.

Provider of Last Resort

Duquesne Light is required not only to deliver electricity, but also to serve as the provider of last resort for all customers in its service territory. As the provider of last resort, Duquesne Light must provide electricity for any customer who cannot or does not choose an alternative electric generation supplier, or whose supplier fails to deliver. While collecting the CTC, Duquesne Light may charge only PUC-approved rates for the supply of electricity as the provider of last resort. As part of the pending generation asset sale, Orion has agreed to supply Duquesne Light, under a provider of last resort service agreement, with all of the electric energy necessary to satisfy Duquesne Light's provider of last resort obligations during the CTC collection period. Under the Customer Choice Act, after the CTC collection period Duquesne Light anticipates that it will supply electricity at market prices to fulfill its provider of last resort obligations.

Restructuring Plan

In its May 29, 1998, final restructuring order, the PUC determined that Duquesne Light should recover most of the above-market costs of its generation assets, including plant and regulatory assets, through the collection of the CTC from electric utility customers. The $1.49 billion of transition costs, net of tax, was originally to be recovered over a seven-year period ending in 2005. However, by applying expected net proceeds of the pending generation asset sale to Orion (discussed below) to reduce transition costs, we currently anticipate early termination of the CTC collection period in 2001 for most major rate classes. In addition, the transition costs as reflected on the consolidated balance sheet are being amortized over the same period that the CTC revenues are being recognized. Duquesne Light is allowed to earn an 11 percent pre-tax return on the unrecovered, net of tax balance of transition costs, as adjusted following the generation asset sale.

As part of our restructuring plan filing, we requested recovery of $11.5 million ($6.7 million, net of tax) through the CTC for energy costs previously deferred under the ECR. Recovery of this amount was approved in the PUC's final restructuring order. We also requested recovery of an additional $31.2 million ($18.2 million, net of tax) in deferred fuel costs. Although the PUC initially denied recovery of this additional amount, on October 26, 1999, Duquesne Light and the Pennsylvania Office of the Consumer Advocate reached a settlement on this issue which would permit recovery of the entire $42.7 million ($24.9 million, net of tax) in deferred fuel costs. The PUC approved this settlement on February 11, 2000.

On December 18, 1998, the PUC approved Duquesne Light's auction plan, which included an auction of its provider of last resort service obligations, as well as an agreement to carry out the power station exchange with FirstEnergy.

Power Station Exchange. On December 3, 1999, Duquesne Light completed the exchange of its partial interests in five power plants for three wholly owned power plants of subsidiaries of FirstEnergy. Duquesne Light received three fossil-powered plants (located in Avon Lake and Niles, Ohio, and in New Castle, Pennsylvania) having an aggregate net demonstrated capacity of 1,323 MW. The ownership interests transferred by Duquesne Light included its interests in the nuclear-powered Beaver Valley, Pennsylvania and Perry, Ohio plants, and the fossil-powered Bruce Mansfield, Pennsylvania and Sammis and Eastlake, Ohio plants, having an aggregate net demonstrated capacity of 1,435 MW. Along with ownership of the nuclear-powered plants, FirstEnergy assumed the decommissioning liability for Beaver Valley and Perry, in exchange for the fully funded balance in decommissioning trust funds previously maintained by Duquesne Light. During 1999, we funded approximately $60 million into the decommissioning trusts. These amounts, which were collected through the CTC during the year, brought the fund balances to approximately $122 million. In connection with the power station exchange, we terminated the Beaver Valley Unit 2 lease in the fourth quarter of 1999. (See "Leases," Note 1, on page 56.)

Auction Plan. On September 24, 1999, Duquesne Light and the winning auction bidder, Orion, entered into definitive agreements pursuant to which Orion will purchase Duquesne Light's wholly owned Cheswick, Elrama, Phillips and Brunot Island power stations, and the stations received from FirstEnergy in the power station exchange, for approximately $1.71 billion (estimated to be $1.1 billion, net of tax and transaction expenses). Under a provider of last resort service agreement, Orion will supply Duquesne Light with all of the electric energy necessary to satisfy Duquesne Light's obligations to its customers who have not chosen an alternative electric generation supplier. This agreement, which expires upon Duquesne Light's final collection of the CTC, in general effectively transfers to Orion the financial risks and rewards associated with Duquesne Light's provider of last resort obligations. While we retain the collection risk for the electricity sales, a component of our regulated delivery rates is designed to cover the cost of a normal level of uncollectible accounts. Duquesne Light and Orion are currently discussing an extension of this provider of last resort arrangement beyond the final CTC collection.

The Orion transactions must be approved by various regulatory agencies, including the PUC, the FERC, and the Federal Trade Commission. Duquesne Light currently expects the sale to close in the second quarter of 2000. The final accounting for the sale proceeds remains subject to PUC approval. Through December 31, 1999, we have deferred approximately $219 million of costs related to the power station exchange and the asset sale. Additional divestiture-related costs will be deferred as incurred. We expect to fully recover these costs through the divestiture process; however, any disallowed costs will be written off.

Until the divestiture is complete, Duquesne Light is required to use an interim CTC and price to compare for each rate class (approximately 2.9 cents per KWH on average for the CTC, and approximately 3.8 cents per KWH on average for the price to compare).

Termination of the AYE Merger

On October 5, 1998, we announced our unilateral termination of our merger agreement with Allegheny Energy, Inc. (AYE). AYE filed suit in the United States District Court for the Western District of Pennsylvania, seeking to compel us to proceed with the merger, or in the alternative seeking an unspecified amount of money damages. After holding a trial from October 20 through 28, 1999, the District Court ruled on December 3, 1999, that we had properly terminated the merger agreement without breach, and granted judgment in our favor on all claims and all requests for injunctive relief. On December 14, 1999, AYE appealed this ruling to the Third Circuit. We expect argument to be heard in the first quarter of 2000. We cannot determine the ultimate outcome of AYE's appeal at this time.

G. SHORT-TERM BORROWING AND REVOLVING CREDIT ARRANGEMENTS

We maintain two separate revolving credit agreements, one for $250 million expiring in June 2000 and one for $225 million expiring in September 2000. We have the option to convert each revolver into a term loan facility for a period of one or two years, respectively, for any amounts then outstanding upon expiration of the revolving credit period. Interest rates can, in accordance with the option selected at the time of the borrowing, be based on one of several indicators, including prime, Eurodollar, or certificate of deposit rates. Facility fees are based on the unborrowed amount of the commitment. At December 31, 1999 and 1998, no borrowings were outstanding. Related to these and other credit facilities, we are subject to financial covenants requiring certain cash coverage and debt-to-capital ratios to use these facilities. At year-end, we had $343 million of commercial paper borrowings outstanding. During 1999, the maximum amount of bank loans and commercial paper borrowings outstanding was $368.9 million, the amount of average daily borrowings was $46.3 million, and the weighted average daily interest rate was 5.6 percent. In the fourth quarter of 1999, we issued $290 million of first mortgage bonds with a one year term, callable in May 2000. The interest rate on the bonds is 6.53 percent.

H. INCOME TAXES

The annual federal corporate income tax returns have been audited by the Internal Revenue Service (IRS) and are closed for the tax years through 1992. The IRS is auditing our 1993 through 1997 returns, and the tax years 1998 and 1999 remain subject to IRS review. We do not believe that final settlement of the federal income tax returns for the years 1993 through 1999 will have a materially adverse effect on our financial position, results of operations or cash flows.

Deferred Tax Assets (Liabilities) at December 31,

	(Thousands of Dollars)	
	1999	1998
Long-term investments	$ 89,470	$ 234,890
Mine closing costs	20,460	16,546
Unbilled revenue	12,475	16,589
Unamortized ITC	9,215	9,990
Beaver Valley lease liability	—	167,440
Other	59,498	86,366
Deferred tax assets	191,118	531,821
Transition costs	(442,271)	(678,841)
Depreciation	(403,354)	(444,509)
Leveraged leases	(232,366)	(185,639)
Regulatory assets	(76,091)	(65,425)
Deferred energy costs	(17,379)	(17,379)
Reacquired debt costs	(13,244)	(12,976)
Other	(26,516)	(37,280)
Deferred tax liabilities	(1,211,221)	(1,442,049)
Net	$(1,020,103)	$ (910,228)

Income Taxes

	(Thousands of Dollars)		
	Year Ended December 31,		
	1999	1998	1997
Currently payable:			
Federal	$ 7,400	$ 2,245	$ 3,911
State	29,861	26,946	31,083
Deferred – net:			
Federal	84,376	80,104	69,324
State	(8,048)	2,072	(93)
ITC deferred – net	(2,867)	(10,385)	(8,420)
Income Taxes	$110,722	$100,982	$ 95,805

Total income taxes differ from the amount computed by applying the statutory federal income tax rate to income before income taxes, as set forth in the following table.

Income Tax Expense Reconciliation

	(Thousands of Dollars)		
	Year Ended December 31,		
	1999	1998	1997
Federal taxes at statutory rate (35%)	$109,248	$104,185	$103,217
Increase (decrease) in taxes resulting from:			
State income taxes	14,178	18,370	20,143
Investment tax benefits	(10,499)	(14,884)	(17,831)
Amortization of deferred ITC	(2,867)	(10,385)	(8,420)
Other	662	3,696	(1,304)
Total Income Tax Expense	$110,722	$100,982	$ 95,805

I. LEASES

We lease office buildings, computer equipment, and other property and equipment. For most of 1999, we also leased nuclear fuel and a portion of Beaver Valley Unit 2.

Capital Leases at December 31,

	(Thousands of Dollars)	
	1999	1998
Nuclear fuel	$ —	$100,756
Electric plant	19,632	19,923
Other	6,695	2,695
Total	26,327	123,374
Less: Accumulated amortization	(7,649)	(63,604)
Capital Leases – Net (a)	$18,678	$ 59,770

(a) Includes $1,746 in 1999 and $2,037 in 1998 of capital leases with associated obligations retired.

In 1987, Duquesne Light sold and leased back its 13.74 percent interest in Beaver Valley Unit 2; the sale was exclusive of transmission and common facilities. In conjunction with the PUC restructuring order, it was determined that costs related to the lease were transition costs to be recovered through the CTC. Duquesne Light terminated the lease in connection with the power station exchange with FirstEnergy. The lease liability recorded on the consolidated balance sheet was eliminated; however, the underlying collateralized lease bonds ($359.2 million upon lease termination) became obligations of Duquesne Light, and are now recorded as debt on the consolidated balance sheet. (See "Power Station Exchange" discussion, Note F, on page 54.)

Summary of Rental Expense

	(Thousands of Dollars)		
	Year Ended December 31,		
	1999	1998	1997
Operating leases	$51,723	$57,324	$60,684
Amortization of capital leases	18,889	12,943	16,847
Interest on capital leases	2,942	4,386	3,435
Total Rental Payments	$73,554	$74,653	$80,966

Future Minimum Lease Payments

	(Thousands of Dollars)	
Year Ended December 31,	Operating Leases	Capital Leases
2000	$10,285	$ 4,535
2001	10,276	4,036
2002	10,176	4,014
2003	1,735	3,446
2004	1,248	2,914
2005 and thereafter	—	14,497
Total	$33,720	$ 33,442
Less: Amount representing interest		(16,510)
Present value (a)		$ 16,932

(a) Includes current obligations of $.07 million at December 31, 1999.

Future minimum lease payments for operating leases are related principally to certain corporate offices. Future minimum lease payments for capital leases are related principally to building leases.

Future payments due to us as of December 31, 1999, under subleases of certain corporate office space, are approximately $6.1 million in 2000, $6.1 million in 2001 and $6.6 million thereafter.

J. COMMITMENTS AND CONTINGENCIES

We anticipate completing the divestiture of our generation assets through the pending generation asset sale to Orion in the second quarter of 2000. Certain obligations related to the divested assets will be transferred to Orion upon completion of that sale. (See "Restructuring Plan" discussion, Note F, on page 54.)

Construction, Investments and Acquisitions

We estimate that we will spend, excluding AFC, approximately $85 million, $75 million and $75 million in 2000, 2001 and 2002 for electric utility construction; and $45 million, $19 million and $24 million for water utility construction in 2000, 2001 and 2002.

Guarantees

As part of our investment portfolio in affordable housing, we have received fees in exchange for guaranteeing a minimum defined yield to third-party investors. A portion of the fees received has been deferred to absorb any required payments with respect to these transactions. Based on an evaluation of and recent experience with the underlying housing projects, we believe that such deferrals are ample for this purpose.

Employees

Duquesne Light is party to a labor contract expiring in September 2001 with the International Brotherhood of Electrical Workers (IBEW), which represents the majority of Duquesne Light's employees. The contract provides, among other things, employment security, income protection and, in September 2000, a 3 percent wage increase. Duquesne Light and the IBEW have agreed on a package of additional benefits and protections for union employees affected by the divestiture of generation assets.

In connection with the power station exchange with FirstEnergy and the pending generation asset sale to Orion, Duquesne Light developed early retirement programs and enhanced available separation packages for eligible IBEW and management employees. Duquesne Light expects to recover related costs through the sale proceeds.

Other

In 1992, the Pennsylvania Department of Environmental Protection (DEP) issued *Residual Waste Management Regulations* governing the generation and management of non-hazardous residual waste, such as coal ash. We have assessed our residual waste management sites, and the DEP has approved our compliance strategies. We incurred capital costs of $0.5 million in 1999 to comply with these DEP regulations. We expect the capital cost of compliance to be approximately $5.0 million over the next two years with respect to sites we will continue to own after the generation asset sale. We are seeking to recover these costs through the generation asset sale proceeds.

Duquesne Light's current estimated liability for closing Warwick Mine, including final site reclamation, mine water treatment and certain labor liabilities, is $49.3 million. Duquesne Light has recorded a liability for this amount on the consolidated balance sheet.

We are involved in various other legal proceedings and environmental matters. We believe that such proceedings and matters, in total, will not have a materially adverse effect on our financial position, results of operations or cash flows.

K. LONG-TERM DEBT

Long-Term Debt at December 31,

	Interest Rate	Maturity	(Thousands of Dollars) Principal Outstanding 1999	1998
First mortgage bonds (a)	6.450%-8.375%	2003-2038	$ 643,000 (b)	$ 743,000 (c)
Pollution control notes	Adjustable (d)	2009-2030	417,985	417,985
Collateralized lease bonds	8.70%	2001-2016	350,162 (e)	—
Public income notes	8.38%	2039	100,000	—
Term loans	6.47%-7.47%	2001	85,000 (f)	150,000
Economic development revenue bonds	5.5%-8.75%	2001-2024	10,565	10,760
Sinking fund debentures	5.00%	2010	2,791	2,791
Miscellaneous			30,135	36,641
Less: Unamortized debt discount and premium – net			(6,561)	(3,428)
Total Long-Term Debt			$1,633,077	$1,357,749

(a) Includes $100 million of first mortgage bonds not callable until 2003. Redemption prices for 2000 range from par to a premium of 4.92%.
(b) Excludes $390 million related to current maturities during 2000.
(c) Excludes $75.0 million related to current maturities during 1999.
(d) The pollution control notes have adjustable interest rates. The interest rates at year-end averaged 3.8 percent in 1999 and 3.9 percent in 1998.
(e) Excludes $9.1 million related to current maturities during 2000.
(f) Excludes $65 million related to current maturities during 2000.

At December 31, 1999, sinking fund requirements and maturities of long-term debt outstanding for the next five years were $175.1 million in 2000, $95.3 million in 2001, $11.8 million in 2002, $116.2 million in 2003, and $118.3 million in 2004.

Total interest and other charges were $158.7 million in 1999, $109.5 million in 1998 and $115.6 million in 1997. Interest costs attributable to debt were $107.7 million, $95.0 million and $101.2 million in 1999, 1998 and 1997, respectively. Of these amounts, $0.8 million in 1999, $2.2 million in 1998 and $2.3 million in 1997 were capitalized as AFC. Debt discount or premium and related issuance expenses are amortized over the lives of the applicable issues. Interest and other charges in 1999 also includes $35.2 million related to the Beaver Valley Unit 2 lease expense, previously classified as other operating expenses.

At December 31, 1999, the fair value of long-term debt, including current maturities and sinking fund requirements, estimated on the basis of quoted market prices for the same or similar issues, or current rates offered for debt of the same remaining maturities, was $2,089.3 million. The principal amount included in the consolidated balance sheet is $2,108.2 million.

At December 31, 1999 and 1998, we were in compliance with all of our debt covenants.

L. PREFERRED AND PREFERENCE STOCK

Preferred and Preference Stock at December 31,

		(Thousands of Dollars)			
	Call Price	1999		1998	
	Per Share	Shares	Amount	Shares	Amount
Preferred Stock of DQE:					
Series A Preferred Stock (a)	—	421,702	$ 42,170	352,742	$ 35,274
Preferred Stock Series of Subsidiaries:					
3.75% (b)	$51.00	148,000	7,407	148,000	7,407
4.00% (b)	51.50	549,709	27,486	549,709	27,486
4.10% (b)	51.75	119,860	6,012	119,860	6,012
4.15% (b)	51.73	132,450	6,643	132,450	6,643
4.20% (b)	51.71	100,000	5,021	100,000	5,021
$2.10 (b)	51.84	159,000	8,039	159,000	8,039
9.00% (c)	—	10	3,000	10	3,000
8.375% (d)	—	6,000,000	150,000	6,000,000	150,000
6.5% (e)	—	15	1,500	15	1,500
6.5% (f)	—	10	500	10	500
Total Preferred Stock of Subsidiaries			215,608		215,608
Preference Stock Series of Subsidiaries:					
Plan Series A (g)	36.06	752,018	25,279	779,394	26,914
Deferred ESOP benefit			(10,875)		(14,240)
Total Preferred and Preference Stock			$272,182		$263,556

(a) 1,000,000 authorized shares; no par value; convertible; $100 liquidation preference per share; annual dividends range from 3.4 percent to 4.4 percent
(b) 4,000,000 authorized shares; $50 par value; cumulative; $50 per share involuntary liquidation value
(c) 500 authorized shares; $300,000 par value; these shares were redeemed at par value on March 2, 2000
(d) Cumulative Monthly Income Preferred Securities, Series A (MIPS); 6,000,000 authorized shares; $25 involuntary liquidation value
(e) 1,500 authorized shares; $100,000 par value; $100,000 involuntary liquidation value; holders entitled to 6.5 percent annual dividend each September
(f) Preferred stock: 100 authorized shares; $50,000 par value; $50,000 per share involuntary liquidation value; holders entitled to 6.5 percent annual dividend each September
(g) Preference stock: 8,000,000 authorized shares; $1 par value; cumulative $35.50 per share involuntary liquidation value; non-redeemable

As of December 31, 1999, 421,702 shares of DQE Preferred Stock had been issued and were outstanding. No additional shares have been issued in 2000. The DQE Preferred Stock ranks senior to DQE's common stock as to the payment of dividends and the distribution of assets on liquidations, dissolution or winding-up of DQE. Dividends are paid quarterly on each January 1, April 1, July 1 and October 1. Holders of DQE Preferred Stock are entitled to vote on all matters submitted to a vote of the holders of DQE common stock, voting together with the holders of common stock as a single class. Each share of DQE Preferred Stock is entitled to three votes. Each share of DQE Preferred Stock is convertible at our option into the number of shares of DQE common stock computed by dividing the DQE Preferred Stock's $100 liquidation value by the five-day average closing sales price of DQE common stock for the five trading days immediately prior to the conversion date. Each unredeemed share of DQE Preferred Stock will automatically be converted on the first day of the first month commencing after the sixth anniversary of its issuance.

In May 1996, Duquesne Capital L.P. (Duquesne Capital), a special-purpose limited partnership of which Duquesne Light is the sole general partner, issued $150.0 million principal amount of 8⅜ percent Monthly Income Preferred Securities (MIPS) Series A, with a stated liquidation value of $25.00. The holders of MIPS are entitled to annual dividends of 8⅜ percent, payable monthly. The sole assets of Duquesne Capital are Duquesne Light's 8⅜ percent debentures. These debt securities may be redeemed at Duquesne Light's option on or after May 31, 2001. Duquesne Light has guaranteed the payment of distributions on, and redemption price and liquidation amount in respect of the MIPS, if Duquesne Capital has funds available for such payment from the debt securities. Upon maturity or prior redemption of such debt securities, the MIPS will be mandatorily redeemed.

Holders of Duquesne Light's preferred stock are entitled to cumulative quarterly dividends. If four quarterly dividends on any series of preferred stock are in arrears, holders of the preferred stock are entitled to elect a majority of Duquesne Light's board of directors until all dividends have been paid. Holders of Duquesne Light's preference stock are entitled to receive cumulative quarterly dividends, if dividends on all series of preferred stock are paid. If six quarterly dividends on any series of preference stock are in arrears, holders of the preference stock are entitled to elect two of Duquesne Light's directors until all dividends have been paid. At December 31, 1999, Duquesne Light had made all dividend payments. Preferred and preference dividends of subsidiaries included in interest and other charges were $16.6 million, $16.7 million and $16.7 million in 1999, 1998 and 1997. Total preferred and preference stock had involuntary liquidation values of $285.3 million and $278.4 million, which exceeded par by $26.9 million at December 31, 1999 and 1998.

In December 1991, we established an Employee Stock Ownership Plan (ESOP) to provide matching contributions for a 401(k) Retirement Savings Plan for Management Employees. (See "Employee Benefits," Note N, on page 61.) We issued and sold 845,070 shares of preference stock, plan series A to the trustee of the ESOP. As consideration for the stock, we received a note valued at $30 million from the trustee. The preference stock has an annual dividend rate of $2.80 per share, and each share of the preference stock is exchangeable for one and one-half shares of DQE common stock. At December 31, 1999, $10.9 million of preference stock issued in connection with the establishment of the ESOP had been offset, for financial statement purposes, by the recognition of a deferred ESOP benefit. Dividends on the preference stock and cash contributions from DQE are used to fund the repayment of the ESOP note. We were not required to make a cash contribution for 1998. We made cash contributions of approximately $0.2 million for 1999 and $1.1 million for 1997. These cash contributions were the difference between the ESOP debt service and the amount of dividends on ESOP shares ($2.1 million in 1999, $2.2 million in 1998 and $2.3 million in 1997). As shares of preference stock are allocated to the accounts of participants in the ESOP, we recognize compensation expense, and the amount of the deferred compensation benefit is amortized. We recognized compensation expense related to the 401(k) plans of $3.6 million in 1999, $1.6 million in 1998 and $3.2 million in 1997. Although outstanding preferred stock is generally callable on notice of not less than 30 days, at stated prices plus accrued dividends, the outstanding MIPS and preference stock are not currently callable. None of the remaining Duquesne Light preferred or preference stock issues has mandatory purchase requirements.

M. EQUITY

Changes in the Number of Shares of DQE Common Stock Outstanding as of December 31,

	(Thousands of Shares)		
	1999	1998	1997
January 1	**77,373**	77,680	77,273
Reissuances	**61**	70	408
Repurchases	**(5,668)**	(377)	(1)
December 31	**71,766**	77,373	77,680

We have continuously paid dividends on common stock since 1953. Our annualized dividends per share were $1.60, $1.52 and $1.44 at December 31, 1999, 1998 and 1997. During 1999, we paid a quarterly dividend of $0.38 per share on January 1, April 1, July 1 and October 1. We increased the quarterly dividend declared in the fourth quarter of 1999 from $0.38 to $0.40 per share, payable January 1, 2000. During 1998, we paid a quarterly dividend of $0.36.

Once all dividends on DQE Preferred Stock have been paid, dividends may be paid on our common stock as permitted by law and as declared by the board of directors. However, payments of dividends on Duquesne Light's common stock may be restricted by Duquesne Light's obligations to holders of preferred and preference stock, pursuant to Duquesne Light's Restated Articles of

Incorporation, and by obligations of Duquesne Light's subsidiaries to holders of their preferred securities. No dividends or distributions may be made on Duquesne Light's common stock if Duquesne Light has not paid dividends or sinking fund obligations on its preferred or preference stock. Further, the aggregate amount of Duquesne Light's common stock dividend payments or distributions may not exceed certain percentages of net income, if the ratio of total common shareholder's equity to total capitalization is less than specified percentages. Because we own all of Duquesne Light's common stock, if Duquesne Light cannot pay common dividends, we may not be able to pay dividends on our common stock or DQE Preferred Stock. No part of the retained earnings of DQE was restricted at December 31, 1999.

Effective December 31, 1998, DQE adopted *SFAS No. 130, Reporting Comprehensive Income.* This statement establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. The objective of the statement is to report a measure of all changes in equity of a business enterprise that result from recognized transactions and other economic events of the period, other than transactions with owners in their capacity as owners (comprehensive income).

Accumulated Other Comprehensive Income Balances as of December 31,

	(Thousands of Dollars)	
	1999	1998
January 1	$ 294	$ 3,742
Unrealized gains (losses), net	1,540	(3,448)
December 31	$ 1,834	$ 294

N. EMPLOYEE BENEFITS

Pension and Postretirement Benefits

We maintain retirement plans to provide pensions for all eligible employees. Upon retirement, an eligible employee receives a monthly pension based on his or her length of service and compensation. The cost of funding the pension plan is determined by the unit credit actuarial cost method. Our policy is to record this cost as an expense and to fund the pension plans by an amount that is at least equal to the minimum funding requirements of the *Employee Retirement Income Security Act of 1974*, but which does not exceed the maximum tax-deductible amount for the year. Pension costs charged to expense or construction were $12.8 million for 1999, $12.0 million for 1998 and $12.7 million for 1997.

In 1999, we offered an early retirement program for certain employees affected by the generation asset divestiture. The total increase in the projected benefit obligation to the retirement plans is estimated to be $29.4 million. Of this amount, $17.4 million is recognized as special termination benefits in the table on page 62. The remaining $12.0 million is reflected in the unrecognized actuarial gain/loss account in the table.

In addition to pension benefits, we provide certain health care benefits and life insurance for some retired employees. Participating retirees make contributions, which may be adjusted annually, to the health care plan. The life insurance plan is non-contributory. Health care benefits terminate when covered individuals become eligible for Medicare benefits or reach age 65, whichever comes first. We fund actual expenditures for obligations under the plans on a "pay-as-you-go" basis. We have the right to modify or terminate the plans.

We accrue the actuarially determined costs of the aforementioned postretirement benefits over the period from the date of hire until the date the employee becomes fully eligible for benefits. We have elected to amortize the transition obligation over a 20-year period.

We sponsor several qualified and nonqualified pension plans and other postretirement benefit plans for our employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of plan assets over the two-year period ending December 31, 1999, a statement of the funded status as of December 31, 1999 and 1998, and summary of assumptions used in the measurement of our benefit obligation:

Funded Status of the Pension and Postretirement Benefit Plans at December 31,

	(Thousands of Dollars)			
	Pension		Postretirement	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 605,597	$ 554,302	$ 46,358	$ 46,330
Service cost	15,976	14,042	2,212	1,832
Interest cost	40,249	37,723	3,134	3,078
Actuarial (gain) loss	(73,622)	26,231	4,607	(3,003)
Benefits paid	(29,533)	(26,592)	(2,306)	(1,879)
Plan amendments	—	—	(207)	—
Curtailments	8,372	—	4,400	—
Settlements	(41)	(109)	—	—
Special termination benefits	17,376	—	—	—
Benefit obligation at end of year	584,374	605,597	58,198	46,358
Change in plan assets:				
Fair value of plan assets at beginning of year	681,244	605,457	—	—
Actual return on plan assets	99,929	91,561	—	—
Employer contributions	—	10,706	—	—
Benefits paid	(29,420)	(26,480)	—	—
Fair value of plan assets at end of year	751,753	681,244	—	—
Funded status	167,379	75,647	(58,198)	(46,358)
Unrecognized net actuarial (gain) loss	(289,579)	(173,974)	5,253	(1,795)
Unrecognized prior service cost	32,160	36,285	(207)	—
Unrecognized net transition obligation	8,264	10,227	21,463	23,607
Accrued benefit cost	$ (81,776)	$ (51,815)	$ (31,689)	$ (24,546)

Weighted-Average Assumptions as of December 31,

	Pension		Postretirement	
	1999	1998	1999	1998
Discount rate used to determine projected benefits obligation	7.50%	6.50%	7.50%	6.50%
Assumed rate of return on plan assets	7.50%	7.50%	—	—
Assumed change in compensation levels	4.25%	4.25%	—	—
Ultimate health care cost trend rate	—	—	6.00%	5.00%

All of our plans for postretirement benefits, other than pensions, have no plan assets. The aggregate benefit obligation for those plans was $58.2 million as of December 31, 1999, and $46.4 million as of December 31, 1998. The accumulated postretirement benefit obligation comprises the present value of the estimated future benefits payable to current retirees, and a pro rata portion of estimated benefits payable to active employees after retirement.

In 1999, we offered an early retirement program for certain employees affected by the generation asset divestiture. The total increase in the projected benefit obligation of the postretirement benefits is estimated to be $4 million. This increase is reflected in the unrecognized actuarial gain/loss account in the above table.

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

Components of Net Pension Cost as of December 31,

	(Thousands of Dollars)		
	1999	1998	1997
Components of net pension cost:			
Service cost	$ 15,976	$ 14,043	$ 12,340
Interest cost	40,249	37,723	36,571
Expected return on plan assets	(45,945)	(41,067)	(38,265)
Amortization of unrecognized net transition obligation	1,788	1,812	1,812
Amortization of prior service cost	3,467	3,515	3,515
Recognized net actuarial loss (gain)	(2,753)	(4,014)	(3,243)
Net pension cost	12,782	12,012	12,730
Curtailment cost	(14)	—	477
Settlement cost	78	224	652
Special termination benefits	17,376	—	5,409
Net Pension Cost After Curtailments, Settlements and Special Termination Benefits	$ 30,222	$ 12,236	$ 19,268

Components of Postretirement Cost as of December 31,

	(Thousands of Dollars)		
	1999	1998	1997
Components of postretirement cost:			
Service cost	$ 2,212	$ 1,832	$ 1,603
Interest cost	3,134	3,078	3,048
Amortization of unrecognized net transition obligation	1,660	1,687	1,686
Net postretirement cost	7,006	6,597	6,337
Curtailment cost	2,443	—	218
Net Postretirement Cost After Curtailments	$ 9,449	$ 6,597	$ 6,555

Effect of a One Percent Change in Health Care Cost Trend Rates as of December 31, 1999

	(Thousands of Dollars)	
	One Percent Increase	One Percent Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 632	$ (544)
Effect on the health care component of the accumulated postretirement benefit obligation	$ 5,875	$(5,143)

Retirement Savings Plan and Other Benefit Options

We sponsor separate 401(k) retirement plans for our management and IBEW-represented employees.

The 401(k) Retirement Savings Plan for Management Employees provides that we match employee contributions to a 401(k) account up to a maximum of six percent of an employee's eligible salary. Our match consists of a $0.25 base match per eligible contribution dollar, and an additional $0.25 incentive match per eligible contribution dollar, if board-approved targets are achieved. In 1999, more than 60 percent of management employees achieved their incentive targets. We are funding our matching contributions to the 401(k) Retirement Savings Plan for Management Employees with payments to an ESOP established in December 1991. (See "Preferred and Preference Stock," Note L, on page 59.)

The 401(k) Retirement Savings Plan for IBEW Represented Employees provides that we will match employee contributions to a 401(k) account up to a maximum of four percent of an employee's eligible salary. Our match consists of a $0.25 base match per eligible contribution dollar and an additional $0.25 incentive match per eligible contribution dollar, if certain targets are met. In 1999, all bargaining unit employees achieved their incentive targets.

Our shareholders have approved a long-term incentive plan through which we may grant management employees options to purchase, during the years 1987 through 2006, up to a total of 9.9 million shares of DQE common stock at prices equal to the fair market value of such stock on the dates the options were granted. At December 31, 1999, approximately 3.7 million of these shares were available for future grants.

As of December 31, 1999, 1998 and 1997, active grants totaled 1,031,434; 1,230,946 and 1,084,041 shares. Exercise prices of these options ranged from $17.5834 to $43.4375 at December 31, 1999; from $15.8334 to $43.4375 at December 31, 1998; and from $15.8334 to $33.7813 at December 31, 1997. Expiration dates of these grants ranged from 2001 to 2009 at December 31, 1999; from 2000 to 2008 at December 31, 1998; and from 2000 to 2007 at December 31, 1997. As of December 31, 1999, 1998 and 1997, stock appreciation rights (SARs) had been granted in connection with 933,014; 867,104 and 635,995 of the options outstanding. During 1999, 45,265 SARs were exercised; 254,225 options were exercised at prices ranging from $17.5834 to $35.0625; and 33,000 options were cancelled. During 1998, 233,532 SARs were exercised; 170,476 options were exercised at prices ranging from $15.8334 to $31.5625; and no options were cancelled. During 1997, 694,984 SARs were exercised; 638,494 options were exercised at prices ranging from $8.2084 to $30.75; and no options were cancelled. Of the active grants at December 31, 1999, 1998 and 1997, 132,105; 750,463; and 402,816 were not exercisable.

O. BUSINESS SEGMENTS AND RELATED INFORMATION

We report our results by the following four principal business segments, determined by products, services and regulatory environment: (1) the transmission and distribution by Duquesne Light of electricity (electricity delivery business segment), (2) the supply by Duquesne Light of electricity (electricity supply business segment), (3) the collection by Duquesne Light of transition costs (CTC business segment), and (4) the distribution by AquaSource of water (water distribution business segment). We also report an "all other" category, which includes our expanded business lines and Duquesne Light investments below the quantitative threshold for separate disclosure.

Business Segments as of December 31,

	(Millions of Dollars)						
	Electricity Delivery	Electricity Supply	CTC	Water Distribution	All Other	Elimina-tions	Consoli-dated
1999							
Operating revenues	$ 338.6	$ 437.7	$ 377.9	$ 122.4	$ 77.4	$ (12.8)	$1,341.2
Operating expenses	163.5	457.3	16.6	99.2	113.7	(24.2)	826.1
Depreciation and amortization expense	46.0	26.3	95.6	12.8	15.6	—	196.3
Operating income (loss)	129.1	(45.9)	265.7	10.4	(51.9)	11.4	318.8
Other income	7.4	12.4	(1.3)	4.3	153.2	(24.0)	152.0
Interest and other charges	44.6	43.9	45.4	7.6	27.3	(10.1)	158.7
Income before taxes	91.9	(77.4)	219.0	7.1	74.0	(2.5)	312.1
Income taxes	35.4	(35.9)	90.9	2.4	17.9	—	110.7
Net income (loss)	$ 56.5	$ (41.5)	$ 128.1	$ 4.7	$ 56.1	$ (2.5)	$ 201.4
Assets	$1,535.4	$ 425.7	$2,226.8	$ 446.1	$ 975.0	$ —	$5,609.0
Capital expenditures	$ 69.9	$ 30.4	$ —	$ 27.2	$ 19.7	$ —	$ 147.2

1998	Electricity Delivery	Electricity Supply	Water Distribution	All Other	Eliminations	Consolidated
	(Millions of Dollars)					
Operating revenues	$ 321.5	$ 855.3	$ 30.9	$ 60.4	$(13.6)	$1,254.5
Operating expenses	148.5	538.8	28.0	64.5	(17.6)	762.2
Depreciation and amortization expense	46.3	158.4	2.4	12.8	—	219.9
Operating income (loss)	126.7	158.1	0.5	(16.9)	4.0	272.4
Other income	5.3	9.0	2.4	125.3	(7.2)	134.8
Interest and other charges	37.7	58.6	0.5	13.6	(0.9)	109.5
Income before taxes and extraordinary item	94.3	108.5	2.4	94.8	(2.3)	297.7
Income taxes	37.1	36.6	0.8	27.5	(1.0)	101.0
Income before extraordinary item	57.2	71.9	1.6	67.3	(1.3)	196.7
Extraordinary item, net of tax	—	(82.6)	—	—	—	(82.6)
Net income (loss) after extraordinary item	$ 57.2	$ (10.7)	$ 1.6	$ 67.3	$ (1.3)	$ 114.1
Assets	$1,448.8	$2,711.5	$232.0	$973.7	$ —	$5,366.0
Capital expenditures	$ 71.7	$ 41.6	$ 7.7	$ 69.5	$ —	$ 190.5

1997	Electricity Delivery	Electricity Supply	Water Distribution	All Other	Eliminations	Consolidated
	(Millions of Dollars)					
Operating revenues	$ 316.9	$ 859.0	$ 1.6	$ 63.2	$(10.5)	$1,230.2
Operating expenses	138.4	524.2	2.1	60.9	(16.1)	709.5
Depreciation and amortization expense	44.6	190.9	0.1	4.4	—	240.0
Operating income (loss)	133.9	143.9	(0.6)	(2.1)	5.6	280.7
Other income	6.8	12.7	—	119.3	(9.0)	129.8
Interest and other charges	38.6	63.8	—	14.1	(0.9)	115.6
Income before taxes	102.1	92.8	(0.6)	103.1	(2.5)	294.9
Income taxes	40.2	32.3	(0.2)	24.5	(1.0)	95.8
Net income	$ 61.9	$ 60.5	$ (0.4)	$ 78.6	$ (1.5)	$ 199.1
Assets	$1,476.1	$2,201.2	$ 10.1	$1,007.0	$ —	$4,694.4
Capital expenditures	$ 57.6	$ 32.8	$ 2.3	$ 23.3	$ —	$ 116.0

P. NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-Cash Investing and Financing Activities for the Year Ended December 31,

	(Thousands of Dollars)		
	1999	1998	1997
Assumption of debt in conjunction with Beaver Valley 2 lease termination	$359,236	$ —	$ —
Preferred stock issued in conjunction with acquisitions	$ 8,634	$ 33,726	$ 2,548
Note payable issued in conjunction with purchase of property	$ —	$ 25,000	$ —
Assumption of debt in conjunction with acquisitions	$ —	$ 21,627	$ —
Capital lease obligations recorded	$ —	$ 7,855	$ 27,514

On December 3, 1999, we acquired three power plants and disposed of our ownership interests in five power plants in the power station exchange with FirstEnergy.

Q. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summary of Selected Quarterly Financial Data (Thousands of Dollars, Except Per Share Amounts)

[The quarterly data reflect seasonal weather variations in the electric utility's service territory.]

1999 (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$316,988	$315,025	$384,155	$325,033
Operating income	61,562	64,663	88,573	104,044
Net income	48,465	41,606	49,217	62,128
Basic earnings per share:	0.62	0.55	0.64	0.84
Diluted earnings per share:	0.62	0.54	0.63	0.83
Stock price:				
High	44 3/16	43 1/16	41 1/16	41
Low	37 7/8	38 15/16	37 1/8	33 7/8

1998 (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$298,775	$303,510	$343,530	$308,736
Operating income	61,817	64,949	88,646	56,991
Income before extraordinary item	45,130	40,204	62,069	49,285
Extraordinary item	—	(82,548)	—	—
Net income after extraordinary item	45,130	(42,344)	62,069	49,285
Basic earnings per share:				
Before extraordinary item	0.58	0.52	0.80	0.62
Extraordinary item	—	(1.06)	—	—
After extraordinary item	0.58	(0.54)	0.80	0.62
Diluted earnings per share:				
Before extraordinary item	0.58	0.51	0.78	0.62
Extraordinary item	—	(1.03)	—	—
After extraordinary item	0.58	(0.52)	0.78	0.62
Stock price:				
High	37 1/4	37 5/16	39 1/4	43 15/16
Low	32 5/16	31 5/8	34 1/4	37 3/4

(a) Restated to conform with 1999 presentation.

DQE Officers

David D. Marshall, 47. Chairman of the Board, President and Chief Executive Officer. Previously held senior executive positions in finance at Central Vermont Public Service. Joined the company in 1985. Directorships included on page nine.

Morgan K. O'Brien, 40. Executive Vice President, Corporate Development. Previously held senior financial positions at DQE, Duquesne Light, PNC Bank and Deloitte & Touche. Joined the company in 1991.

Victor A. Roque, 53. Executive Vice President and General Counsel. Formerly Vice President, General Counsel and Secretary for Orange and Rockland Utilities. Joined the company in 1994. Directorships include the Pennsylvania Business Roundtable (economic development), the Hill House Association (provider of social services), the Urban League of Pittsburgh, and the United Way Good Neighbors Advisory Committee. Member, Salvation Army Greater Pittsburgh Advisory Board.

Gary L. Schwass, 54. Executive Vice President and Chief Financial Officer. Previously served in a variety of senior executive positions in finance and management with Consumers Power Company. Joined the company in 1985. Directorships include Chair, Western Pennsylvania Development Credit Corporation (promotes small business through lending activities), Chair, Finance Committee, and Treasurer, Holy Family Foundation (supports families in crisis), and Financial Executives Institute, Pittsburgh Chapter (association of corporate financial officers).

William J. DeLeo, 49. Vice President and Chief Administrative Officer. Previously held senior management positions with Duquesne Light, Gulf Oil and Price Waterhouse. Joined the company in 1985. Directorships include the Pittsburgh Civic Light Opera.

Jack E. Saxer, Jr., 56. Vice President. Previously held senior financial positions with Gulf Oil and Chevron. Joined the company in 1989. Directorships include Point Venture (venture capital) and Pittsburgh Consumer Health Coalition (healthcare advocacy for the disadvantaged).

Frosina C. Cordisco, 48
Treasurer

Diane S. Eismont, 55
Corporate Secretary

James E. Wilson, 34
Controller

David R. High, 45
Associate General Counsel

Thomas W. Hubbell, 50
Assistant Vice President, Information Technology

Suzanne F. Karlovich, 39
General Auditor

M. Beth Straka, 35
Assistant Vice President, Corporate Communications

Duquesne Light Company Officers

John R. Marshall, 50
President

Maureen L. Hogel, 39
Vice President, Legal

Edward N. Neal, 53
Vice President, Customer Operations

Stevan R. Schott, 36
Vice President and Controller

Frosina C. Cordisco, 48
Treasurer

AquaSource Officers

Donald J. Clayton, 45
President

William A. Callegari, 58
President-South

Robert J. Gaipo, 54
President-East

William K. Reynolds, 57
President-Midwest

Anthony J. Villiotti, 53
Vice President and
Chief Financial Officer

James A. Lahtinen, 47
Vice President, Rates and
Regulatory Affairs

Michael D. Nelson, 54
Vice President
Operations Assurance

Carey A. Thomas, 35
Vice President, Administration
and Assistant Secretary

Mary D. Colin, 42
Treasurer

William C. Marsh, 33
Controller

Martin J. Stanek, 43
General Counsel

DQE Enterprises Officers

Thomas A. Hurkmans, 34
President

Neal G. Taylor, 48
Senior Vice President

Steven J. Gooch, 40
Vice President

Rachel K. Lorey, 35
Vice President, Legal
and Assistant Secretary

Eric R. Stoltz, 42
Vice President and Treasurer

Anthony F. Pekny, 42
Controller

DQE Energy Services Officers

Alexis Tsaggaris, 51
President

Linda S. Ackerman, 43
Vice President, Legal
and Assistant Secretary

Deborrah E. Beck, 42
Vice President, Finance, Treasurer
and Controller

Philip J. Damiani, 49
Vice President

DQE Financial Corp. Officers

William F. Fields, 49
President and Treasurer

John F. Fulgoney, 53
Vice President, Legal
and General Counsel

William J. Guthlein, 46
Vice President

Anthony C. Ortenzo, 45
Vice President

John R. Schmitt, 36
Controller

DQE Systems Officers

John W. Welch, 48
President

Mark S. Daday, 38
Vice President, Finance
and Treasurer

Frank A. Hoffmann, 48
Vice President, Operations

William H. Roberts II, 46
Vice President, Legal
and Assistant Secretary

Kelly M. Pasterick, 29
Controller

Patricia A. Prozzi, 45
President, DQE Communications

Shareholder Reference Guide

Common Stock

Trading Symbol: DQE
Stock Exchanges Listed and Traded:
New York, Philadelphia, Chicago
Number of Common Shareholders of Record
at Year-End: 64,503

DQE Web Site

You can interact with us via e-mail, view current and historical stock information and learn more about DQE and our subsidiaries by visiting our web site at **www.dqe.com.**

Shareholder Information Line

Shareholders and potential investors are invited to call 1-888-247-0401 for the latest information on earnings and dividends.

Shareholder Services/Assistance

You can write to us at:

DQE Shareholder Relations
400 Fairway Drive, Suite 100
Moon Township, PA 15108

or call us at:

Toll-free: 1-800-247-0400
In Pittsburgh: 1-412-393-6167
Fax: 1-412-393-6087

By telephone, representatives are available from 7:30 a.m. to 4 p.m. (Eastern time) to assist you with the following services:

- Direct purchase of initial shares
- Direct deposit of dividends
- Automatic cash contributions
- Dividend reinvestment
- Stock transfer requirements
- Dividend payment inquiries
- Change of address
- Lost stock certificate

Please feel free to call at other times. Our Message Center is available 24 hours a day. You can record a message, and our staff will follow up on the next business day.

Financial Community Inquiries

Analysts, investment managers and brokers should direct their inquiries to: 1-412-393-1238; Fax: 1-412-393-1077. Written inquiries should be sent to:
DQE Investor Relations Department
400 Fairway Drive, Suite 300
Moon Township, PA 15108

The DQE logo is a registered trademark of the company.
DQE and its affiliated companies are Equal Opportunity Employers.

Stock Certificate Transfers

Individuals who are not participants in the dividend reinvestment plan and who want to transfer stock certificates should send their certificates and related documents to our transfer agent:

BankBoston, N.A.
c/o Boston EquiServe
P.O. Box 8040
Boston, MA 02266-8040

Dividend reinvestment plan participants who want to transfer their shares should send their certificates and related documents to DQE Shareholder Relations.

Direct Deposit of Dividends

Your DQE quarterly dividends can be deposited automatically into a personal checking or savings account. Call Shareholder Relations toll-free for more information.

Dividend Tax Status

The company estimates that all common stock dividends paid in 1999 are taxable as dividend income. This estimate is subject to audit by the Internal Revenue Service.

ElectriStock

The following investor services are available through DQE's dividend reinvestment and stock purchase plan:

Direct Purchase of DQE Stock

DQE offers non-shareholders the ability to purchase common stock directly through the company. Call, write, or visit our web site at **www.dqe.com** for a prospectus on this popular program.

Automatic Cash Contributions

Through this program, current reinvestment plan participants can make regular cash contributions to purchase additional shares of DQE common stock by having funds automatically withdrawn from their bank accounts.

Other Features and Services

- Purchase and sale of plan shares at nominal commissions
- Acceptance of certificates for safekeeping
- Re-registration of some or all of a shareholder's holdings
- Creation of new accounts as gifts for family, friends or institutions you support, including a complimentary gift certificate, upon request

ATTACHMENT G

FINANCIAL FITNESS INFORMATION
RESUMES OF CHIEF OFFICERS

John Zbihley

ValuSource Energy
President
April 2000 - Present

- Directs all phases of operations and sales in the provision of e-commerce energy procurement for business customers

OnDemand
President
1995 - April 2000

- Defines, develops, and delivers energy management and monitoring products and services to commercial market segment. Develops and implements sales and marketing programs and strategic alliances to support market and business development. Adjusts strategies according to market feedback and competitive analysis.
- Created and implemented more than $1.6 million energy service performance contracts within 18 months of start up.
- Developed demand control energy management applications for five customer market segments.
- Helped customer base realize over $1.1 million in annual electricity savings.

Duquesne Light Company
Marketing/DSM Program Manager
1993 - 1995

- Developed, planned, and coordinated corporate demand side management strategies to provide business development opportunities, to strengthen commercial and industrial customer segment relations, and to implement new customer services.
- Consulted executive management on the economic and strategic value of emerging technologies in deregulated electricity markets. Developed and implemented innovative service and pricing programs with commercial and industrial customer segments. Directed and consulted operations management on use of technology tools for cost containment and differentiation strategies.

District Operations/Power Delivery Operations Manager
1985 - 1992

- Directed, controlled, planned, and organized all district functional groups' operation, maintenance, engineering, and construction activities to ensure reliable and efficient delivery of electric power and telecommunication services to customer.
- Supervised 70 technical professionals and union employees. Controlled expenditures for annual operation and capital budgets ($5 million). Managed the installation and operation of supervisory, control, and data acquisition (SCADA) infrastructure for power delivery automation.

Technical Services/Project Engineer
1982 - 1985

- Performed and prepared engineering analysis, specifications, and technical procedures to maintain power delivery system monitoring and control equipment.

Education

- M.S., industrial administration, Carnegie Mellon University
- B.S., electrical engineering, Pennsylvania State University

Carole A. Klocko, CPA

Education

Duquesne University — **Pittsburgh, PA**
Master of Business Administration (Dec 1999)
- GPA 3.73 / 4.00.

Commonwealth of Pennsylvania — **Pittsburgh, PA**
Certified Public Accountant (Jan 1997)
- Successfully passed May 1996 CPA Exam.

Duquesne University — **Pittsburgh, PA**
Bachelor of Science in Business Administration (May 1991)
- Majored in Accounting.
- Graduated Cum Laude with Overall GPA 3.58 / 4.00.

Current Position

Duquesne Light Company — **Pittsburgh, PA**
Senior Financial Consultant (Jan 1999 – Present)
- Prepare long-term projected financial statements using MIDAS Gold Analyst, a sophisticated computer modeling software.
- Perform "what-if", budget v. actual, ratio and other financial analyses to aid in decision-making.
- Provide projections and other financial information to Management, Board of Directors, Rating Agencies and Financial Institutions.
- Assist Budgeting and Treasury as needed.

Prior Experience

Duquesne Light Company — **Pittsburgh, PA**
Senior Accountant, Regulatory Reporting (Nov 1996 – Jan 1999)
- Drafted financial statements and footnotes for DQE Annual Report to Shareholders; DQE 10-K's and 10-Q's; and Duquesne Light Company (DLC) 10-K's and 10-Q's.
- Performed monthly balance sheet consolidation.
- Analyzed balance sheet fluctuations for quarterly Audit Committee mailings.
- Prepared quarterly Exhibits for DLC debt compliance mailings.
- Redesigned DQE and DLC financial reports for the Board of Directors using PowerPoint.
- Compiled financial information for Transition Filing interrogatories and testimony in conjunction with the movement to electricity deregulation.
- Coordinated Pennsylvania Public Utility Commission's (PUC) audit of DLC's Transition Filing.
- Provided financial information for External Surveys, Controller and Vice President presentations, and Investor Relations.
- Assumed Senior Accountant position at Montauk, DQE's financial services subsidiary, concurrently with this position at Duquesne Light (see page 2).

Prior Experience (continued)

Montauk — **Pittsburgh, PA**
Senior Accountant (May 1998 – Dec 1998)

- Prepared journal entries, financial statements and schedules of investor benefits (Schedule A's) for Guaranteed Affordable Housing Portfolio.
- Coordinated tax return preparation for approximately 15 investments.
- Monitored compliance with partnership reporting requirements.
- Worked in this capacity while remaining a full-time Senior Accountant at Duquesne Light (see page 1).

Duquesne Light Company **Pittsburgh, PA**

Audit Specialist (Dec 1994 - Nov 1996)

- Coordinated and/or participated in internal control, operational and financial-based audits and reviews.
- Drafted and issued audit reports.
- Participated in joint audits of CAPCO-owned generating stations.
- Assisted Regulatory Reporting department in completing FERC Form 1.

Deloitte & Touche LLP **Pittsburgh, PA**

In-Charge Accountant (Nov 1991 - Dec 1994)

- Drafted and assembled financial statements and footnotes.
- Reviewed and/or audited Form 10-Q's and 10-K's as required by SEC.
- Applied audit procedures, including substantive detail tests and analytical reviews, to provide a reasonable basis for rendering an audit opinion.
- Supervised, instructed and evaluated staff assistants.
- Served as temporary Controller for a $16 million printing company responsible for all general ledger and human resource functions.

General Nutrition Incorporated **Pittsburgh, PA**

Staff Accountant, Inventory (Apr 1991 - Nov 1991)

Accounting Clerk, Property (Jan 1989 - Apr 1991)

- Prepared monthly journal entries and annual "Book to Physical" reconciliations for three distribution centers.
- Compiled and communicated inventory statistics and explanations of variances for monthly review meetings.
- Prepared monthly "Budget v. Actual" analysis of capital projects and various other account reconciliations and analyses using Lotus 1-2-3 and dBase III+.

Activities

Duquesne Light Company

- Employee Community Action Committee (ECAC), Chairperson (1996); Member (1995, 1997 - 1998).
- Management Safety Team (1997 – 1998).

Accounting Affiliations

- American Institute of Certified Public Accountants, Member (1997-2000).
- Pennsylvania Institute of Certified Public Accountants, Member (1997-2000).

ATTACHMENT H

TECHNICAL FITNESS INFORMATION
RESUMES OF OPERATIONAL OFFICERS

John R. Morris, PE

ValuSource Energy Services, LLC
Electric Procurement Manager
April 2000 - Present

- Manage the purchase of electricity for commercial and industrial customers utilizing the Enermetrix.com exchange
- Electric tariff pricing, terms and conditions
- Calculation of transmission and generation components of deregulated electric distribution companies
- Price-To-Compare tools and and potential savings calculations used to evaluate electric supplier offers
- Bid package preparation for generation supplier requests for proposal

OnDemand Energy Solutions
Energy Information Manager
April 1998 - April 2000

- Electricity buyer utilizing the Enermetrix.com exchange
- Electric tariff pricing, terms and conditions
- Calculation of transmission and generation components of Pennsylvania electric distribution companies
- Savings calculations for generation supplier transmission and generation components
- Bid package preparation for generation supplier requests for proposal
- Analyses of electric rate alternatives and correct application of electric rates
- HVAC energy conservation analyses
- Database, web site development and E-commerce issues

Duquesne Light Company
Project Manager, Rates and Regulatory Affairs
November 1993-June 1997

- Produced cost of service studies and to unbundle costs as the basis for wholesale and retail tariff design and other financial studies
- Coordinated key regulatory filings, PaPUC management audits, prepared testimony and to testified as the Company witness for cost of service filings
- Acted as liason between MIS and Customer Accounting to facilitate the implementation of unbundled electric rates. Created a web based version of the Company tariff with hyperlinks to rate calculators written in JavaScript.
- Key participant in rate design of unbundled retail tariffs into transmission, distribution, generation and stranded prices
- Analyzed customer information for rate design and comparative analysis.

Duquesne Light Company
Director, Economic and Regulatory Services
June 1989-November 1993

- Directed production of the Company's long and short term sales and load forecasts, cost of service studies, customer load research, revenue analyses, Energy Cost Rate(ECR) filings, coordination of key regulatory filings and coordinator for PaPUC management audits.
- Also prepared testimony and testified as a witness for sales and forecasts, load research, cost of service and ECR filings

Duquesne Light Company
Various positions
May 1974-June 1989

- HVAC customer studies, recommendations, load and energy estimating calculations
- Load research activities and design of Company statistical studies
- Contract administration for a nuclear power plant project

Education

- BSME, University of Pennsylvania 1972
- BSAE, West Virginia University 1974

William C. Zollars, PE

ValuSource Energy Services, LLC
E-commerce Energy
Procurement Executive
April 2000 - Present

- Electricity and gas procurement for customers utilizing a state of the art e-commerce bidding system
- Savings and price to compare calculations for generation supplier transmission and generation components
- Analyses of electric rate alternatives and correct application of electric rates
- Training of staff on standard procedures, sales presentations, computer models, and specialized software

OnDemand Energy Solutions
Account Executive
June 1999 – April 2000

- Electricity and gas procurement for customers utilizing a state of the art e-commerce bidding system
- Savings and price to compare calculations for generation supplier transmission and generation components
- Analyses of electric rate alternatives and correct application of electric rates
- HVAC, lighting and other energy conservation savings calculations
- Power factor correction capacitor studies

Duquesne Light Company
Sales Representative
July 1996 - June 1999

- Responsible for kilowatt-hour sales of electricity and promotion of electro-technologies to new and existing customer base
- Performed power factor correction studies
- Conducted energy audits and made lighting, and HVAC recommendations
- Investigated power quality problems
- Analyzed for correct application of electric rates and riders

PSI - Pittsburgh Testing Laboratory Division
Electric Testing Department Manager
August 1992 – October 1995

- Conducted, laboratory and field, electrical testing of various appliances and materials in accordance with applicable ASTM, ANSI, IEEE, and NFPA standards
- Responsible for staffing, training, and supervising seven technicians and one clerical person
- Business development with emphasis on sales presentations, proposal writing, contract negotiation and account maintenance
- Project management of electrical grounding studies for NEXRAD doppler weather radar tracking sites nationwide
- Created annual business plan including market analysis, management strategies, and budget projections

Education

- BSEE, University of Vermont 1990
- Duquesne University, *presently enrolled in MBA*

program

Certificates

- Professional Engineer, Commonwealth of PA, 1998
- Engineer in Training, Commonwealth of PA, 1997

Phillip Susie

ValuSource Energy Services, LLC
Commercial and Industrial Energy Consultant

April 2000 - Present

- Develop computer modeling tools to assist in natural gas pricing analysis
- Market Development for an internet based energy shopping service
- Support and Develop alternative network of independent consultants who sell and promote our internet based energy shopping service
- Perform LDC tariff analysis for marketing area

OnDemand Energy Solutions
Commercial and Industrial Energy Marketing Representative

July 1999 – April 2000

- Developed computer modeling tools to assist in natural gas pricing analysis
- Responsible for marketing an internet based energy shopping service
- Managed and developed a purchasing strategy for all natural gas customers
- Natural gas buyer utilizing e-commerce bidding system

Nicole Energy Services
Commercial and Industrial Natural Gas marketer

July 1998 – July 1999

- Responsible for marketing natural gas products to commercial and industrial accounts
- Increased office sales by 1 million dollars during first quarter of employment
- Analyzed various LDC tariffs to determine market viability
- Performed competitive market analysis to determine relative market strengths versus competition
- Generated and marketed to prospects contained in extensive personal database

mc^2, Inc./NORSTAR Energy, L.P.
Energy Marketing Representative

February 1996 – May 1998

- Responsible for marketing natural gas products to small and medium sized commercial retail market
- Constantly monitored competitive market data to achieve highest possible margins
- Selected to assist in the evaluation and critique of company's customized sales/marketing and price structuring software
- Lead sales team that produced over 400 new electric accounts within a 3 month period

Education

- BS, Slippery Rock University of Pennsylvania
- MBA, Robert Morris College

Janice Tarson

ValuSource Energy Services, LLC
e-commerce Accounts Manager
April 2000 - Present

- Contract and customer retention administrator
- Manage e-commerce and ACT database
- Facilitate the transfer of client accounts from one supplier to another
- Main contact between ValueSource and the local utilities and qualified suppliers

OnDemand Energy, Inc.
e-commerce Accounts Manager
October 1999 – April 2000

- Facilitated the transfer of client accounts from one supplier to another
- e-commerce and ACT database administrator
- Create savings and price to compare calculations for generation supplier transmission and generation components

Air and Waste Management Association
Annual Meeting Technical Program Coordinator
August 1998 - October 1999

- Coordinated Annual Meeting Technical Program activities from the initial call for papers through development of manuscripts and proceedings
- Main contact for the technical program comprised of up to 1,500 technical professionals and managers Coordinates solicitation, review, selection and organization of technical sessions
- Maintained database of technical program information

mc^2, Inc./NORSTAR Energy, LP
Energy Marketing Representative
March 1997-May 1998

- Marketed natural gas and electricity to small businesses by calculating their potential savings
- Prospected for new clients and maintained a successful business relationship with existing clients

Hechinger
Installed Sales Coordinator
October 1995 – February 1997

- Managed the Installation Service program at the store level
- Inputted all contract information, ordered merchandise, verified merchandise, controlled the timeliness of installations
- Resolved customer problems, assisted in the training of the sales staff, and maximized customer service

Expeditor
December 1994 – October 1995

- Managed the Installation Services program at the district level
- Updated contract information, controlled the timeliness of installations, resolved customer problems, and verified customer satisfaction to approve payment to the installer

Merchandise Coordinator
May 1991 – December 1994

- Inventory control of special order merchandise including order, data entry, and customer notification, as well as the ordering, data entry and inventory control of stock merchandise which was purchased while out of stock

Various
June 1988 – May 1991

- Served as cashier, service desk operator warehouse/receiving, and salesperson

U.S. Department of Housing and Urban Development
Information Management Specialist
July 1991 – May 1992

- Researched and inputted data on low income housing to be analyzed and utilized for future project's funding and budgeting

Education

- MSW, University of Pittsburgh 1989
- BA, University of Pittsburgh at Johnstown 1987

Keith Malinoski

ValuSource Energy
Energy Procurement Manager
March 2000 - Present

- Procurement of gas and electric commodity for commercial and industrial clients
- Marketing of energy management and procurement services to C&I segment
- Project Manager – East Area for Bank One, Commodity Management and Procurement Services Contract

CMS Energy Marketing, Services & Trading, Jackson, MI
Manager of Marketing - Pittsburgh
March 1999 - March 2000

- Marketing of retail gas and electric commodity and energy management services to commercial and industrial customers in Western Pennsylvania and Ohio
- General marketing management for regional sales office

Nicole Energy Services, Pittsburgh, PA
Director of Marketing - Pittsburgh
November 1998 - March 1999

- Marketing of retail gas and electric commodity and fuel management services to commercial and industrial customers in Western Pennsylvania and Ohio
- Managed regional office sales and support staff

Aquila Energy Marketing Corporation (AEM) Omaha, NE
Account Director, Gas Sales and Marketing - Energy Services
March 1998-November 1998

- Marketing of commodity and asset management services to large industrial and LDC customers in the Northeast.
- Marketing of wholesale supply and risk management services to retail aggregators in Western Pennsylvania.
- Support for marketing of gas supply and management services to IPP/Cogen and Merchant plant developments in the Northeast.

CNG Energy Services Corporation (ESC) Pittsburgh, PA
Marketing Manager, Integrated Energy Marketing
1997-1998

- Assigned to development and marketing of Aggregated Services for large commercial and industrial customers. Product development support for Total Energy Management and Retail Franchise concepts.
- Assisted in the preparation of business plan for PA Electric Retail Pilot.

Manager, Fuel Management Services, Risk Management & Structuring Group
1994-1997

- Developed and executed marketing plan for power generation, municipal and industrial fuel management services.
- Doswell Joint Venture - Managed $26 M gross revenue. Generated $6.5 M third party sales margin. Administered complex Fuel Management Agreement. Developed custom operating models and administrative processes to support JV.
- Lakewood Cogeneration - Developed procedures to coordinate daily gas and electric dispatch scheduling for first dispatchable gas turbine, combined cycle unit on PJM. Managed $15 M in annual fuel purchases subject to utility approval and recovery.
- Responsible for marketing wholesale gas products services to Northeast electric utilities, cogeneration and independent power projects.

New Market Development Manager, Wholesale Marketing
1993-1994

- Fuel management during start-up and commercialization of Lakewood Cogeneration.

People's Natural Gas Company (CNG Affiliate) Pittsburgh, PA

- Marketed natural gas cofiring and reburn technologies to electric utilities in Western Pennsylvania. Transportation account management.

Manager Cofiring, Industrial Marketing
1991-1993

- Managed cofiring demonstration project at the Conemaugh Power Station.
- Member Gas Research Institute (GRI) Power Generation Project Advisory Group.

Technical Sales Engineer, Commercial and Residential Marketing
1987-1991

- Performed cogeneration feasibility studies for large commercial and industrial customers.
- Developed analytical tools to support Marketing staff and sales representatives.
- Marketed engine driven chiller and compressor technology to C&I customers.

Duquesne Light Company, Pittsburgh, PA
Technical Services Engineer, Customer Technical Services
1982-1987

- Provided technical sales support to industrial, commercial and residential sales representatives.
- Developed residential energy model to support add-on heat pump marketing program.
- Performed energy management and conservation studies for large commercial and industrial accounts.
- Developed energy consumption and operating cost comparison program to support commercial electric heat marketing program.

EDUCATION

- Katz Graduate School of Business, University of Pittsburgh, Pittsburgh, PA
- Graduated August 1993, QPA of 3.9/4.0, Concentration in Marketing
- Member Beta Gamma Sigma Honor Society
- BS in Mechanical Engineering, University of Pittsburgh, Pittsburgh, PA
- Graduated April 1982, QPA of 2.8/4.0, Deans List Senior Year
- Two Year Internship with Army Corps of Engineers, Engineering Technician

ATTACHMENT I

TECHNICAL FITNESS INFORMATION
PROPOSED STAFFING & EMPLOYEE TRAINING
COMMITMENTS

(CONFIDENTIAL)

ATTACHMENT J

TECHNICAL FITNESS INFORMATION
BUSINESS PLAN AND
SAMPLE ENERGY SERVICES AGREEMENT

(CONFIDENTIAL)

ATTACHMENT K

GENERAL AFFIDAVIT AS TO FINANCIAL & TECHNICAL FITNESS, TAXES AND STANDARDS & BILLING PRACTICES

AFFIDAVIT

Commonwealth of Pennsylvania :
: ss.
County of Allegheny :

John Zbihley, Affiant, being duly sworn according to law, deposes and says that:

He is the President of ValuSource Energy Services, LLC;

That he is authorized to and does make this affidavit for said Applicant;

That ValuSource Energy Services, LLC, the Applicant herein, acknowledges that it may have obligations pursuant to this Application consistent with the Public Utility Code of the Commonwealth of Pennsylvania, Title 66 of the Pennsylvania Consolidated Statutes; or with other applicable statutes or regulations including Emergency Orders which may be issued verbally or in writing during any emergency situations that may unexpectedly develop from time to time in the course of doing business in Pennsylvania.

That ValuSource Energy Services, LLC, the Applicant herein, asserts that it possesses the requisite technical, managerial, and financial fitness to render electric service within the Commonwealth of Pennsylvania and that the Applicant will abide by all applicable federal and state laws and regulations and by the decisions of the Pennsylvania Public Utility Commission.

That ValuSource Energy Services, LLC, the Applicant herein, certifies to the Commission that it is subject to , will pay, and in the past has paid, the full amount of taxes imposed by Articles II and XI of the Act of March 4, 1971 (P.L. 6, No. 2), known as the Tax Reform Act of 1971 and any tax imposed by Chapter 28 of Title 66. The Applicant acknowledges that failure to pay such taxes or otherwise comply with the taxation requirements of Chapter 28, shall be cause for the Commission to revoke the license of the Applicant. The Applicant acknowledges that it shall report to the Commission its jurisdictional Gross Receipts and power sales for ultimate consumption, for the previous year or as otherwise required by the Commission. The Applicant also acknowledges that it is subject to 66 Pa. C.S. §506 (relating to the inspection of facilities and records).

As provided by 66 Pa. C.S. §2810 (C)(6)(iv), Applicant, by filing of this application waives confidentiality with respect to its state tax information in the possession of the Department of Revenue, regardless of the source of the information, and shall consent to the Department of Revenue providing that information to the Pennsylvania Public Utility Commission.

That ValuSource Energy Services, LLC, the Applicant herein, acknowledges that it has a statutory obligation to conform with 66 Pa. C.S. §506, §2807 (C), §2807(D)(2), §2809(B) and the standards and billing practices of 52 PA. Code Chapter 56.

That the Applicant agrees to provide all consumer education materials and information in a timely manner as requested by the Bureau of Public Liaison or other Commission bureaus. Materials and information requested may be analyzed by the Commission to meet obligations under applicable sections of the law.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief.

John J. Gibb

Signature of Affiant

Sworn and subscribed before me this 14TH day of JULY, 2000.

Delcarla J. Gilbert

Signature of official administering oath

My commission expires

Notarial Seal
Delcarla J. Gilbert, Notary Public
Pittsburgh, Allegheny County
My Commission Expires Mar. 17, 2003
Member, Pennsylvania Association of Notaries

ATTACHMENT L

GENERAL AFFIDAVIT REGARDING PROVISION OF INFORMATION

AFFIDAVIT

Commonwealth of Pennsylvania :
: ss.
County of Allegheny :

John Zbihley, Affiant, being duly sworn according to law, deposes and says that:

He is the President of ValuSource Energy Services, LLC;

That he is authorized to and does make this affidavit for said Applicant;

That the Applicant herein, ValuSource Energy Services, LLC, has the burden of producing information and supporting documentation demonstrating its technical and financial fitness to be licensed as an electric generation supplier pursuant to 66 Pa. C.S. § 2809 (B).

That the Applicant herein, ValuSource Energy Services, LLC, has answered the questions on the application correctly, truthfully, and completely and provided supporting documentation as required.

That the Applicant herein, ValuSource Energy Services, LLC, acknowledges that it is under a duty to update information provided in answer to questions on this application and contained in supporting documents.

That the Applicant herein, ValuSource Energy Services, LLC, acknowledges that it is under a duty to supplement information provided in answer to questions on this application and contained in supporting documents as requested by the Commission.

That the facts above set forth are true and correct to the best of his knowledge, information, and belief, and that he expects said Applicant to be able to prove the same at hearing.

John J. Zbihley
Signature of Affiant

Sworn and subscribed before me this 14th day of JULY, 2000.

Delcarla J. Gilbert
Signature of official administering oath

My commission expires

Notarial Seal
Delcarla J. Gilbert, Notary Public
Pittsburgh, Allegheny County
My Commission Expires Mar. 17, 2003
Member, Pennsylvania Association of Notaries

ATTACHMENT M

PROPOSED NOTICE FOR PUBLICATION

PENNSYLVANIA
PUBLIC UTILITY COMMISSION
NOTICE

*Application of **ValuSource Energy Services, LLC** For Approval To Offer, Render, Furnish Or Supply Electricity Or Electric Generation Services As A Service Provider and a Broker/Marketer/Aggregator Engaged In The Business Of Supplying Electricity, To The Public In The Commonwealth Of Pennsylvania, Docket No. **A-11XXXX.***

On ________ _____, **2000, ValuSource Energy Services, LLC** filed an application with the Pennsylvania Public Utility Commission ("PUC") for a license to supply electricity or electric generation services as a Service Provider and a broker/marketer/aggregator engaged in the business of supplying electricity. **ValuSource Energy Services, LLC** proposes to operate as a Service Provider throughout all of Pennsylvania under the provisions of the new Electricity Generation Customer Choice and Competition Act.

The PUC may consider this application without a hearing. Protests directed to the technical or financial fitness of **ValuSource Energy Services, LLC** may be filed within 15 days of the date of this notice with the Secretary of the PUC, P.O. Box 3265, Harrisburg, PA 17105-3265. You should send copies of any protest to **ValuSource Energy Services, LLC's** attorney at the address listed below. Please include the PUC's "docket number" on any correspondence, which is **A-11XXXX.**

By and through Counsel: James P. Melia
Kirkpatrick & Lockhart LLP
240 North Third Street
Harrisburg, PA 17101-1507
(717) 231-4500
(717) 231-4501 FAX