

Provide a schedule showing the major components of claimed capitalization, and the derivation of the weighted costs of capital for the rate case claim. This schedule shall include a descriptive statement concerning the major elements of changes in claimed capitalization, cost rates and overall return from comparable historical data.

Response:

See Attachment III-A-1 for the major components of claimed capitalization, and the derivation of the weighted cost of capital for the 2006 rate case claim.

The major elements of change to Duquesne Light's 2006 capitalization were as follows:

In February 2006, Duquesne Light received an equity contribution totaling \$27,562,500 from its Parent as Ordered by the Pennsylvania Public Utility Commission (Order # M-00051929).

In November 2006, Duquesne Light plans to issue \$43,155,000 of fixed-rate, tax-exempt debt to fund infrastructure improvements.

During 2006, Duquesne Light plans to utilize its revolving credit facility to fund construction work-in-progress (CWIP). Duquesne's estimated year-end CWIP balance is \$26.4 million. All borrowings related to CWIP are excluded from Duquesne's capitalization.

During 2006, Duquesne plans to retain all of its earnings.

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DUQUESNE LIGHT COMPANY
2006 Projected Rate of Return

	Projected 31-Dec-06	
	Amount Outstanding	Percent
Weighted AVG Short Term Debt:	\$0	0.00%
Long Term Debt:		
Total Long-term Debt Before Adjustment	\$681,080,000	
Unamortized Loss on Recquired Debt (189 Account)	(46,278,226)	
Total Adjusted Long Term Debt	\$634,801,774	43.03%
Preferred Stock:		
Total Preferred Stock	\$133,434,357	9.04%
Common Equity:		
Capital Surplus	\$598,679,512	
Retained Earnings	108,319,996	
Accumulated Other Comprehensive Income (AOCI)	(24,864,406)	
Total Common Equity	\$682,135,102	
Regulatory Adjustments:		
AOCI - Unrealized holding loss on DLH stock	2,829,540	
AOCI - Minimum pension liability adjustment	22,034,866	
Regulatory Common Equity	\$706,999,508	47.93%
Total Book Capitalization	\$1,475,235,639	100.00%

Weighted Average Cost of Capital:

	Percent of Capital	Average Rate	Weighted Rate
WAVG Short Term Debt	0.00%	0.00%	0.00%
Long Term Debt	43.03%	6.90%	2.97%
Preferred Stock	9.04%	5.37%	0.49%
Common Equity	47.93%	11.75%	5.63%
Weighted Average Cost of Capital	100.0%		9.09%

DUQUESNE LIGHT COMPANY
Composite Interest Rate Of Total Long Term Debt

31-Dec-06
(Projected)

	<u>Amount Outstanding</u>	<u>Percent to Total</u>	<u>Effective Cost Rate</u>	<u>Annual Interest Costs</u>	<u>Weighted Cost Rate</u>
<u>Long Term Debt</u>					
Total Long Term Debt	\$681,080,000			\$41,431,957	6.08%
Amortization of Loss on Reacquired Debt (Account 189)				2,502,240	
Amortization of Gain on 5% Sinking Fund Debentures				(119,667)	
Unamortized Loss on Reacquired Debt (Account 189)	(46,278,226)				
<u>Total Adjusted Long Term Debt</u>	<u>\$634,801,774</u>			<u>\$43,814,530</u>	<u>6.90%</u>

DUQUESNE LIGHT COMPANY
Composite Interest Rate Of Long-Term Debt

31-Dec-06
(Projected)

	<u>Amount Outstanding</u>	<u>Percent to Total</u>	<u>Effective Cost Rate</u>	<u>Weighted Cost Rate</u>	<u>Interest Expense</u>
6.700% FMB due 04 30 32	\$100,000,000	14.68%	6.95%	1.02%	\$6,950,000
5.700% FMB due 05 15 14	200,000,000	29.37%	5.80%	1.70%	11,600,000
6.450% FMB due 02 27 08	40,000,000	5.87%	6.54%	0.38%	2,616,000
6.700% FMB due 04 15 12	200,000,000	29.37%	6.79%	1.99%	13,580,000
Allegheny County 1999 Series B due 09 01 11	47,925,000	7.04%	4.13%	0.29%	1,979,303
Allegheny County 1999 Series A due 12 01 13	50,000,000	7.34%	4.39%	0.32%	2,195,000
New Issue - Ohio Water 1999 Series B due 3 01 31 (AMT)	13,500,000	1.98%	5.85%	0.12%	789,750
New Issue - Ohio AIR 1999 Series C due 3 01 31 (non-AMT)	4,655,000	0.68%	5.68%	0.04%	264,404
New Issue - Beaver County 1999 Series A due 4 01 31 (AMT)	25,000,000	3.67%	5.83%	0.21%	1,457,500
Total Debt	\$681,080,000	100.00%		6.08%	\$41,431,957

DUQUESNE LIGHT COMPANY
 Calculation of the Effective Interest Rate for Total Long-Term Debt

31-Dec-06
 (Projected)

Issue	Maturity	Term In	Original	Amount	Amount	Amount	Gain / Loss on	Coupon	Expense, Premium	Net	Sinking	Effective	
													Date
											Requirements	Rate	
Current Issues													
6.700% FMB due 04 30 32	30-Apr-02	30-Apr-32	30.0	\$100,000,000	\$100,000,000	\$0	\$0	\$0	6.700%	\$3,150,000	\$96,850,000	96.85%	
5.700% FMB due 05 15 14	18-May-04	15-May-14	10.0	200,000,000	200,000,000				5.700%	1,524,000	198,476,000	99.24%	
6.450% FMB due 02 27 08	27-Feb-98	27-Feb-08	10.0	40,000,000	40,000,000				6.450%	250,000	39,750,000	99.38%	
6.700% FMB due 04 15 12	15-Apr-02	15-Apr-12	10.0	200,000,000	200,000,000				6.700%	1,300,000	198,700,000	99.35%	
Allegheny County 1999 Series B due 09 01 11	18-Nov-99	01-Sep-11	11.8	47,925,000	47,925,000				4.05%	348,772	47,576,228	99.27%	
Allegheny County 1999 Series A due 12 01 13	18-Nov-99	01-Dec-13	14.0	50,000,000	50,000,000				4.35%	210,887	49,789,113	99.58%	
New Issues													
Ohio Water 1999 Series B due 3 01 31 (AMT)	01-Nov-06	01-Mar-31	24.3	13,500,000	13,500,000				5.75%	176,250	13,323,750	98.69%	
Ohio AIR 1999 Series C due 3 01 31 (non-AMT)	01-Nov-06	01-Mar-31	24.3	4,655,000	4,655,000				5.50%	109,913	4,545,087	97.64%	
Beaver County 1999 Series A due 4 01 31 (AMT)	01-Nov-06	01-Apr-31	24.4	25,000,000	25,000,000				5.75%	262,500	24,737,500	98.95%	
											\$0	\$1,099,956	
Totals				\$681,080,000	\$681,080,000	\$0	\$0	\$0		\$7,332,422	\$673,747,578		

DUQUESNE LIGHT COMPANY

Calculation of the Composite Cost Rate for Preferred Stock*

31-Dec-06
(Projected)

Issue	Amount Outstanding	Percent to Total	Effective Cost Rate	Annual A/T Dividend Costs	Weighted Cost Rate
<u>Preferred Stock:</u>					
3.75% Series	\$7,407,400	5.5%	3.78%	\$280,000	
4.00% Series	27,485,450	20.3%	3.34%	918,014	
4.10% Series	6,012,178	4.4%	4.14%	248,904	
4.15% Series	6,643,559	4.9%	4.18%	277,701	
4.20% Series	5,021,000	3.7%	4.24%	212,890	
6.50% Series	75,000,000	55.3%	6.67%	5,002,500	
\$2.10 Series	8,038,542	5.9%	4.23%	340,030	
Total Preferred Stock	\$135,608,129	100.0%		\$7,280,039	5.37%

* Excludes Preference Stock related to ESOP

DUQUESNE LIGHT COMPANY

Calculation of the Effective Cost For Preferred Stock By Series*

31-Dec-08
(Projected)

Issue	Issue Date	Maturity Date	Original Amount Issued	Number of Shares Issued	Number of Shares Outstanding	Number of Shares Retired	Number of Shares Recquired	Gain/Loss on Recquisition	Nominal A/T Dividend Rate	Total Expense; Prem of Discount	Original Net Proceeds	Sinking Fund Requirements	Net Proceeds Ratio	Effective Cost Rate
<u>Cumulative:</u>														
<u>Preferred Stock (\$50 Par):</u>														
3.75% Series	19-Sep-50	Perpetual	\$7,500,000	150,000	148,000	2,000	0	0	3.750%	\$54,410	\$7,445,590	\$0	99.27%	3.78%
4.00% Series	25-Aug-50	Perpetual	27,498,450	549,709	549,709	0	0	0	3.336%	11,489	27,486,961	0	99.96%	3.34%
4.10% Series	01-Jul-54	Perpetual	6,000,000	120,000	119,860	140	0	0	4.100%	51,006	5,948,994	0	99.15%	4.14%
4.15% Series	24-Sep-52	Perpetual	7,000,000	140,000	132,450	7,550	0	0	4.150%	48,600	6,953,400	0	99.33%	4.18%
4.20% Series	14-Dec-53	Perpetual	5,000,000	100,000	100,000	0	0	0	4.200%	52,915	4,947,085	0	98.94%	4.24%
6.50% Series	18-Apr-04	Perpetual	75,000,000	1,500,000	1,500,000	0	0	0	6.500%	1,899,354	73,100,646	0	97.47%	6.67%
\$2.10 Series	25-Jan-55	Perpetual	8,000,000	160,000	159,400	600	0	0	4.200%	57,998	7,942,002	0	99.28%	4.23%
Totals			\$135,998,450	2,719,709	2,709,419	10,290	0	0		\$2,173,772	\$133,824,678	\$0		

* Excludes Preference Stock related to ESOP

DUQUESNE LIGHT COMPANY
Outstanding Preferred Stock*

31-Dec-06
(Projected)

<u>SERIES</u>	<u>DIVIDEND</u>	<u>PAR VALUE</u>	<u>PREMIUM</u>	<u>TOTAL</u>	<u>SHARES O/S</u>	<u>ORIG NET BOOK VALUE PER SHARE</u>	
PREFERRED STOCK ISSUED							
3.750%	a	\$1.88	\$7,400,000	\$7,400	\$7,407,400	148,000	\$49.64
4.000%	a	2.00	27,485,450	0	27,485,450	549,709	50.00
4.100%	a	2.05	5,993,000	19,178	6,012,178	119,860	49.57
4.150%	a	2.08	6,622,500	21,059	6,643,559	132,450	49.67
4.200%	a	2.10	5,000,000	21,000	5,021,000	100,000	49.47
6.500%	a	3.25	75,000,000	0	75,000,000	1,500,000	48.73
\$2.100	a	2.10	7,970,000	68,542	8,038,542	159,400	49.64
TOTAL PREFERRED		\$135,470,950	\$137,179	\$135,608,129	2,709,419		
TOTAL		\$135,470,950		\$135,608,129			

* Excludes Preference Stock related to ESOP

(a) \$50 per share involuntary liquidation value.

Provide a schedule in the same format as DFR III-A-1, except for the omission of the descriptive statement, for the most immediate comparable annual historical period prior to the test year and the two calendar years most immediately preceding the rate of return claim period. Irrespective of whether the capitalization claimed in DFR III-A-1 includes short-term debt, DFR III-A-2 should reflect capital ratios with and without short-term debt.

Response:

See the attached schedules showing capital ratios with and without short-term debt for the most immediate comparable annual historical period prior to the test year and the two calendar years most immediately preceding the rate of return claim period. Note, in 2005 Duquesne Light did not issue any short-term debt.

DUQUESNE LIGHT COMPANY
Regulatory Capitalization
Excluding Short-term Debt

	2005		2004	
	Amount Outstanding	Percent	Amount Outstanding	Percent
Long Term Debt:				
Total Long-term Debt Before Adjustment	\$637,925,000		\$957,985,000	
Unamortized Loss on Reacquired Debt (189 Account)	(48,780,465)		(49,262,728)	
Total Adjusted Long Term Debt	\$589,144,535	42.64%	\$908,722,272	57.63%
Preferred Stock:				
Total Preferred Stock	\$133,434,357	9.66%	\$133,434,357	8.46%
Common Equity:				
Capital Surplus	\$571,117,012		\$488,617,012	
Retained Earnings	88,071,262		45,936,048	
Accumulated Other Comprehensive Income (AOCI)	(26,473,388)		(1,036,558)	
Total Common Equity	\$632,714,886		\$533,516,502	
Regulatory Adjustments:				
AOCI - Unrealized holding loss on DLH stock	2,829,540		1,036,558	
AOCI - Minimum pension liability adjustment	23,643,848		0	
Regulatory Common Equity	\$659,188,274	47.71%	\$534,553,060	33.90%
Total Regulatory Book Capitalization	\$1,381,767,166	100.00%	\$1,576,709,689	100.00%

DUQUESNE LIGHT COMPANY
Regulatory Capitalization
Including Weighted AVG Short-Term Debt

	2005		2004	
	Amount Outstanding	Percent	Amount Outstanding	Percent
Weighted AVG Short Term Debt:	\$0	0.00%	\$18,549,180	1.16%
Long-Term Debt:				
Total Long-term Debt Before Adjustment	\$637,925,000		\$957,985,000	
Unamortized Loss on Recquired Debt (189 Account)	(48,780,465)		(49,262,728)	
Total Adjusted Long Term Debt	\$589,144,535	42.64%	\$908,722,272	56.96%
Preferred Stock:				
Total Preferred Stock	\$133,434,357	9.66%	\$133,434,357	8.36%
Common Equity:				
Capital Surplus	\$571,117,012		\$488,617,012	
Retained Earnings	88,071,262		45,936,048	
Accumulated Other Comprehensive Income (AOCI)	(26,473,388)		(1,036,558)	
Total Common Equity	\$632,714,886		\$533,516,502	
Regulatory Adjustments:				
AOCI - Unrealized holding loss on DLH stock	2,829,540		1,036,558	
AOCI - Minimum pension liability adjustment	23,643,848		0	
Regulatory Common Equity	\$659,188,274	47.71%	\$534,553,060	33.51%
Total Book Capitalization	\$1,381,767,166	100.00%	\$1,595,258,869	100.00%

Provide a schedule showing the calculation of embedded cost of long-term debt by issue, supporting the related rate case claim. The schedule shall contain the following information:

- a. Date of issue.
- b. Date of maturity.
- c. Amount issued.
- d. Amount outstanding.
- e. Amount retired.
- f. Amount reacquired.
- g. Gain or loss on reacquisition.
- h. Coupon rate.
- i. Discount or premium at issuance.
- j. Issuance expense.
- k. Net proceeds.
- l. Sinking fund requirements.
- m. Effective cost rate.
- n. Total average weighted effective cost rate.

Projected new issues, retirements and other major changes from the comparable historic data should be clearly noted.

Response:

In 2006, Duquesne Light plans to issue \$43,155,000 of fixed-rate, tax-exempt debt. Please refer to Schedule III-A-1, pages 3 and 4.

In the event that a claim made for a true or economic cost of debt exceeds that shown in the preceding nominal cost schedule because of convertible features, sale with warrants or for any other reason, a full statement of the basis for such a claim should be provided.

Response:

No claim is being made for a true or economic cost of debt that exceeds that shown in the preceding response DFR III-B-1.

Provide the following information concerning bank notes payable for test year and for latest comparable annual historical period prior to the test year:

- a. Line of credit at each bank.
- b. Average daily balances of notes to each bank, by name of bank.
- c. Interest rate charged on each bank note (Prime rate, formula rate, or other).
- d. Purpose of each bank note (for example, construction, fuel storage, working capital, debt retirement).
- e. Prospective future need for this type of financing.

Response:

- a. The Company maintains a \$150 million Revolving Credit Agreement with a consortium of banks.
- b. Attachment III-B-3 "Short Term Debt Accrued Interest Payable" details this information. During 2005, the Company had no outstanding loans. During 2004, the average daily balance of outstanding loans was \$18.5 million.
- c. Attachment III-B-3 "Short Term Debt Accrued Interest Payable" details this information. During 2005, the Company had no outstanding loans. During 2004, the average interest rate on outstanding loans was 2.3%.
- d. During 2005, the Company had no outstanding loans. During 2004, the purpose of short-term debt was to fund working capital requirements, debt retirements and for general corporate purposes.
- e. The Company continues to maintain its credit facility to provide working capital, fund capital expenditures (i.e., construction work-in-progress), and for general corporate purposes. During the 1st quarter 2006, the Company did not incur any borrowings under its credit facility. However, the Company plans to utilize its credit facility starting in the 2nd quarter of 2006 to fund construction work-in-progress and expects to end the year with approximately \$26 million borrowed under this facility.

Short Term Debt Accrued Interest Payable

From 1/1/2006 to 3/31/2006

Settlement Date	Maturity Date	Dealer/ Lender	Reference Term Number	Yield	Rate	Face	Interest/ Discount	Proceeds	Prior Period	Current Period	Future Period	As Of 3/31/2006
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Currency

Intrument Type

Portfolio

Type

Total For
 Weighted Average using Face
 Weighted Average using Proceeds
 Weighted Average Remaining Term
 Average Outstanding Face
 Average Outstanding Proceeds

No Short-Term Debt Activity 1/1/06 - 3/31/06

Total For
 Weighted Average using Face
 Weighted Average using Proceeds
 Weighted Average Remaining Term
 Average Outstanding Face
 Average Outstanding Proceeds

Total For
 Weighted Average using Face
 Weighted Average using Proceeds
 Weighted Average Remaining Term
 Average Outstanding Face
 Average Outstanding Proceeds

Total For
 Weighted Average using Face
 Weighted Average using Proceeds
 Weighted Average Remaining Term
 Average Outstanding Face
 Average Outstanding Proceeds

Short Term Debt Accrued Interest Payable

From 1/1/2005 to 12/31/2005

Settlement Date	Maturity Date	Dealer/Lender	Reference Term Number	Yield	Rate	Face	Interest/Discount	Proceeds	Prior Period	Current Period	Future Period	As Of 12/31/2005
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Currency

Instrument Type

Portfolio

Type

Total For
 Weighted Average using Face
 Weighted Average using Proceeds
 Weighted Average Remaining Term
 Average Outstanding Face
 Average Outstanding Proceeds

No Short-Term Debt Activity During 2005

Total For
 Weighted Average using Face
 Weighted Average using Proceeds
 Weighted Average Remaining Term
 Average Outstanding Face
 Average Outstanding Proceeds

Total For
 Weighted Average using Face
 Weighted Average using Proceeds
 Weighted Average Remaining Term
 Average Outstanding Face
 Average Outstanding Proceeds

Total For
 Weighted Average using Face
 Weighted Average using Proceeds
 Weighted Average Remaining Term
 Average Outstanding Face
 Average Outstanding Proceeds

Short Term Debt Accrued Interest Payable

From 1/1/2004 to 12/31/2004

Settlement Date	Maturity Date	Dealer/Lender	Reference Number	Term	Yield	Rate	Face	Interest/Discount	Proceeds	Prior Period	Current Period	Future Period	As Of 12/31/2004	
Currency		USD - United States Dollars												
Instrument Type		EUR - DLCO EURO LOAN												
Portfolio		STD - Short-Term Debt												
Type		Euro												
01/07/2004	02/09/2004	BANKONE	00000250	33	2.24500000	2.24500000	15,000,000.00	30,868.75	15,000,000.00	0.00	30,868.75	0.00	0.00	
01/26/2004	02/26/2004	BANKONE	00000251	31	2.22500000	2.22500000	30,000,000.00	57,479.17	30,000,000.00	0.00	57,479.17	0.00	0.00	
02/09/2004	03/09/2004	BANKONE	00000252	29	2.22375000	2.22375000	13,000,000.00	23,287.60	13,000,000.00	0.00	23,287.60	0.00	0.00	
03/09/2004	03/15/2004	BANKONE	00000255	6	2.22500000	2.22500000	10,000,000.00	3,708.33	10,000,000.00	0.00	3,708.33	0.00	0.00	
03/03/2004	03/15/2004	BANKONE	00000254	12	2.22500000	2.22500000	20,000,000.00	14,833.33	20,000,000.00	0.00	14,833.33	0.00	0.00	
02/26/2004	03/26/2004	BANKONE	00000253	29	2.21500000	2.21500000	8,000,000.00	14,274.44	8,000,000.00	0.00	14,274.44	0.00	0.00	
03/29/2004	03/31/2004	BANKONE	00000258	2	4.37500000	4.37500000	5,000,000.00	1,195.36	5,000,000.00	0.00	1,195.36	0.00	0.00	
03/15/2004	04/05/2004	BANKONE	00000263	21	2.35000000	2.35000000	20,000,000.00	27,416.67	20,000,000.00	0.00	27,416.67	0.00	0.00	
03/15/2004	04/13/2004	BANKONE	00000264	29	2.35000000	2.35000000	10,000,000.00	18,930.56	10,000,000.00	0.00	18,930.56	0.00	0.00	
03/15/2004	04/15/2004	BANKONE	00000256	31	2.34000000	2.34000000	50,000,000.00	100,750.00	50,000,000.00	0.00	100,750.00	0.00	0.00	
04/13/2004	04/16/2004	BANKONE	00000265	3	4.37500000	4.37500000	5,000,000.00	1,793.03	5,000,000.00	0.00	1,793.03	0.00	0.00	
04/15/2004	04/16/2004	BANKONE	00000266	1	4.37500000	4.37500000	65,000,000.00	7,769.81	65,000,000.00	0.00	7,769.81	0.00	0.00	
03/26/2004	04/26/2004	BANKONE	00000257	31	2.34000000	2.34000000	5,000,000.00	10,075.00	5,000,000.00	0.00	10,075.00	0.00	0.00	
03/31/2004	04/26/2004	BANKONE	00000259	26	2.34000000	2.34000000	5,000,000.00	8,450.00	5,000,000.00	0.00	8,450.00	0.00	0.00	
04/05/2004	04/26/2004	BANKONE	00000261	21	2.34000000	2.34000000	20,000,000.00	27,300.00	20,000,000.00	0.00	27,300.00	0.00	0.00	
04/01/2004	04/26/2004	BANKONE	00000260	25	2.34000000	2.34000000	20,000,000.00	32,500.00	20,000,000.00	0.00	32,500.00	0.00	0.00	
04/26/2004	04/30/2004	BANKONE	00000267	4	2.21500000	2.21500000	5,000,000.00	1,230.56	5,000,000.00	0.00	1,230.56	0.00	0.00	
04/26/2004	05/04/2004	BANKONE	00000269	8	2.21500000	2.21500000	20,000,000.00	9,844.44	20,000,000.00	0.00	9,844.44	0.00	0.00	
04/26/2004	05/05/2004	BANKONE	00000270	9	2.21500000	2.21500000	20,000,000.00	11,075.00	20,000,000.00	0.00	11,075.00	0.00	0.00	
05/05/2004	05/18/2004	BANKONE	00000271	13	2.21500000	2.21500000	20,000,000.00	15,997.22	20,000,000.00	0.00	15,997.22	0.00	0.00	
05/04/2004	05/18/2004	BANKONE	00000268	14	2.21500000	2.21500000	20,000,000.00	17,227.78	20,000,000.00	0.00	17,227.78	0.00	0.00	
Total For STD														
Weighted Average using Face							2.31201264	386,000,000.00	436,007.05	386,000,000.00	0.00	436,007.05	0.00	0.00
Weighted Average using Proceeds							2.31201264							
Weighted Average Remaining Term														
Average Outstanding Face								18,549,180.33						
Average Outstanding Proceeds									18,549,180.33					

Provide detailed information concerning all other short-term debt outstanding.

Response:

No other short-term debt outstanding to disclose.

Describe long-term debt reacquisition by issue by Company and Parent as follows:

- a. Reacquisition by issue by year.
- b. Total gain or loss on reacquisitions by issue by year.
- c. Accounting for gain or loss for income tax and book purposes.
- d. Proposed treatment of gain or loss on such reacquisition for ratemaking purposes.

Response:

See Attachment III-B-5 for the requested information.

Duquesne Light Company
Long-term Debt Reacquisition by Issue

The unamortized debt expense and/or debt discount/premium associated with bonds that are reacquired at a loss were added to the premium paid to reacquire the bonds. In accordance with General Instruction 17 of the Uniform System of Accounts, the loss is amortized over the remaining life of the bonds, or, if the bonds were refinanced, the life of the new issuance.

Accounting for losses for income tax purposes:

Loss on reacquired debt set forth above was deducted as incurred for income tax purposes.

Proposed treatment of losses for ratemaking purposes:

The Company proposes that the current practice of adhering to General Instruction 17 of the Uniform System of Accounts be continued.

Duquesne Light Company
Loss on Reacquired Debt - Unamortized Balance Schedule

Loss on Reacquired Debt Description	Year Acquired	Monthly Amortization	Unamortized Balance		
			Actual 12/31/2004	Actual 12/31/2005	Projected 12/31/2006
Beaver County 1999 Sr D 44250 11/1/2029	2005	1,135.25	-	324,680.68	311,057.68
Ohio Air 1999 Sr B 20500 10/1/2027	2005	559.02	-	145,904.82	139,196.58
Beaver County Sr 1999A 4/1/2031	2005	331.25	-	100,370.18	96,395.18
Beaver County Sr 1999B 8/1/2020	2005	291.65	-	51,038.36	47,538.56
Beaver County Sr 1999C 8/1/2033	2005	220.31	-	72,921.37	70,277.65
Beaver County Sr 1999E 3/1/2031	2005	1,003.35	-	303,010.84	290,970.64
Ohio Air 1999 Sr A 03/1/2031	2005	285.72	-	86,287.93	82,859.29
Ohio Air 1999 Sr C 03/1/2031	2005	62.72	-	18,940.80	18,188.16
Ohio Water 1999 Sr A 3/1/2031	2005	657.82	-	198,662.93	190,769.09
Ohio Water 1999 Sr B 3/1/2031	2005	179.41	-	54,180.64	52,027.72
Ohio Water 1999 Sr C 3/1/2031	2005	451.24	-	138,274.67	130,859.79
Bank One Revolver Fees	2005	6,707.28	-	368,900.50	288,413.14
2005 PCRB Unamortized Balance (24-yr WAVG Life)	2005	151.65	-	14,364.00	12,544.20
8.375% MIPS Debentures Redeemed 2004	2004	9,655.25	4,557,280.11	4,441,417.11	4,325,554.11
FMB Series B (refin by \$100m 4/30/2032)	2002	2,144.17	703,286.73	677,556.69	651,826.65
FMB Series C (refin by \$200m 4/15/2012)	2002	2,944.99	259,159.27	223,819.39	188,479.51
FMB Series E (refin by \$200m 4/15/2012)	2002	4,146.48	364,890.06	315,132.30	265,374.54
7.55% Series Due 6/15/2025	2002	18,120.30	4,439,474.59	4,222,030.99	4,004,587.39
7.375% Series Due 4/15/2038	2002	6,857.39	2,742,956.03	2,660,667.35	2,578,378.67
Ohio Water Dev 1988 Sr A / 49,500 ow99a	2002	1,283.27	402,925.02	387,525.76	372,128.54
Ohio Air Quality 1988 Sr A / 21,500 oa99a	2002	725.10	227,668.31	218,967.11	210,265.91
Ohio Water Dev 1989 Sr B / 13,500 ow99b	2002	769.53	241,618.44	232,384.08	223,149.72
Beaver County 1990 Sr B / 13,700 bc99b	2002	326.54	61,073.74	57,155.26	53,236.78
Beaver County 1990 Sr C / 18,000 bc99c	2002	156.20	53,581.86	51,707.46	49,833.06
Beaver County 1990 Sr D / 44,250 bc99d	2002	767.45	228,738.61	219,529.21	210,319.81
Allegheny County 1990 Sr A / 50,000 ac99a	2002	1,574.22	168,497.04	149,606.40	130,715.76
Allegheny County 1992 Sr B / 47,925 ac99b	2002	1,923.19	153,910.51	130,832.23	107,753.95
Beaver County 1993 Sr A / 25,000 bc99a	2002	619.30	195,081.65	187,650.05	180,218.45
Ohio Air Quality PCRB 1993 Sr B / 20,500 oa99b	2002	782.21	219,555.07	204,168.55	194,782.03
Beaver County 1994 Sr E / 75,500 bc99e	2002	1,355.21	425,513.59	409,251.07	392,988.55
Ohio Water 1994 Sr C / 33,955 ow99c	2002	775.52	243,499.49	234,193.25	224,887.01
Ohio Air 1994 Sr C / 4,655 oa99c	2002	106.32	33,382.14	32,106.30	30,830.46
8.375% 5/15/2024 REFIN by 6.70% 2032	2002	12,319.63	4,040,838.92	3,893,003.36	3,745,167.80
7.375% REFIN 4/15/2038	1998	20,294.57	8,117,159.93	7,873,625.09	7,630,090.25
16.25% SL 05/01/2012	1995 or Before	39.96	3,536.19	3,056.67	2,577.15
12.25% SL 01/01/2010	1995 or Before	4,782.23	289,564.98	232,178.22	174,791.46
12.125% SL 04/01/2013	1995 or Before	5,720.65	569,292.37	500,644.57	431,996.77
13% SL 12/01/2013	1995 or Before	7,057.48	758,904.12	674,214.31	589,524.55
11.625% SL Bonds	1995 or Before	1,616.55	212,600.40	193,201.85	173,803.25
13.375% Bonds - 1998 REFIN	1995 or Before	67.97	11,183.20	10,367.56	9,551.92
12.75% Bonds - 1998 REFIN	1995 or Before	3,076.17	506,134.04	469,220.00	432,305.96
12.125% Bonds - 1998 REFIN	1995 or Before	2,587.64	425,755.06	394,703.38	363,651.70
13% Bonds - 1998 REFIN	1995 or Before	751.52	123,650.31	114,632.07	105,613.83
11.625% SL Bonds	1995 or Before	1,288.06	169,400.58	153,943.86	138,487.14
8.375% REFIN DUE 5/15/2024	1995 or Before	21,890.61	5,099,836.64	4,837,149.32	4,574,462.00
8.2% REFIN Due 11/15/2022	1995 or Before	4,528.24	964,514.32	910,175.44	855,836.56
9.5% REFIN by 7.625%	1995 or Before	30,806.42	6,715,800.92	6,346,123.88	5,976,446.84
7.55% 6/15/2025	1995 or Before	10,183.23	2,504,865.94	2,382,667.18	2,260,468.42
8.375% Redemption	1995 or Before	2,054.50	478,635.17	453,981.17	429,327.17
Beaver County 1974 A 08/01/2020 (BC Sr B)	1995 or Before	213.28	39,996.34	37,436.98	34,877.62
MNSFLD B 08/01/2009 (BC Sr B)	1995 or Before	709.42	39,389.90	30,876.86	22,363.82
Beaver County 1985 08/01/2025 (BC Sr D)	1995 or Before	959.32	237,454.89	225,943.05	214,431.21
Allegheny County Sr D 12/01/2013	1995 or Before	1,597.74	171,807.51	152,634.63	133,461.75
Allegheny County Sr D 12/01/2013	1995 or Before	2,219.27	238,641.88	212,010.64	185,379.40
1993 AC PCRB REFIN 09/01/2011 (Allieg. Sr B)	1995 or Before	610.28	49,143.44	41,820.08	34,496.72
10/01/2027 (Ohio Air Sr B)	1995 or Before	607.80	166,240.00	158,946.40	151,652.80
1993 Ohio AIR PCRB 10/01/2027 (Ohio Air Sr B)	1995 or Before	609.33	166,657.42	159,345.48	152,033.50
MNSFLD A 10/01/2029 (BC Sr E)	1995 or Before	37.53	11,166.71	10,716.35	10,265.99
MNSFLD C 10/01/2029 (BC Sr E)	1995 or Before	222.40	66,170.55	63,501.75	60,832.95
Beaver County B REFIN 10/01/2029 (BC Sr E)	1995 or Before	1,041.09	309,753.98	297,260.90	284,767.82
Beaver County B PREM 10/01/2029 (BC Sr E)	1995 or Before	1,472.65	438,153.16	420,481.36	402,809.56
Ohio Water 94 Old 10/01/2029 (OH Wtr Sr C)	1995 or Before	825.67	245,659.89	235,751.85	225,843.81
Ohio AIR 94 old 10/01/2029 (OH Air Sr C)	1995 or Before	139.25	41,431.96	39,760.96	38,089.96
Ohio Water 94 new 10/01/2029 (OH Wtr Sr C)	1995 or Before	985.16	293,111.26	281,289.34	269,467.42
Ohio AIR 94 new 10/01/2029 (OH Air Sr C)	1995 or Before	135.06	40,183.51	38,562.79	36,942.07
Total Unamortized Balance			49,262,727.75	48,780,465.63	46,278,225.75

Provide a schedule showing the calculation of the embedded cost of preferred stock equity by issue, supporting the related rate case claim. The schedule shall contain the following information:

- a. Date of issue.
- b. Date of maturity.
- c. Amount issued.
- d. Amount outstanding.
- e. Amount retired.
- f. Amount reacquired.
- g. Gain or loss on reacquisition.
- h. Dividend rate.
- i. Discount or premium at issuance.
- j. Issuance expenses.
- k. Net proceeds.
- l. Sinking fund requirements.
- m. Effective cost rate.
- n. Total average weighted effective cost rate.

Projected new issues, retirement and other major changes from the comparable historical data should be clearly noted.

Response:

No projected new issues, retirements or major changes from the comparable historical data. See Attachment III-A-1, pages 6 and 7 for details.

Q. Provide complete support for claimed equity rate of return.

A. See Statement No. 6, Direct Testimony of Paul R. Moul and Statement No. 7,
Direct Testimony of Julie C. Cannell.

Provide a summary statement of all stock dividends, splits or par value changes during the 2 calendar year period preceding the rate case filing.

Response:

No stock dividends, splits or par value changes to report.

Provide a schedule of all issuances of common stock, whether or not underwriters are used, for the most immediately available annual historical period and the 2 calendar years most immediately preceding the test year.

Response:

Issuances of common stock are transacted by Duquesne Light Holdings. See Attachment III-D-3 for Duquesne Light Holdings' common stock offerings.

Duquesne Light Holdings
Common Equity Issued for Dividend Reinvestment Plan (DRIP), Stock Purchase Plan (SPP), and DQE Preferred Stock Conversions (PFD CONV)

	Shares	Price/Sh	DRIP	SPP	PFD CONV	Equity Offering	Total
January 2, 2002	250,391	\$19.1725	\$328,657	\$4,472,492			\$4,801,149
February 1, 2002	27,208	19.3100	526,758				526,758
March 1, 2002	18,092	20.7900	377,057				377,057
April 1, 2002	223,727	21.2600	298,856	4,456,577			4,755,433
May 1, 2002	25,367	19.3250	494,485				494,485
June 3, 2002	26,513	17.7725	472,519				472,519
June 26, 2002	17,250,000	13.5000				232,875,000	232,875,000
July 1, 2002	324,630	14.3400	229,711	4,429,808			4,659,520
August 1, 2002	31,771	13.4900	430,187				430,187
September 2, 2002	19,671	14.9450	294,956				294,956
October 1, 2002	188,213	15.2150	205,236	2,655,998			2,861,234
November 1, 2002	15,687	15.5950	245,433				245,433
December 2, 2002	10,765	14.7775	159,614				159,614
January 2, 2003	181,651	15.4725	158,080	2,649,782			2,807,862
February 3, 2003	21,905	14.1075	310,130				310,130
March 3, 2003	18,033	13.5825	245,830				245,830
April 1, 2003	232,313	12.1150	174,194	2,640,505			2,814,698
May 1, 2003	25,776	13.5800	351,328				351,328
June 2, 2003	20,613	16.4475	339,982				339,982
July 1, 2003	190,878	15.1000	215,640	2,664,918			2,880,558
August 1, 2003	33,683	14.3300	484,359				484,359
September 2, 2003	19,913	14.8050	295,811				295,811
October 1, 2003	187,292	15.6450	249,528	2,678,791			2,928,319
November 3, 2003	101,125	16.1300	458,388		1,171,983		1,630,372
December 1, 2003	18,183	17.3950	317,195				317,195
January 2, 2004	179,039	18.2375	263,662	2,620,489	375,985		3,260,136
February 2, 2004	23,984	18.9275	455,157				455,157
March 1, 2004	125,714	20.1600	271,996		2,199,973		2,471,969
April 1, 2004	180,423	19.5950	282,246	2,605,482	623,965		3,511,693
May 1, 2004	118,478	18.8650	408,523		1,856,415		2,264,938
June 1, 2004	12,564	19.2400	242,346				242,346
July 1, 2004	147,005	19.1100	208,444	2,597,105			2,805,549
August 2, 2004	16,889	18.9000	320,042				320,042
September 1, 2004	108,092	18.9600	281,353		1,733,365		2,014,719
October 1, 2004	154,854	18.2200	218,171	2,599,927			2,818,099
November 1, 2004	20,437	17.2650	353,869				353,869
December 1, 2004	65,651	17.6200	270,107		908,484		1,178,590
January 3, 2005	367,304	18.8225	233,148	2,606,100	4,118,270		6,957,518
February 1, 2005	150,673	18.7350	382,765		2,395,901		2,778,666
March 1, 2005	18,599	18.7700	350,045				350,045
April 1, 2005	162,701	17.9600	223,302	2,596,149	100,589		2,920,040
May 2, 2005	18,501	17.4775	324,289				324,289
June 1, 2005	17,174	19.2150	330,844				330,844
July 1, 2005	145,956	18.8050	158,648	2,584,758			2,743,405
August 1, 2005	18,701	19.3250	362,328				362,328
September 1, 2005	13,143	18.2100	239,996				239,996
October 1, 2005	162,975	17.3275	243,610	2,579,645			2,823,256
November 1, 2005	25,045	16.6400	418,012				418,012
December 1, 2005	20,102	17.1500	345,740				345,740
January 2, 2006	168,221	16.5000	203,655	2,571,565			2,775,220
February 1, 2006	13,168	17.9400	236,900				236,900
March 1, 2006	10,289	17.3100	178,608				178,608
Total	21,929,082		\$15,471,740	\$50,010,091	\$15,484,931	\$232,875,000	\$313,841,762

Submit details on the utility and parent company stock offerings—past 5 years to present—as follows:

- a. Date of prospectus
- b. Date of offering.
- c. Record date.
- d. Offering period—dates and numbers of days.
- e. Amount and number of shares offered.
- f. Offering ratio, if rights offering.
- g. Percent subscribed.
- h. Offering price.
- i. Gross proceeds per share.
- j. Expenses per share.
- k. Net proceeds per share (i - j).
- l. Market price per share.
 - (1) At record date.
 - (2) At offering date.
 - (3) One month after close of offering.
- m. Average market price during offering.
 - (1) Price per share.
 - (2) Rights per share—average value of rights.
- n. Latest reported earnings per share at time of offering.
- o. Latest reported dividends at time of offering.

Response:

In June 2002, Duquesne Light Holdings priced a \$202.5 million equity offering (\$232.9 million after underwriters exercised 30-day option to purchase up to an additional 2.25 million shares to cover over-allotments). All other material common equity offerings were related to Duquesne Light Holdings' DRIP, SPP or Series A, Preferred Stock Conversions as listed on Attachment III-D-3.

See Attachment III-D-4 for detailed information on June 2002 equity offering.

Details on June 2002 Equity Offering:

- a. Date of prospectus = June 7, 2002
- b. Date of offering = June 20, 2002
- c. Record date = Pre-offering Record Date was June 10, 2002; Post-offering Record Date was September 10, 2002
- d. Offering period, dates and numbers of days = The offering period started on June 14, 2002 and ended on June 20, 2002.
- e. Amount and number of shares offered = \$202,500,000 or 15,000,000 shares were offered. Underwriters exercised their 30-day option to purchase an additional 15% or 2,250,000 shares to cover over-allotments (sometimes referred to as the "green shoe"). Transaction concluded with the issuance of \$232,875,000 or 17,250,000 shares.
- f. Offering ratio, if rights offering = N/A
- g. Percent subscribed = 100%
- h. Offering price = \$13.50/share
- i. Gross proceeds per share = \$13.50/share
- j. Expenses per share = \$0.54/share (includes underwriting discount and expense)
- k. Net proceeds per share (i - j) = \$12.96/share
- l. Market price per share.
 - (1) At record date = On June 10, 2002, the last reported sale price on the consolidated tape was \$16.48/share.
 - (2) At offering date = On June 20, 2002, the last reported sale price on the consolidated tape was \$13.58/share.
 - (3) One month after close of offering = On July 22, 2002, the last reported sale price on the consolidated tape was \$12.39/share.
- m. Average market price during offering.
 - (1) Price per share = Average market price during offering period was \$14.60/share. During this period, the high was \$15.30/share and the low was \$13.58/share.
 - (2) Rights per share—average value of rights = N/A
- n. Latest reported earnings per share at time of offering = \$1.19/share to \$1.26/share for 2002 and \$1.33/share to \$1.40/share for 2003. Calculation assumes common stock outstanding as of June 20, 2002, adjusted for the offering, of 71,493,896 shares outstanding.
- o. Latest reported dividends at time of offering = On May 28, 2002, Duquesne Light Holdings' Board of Directors declared a quarterly common stock dividend of \$0.42/share to holders of record on June 10, 2002, payable on July 1, 2002. On May 28, 2002, the Board announced a revised dividend policy and reduced the quarterly dividend to \$0.25/share, commencing with the October 2002 dividend payment.

DFR III-E-1

Page 1 of 1

Sponsor: Susan Betta

Co-Sponsor: William F. Fields

If a claim of the filing utility is based on utilization of the capital structure or capital costs of the parent company and system—consolidated—the reasons for this claim must be fully stated and supported.

Response:

Duquesne Light will not be filing a claim based on the capital structure or capital costs of the parent company and system.

Regardless of the claim made, provide the capitalization data requested at Item III-A-2 for the parent company and for the system—consolidated.

Response:

See Attachment III-E-2 for 2004-5 capitalization data.

DUQUESNE LIGHT HOLDINGS

Capitalization (\$ in Millions)

Including Weighted AVG Short-Term Debt

	2005		2004	
	Amount Outstanding	Percent	Amount Outstanding	Percent
Weighted AVG Short-Term Debt	\$4.8	0.3%	\$18.5	1.1%
Long-Term Debt	957.8	54.2%	958	55.3%
Preferred & Preference Stock	147.5	8.4%	146.9	8.5%
Common Equity	655.9	37.1%	610.4	35.2%
Total Capitalization	<u>\$1,766.0</u>	<u>100.0%</u>	<u>\$1,733.8</u>	<u>100.0%</u>

Excluding Short-term Debt

	2005		2004	
	Amount Outstanding	Percent	Amount Outstanding	Percent
Long-Term Debt	\$957.8	54.4%	\$958.0	55.9%
Preferred & Preference Stock	147.5	8.4%	146.9	8.6%
Common Equity	655.9	37.2%	610.4	35.6%
Total Capitalization	<u>\$1,761.2</u>	<u>100.0%</u>	<u>\$1,715.3</u>	<u>100.0%</u>

Provide the latest available balance sheet and income statement for the parent company and system – consolidated.

Response:

See the response to Filing Requirement III-F-1 for the requested data.

Provide an organizational chart explaining the filing utility's corporate relationship to its affiliates – system structure.

Response:

See Attachment III-E-4.

Duquesne Light Holdings, Inc.

<u>Subsidiary / Affiliate</u>	<u>% Owned by Parent</u>
AquaSource, Inc.	100.00 %
Cherrington Insurance, Ltd.	100.00 %
DQE Capital Corporation	100.00 %
DQE Enterprises, Inc.	100.00 %
DQE Financial Corp.	100.00 %
DQE Systems, Inc.	100.00 %
Duquesne Energy Solutions, LLC	100.00 %
Duquesne Generation Company	100.00 %
Duquesne Light Company	100.00 %
Duquesne Financial, L. P.	100.00 %
Duquesne Power Two, LLC	100.00 %
Monongahela Light and Power Company	100.00 %
DataCom Information Systems, LLC	100.00 %
Maglev, Inc.	12.50 %
Oakridge Resources, Inc.	100.00 %
Duquesne Light Energy, LLC	100.00%

The latest available quarterly operating and financial report, annual report to the stockholders and prospectus shall be supplied for the utility and for the utility's parent, if the relationship exists.

Response:

Attachment III-F-1a provides the Quarterly Report for both Duquesne Light Company and Duquesne Light Holdings to the Securities and Exchange Commission for the quarter ended September 30, 2005 (Form 10-Q).

Attachment III-F-1b provides the Annual Report for both Duquesne Light Company and Duquesne Light Holdings to the Securities and Exchange Commission for the year ended December 31, 2005 (Form 10-K).

Attachment III-F-1c provides the latest Prospectus for Duquesne Light Company.

Attachment III-F-1d provides the latest Prospectus for Duquesne Light Holdings.

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

FORM 10-Q

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2005

or

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From _____ to _____

<u>Commission File Number</u>	<u>Registrant; State of Incorporation; Address; Telephone Number</u>	<u>IRS Employer Identification No.</u>
1-10290	Duquesne Light Holdings, Inc. (A Pennsylvania Corporation) 411 Seventh Avenue Pittsburgh, Pennsylvania 15219 412-393-6000	25-1598483
1-956	Duquesne Light Company (A Pennsylvania Corporation) 411 Seventh Avenue Pittsburgh, Pennsylvania 15219 412-393-6000	25-0451600

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Duquesne Light Holdings, Inc. Yes X No
Duquesne Light Company Yes X No

Indicate by check mark whether each registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Duquesne Light Holdings, Inc. Yes X No
Duquesne Light Company Yes X No

Indicate by check mark whether either registrant is a shell company (as defined in Rule 12b-2 of the Act).

Duquesne Light Holdings, Inc. Yes No X
Duquesne Light Company Yes No X

As of October 31, 2005, there were 77,973,432 shares of Duquesne Light Holdings, Inc.'s single class of common stock outstanding.

As of October 31, 2005, there were 10 shares of Duquesne Light Company's single class of common stock outstanding, all held by Duquesne Light Holdings, Inc.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Duquesne Light Holdings, Inc.

Condensed Consolidated Statements of Income (Unaudited)

(All Amounts in Millions,
Except Per Share Amounts)

	Three Months		Nine Months	
	Ended September 30, 2005	2004	Ended September 30, 2005	2004
Operating Revenues:				
Retail sales of electricity	\$222.7	\$206.1	\$593.6	\$581.4
Other	40.6	36.7	110.3	97.4
Total Operating Revenues	263.3	242.8	703.9	678.8
Operating Expenses:				
Purchased power (Note 4)	103.0	104.0	272.1	292.2
Other operating and maintenance	66.1	55.7	184.2	164.7
Acquisition termination cost	—	8.3	—	8.3
Depreciation and amortization	20.6	21.0	61.4	62.1
Taxes other than income taxes	14.8	13.6	41.6	39.7
Total Operating Expenses	204.5	202.6	559.3	567.0
Operating Income	58.8	40.2	144.6	111.8
Other Income - Net	20.3	1.8	39.1	9.2
Interest and Other Charges	(16.5)	(16.1)	(45.7)	(45.7)
Income from Continuing Operations Before Income Taxes and Limited Partners' Interest	62.6	25.9	138.0	75.3
Income Tax Expense	(21.8)	(5.0)	(45.9)	(12.2)
Benefit from Limited Partners' Interest	2.7	2.5	7.6	5.0
Income from Continuing Operations	43.5	23.4	99.7	68.1
Income from Discontinued Operations - Net (Note 8)	0.1	0.2	0.4	0.7
Net Income	\$ 43.6	\$ 23.6	\$100.1	\$ 68.8
Average Number of Common Shares Outstanding	77.8	76.6	77.6	76.3
Basic Earnings Per Share of Common Stock:				
Earnings from Continuing Operations	\$ 0.56	\$ 0.31	\$ 1.28	\$ 0.89
Earnings from Discontinued Operations	—	—	0.01	0.01
Basic Earnings Per Share of Common Stock	\$ 0.56	\$ 0.31	\$ 1.29	\$ 0.90
Diluted Earnings Per Share of Common Stock:				
Earnings from Continuing Operations	\$ 0.56	\$ 0.30	\$ 1.28	\$ 0.89
Earnings from Discontinued Operations	—	—	0.01	0.01
Diluted Earnings Per Share of Common Stock	\$ 0.56	\$ 0.30	\$ 1.29	\$ 0.90
Dividends Declared Per Share of Common Stock	\$ 0.25	\$ 0.25	\$ 0.75	\$ 0.75

See notes to condensed consolidated financial statements.

Duquesne Light Holdings, Inc.
Condensed Consolidated Balance Sheets (Unaudited)

(Millions of Dollars)

Assets	September 30, 2005	December 31, 2004
Current Assets:		
Cash and temporary cash investments	\$ 64.8	\$ 62.7
Receivables	127.1	115.5
Derivative instruments (Note 4)	47.5	0.8
Materials and supplies (at average cost)	15.4	14.6
Prepaid expenses	12.3	8.0
Other	0.7	19.2
Total Current Assets	267.8	220.8
Long-Term Investments	548.5	579.9
Property, Plant and Equipment:		
Property plant and equipment	2,270.3	2,210.4
Less: Accumulated depreciation and amortization	(787.0)	(751.0)
Property, Plant and Equipment – Net	1,483.3	1,459.4
Other Non-Current Assets:		
Regulatory assets	298.3	295.1
Other	88.7	77.6
Total Other Non-Current Assets	387.0	372.7
Total Assets	\$2,686.6	\$2,632.8
Liabilities and Capitalization		
Current Liabilities:		
Current debt maturities	\$ 0.2	\$ 0.2
Accounts payable	70.4	91.7
Income taxes payable	67.7	33.1
Common dividends declared	20.1	19.5
Deferred income taxes - net	15.2	—
Accrued interest	13.3	9.4
Other	66.3	52.9
Discontinued operations	2.3	3.4
Total Current Liabilities	255.5	210.2
Non-Current Liabilities:		
Deferred income taxes – net	412.7	408.2
Other	193.5	251.1
Total Non-Current Liabilities	606.2	659.3
Limited partners' interest	37.9	48.0
Commitments and Contingencies (Note 7)		
Capitalization:		
Long-term debt	957.8	958.0
Preferred and Preference Stock	147.6	146.9
Common Shareholders' Equity:		
Common stock – no par value (authorized – 187,500,000 shares; issued – 126,929,154 shares)	1,201.8	1,206.7
Retained earnings	605.4	563.6
Treasury stock (at cost) (47,908,982 and 49,927,343 shares)	(1,137.0)	(1,157.3)
Unearned compensation	(2.2)	(2.6)
Accumulated other comprehensive income	13.6	—
Total Common Shareholders' Equity	681.6	610.4
Total Capitalization	1,787.0	1,715.3
Total Liabilities and Capitalization	\$2,686.6	\$2,632.8

See notes to condensed consolidated financial statements.

Duquesne Light Holdings, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)

(Millions of Dollars)
Nine Months Ended September 30,
2005 2004

	2005	2004
Cash Flows from Operating Activities:		
Net income	\$ 100.1	\$ 68.8
Adjustments to reconcile net income to net cash provided		
from operating activities	(8.6)	74.3
Changes in working capital other than cash	(11.7)	(1.3)
Discontinued operations	(1.1)	(4.8)
Net Cash Provided from Operating Activities	78.7	137.0
Cash Flows from Investing Activities:		
Capital expenditures	(76.7)	(61.6)
Proceeds from dispositions	49.9	—
Other	0.1	(4.8)
Discontinued operations	0.9	(12.9)
Net Cash Used in Investing Activities	(25.8)	(79.3)
Cash Flows from Financing Activities:		
Issuance of long-term debt obligations	320.0	200.0
Issuance of preferred stock, net	—	73.1
Reductions of long-term debt obligations	(320.1)	(154.5)
Dividends on common and preferred stock	(50.2)	(49.7)
Other	(0.5)	4.2
Discontinued operations	—	(8.2)
Net Cash (Used in) Provided from Financing Activities	(50.8)	64.9
Net increase in cash and temporary cash investments	2.1	122.6
Cash and temporary cash investments at beginning of period	62.7	33.8
Cash and temporary cash investments at end of period	\$ 64.8	\$156.4
Supplemental Cash Flow Information		
Cash paid during the period:		
Interest (net of amount capitalized)	\$ 32.2	\$ 29.5
Income taxes paid (refunded)	\$ 17.6	\$ (14.2)

See notes to condensed consolidated financial statements.

Duquesne Light Holdings, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

	(Millions of Dollars)		(Millions of Dollars)	
	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
Net income	\$43.6	\$23.6	\$100.1	\$68.8
Other comprehensive income:				
Unrealized holding gains on interest rate hedging instruments, net of tax of \$4.2, \$—, \$3.1 and \$—	5.9	—	4.3	—
Unrealized holding gains on cash flow hedging instruments, net of tax of \$6.0, \$—, \$6.6 and \$—	8.5	—	9.3	—
Other comprehensive income	14.4	—	13.6	—
Comprehensive income	\$58.0	\$23.6	\$113.7	\$68.8

See notes to condensed consolidated financial statements.

Duquesne Light Company

Condensed Consolidated Statements of Income (Unaudited)

	(Millions of Dollars)			
	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2005	2004	2005	2004
Operating Revenues:				
Retail sales of electricity	\$ 205.9	\$ 206.1	\$ 558.5	\$ 581.4
Other	19.9	7.0	48.7	20.1
Total Operating Revenues	225.8	213.1	607.2	601.5
Operating Expenses:				
Purchased power (Note 4)	103.3	104.0	273.2	292.2
Other operating and maintenance	38.7	34.0	115.1	99.8
Acquisition termination cost	—	8.3	—	8.3
Depreciation and amortization	17.8	18.5	53.1	54.4
Taxes other than income taxes	13.5	13.4	38.4	39.1
Total Operating Expenses	173.3	178.2	479.8	493.8
Operating Income	52.5	34.9	127.4	107.7
Other Income - Net	6.0	4.7	17.1	13.6
Interest and Other Charges	(12.3)	(11.9)	(37.9)	(34.3)
Income Before Income Taxes	46.2	27.7	106.6	87.0
Income Tax Expense	18.9	10.7	42.8	33.9
Net Income	27.3	17.0	63.8	53.1
Dividends on Preferred and Preference Stock	2.0	2.0	6.0	4.6
Earnings Available for Common Stock	\$ 25.3	\$ 15.0	\$ 57.8	\$ 48.5

See notes to condensed consolidated financial statements.

Duquesne Light Company
Condensed Consolidated Balance Sheets (Unaudited)

(Millions of Dollars)

Assets	September 30, 2005	December 31, 2004
Current Assets:		
Investment in DQE Capital cash pool	\$ 51.0	\$ 135.8
Receivables	108.3	350.9
Derivative instruments (Note 4)	47.5	0.8
Materials and supplies (at average cost)	15.4	14.6
Other	11.4	6.2
Total Current Assets	233.6	508.3
Long-Term Investments	23.4	25.6
Property, Plant and Equipment:		
Property, plant and equipment	2,179.1	2,120.8
Less: Accumulated depreciation and amortization	(745.7)	(714.5)
Property, Plant and Equipment – Net	1,433.4	1,406.3
Other Non-Current Assets:		
Regulatory assets	298.3	295.1
Other	65.6	57.7
Total Other Non-Current Assets	363.9	352.8
Total Assets	\$2,054.3	\$2,293.0
Liabilities and Capitalization		
Current Liabilities:		
Accounts payable	\$ 55.1	\$ 85.7
Payable to affiliates (Note 11)	74.1	4.4
Deferred income taxes – net	15.2	—
Accrued interest	11.4	9.8
Derivative instruments (Note 4)	10.8	—
Accrued liabilities	30.6	31.0
Total Current Liabilities	197.2	130.9
Non-Current Liabilities:		
Deferred income taxes – net	321.8	323.1
Other	167.9	205.3
Total Non-Current Liabilities	489.7	528.4
Commitments and Contingencies (Note 7)		
Capitalization:		
Long-term debt	636.5	956.4
Preferred and Preference Stock	146.6	145.9
Common Shareholder's Equity:		
Common stock (authorized – 90,000,000 shares; issued and outstanding – 10 shares)	—	—
Capital surplus	486.4	486.4
Retained earnings	90.8	46.0
Accumulated other comprehensive income	7.1	(1.0)
Total Common Stockholder's Equity	584.3	531.4
Total Capitalization	1,367.4	1,633.7
Total Liabilities and Capitalization	\$2,054.3	\$2,293.0

See notes to condensed consolidated financial statements.

Duquesne Light Company
Condensed Consolidated Statements of Cash Flows (Unaudited)

(Millions of Dollars)
 Nine Months Ended September 30,
 2005 2004

Cash Flows from Operating Activities:		
Net income	\$ 63.8	\$ 53.1
Adjustments to reconcile net income to net cash provided from operating activities	5.3	65.0
Changes in working capital other than cash	(8.2)	(16.9)
Net Cash Provided from Operating Activities	60.9	101.2
Cash Flows from Investing Activities:		
Investment in DQE Capital cash pool	84.8	(105.8)
Capital expenditures	(73.9)	(59.9)
Collection of loan to parent (Note 6)	250.0	—
Other	(1.2)	(6.2)
Net Cash Provided from (Used in) Investing Activities	259.7	(171.9)
Cash Flows from Financing Activities:		
Issuance of long-term debt obligations	—	200.0
Issuance of preferred stock, net	—	73.1
Reductions of long-term debt obligations	(320.1)	(150.0)
Net borrowings under affiliate demand note	25.3	—
Dividends on common and preferred stock	(26.3)	(50.8)
Other	0.5	(1.6)
Net Cash (Used in) Provided from Financing Activities	(320.6)	70.7
Net increase (decrease) in cash and temporary cash investments	—	—
Cash and temporary cash investments at beginning of period	—	—
Cash and temporary cash investments at end of period	\$ —	\$ —
Supplemental Cash Flow Information		
Cash paid during the period:		
Interest (net of amount capitalized)	\$ 33.0	\$ 22.0
Income taxes paid	\$ 5.5	\$ 44.5

See notes to condensed consolidated financial statements.

Duquesne Light Company
Consolidated Statements of Comprehensive Income (Unaudited)

(Millions of Dollars) (Millions of Dollars)
 Three Months Nine Months
 Ended September 30, Ended September 30,
 2005 2004 2005 2004

Net income	\$ 27.3	\$ 17.0	\$ 63.8	\$ 53.1
Other comprehensive income (loss):				
Unrealized holding losses on securities, net of tax of \$(0.7), \$(0.7), \$(0.8) and \$(0.2)	(1.1)	(1.0)	(1.2)	(0.3)
Unrealized holding gains on cash flow hedging instruments, net of tax of \$6.0, \$—, \$6.6 and \$—	8.5	—	9.3	—
Other comprehensive income (loss)	7.4	(1.0)	8.1	(0.3)
Comprehensive income	\$34.7	\$ 16.0	\$71.9	\$ 52.8

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following Notes present information on both Duquesne Light Holdings, Inc. (Holdings) and Duquesne Light Company (Duquesne Light). Information on Holdings and its subsidiaries (not including Duquesne Light and its subsidiaries) shall not be deemed to be included as part of Duquesne Light's Notes.

References in the Notes to "we," "us" and "our" are to Holdings and its subsidiaries, collectively.

1. ACCOUNTING POLICIES

Consolidation

Holdings is an energy services holding company. Our subsidiaries include those discussed below.

The consolidated financial statements of Holdings and Duquesne Light include their accounts and their wholly and majority owned subsidiaries. The equity method of accounting is used for 20% to 50% interests in other companies. Under the equity method, original investments are recorded at cost and adjusted by our share of undistributed earnings or losses of these companies. All material intercompany balances and transactions have been eliminated in the consolidation.

In addition, effective March 31, 2004, we consolidate variable interest entities for which we are the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities" (revised December 2003) (FIN 46), regardless of the ownership percentage held by us.

Continuing Operations

Duquesne Light, our largest subsidiary, is an electric utility engaged in the supply (through its provider-of-last-resort service (POLR)), transmission and distribution of electric energy.

Duquesne Power, L.P., an unregulated subsidiary, maintains a portfolio of energy commodity contracts to provide full-requirements energy supply contracts for both (i) Duquesne Light's residential and small commercial POLR customers and (ii) Duquesne Light Energy, LLC's large commercial and industrial customers. These energy commodity contracts are with unrelated parties and include payment guarantees from Holdings.

Duquesne Light Energy, LLC (DLE) is an unregulated, competitive, retail electric generation supplier that offers customized solutions tailored to meet its customers' specific electricity needs. DLE's primary focus is on the large commercial and

industrial customer market segment in Duquesne Light's service territory.

Duquesne Energy Solutions, LLC (DES) is an energy facilities management company that provides energy outsourcing solutions including operation and maintenance of energy and synthetic fuel facilities.

DQE Financial Corp. owns, operates and maintains landfill gas collection and processing systems, and is an investment and portfolio management organization focused on structured finance and alternative energy investments.

DQE Communications, LLC owns, operates and maintains a high-speed, fiber optic based network, and leases dark fiber from the network to commercial, industrial and academic customers.

DQE Capital Corporation provides financing to Holdings for use with its affiliates.

Discontinued Operations

During 2003, AquaSource, Inc. (formerly our water resource management subsidiary) completed the sale of its assets, pursuant to agreements entered into in 2002. We sold the propane distribution business of our subsidiary, Pro Am, Inc., in December 2002. (See Note 8.)

Basis of Accounting

Holdings and Duquesne Light are subject to the accounting and reporting requirements of the Securities and Exchange Commission (SEC). Duquesne Light's electricity delivery business is also subject to regulation by the Pennsylvania Public Utility Commission (PUC) and the Federal Energy Regulatory Commission (FERC) with respect to rates for delivery of electric power, accounting and other matters.

The electricity delivery business segment meets the criteria of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," 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. The majority of these assets are currently being recovered over a period of approximately 26 years and are not earning a rate of return.

Pursuant to the PUC's final restructuring order, generation-related transition costs were being recovered through a competitive transition charge (CTC) collected in connection with providing transmission and distribution services. This collection period ended in the third quarter of 2005 when the

remaining CTC balance was collected from the last customer class.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions with respect to values and conditions 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 these estimates and assumptions. Management evaluates these estimates on an ongoing basis, using historical experience and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from these estimates.

The interim financial information for the three and nine month periods ended September 30, 2005 and 2004 is unaudited and has been prepared on the same basis as the audited financial statements. In the opinion of management, such unaudited information includes all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the interim information. This information does not include all footnotes which would be required for complete annual financial statements in accordance with accounting principles generally accepted in the United States of America.

These statements should be read with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2004 filed with the SEC. The results of operations for the three and nine months ended September 30, 2005, are not necessarily indicative of the results that may be expected for the full year.

Recent Accounting Pronouncements

Share-Based Payments

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment (revised December 2004)," which will eliminate the use of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. This standard is effective at the beginning of the first fiscal year that begins after June 15, 2005. We are currently evaluating the impact of the adoption of this standard on our financial statements.

Accounting for Conditional Asset Retirement Obligations

In March 2005, the FASB issued Financial Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143," which clarifies that the term "conditional asset retirement obligation" refers to a legal obligation to perform an asset retirement activity. This interpretation also states that the fair value of a liability for the conditional asset obligation should be recognized when incurred. This interpretation is effective no later than the end of the fiscal year ending after December 15, 2005. We are currently evaluating the impact of the adoption of this standard on our financial statements.

Earnings Per Share

Basic earnings per share are computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share are computed on the basis of the weighted average number of common shares outstanding, plus the effect of the outstanding Employee Stock Ownership Plan shares, Holdings preferred stock, stock options and performance share awards. 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 tables present the numerators and denominators used in computing the diluted earnings per share from continuing operations for Holdings for the three and nine months ended September 30, 2005 and 2004.

Diluted Earnings Per Share for the Three Months Ended September 30,

(Millions of Dollars)	2005	2004
Income from continuing operations	\$43.5	\$23.4
Dilutive effect of:		
ESOP dividends	0.3	0.3
Preferred stock dividends	—	0.1
Diluted Earnings from Continuing Operations for Common Stock	\$43.8	\$23.8

(Millions of Shares)	2005	2004
Basic average shares	77.8	76.6
Dilutive effect of:		
ESOP shares	0.8	0.8
Holdings preferred stock	—	0.5
Performance share awards and stock options	0.1	0.4
Diluted average shares	78.7	78.3
Diluted Earnings Per Share from Continuing Operations	\$0.56	\$0.30

Diluted Earnings Per Share for the Nine Months Ended September 30,

(Millions of Dollars)	2005	2004
Income from continuing operations	\$99.7	\$68.1
Dilutive effect of:		
ESOP dividends	0.8	0.9
Preferred stock dividends	—	0.3
Diluted Earnings from Continuing Operations for Common Stock	\$100.5	\$69.3

(Millions of Shares)	2005	2004
Basic average shares	77.6	76.3
Dilutive effect of:		
ESOP shares	0.8	0.8
Holdings preferred stock	—	0.6
Performance share awards and stock options	0.1	0.4
Diluted average shares	78.5	78.1
Diluted Earnings Per Share from Continuing Operations	\$1.28	\$0.89

2. RATE MATTERS

Effective January 1, 2005, Duquesne Light joined PJM Interconnection (PJM), becoming (along with other electric generation suppliers) a load-serving entity within PJM. In addition, POLR III became effective on that date.

As previously reported, the FERC has issued a series of orders eliminating the regional through and out rates (RTOR) for certain transmission services between the Midwest Independent System Operator (MISO) and PJM effective December 1, 2004. A transitional pricing mechanism called the seams elimination charge adjustment (SECA) has been put in place through March 2006 in order to compensate transmission owners for the estimated revenue lost as a result of the elimination of the RTOR. Total SECA charges for the Duquesne Light zone are

expected to be approximately \$39 million. The FERC has accepted revised compliance filings implementing SECA charges among load-serving entities within the Duquesne Light zone. Under that filing, Duquesne Light was allocated approximately \$11 million of the SECA charges. The other load-serving entities in the Duquesne Light zone were allocated the remainder of such charges. DLE's allocation of SECA charges will depend on the amount of load it serves; based on current load, DLE's allocation is expected to be approximately \$1.8 million.

The SECA charges must be paid by load-serving entities within the Duquesne Light zone on a current basis. In June 2005, Duquesne Light filed a request with the PUC for permission to pass SECA charges through to its POLR customers. This request was granted by the PUC in August 2005, subject to disposition of any complaints filed against the request. Duquesne Light has put these charges into effect for service beginning August 26, 2005. However, if the FERC ultimately adopts a SECA level and allocation method that differs from the proposed charges initially accepted by the FERC for billing purposes, refunds or surcharges will be used to compensate or charge the appropriate entity for the difference between the amounts initially accepted by the FERC and the amounts ultimately determined to be just and reasonable by the FERC. The final amount of our SECA obligations therefore remains uncertain.

As of September 30, 2005, Duquesne Light has reflected SECA charges totaling \$6.7 million on the condensed consolidated balance sheets in regulatory assets.

3. RECEIVABLES

The components of receivables for the periods indicated are as follows:

Holdings

	(Millions of Dollars)	
	September 30, 2005	December 31, 2004
Electric customers	\$ 84.8	\$ 75.8
Unbilled electric customers	31.0	31.3
Other	30.0	26.5
Less: Allowance for uncollectible accounts	(18.7)	(18.1)
Total	\$127.1	\$115.5

Duquesne Light

	(Millions of Dollars)	
	September 30, 2005	December 31, 2004
Electric customers	\$ 80.4	\$ 75.8
Unbilled electric customers	28.0	31.1
Loan to Holdings	—	250.0
Affiliate receivables	5.0	1.8
Other	13.3	10.1
Less: Allowance for uncollectible accounts	(18.4)	(17.9)
Total	\$108.3	\$350.9

4. DERIVATIVE INSTRUMENTS

Energy Contracts

Beginning January 1, 2005, our supply business is responsible for providing all of the energy requirements for both (i) residential and small commercial POLR customers and (ii) any customers with whom DLE contracts. To meet this obligation, we entered into energy commodity contracts with multiple investment-grade suppliers for a significant portion of our expected customer requirements. These purchase contracts are designed solely to provide for the delivery of energy as needed to supply customer usage. A Board-approved risk management policy permits transactions for the prudent management of customer energy requirements, and precludes any speculative transactions.

The accounting for these contracts considers the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. Under the terms of the contracts, some of the energy purchases are delivered to the Duquesne Light zone as defined by PJM. These purchases qualify for the normal purchase and sale exemption under SFAS No. 133 and are reflected as purchased power expense in the condensed consolidated statements of income at their wholesale price upon delivery to us. As of September 30, 2005, the remaining notional value of these contracts was \$414.2 million, including \$372.7 million for the contracts that mature after December 31, 2005.

We also entered into certain purchase contracts that are for delivery to points other than the Duquesne Light zone within PJM. Because these contracts are not settled at the Duquesne Light zone, they do not qualify for the normal purchase and sale exemption and are recorded in the condensed

consolidated financial statements at fair value. Subsequent changes in the fair value of these contracts are recorded currently in earnings unless certain hedge accounting criteria are met. The remaining notional amount of these contracts as of September 30, 2005, is \$372.1 million, including \$353.4 million for the contracts maturing after December 31, 2005. The above amounts include contracts maturing after December 31, 2005 with aggregate notional values of \$97.5 million that have been designated as cash flow hedges. To the extent the hedges are determined to be effective, and certain other criteria are met, the changes in the value of these contracts are included in the statement of comprehensive income, net of deferred taxes. Amounts recorded in the statement of comprehensive income related to cash flow hedges will be recognized in earnings as the related contracts are settled.

We entered into sales contracts maturing in 2005 through 2007 that are accounted for on a mark-to-market basis. The notional amount of these sales contracts was \$184.9 million as of September 30, 2005. These contracts were entered into primarily for the purpose of offsetting volatility associated with the *mark-to-market accounting for the purchase contracts* maturing in 2006 and 2007, as described above. We record the revenue associated with our mark-to-market contracts on a net basis in purchased power expense in our condensed consolidated statements of income.

The following table summarizes the derivative assets and liabilities for the energy contracts included in the condensed consolidated balance sheets for both Holdings and Duquesne Light:

	(Millions of Dollars)	
	September 30, 2005	December 31, 2004
Short-term derivative assets	\$47.5	\$ 0.8
Long-term derivative assets	12.7	—
Total derivative assets	60.2	0.8
Short-term derivative liabilities	10.8	—
Long-term derivative liabilities	10.9	0.7
Total derivative liabilities	21.7	0.7
Net Derivative Assets	\$38.5	\$ 0.1

The change in the net derivative assets, for contracts not accounted for as cash flow hedges, of \$22.8 million for the nine months ended September 30, 2005, has been recorded as an offset to purchased power expense in the condensed consolidated statements of income for both Holdings and Duquesne Light. For the nine months ended September 30, 2005, the amount related to hedge ineffectiveness of energy contracts was immaterial.

Interest Rate Locks

In anticipation of the August 2005 issuance of \$320 million of senior unsecured debt, Holdings entered into a series of interest rate lock agreements during the second quarter of 2005 to hedge exposure to interest rate fluctuations for \$250 million of the senior unsecured debt. These agreements were designated as cash flow hedges under SFAS No. 133. Holdings settled the rate lock agreements in conjunction with the issuance of the debt, therefore the hedge was determined to be 100% effective. As a result of the settlement, Holdings received \$7.4 million in cash and recorded \$4.3 million in the statement of comprehensive income, net of deferred taxes of \$3.1 million. Amounts recorded in comprehensive income related to these agreements will be recognized as an approximate \$0.3 million reduction of annual interest expense through August 2015, and an approximate \$0.2 million annual reduction from September 2015 through August 2035.

On February 9, 2005, we entered into an interest-rate lock agreement for \$100 million of senior unsecured debt that we originally planned to issue in the first quarter of 2005. The interest-rate lock was designated as a cash flow hedge under SFAS No. 133. Changes in our cash requirements resulted in the postponement of the debt offering. On March 30, 2005, we unwound the interest-rate lock agreement, resulting in a \$4.0 million pre-tax gain that was recorded in other income on Holdings condensed consolidated statements of income.

5. DISPOSITIONS

In September 2005, DQE Financial sold its investment in a leveraged lease involving a gas processing facility, received \$9.9 million in cash and recorded a pre-tax loss of \$1.3 million in other income on Holdings condensed consolidated statement of income.

In August 2005, DES entered into agreements to sell up to six on-site energy facility management projects to DTE Energy Services for expected

aggregate cash proceeds of between \$35 and \$40 million, subject to working capital adjustments. On September 30, 2005, DES closed on the sale of one of the energy facility management projects, received \$24.5 million in cash and recognized a pre-tax gain of \$18 million in other income on Holdings condensed consolidated statement of income.

In the first nine months of 2005, DQE Financial received \$2.5 million in additional cash sales proceeds related to the 2004 sale of 50% of its investment in a synthetic fuel partnership, and has recognized an additional pre-tax gain in other income on Holdings condensed consolidated statement of income. Additional sale proceeds may be received during the remainder of the tax credit period through December 2007.

In January 2005, DQE Financial sold its investment in a natural gas operating partnership for \$12.7 million in cash and recognized a pre-tax gain of \$7.1 million in other income on Holdings condensed consolidated statement of income.

In September 2004, DQE Financial sold an investment in a landfill gas operation and received \$2.9 million of cash proceeds, and recognized a pre-tax loss of \$2.1 million in other income on Holdings condensed consolidated statement of income. In August 2005, DQE Financial determined that no additional proceeds are to be received related to the contingent portion of the sale. Therefore, DQE Financial has recognized an additional pre-tax loss of \$3 million in other income, on Holdings condensed consolidated statement of income, related to the basis in the assets that were subject to the contingent portion of the sale.

In September 2004, Duquesne Power terminated the acquisition of the Sunbury generation station and recorded an \$8.3 million pre-tax charge related to the write-off of deferred costs and deposits made.

6. NOTES PAYABLE AND LONG-TERM DEBT

During August 2005, Holdings issued \$200 million of 5.5% senior notes due August 15, 2015 and \$120 million of 6.25% senior notes due August 15, 2035. Proceeds were used to repay the \$250 million intercompany loan with Duquesne Light and approximately \$37 million of variable rate borrowings under Holdings' credit facility. The remaining balance was used for general corporate purposes.

Duquesne Light used the proceeds received from the repayment of the Holdings' intercompany loan plus available cash to purchase at par upon mandatory tender \$320.1 million of variable rate Pollution Control Revenue Refunding Bonds with maturity dates ranging from 2020 to 2033. The

purchased bonds are presented as extinguished debt in conformity with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

During July 2005, both Holdings and Duquesne Light extended the maturity date of their existing revolving credit facilities from September 2007 to July 2010. In addition, Holdings' credit facility was increased from \$175 million to \$200 million.

As of September 30, 2005, no borrowings were outstanding under either the Holdings or Duquesne Light revolving credit facility. Letters of credit totaling \$62.1 million at Holdings (including \$6.7 million at Duquesne Light) were outstanding under the credit facilities on September 30, 2005.

In May 2004, Duquesne Light issued \$200 million of 5.7% first mortgage bonds (due 2014).

During 2004, Duquesne Capital redeemed \$150 million principal amount of its Monthly Income Preferred Securities, Series A (MIPS). Pursuant to the terms of the MIPS, Duquesne Light simultaneously redeemed \$151.5 million of its Subordinated Debentures.

On February 18, 2004, as part of an amended and restated concession agreement with the City of New York, GSF Energy, L.L.C., a DQE Financial subsidiary, paid \$4.5 million to the City and was released from all financial obligations under the prior concession agreement, including the \$21.4 million note payable to the City. As a direct result of the settlement, we are recognizing approximately \$16 million in pre-tax income ratably over the new contract term, scheduled to end June 30, 2006.

7. COMMITMENTS AND CONTINGENCIES

Guarantees

As part of DQE Financial's investment portfolio in seven affordable housing funds, we have received fees in exchange for guaranteeing a minimum defined yield to unrelated investors. We entered into these transactions between 1995 and 1999 because of the attractive risk/reward characteristics available to guarantors. The guarantee period will expire by 2015. In the event the underlying affordable housing properties do not generate the necessary minimum yield during the guarantee period, we will make cash payments necessary to achieve the minimum yield. The original amount guaranteed was approximately \$250 million, and has declined as investors have earned the guaranteed returns. We estimate the maximum potential amount of undiscounted future payments that we could be required to make under the guarantees if the investors earn no future returns was \$40.5 million as of September 30, 2005.

In connection with the sale of six synthetic fuel facilities in 2000 by our indirect subsidiary, Duquesne Energy, Inc., we agreed to guarantee our subsidiary's obligations and liabilities to the third party purchaser under the purchase agreement, including our subsidiary's indemnification obligations against breaches of warranties, representations and covenants contained therein. The guarantee generally extends up to six years or otherwise as provided under the applicable statute of limitations, based on the expiration of the underlying representations, warranties and covenants. We have determined our exposure to be limited, as both legal and factual representations and warranties have been primarily limited to matters within the control and knowledge of our subsidiary. As such, no liability has been recorded on the condensed consolidated balance sheets. In connection with an IRS audit for the years 1998 through 2002 described in this footnote below under the subheading "Income Taxes", in July 2005, the IRS issued a Notice of Proposed Adjustment in which its field auditors asserted that five of the six synthetic fuel facilities sold in 2000 were not placed in service by the required June 30, 1998 date and, therefore, the Section 29 tax credits for those five facilities should be disallowed.

We do not agree with the IRS' position and will vigorously defend our position that the synthetic fuel facilities were placed in service by June 30, 1998.

In addition, Holdings has backed certain limited obligations during a long-term contract held by a subsidiary with a \$1.5 million payment guarantee that has not been recorded as a liability on the condensed consolidated balance sheets. We do not believe these guarantees will have any material impact on our results of operations, financial position or cash flows.

Holdings has guaranteed portions of the obligations of Duquesne Power under its energy commodity contracts in order to use Holdings' stronger credit profile to obtain better pricing and contract terms for Duquesne Power. In general, if Duquesne Power is required to make a payment under these contracts and fails to do so, Holdings would be required to make such payment. The notional value of the contracts (and consequently the guarantee amounts) changes as additional energy commodities are bought or sold, and as Duquesne Power pays for its energy commodity deliveries. As of September 30, 2005, the maximum amount of Holdings' payment guarantee related to the purchase and capacity obligations totaled \$687.7 million, or 85% of the total remaining notional value under these contracts. In addition, Holdings guarantees

Duquesne Power's obligations to deliver energy under the energy sales contracts, to the extent that Duquesne Power would be obligated to compensate the counterparty for the difference in the counterparty's cost to procure the energy and the contract price. As of September 30, 2005, no guarantee amount has been recorded as a liability on the condensed consolidated balance sheets. In addition, Holdings posts collateral on behalf of Duquesne Power as needed under the energy commodity contracts. As of September 30, 2005, no collateral was outstanding.

In conjunction with certain transactions, primarily divestitures, we provide routine indemnifications (e.g., retention of previously existing environmental, tax and employee liabilities) whose terms range in duration and often are not explicitly defined. Where appropriate, an obligation for such indemnifications is recorded as a liability. Because the obligated amounts of these types of indemnifications often are not explicitly stated, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, historically we have not made significant payments for these indemnifications.

Income Taxes

The IRS has audited all federal corporate tax returns for the years through 1997 and these years are closed. As a result of this audit, the balance, including interest due to the IRS, of \$52.9 million and \$50.9 million as of September 30, 2005 and December 31, 2004, is included in other current liabilities on our condensed consolidated balance sheets.

The IRS is currently auditing the 1998 through 2002 tax years. During that period, one of our subsidiaries constructed and operated six synthetic fuel facilities, which were subsequently sold in the year 2000 to a third party, as described more fully in this footnote above under the subheading "Guarantees." DES currently operates five of these six facilities under an agreement with the third party purchaser. In July 2005, the IRS issued a Notice of Proposed Adjustment in which it determined that five of these six facilities were not placed in service by the required June 30, 1998 date and, therefore, the Section 29 tax credits for these five facilities should be disallowed. As discussed above, we do not agree with the IRS' position. We cannot predict when this issue will ultimately be resolved. We claimed approximately \$6.5 million of Section 29 tax credits relating to the ownership of these five synthetic fuel facilities prior to their sale in 2000.

The Pennsylvania Department of Revenue has issued assessments of additional tax for 1999 through 2002 primarily to include income of a Duquesne Light out of state subsidiary corporation in Pennsylvania taxable income. If, as expected, the Department asserts the same positions for 2003 and 2004, Duquesne Light's total exposure for all years, without interest or penalty, could approximate \$96 million (net of associated federal benefit). Ultimately, Duquesne Light expects all years involved to be appealed to and decided at the Pennsylvania Commonwealth Court.

It is not possible to predict if, when, or to what extent any state income tax adjustments ultimately proposed for the period 1999 through 2004 will be sustained. Duquesne Light does not believe that the ultimate resolution of its state tax issue for the years 1999 through 2004 will have a material adverse effect on its financial position or results of operation. However, the resolution, depending on the extent and timing thereof, could have a material adverse effect on cash flows for the period in which they are paid.

In connection with the above examinations, both Holdings and Duquesne Light have established tax reserves, which are included in other current and non-current liabilities on the condensed consolidated balance sheets. We believe these reserves are adequate in relation to the above matters. We regularly assess the likelihood of additional assessments resulting from these and subsequent years' examinations. Once established, reserves are adjusted only when there is more information available or when an event occurs that necessitates a change to the reserves.

Employees

Duquesne Light is a party to a labor contract with the International Brotherhood of Electrical Workers, which represents more than 70% of Duquesne Light's approximately 1,400 employees. This contract was recently renegotiated, and expires in September 2010.

Legal Proceedings

Shareholder Class Action. In October 2005, the court approved a settlement of all claims of the class and sub-class. The settlement will be covered in full by our insurance.

Possible Phase-out of Section 29 Tax Credits

Section 29 of the Internal Revenue Code provides tax credits through 2007 for the production and sale of non-conventional fuels, including solid synthetic fuels and landfill gas. Holdings earns Section 29 tax credits from DQE Financial's landfill gas operations

and an investment in a synthetic fuel partnership. Duquesne Energy Solutions operates synthetic fuel facilities for a single customer, earning fees based on production.

Section 29 tax credits are subject to a phase-out provision that reduces tax credits as the average annual wellhead price per barrel of domestic crude oil increases into an inflation-adjusted phase-out range. For 2004, the tax credit would have begun to phase-out if the annual average wellhead price of domestic crude oil exceeded \$51.35 per barrel and would have been completely phased out if the annual average wellhead price of domestic crude oil exceeded \$64.47 per barrel.

The 2005 phase-out range will be calculated using inflation rates published in 2006 by the IRS. Based on both the estimated average wellhead price to date and current futures prices for the remaining months of 2005, we believe that there will not be a phase-out of tax credits in 2005.

Absent any efforts to mitigate market price exposure, if domestic crude oil prices increase further in 2005 and continue to stay at a high level in 2006 and/or 2007, tax credits and net income may be reduced substantially due to the phase-out. Based on our evaluation, as of September 30, 2005, we have thus far determined not to enter into hedging arrangements to reduce this exposure.

During the first nine months of 2005, we recorded \$15.2 million of Section 29 tax credits on Holdings condensed consolidated statement of income. In addition, as of September 30, 2005, we have certain tangible and intangible assets related to DQE Financial's landfill gas operations with a net book value of approximately \$6 million that may become impaired if domestic crude oil prices continue to increase in the future. As of September 30, 2005, we have no net book value related to synthetic fuel assets or investments.

Discontinued Operations

As part of the sale of AquaSource, we retained certain obligations related to the business that was sold to Aqua America, Inc., including responsibility for certain existing litigation matters as well as a 10-year indemnity for certain pre-closing environmental claims. We purchased an environmental liability policy to mitigate this indemnity. We also had a maximum three-year indemnity obligation for certain other pre-closing liabilities that was originally limited by a \$15 million indemnity cap. Because Aqua America had not made the minimum required threshold of indemnification requests during the first year after closing, this indemnity obligation was reduced to a \$7.5 million cap over a two year period.

We have notified Aqua America that with the passage of the second anniversary of the closing of the transaction, the indemnification has terminated, and no further claims can be made under the indemnity obligation. Based on the closing of the indemnification period and information relating to indemnification requests made to date, it does not appear that our ultimate liability to Aqua America under the indemnity obligation will have a material impact on Holdings' earnings or cash flow.

8. DISCONTINUED OPERATIONS

Pursuant to agreements entered into in 2002 to sell the majority of our investment in AquaSource and our investment in Pro Am, as well as our subsequent sale of the remaining net assets of AquaSource, these subsidiaries have been reflected as discontinued operations in the condensed consolidated financial statements.

The \$3.3 million promissory note, due April 1, 2005, from former members of AquaSource management from the sale of AquaSource's water and wastewater utility construction business was paid in full in January 2005 when the corresponding value of outstanding shares of Holdings common stock were surrendered by these individuals.

In March 2005, we received \$0.9 million in cash as final settlement on the sale of Pro Am.

The following tables summarize income statement data from discontinued operations:

	(Millions of Dollars)	
	Three Months Ended September 30,	
	2005	2004
Revenues	\$ —	\$ —
Operating Results, net of tax of \$— and \$(0.2)	\$ —	\$ 0.1
Gain from sale of Discontinued Operations, net of tax of \$— and \$0.1	<u>0.1</u>	<u>0.1</u>
Income from Discontinued Operations	<u>\$ 0.1</u>	<u>\$ 0.2</u>

	(Millions of Dollars) Nine Months Ended September 30,	
	2005	2004
Revenues	\$ —	\$ —
Operating Results, net of tax of \$— and \$0.1	\$ —	\$ (0.1)
Gain from sale of Discontinued Operations, net of tax of \$0.2 and \$0.5	<u>0.4</u>	<u>0.8</u>
Income from Discontinued Operations	<u>\$ 0.4</u>	<u>\$ 0.7</u>

9. PENSION AND POSTRETIREMENT BENEFITS

The following tables summarize the components of net periodic pension benefit cost:

	(Millions of Dollars) Three Months Ended September 30,	
	2005	2004
Service cost	\$ 2.0	\$ 2.1
Interest cost	11.0	10.5
Expected return on plan assets	(13.9)	(12.9)
Amortization of unrecognized net transition obligation	—	0.2
Amortization of prior service cost	1.0	0.8
Amortization of actuarial gain	—	(0.1)
Net periodic pension benefit cost	<u>\$ 0.1</u>	<u>\$ 0.6</u>

	(Millions of Dollars) Nine Months Ended September 30,	
	2005	2004
Service cost	\$ 6.6	\$ 6.1
Interest cost	32.0	31.7
Expected return on plan assets	(41.5)	(38.9)
Amortization of unrecognized net transition obligation	—	0.6
Amortization of prior service cost	2.6	2.6
Amortization of actuarial gain	—	(0.5)
Net periodic pension benefit (gain) cost	<u>\$ (0.3)</u>	<u>\$ 1.6</u>

In January 2005, Duquesne Light met its obligation, pursuant to the January 2001 PUC Order regarding Duquesne Light's final generation asset sale proceeds accounting, by contributing \$32.1 million to the pension plans. As of September 30, 2005, we do not anticipate being required to contribute any additional amounts to fund the pension plans in 2005.

The following tables summarize the components of net periodic postretirement benefit cost:

	(Millions of Dollars) Three Months Ended September 30,	
	2005	2004
Service cost	\$ 0.5	\$ 0.4
Interest cost	0.5	0.8
Amortization of unrecognized net transition obligation	0.1	0.1
Amortization of prior service cost	0.4	0.2
Amortization of actuarial loss	0.3	—
Net periodic postretirement benefit cost	<u>\$ 1.8</u>	<u>\$ 1.5</u>

	(Millions of Dollars) Nine Months Ended September 30,	
	2005	2004
Service cost	\$ 1.1	\$ 1.0
Interest cost	2.6	2.4
Amortization of unrecognized net transition obligation	0.5	0.5
Amortization of prior service cost	0.8	0.5
Amortization of actuarial loss	0.3	—
Net periodic postretirement benefit cost	<u>\$ 5.3</u>	<u>\$ 4.4</u>

10. PREFERRED AND PREFERENCE STOCK

In April 2004, Duquesne Light issued 1.5 million shares of 6.5% non-convertible preferred stock (\$50 par and liquidation value), receiving net proceeds of approximately \$73 million.

11. PAYABLE TO AFFILIATES

In the first quarter of 2005, Duquesne Power entered into a demand note with Holdings for general working capital purposes. The note bears a market rate of interest. Under the terms of the note, Duquesne Power can have outstanding up to \$60 million from Holdings. As of September 30, 2005, Duquesne Power had \$25.3 million outstanding under the demand note, which was included in payable to affiliates on Duquesne Light's condensed consolidated balance sheet.

Duquesne Light participates in a tax sharing arrangement with Holdings to provide, among other things, for the payment of taxes for periods during which Holdings and Duquesne Light are included in the same consolidated group for federal tax purposes. Duquesne Light shares in the consolidated tax liability to the extent of its income or loss for the year. As of September 30, 2005 and December 31, 2004, Duquesne Light's tax liability to Holdings under this arrangement was \$40.4 million and \$(2.6) million and was included in payable to affiliates on Duquesne Light's condensed consolidated balance sheets.

12. BUSINESS SEGMENTS AND RELATED INFORMATION

Duquesne Light reports the following business segments: (1) transmission and distribution of electricity (electricity delivery business segment), (2) supply of electricity by Duquesne Light (Duquesne Light supply business segment), and (3) collection of transition costs (CTC business segment).

Holdings reports the following business segments: (1) transmission and distribution of electricity (electricity delivery business segment), (2) supply of electricity (which includes the Duquesne Light supply business segment and, beginning in 2005, supply by DLE) (electricity supply business segment), (3) collection of transition costs (CTC business segment), (4) DES' development, operation and maintenance of energy facilities and, for a single customer, synthetic fuel facilities (Energy Solutions business segment), (5) DQE Financial's collection and processing of landfill gas and management of structured finance and alternative energy investments (Financial business segment), and (6) DQE Communications' operation, maintenance and leasing of its fiber optic based network (Communications business segment). We also report an "all other" category to include our other subsidiaries below the quantitative threshold for disclosure. These subsidiaries provide corporate administrative functions, financing, and insurance services for our various affiliates.

Duquesne Light Company

Business Segments for the Three Months Ended September 30, 2005

	(Millions of Dollars)			
	Electricity Delivery	Duquesne Light Supply	CTC	Consolidated
Operating revenues	\$ 97.6	\$127.2	\$ 1.0	\$ 225.8
Operating expenses	44.1	111.3	0.1	155.5
Depreciation and amortization expense	16.9	—	0.9	17.8
Operating income	36.6	15.9	—	52.5
Other income - net	6.0	—	—	6.0
Interest and other charges	11.8	0.5	—	12.3
Income before income taxes	30.8	15.4	—	46.2
Income tax expense	12.5	6.4	—	18.9
Net Income	18.3	9.0	—	27.3
Dividends on preferred and preference stock	2.0	—	—	2.0
Earnings available for common stock	\$ 16.3	\$ 9.0	\$ —	\$ 25.3
Assets	\$1,987.9	\$66.4	\$ —	\$2,054.3
Capital expenditures	\$ 36.5	\$ —	\$ —	\$ 36.5

Business Segments for the Three Months Ended September 30, 2004

	(Millions of Dollars)			
	Electricity Delivery	Duquesne Light Supply	CTC	Consolidated
Operating revenues	\$ 92.7	\$117.6	\$ 2.8	\$ 213.1
Operating expenses	41.0	110.3	0.1	151.4
Acquisition termination cost	—	8.3	—	8.3
Depreciation and amortization expense	15.8	—	2.7	18.5
Operating income	35.9	(1.0)	—	34.9
Other income - net	4.7	—	—	4.7
Interest and other charges	11.9	—	—	11.9
Income before income taxes	28.7	(1.0)	—	27.7
Income tax expense	11.2	(0.5)	—	10.7
Net Income	17.5	(0.5)	—	17.0
Dividends on preferred and preference stock	2.0	—	—	2.0
Earnings available for common stock	\$ 15.5	\$ (0.5)	\$ —	\$ 15.0
Assets (a)	\$2,287.1	\$ 1.2	\$ 4.7	\$2,293.0
Capital expenditures	\$ 19.8	\$ 0.1	\$ —	\$ 19.9

(a) Relates to assets as of December 31, 2004.

Duquesne Light Company

Business Segments for the Nine Months Ended September 30, 2005

(Millions of Dollars)

	Electricity Delivery	Duquesne Light Supply	CTC	Consolidated
Operating revenues	\$260.6	\$341.5	\$ 5.1	\$607.2
Operating expenses	131.3	295.1	0.3	426.7
Depreciation and amortization expense	48.4	—	4.7	53.1
Operating income	80.9	46.4	0.1	127.4
Other income - net	16.8	0.3	—	17.1
Interest and other charges	36.7	1.2	—	37.9
Income before income taxes	61.0	45.5	0.1	106.6
Income tax expense	23.9	18.9	—	42.8
Net Income	37.1	26.6	0.1	63.8
Dividends on preferred and preference stock	6.0	—	—	6.0
Earnings available for common stock	\$ 31.1	\$ 26.6	\$ 0.1	\$ 57.8
Capital expenditures	\$ 73.9	\$ —	\$ —	\$ 73.9

Business Segments for the Nine Months Ended September 30, 2004

(Millions of Dollars)

	Electricity Delivery	Duquesne Light Supply	CTC	Consolidated
Operating revenues	\$261.1	\$332.3	\$ 8.1	\$601.5
Operating expenses	123.0	307.8	0.3	431.1
Acquisition termination cost	—	8.3	—	8.3
Depreciation and amortization expense	46.8	—	7.6	54.4
Operating income	91.3	16.2	0.2	107.7
Other income - net	13.6	—	—	13.6
Interest and other charges	34.3	—	—	34.3
Income before income taxes	70.6	16.2	0.2	87.0
Income tax expense	27.2	6.6	0.1	33.9
Net Income	43.4	9.6	0.1	53.1
Dividends on preferred and preference stock	4.6	—	—	4.6
Earnings available for common stock	\$ 38.8	\$ 9.6	\$ 0.1	\$ 48.5
Capital expenditures	\$ 59.8	\$ 0.1	\$ —	\$ 59.9

Duquesne Light Holdings

Business Segments for the Three Months Ended September 30, 2005

	(Millions of Dollars)								
	Electricity Delivery	Electricity Supply	CTC	Energy Solutions	Financial	Communi- cations	All Other	Elimina- tions	Consoli- dated
Operating revenues	\$ 97.6	\$130.0	\$ 1.0	\$ 21.7	\$ 11.3	\$ 2.5	\$ —	\$ (0.8)	\$ 263.3
Operating expenses	44.1	113.5	0.1	10.3	12.9	0.9	2.9	(0.8)	183.9
Depreciation and amortization expense	16.9	—	0.9	0.4	1.6	0.5	0.3	—	20.6
Operating income (loss)	36.6	16.5	—	11.0	(3.2)	1.1	(3.2)	—	58.8
Other income - net	6.0	(0.1)	—	18.6	(1.6)	—	0.8	(3.4)	20.3
Interest and other charges	13.8	0.5	—	0.1	0.1	—	5.2	(3.2)	16.5
Benefit from limited partners' interest	—	—	—	—	2.7	—	—	—	2.7
Income (loss) before income taxes	28.8	15.9	—	29.5	(2.2)	1.1	(7.6)	(0.2)	65.3
Income tax expense (benefit)	12.5	6.6	—	10.4	(6.2)	0.4	(2.0)	0.1	21.8
Income (loss) from continuing operations	\$ 16.3	\$ 9.3	\$ —	\$ 19.1	\$ 4.0	\$ 0.7	\$ (5.6)	\$ (0.3)	\$ 43.5
Assets	\$1,920.0	\$ 68.8	\$ —	\$ 24.0	\$574.9	\$ 29.3	\$ 69.6	\$ —	\$2,686.6
Capital expenditures	\$ 36.5	\$ —	\$ —	\$ 0.1	\$ 0.3	\$ 0.9	\$ —	\$ —	\$ 37.8

Business Segments for the Three Months Ended September 30, 2004

	(Millions of Dollars)								
	Electricity Delivery	Electricity Supply	CTC	Energy Solutions	Financial	Communi- cations	All Other	Elimina- tions	Consoli- dated
Operating revenues	\$ 92.7	\$117.6	\$ 2.8	\$ 20.4	\$ 7.5	\$ 2.2	\$ —	\$ (0.4)	\$ 242.8
Operating expenses	41.0	110.3	0.1	9.5	10.7	0.8	1.3	(0.4)	173.3
Acquisition termination cost	—	8.3	—	—	—	—	—	—	8.3
Depreciation and amortization expense	15.8	—	2.7	0.4	1.4	0.5	0.2	—	21.0
Operating income (loss)	35.9	(1.0)	—	10.5	(4.6)	0.9	(1.5)	—	40.2
Other income - net	4.7	—	—	0.3	0.3	—	0.6	(4.1)	1.8
Interest and other charges	13.9	—	—	0.1	—	—	6.3	(4.2)	16.1
Benefit from limited partners' interest	—	—	—	—	2.5	—	—	—	2.5
Income (loss) before income taxes	26.7	(1.0)	—	10.7	(1.8)	0.9	(7.2)	0.1	28.4
Income tax expense (benefit)	11.2	(0.5)	—	3.8	(7.8)	0.3	(2.4)	0.4	5.0
Income (loss) from continuing operations	\$ 15.5	\$ (0.5)	\$ —	\$ 6.9	\$ 6.0	\$ 0.6	\$ (4.8)	\$ (0.3)	\$ 23.4
Assets (a)	\$1,879.5	\$ 1.1	\$ 4.7	\$32.6	\$604.4	\$ 28.6	\$ 81.9	\$ —	\$2,632.8
Capital expenditures	\$ 19.8	\$ 0.1	\$ —	\$ —	\$ 0.6	\$ 0.4	\$ —	\$ —	\$ 20.9

(a) Relates to assets as of December 31, 2004.

Duquesne Light Holdings

Business Segments for the Nine Months Ended September 30, 2005

	(Millions of Dollars)								
	Electricity Delivery	Electricity Supply	CTC	Energy Solutions	Financial	Communi- cations	All Other	Elimina- tions	Consoli- dated
Operating revenues	\$ 260.6	\$ 347.2	\$ 5.1	\$ 53.9	\$ 32.3	\$ 7.2	\$ —	\$ (2.4)	\$ 703.9
Operating expenses	131.3	300.3	0.3	25.1	34.6	2.7	6.0	(2.4)	497.9
Depreciation and amortization expense	48.4	—	4.7	1.3	4.8	1.5	0.7	—	61.4
Operating income (loss)	80.9	46.9	0.1	27.5	(7.1)	3.0	(6.7)	—	144.6
Other income - net	16.8	0.3	—	18.7	10.3	0.1	5.9	(13.0)	39.1
Interest and other charges	42.7	1.2	—	0.1	0.1	—	14.0	(12.4)	45.7
Benefit from limited partners' interest	—	—	—	—	7.6	—	—	—	7.6
Income (loss) before income taxes	55.0	46.0	0.1	46.1	10.7	3.1	(14.8)	(0.6)	145.6
Income tax expense (benefit)	23.9	19.1	—	16.6	(12.1)	1.2	(2.9)	0.1	45.9
Income (loss) from continuing operations	\$ 31.1	\$ 26.9	\$ 0.1	\$ 29.5	\$ 22.8	\$ 1.9	\$ (11.9)	\$ (0.7)	\$ 99.7
Capital expenditures	\$ 73.9	\$ —	\$ —	\$ 0.1	\$ 0.4	\$ 2.3	\$ —	\$ —	\$ 76.7

Business Segments for the Nine Months Ended September 30, 2004

	(Millions of Dollars)								
	Electricity Delivery	Electricity Supply	CTC	Energy Solutions	Financial	Communi- cations	All Other	Elimina- tions	Consoli- dated
Operating revenues	\$ 261.1	\$ 332.3	\$ 8.1	\$ 50.2	\$ 22.2	\$ 5.9	\$ —	\$ (1.0)	\$ 678.8
Operating expenses	123.0	307.8	0.3	24.6	31.2	2.3	8.4	(1.0)	496.6
Acquisition termination cost	—	8.3	—	—	—	—	—	—	8.3
Depreciation and amortization expense	46.8	—	7.6	1.5	4.2	1.4	0.6	—	62.1
Operating income (loss)	91.3	16.2	0.2	24.1	(13.2)	2.2	(9.0)	—	111.8
Other income - net	13.6	—	—	1.1	5.1	—	1.1	(11.7)	9.2
Interest and other charges	38.9	—	—	0.1	0.1	—	18.4	(11.8)	45.7
Benefit from limited partners' interest	—	—	—	—	5.0	—	—	—	5.0
Income (loss) before income taxes	66.0	16.2	0.2	25.1	(3.2)	2.2	(26.3)	0.1	80.3
Income tax expense (benefit)	27.2	6.6	0.1	8.9	(22.9)	0.9	(9.0)	0.4	12.2
Income (loss) from continuing operations	\$ 38.8	\$ 9.6	\$ 0.1	\$ 16.2	\$ 19.7	\$ 1.3	\$ (17.3)	\$ (0.3)	\$ 68.1
Capital expenditures	\$ 59.8	\$ 0.1	\$ —	\$ —	\$ 0.6	\$ 1.1	\$ —	\$ —	\$ 61.6

13. SUBSEQUENT EVENTS

On October 18, 2005, Holdings filed a shelf registration statement for up to \$400 million of preferred stock, common stock, stock purchase contracts, stock purchase units, warrants and debt securities, to be issued from time to time.

On October 31, 2005, DES closed on the sale of two energy facility management projects, pursuant to the agreements entered into in August 2005, for \$10.1 million in cash and the assumption by the buyer of certain non-cash lease related liabilities. As a result, DES will record a pre-tax gain of approximately \$13 million in October. The agreement for one of the above energy facility management

contracts provides the buyer with a guarantee that DES would repay a portion of the purchase price if the counterparty to the management contract would terminate the contract for convenience, as defined by the agreement (the Repayment Guarantee). The maximum Repayment Guarantee amount is approximately \$3.7 million if the contract is terminated immediately. The Repayment Guarantee is reduced daily, based on the passage of time, through January 1, 2016, at which time the Repayment Guarantee expires. The estimated recorded liability for the fair value of the Repayment Guarantee is not material.

On October 31, 2005, DES agreed to terminate the agreement to sell one of the six energy facility management projects entered into in August 2005. The termination of this agreement does not materially change the total expected proceeds resulting from these sales. (See Note 5.)

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Part I, Item 2 of this combined Quarterly Report on Form 10-Q should be read in conjunction with our combined Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission (SEC), and with the condensed consolidated financial statements, set forth in Part I, Item 1 of this Report.

This combined Quarterly Report on Form 10-Q presents information on both Duquesne Light Holdings, Inc. (Holdings) and Duquesne Light Company (Duquesne Light).

References in this report to "we," "us" and "our" are to Holdings and its subsidiaries, collectively. References to "Notes" are to the notes to the condensed consolidated financial statements, set forth in Part I, Item 1 of this report.

Holdings is an energy services holding company formed in 1989 to serve as the holding company for Duquesne Light and to engage in unregulated energy and related businesses.

Duquesne Light, our largest subsidiary, was formed in 1912 by the consolidation and merger of three constituent companies. Duquesne Light is an electric utility engaged in the supply (through its provider-of-last-resort service (POLR)), transmission and distribution of electric energy.

Duquesne Power, L.P., an unregulated subsidiary, maintains a portfolio of energy commodity contracts to provide full-requirements energy supply contracts for both (i) Duquesne Light's residential and small commercial POLR customers and (ii) Duquesne Light Energy, LLC's large commercial and industrial customers. These energy commodity contracts are with unrelated parties and include payment guarantees from Holdings.

Duquesne Light Energy, LLC (DLE) is an unregulated, competitive, retail electric generation supplier that offers customized solutions tailored to meet its customers' specific electricity needs. DLE's primary focus is on the large commercial and industrial customer market segment in Duquesne Light's service territory.

Duquesne Energy Solutions, LLC (DES) is an energy facilities management company that provides energy outsourcing solutions including operation and maintenance of energy and synthetic fuel facilities.

DQE Financial Corp. owns, operates and maintains landfill gas collection and processing systems, and is an investment and portfolio management organization focused on structured finance and alternative energy investments. Effective November 2004, DQE Financial became the sole owner of Waste Energy Technology, LLC (WET), a landfill gas engineering, design, construction and operations firm.

DQE Communications, Inc. owns, operates and maintains a high-speed, fiber optic based metropolitan network, and leases dark fiber from the network to commercial, industrial and academic customers.

DQE Capital Corporation provides financing to Holdings for use with its affiliates.

Service Areas and Customer Concentrations

Duquesne Light's electric utility operations provide service to approximately 587,000 direct customers in southwestern Pennsylvania (including in the City of Pittsburgh), a territory of approximately 800 square miles.

Our other business lines have operations and investments in several states and Canada. Duquesne Energy Solutions relies on a single customer, that owns several synthetic fuel facilities, for substantially all of its revenues and earnings.

Section 29 Tax Credits

In connection with the sale of six synthetic fuel facilities in 2000 by our indirect subsidiary, Duquesne Energy, Inc., we agreed to guarantee our subsidiary's obligations and liabilities to the third party purchaser under the purchase agreement, including our subsidiary's indemnification obligations against

breaches of warranties, representations and covenants contained therein. The guarantee generally extends up to six years or otherwise as provided under the applicable statute of limitations, based on the expiration of the underlying representations, warranties and covenants. We have determined our exposure to be limited, as both legal and factual representations and warranties have been primarily limited to matters within the control and knowledge of our subsidiary. As such, no liability has been recorded on the condensed consolidated balance sheets. In connection with an Internal Revenue Service (IRS) audit for the years 1998 through 2002, in July 2005, the IRS issued a Notice of Proposed Adjustment in which its field auditors asserted that five of the six synthetic fuel facilities sold in 2000 were not placed in service by the required June 30, 1998 date and, therefore, the Section 29 tax credits for these five facilities should be disallowed for the current owner and us.

DES currently operates five of these six facilities under an agreement with the third party owner. The third party owner claims Section 29 tax credits with regard to the production of the synthetic fuel. We previously claimed approximately \$6.5 million of Section 29 tax credits relating to the ownership of these five synthetic fuel facilities prior to their sale in 2000. Both the third party owner and we disagree with the IRS' position. We will vigorously defend our position that the synthetic fuel facilities were properly placed in service by June 30, 1998. We are currently considering resolution of this matter by seeking technical advice from the IRS' National Office, pursuing an administrative appeal and/or litigating the matter. We believe that the tax credits for the years we owned the facilities, as well as for all of the years the current owner is otherwise eligible to claim the credits, will eventually be allowed. This belief is based on our understanding of the relevant facts, and our understanding that another taxpayer recently announced that it received from the IRS National Office a favorable technical advice memorandum regarding the placed in service date of its synthetic fuel facilities after disputing this issue with the field agents auditing its tax returns. We cannot predict the timing or the nature of the ultimate outcome of this process. It could take a number of years before it is ultimately resolved. In the meantime, we continue to operate all of these facilities for the owner.

Should the third party owner reduce or terminate operation of the synthetic fuel facilities for whatever reason, our earnings and revenues from operating and maintaining the facilities would also be reduced or terminated.

Regulation

Holdings and Duquesne Light are subject to the accounting and reporting requirements of the SEC. Duquesne Light's electricity delivery business is also subject to regulation by the Pennsylvania Public Utility Commission (PUC) and the Federal Energy Regulatory Commission (FERC) with respect to rates for delivery of electric power, accounting and other matters.

Business Segments

This information is set forth in "Results of Operations" below and in Note 12 to our condensed consolidated financial statements.

Critical Accounting Policies

As of September 30, 2005, there have been no significant changes with regard to the critical accounting policies disclosed in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2004 except as discussed below. The policies disclosed included the accounting for the following: the effects of regulation, unbilled electricity revenues, impairment of long-lived assets and investments, pension and other postretirement benefit plan assumptions, income taxes, derivative instruments and contingent liabilities.

We have expanded our policy concerning derivative instruments to include the accounting for revenue associated with the settlement of our mark-to-market energy contracts and for derivative instruments that qualify for hedge accounting.

Beginning January 1, 2005, we record the revenue associated with our mark-to-market contracts on a net basis in purchased power expense in our condensed consolidated statements of income in accordance with the Emerging Issues Task Force No. 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent."

When a derivative instrument is entered into management also determines if the derivative qualifies as either a cash flow hedge (a hedge of variable cash flows of a single transaction or a group of similar transactions) or as a fair value hedge (a hedge of the fair value of specific assets and liabilities or specific firm commitments), in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. This process includes formally documenting (i) the hedging relationships and its risk-management objective and strategy for undertaking the hedge transactions, (ii) the hedging

instrument, (iii) the hedged item or transaction, (iv) the nature of the risk being hedged, (v) how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and (vi) a description of the method of measuring ineffectiveness.

Management also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows or fair values of hedged items.

Changes in the fair value of a derivative designated as a cash flow hedge that is determined to be highly effective are recorded in the statement of comprehensive income, net of tax, and are recognized in earnings over the life of the hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash flow hedge is recognized currently in earnings. Changes in the fair value of a derivative designated as a fair value hedge that is determined to be highly effective, along with the corresponding gain or loss on the hedged item, are recognized currently in earnings.

When it is determined that a derivative has ceased to be a highly effective hedge, hedge accounting is discontinued prospectively. When hedge accounting is discontinued for cash flow hedges, the derivative asset or liability remains on the condensed consolidated balance sheet at its fair value, and gains and losses that were in accumulated other comprehensive income are recognized in earnings. When hedge accounting is discontinued for fair value hedges, the derivative asset or liability remains on the condensed consolidated balance sheet at its fair value and the hedged asset or liability is no longer adjusted for changes in its fair value.

Proposed Accounting Standards

In July 2005 the Financial Accounting Standards Board (FASB) issued proposed FASB Staff Position No. 13-a "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" (FSP No. 13-a). The proposed changes included in FSP No. 13-a are not yet in effect, but if issued in their current form, would be effective as of the end of the first fiscal year ending after December 15, 2005. As the December 2003 settlement with the IRS regarding DQE Financial's structured lease and other similar investments *modified our tax benefits under these leases*, this proposed staff position, if issued in its current form, would apply to Holdings and be effective as of December 31, 2005. This proposed staff position requires recognition of the modified tax benefits from

the inception of the leases, and as a result, upon adoption of this standard, Holdings would record an after-tax, cumulative effect charge of approximately \$90 to \$95 million as of December 31, 2005. We previously disclosed that the earnings volatility of the lease investments was removed as a result of the settlement with the IRS, and the revised earnings of \$3 million to \$4 million annually would be realized over the remaining lives of these leases. After adopting this staff position, the amount of the cumulative effect charge initially recorded would be recognized as additional lease earnings, beginning in 2006, over the remaining lives of these leases, which range from 22 to 31 years (with early buy-out periods ranging from 7 to 18 years). Our current and future cash flows would be unaffected by the adoption of this proposed FASB Staff Position.

In July 2005 the FASB issued an exposure draft of a proposed interpretation of FASB Statement No. 109 "Accounting for Uncertain Tax Positions." The proposed changes are not yet in effect, but are expected to be issued in the first quarter of 2006. We currently have certain tax disputes and are under audit by both the Commonwealth of Pennsylvania and the IRS, as outlined in Note 7 to the condensed consolidated financial statements. This proposed interpretation, if issued in its current form, would apply to both Holdings and Duquesne Light and would require recognition of a cumulative effect upon adoption. We are currently evaluating the overall impact of this proposed interpretation on both Holdings' and Duquesne Light's financial statements.

Forward-looking Statements

We use forward-looking statements in this report. Statements that are not historical facts are forward-looking statements, and are based on beliefs and assumptions of our management, and on information currently available to management. Forward-looking statements include statements preceded by, followed by or using such words as "believe," "expect," "anticipate," "plan," "estimate" or similar expressions. Such statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Actual results may materially differ from those implied by forward-looking statements due to known and unknown risks and uncertainties, some of which are discussed below.

- Cash flow, earnings, earnings growth, capitalization, capital expenditures and dividends will depend on the performance of Holdings' subsidiaries, and board policy.

- Demand for and pricing of electricity and landfill gas, changing market conditions, and weather conditions could affect earnings levels.
- Duquesne Light's earnings will be affected by the number of customers who choose to receive electric generation through POLR III, by our ability to negotiate appropriate terms with suitable generation suppliers, and by the performance of these suppliers.
- Projected POLR supply requirements will depend on POLR customer retention, which in turn may depend on market generation prices, as well as the marketing efforts of competing generation suppliers.
- Transmission and distribution rate base and earnings will depend on the ultimate structure of our rate cases, which in turn will be subject to PUC and FERC review and approval. Earnings will also be affected by rate base, equity and allowed return levels.
- Regional transmission organization (RTO) rules and FERC-mandated transmission charges could affect earnings.
- Changes in electric energy prices could affect earnings as the fair value of our energy commodity contracts fluctuates.
- The amount and timing of any debt reduction or refinancing will depend on the availability of cash flows and appropriate replacement or refinancing vehicles.
- The amount and timing of any securities issuance (debt or equity) will depend on financial market performance.
- The credit ratings received from the rating agencies could affect the cost of borrowing, access to capital markets and liquidity.
- Customer energy demand, fuel costs and plant operations could affect Duquesne Energy Solutions' earnings.
- Competition, operating costs and gas prices could affect earnings and expansion plans in our landfill gas business.
- Earnings with respect to synthetic fuel operations, landfill gas and affordable housing investments will depend, in part, on the continued availability of, and compliance with the requirements for, applicable federal tax credits. The availability of synthetic fuel and landfill gas tax credits depends in part on the average well-head price per barrel of domestic crude oil.
- Demand for dark fiber will affect DQE Communications' earnings.
- The final resolution of proposed adjustments regarding state income tax liabilities (which could depend on negotiations with the appropriate authorities) could affect financial position, earnings, and cash flows.

- Overall performance by Holdings and its affiliates could be affected by economic, competitive, regulatory, governmental and technological factors affecting operations, markets, products, services and prices, as well as the factors discussed in Holdings' SEC filings made to date.

RESULTS OF OPERATIONS

Duquesne Light reports the following business segments: (1) transmission and distribution of electricity (electricity delivery business segment), (2) supply of electricity by Duquesne Light (Duquesne Light supply business segment), and (3) collection of transition costs (CTC business segment).

Holdings reports the following business segments: (1) transmission and distribution of electricity (electricity delivery business segment), (2) supply of electricity (which includes the Duquesne Light supply business segment and beginning in 2005, supply by DLE) (electricity supply business segment), (3) collection of transition costs (CTC business segment), (4) DES' development, operation and maintenance of energy and, for a single customer, synthetic fuel facilities (Energy Solutions business segment), (5) DQE Financial's collection and processing of landfill gas and management of structured finance and alternative energy investments (Financial business segment), and (6) DQE Communications' operation, maintenance and leasing of its fiber optic based network (Communications business segment). We also report an "all other" category which includes our other subsidiaries that are below the quantitative threshold for disclosure. These subsidiaries provide corporate administrative functions, financing, and insurance services for our various affiliates.

Note 12 to the condensed consolidated financial statements shows the financial results of each principal business segment in tabular form. Following is a discussion of these results. Unless otherwise stated, the terms "earnings" and "loss" used in the following discussion refer to after-tax amounts.

Significant Changes in the Supply Business

The factors impacting the Duquesne Light supply business segment have significantly changed when compared to prior periods. From the time that Duquesne Light sold its generation assets in April 2000 through December 31, 2004, the default energy supply requirement for all customers had been met through a full requirements contract with one supplier. From the time that Duquesne Light completed its stranded cost recovery – different by each rate class, but generally during the 2002 to 2003 time period – Duquesne Light had earned a

margin on each megawatt-hour (MWh) supplied.

Effective January 1, 2005, residential and small commercial customers remaining on POLR service saw an average increase of 11.5% above their POLR II generation rates, reflecting the increase in market energy prices in the time since the POLR II rates were established. Despite this increase in rates, residential and small commercial customer retention has increased to 74% in the first nine months of 2005 compared to 73% in the first nine months of 2004.

Also effective January 1, 2005, Duquesne Light is meeting its POLR III energy supply requirements for residential and small commercial customers through Duquesne Power's portfolio of energy and capacity supply contracts with multiple investment-grade counter-parties as well as through interactions with PJM Interconnection (PJM). This change in energy supply strategy is designed to provide the opportunity to earn a larger margin in the supply business. While taking on increased commodity price risk, we have decreased our supplier credit/default risk. The increased commodity price risk has been managed at a prudent level through the portfolio of energy commodity contracts. Because some of these contracts are not settled at the Duquesne Light zone, they are accounted for on a mark-to-market basis, with changes in the fair value of these contracts recorded currently in earnings in 2005 unless certain hedge accounting criteria are met. To the extent the hedges are determined to be effective, the changes in the value of these contracts are included in the statement of comprehensive income, net of deferred taxes. Amounts recorded in the statement of comprehensive income related to cash flow hedges will be recognized in earnings as the related contracts are settled.

While previously Duquesne Light's margin on residential and small commercial customers was a fixed dollar amount per MWh, beginning in 2005 the earnings have an element of seasonality. Revenues per MWh, while fixed on an annual basis through 2007, are lowest in the first and fourth quarters reflecting the discount rate offered to electric heating customers in the November through April heating season. The revenues per MWh are then higher in the remaining months. Similarly, costs per MWh are expected to have a seasonal element, being higher in the first and third quarters reflecting the peak energy consumption in the heating and cooling seasons. As a result, margins on residential and small commercial customer energy supply are anticipated to be higher in the second and fourth quarters.

For large business customers, effective January 1, 2005, the POLR energy supply product is a fluctuating hourly-priced service. Additionally, for a

limited time, Duquesne Light offers a fixed-price service whose rate has increased by an average of more than 20% reflecting the results of a competitive wholesale request-for-proposal conducted in the fall of 2004. Duquesne Light continues to meet its POLR energy supply requirement for large customers through interactions with PJM and with full requirements contracts, now with two investment-grade suppliers. Because of the volatility of hourly-priced POLR service and the increase in the fixed-price rates, POLR retention for large commercial and industrial customers has decreased from 60% in the first nine months of 2004 to 22% in the first nine months of 2005. It is anticipated that the POLR retention rate will continue to decline throughout 2005.

Under the POLR II arrangement that ended December 31, 2004, Duquesne Light earned a margin on each MWh sold to its large commercial and industrial customers. During the three and nine months ended September 30, 2004, Duquesne Light earned net income of \$1.1 million and \$3.6 million in the supply business related to sales to its large commercial and industrial customers. Under the POLR III arrangement that became effective January 1, 2005, Duquesne Light no longer earns a margin in the supply business on these sales.

In response to the change in large customer POLR service, DLE has begun to offer competitive electric generation (EGS) service to customers in the Duquesne Light service territory. The DLE supply requirements are managed together with the Duquesne Light residential and small commercial customer POLR III supply requirements by Duquesne Power.

Overall Performance

Three months ended September 30, 2005. Our net income was \$43.6 million, or \$0.56 basic earnings per share in the third quarter of 2005, compared to \$23.6 million, or \$0.31 basic earnings per share, in the third quarter of 2004. The average shares outstanding increased 1.2 million, or 1.6%, compared to 2004.

Our income from continuing operations was \$43.5 million, or \$0.56 basic earnings per share, in the third quarter of 2005, compared to \$23.4 million, or \$0.31 basic earnings per share, in the third quarter of 2004. The increase of \$20.1 million is primarily due to an \$11.7 million after-tax gain recorded in the Energy Solutions business segment related to the sale of an equity investment in an energy facility operating partnership during the third quarter of 2005, and a \$10.3 million increase in earnings at Duquesne Light, discussed below.

Duquesne Light's earnings available for common stock were \$25.3 million in the third quarter of 2005, compared to \$15.0 million in the third quarter of 2004, an increase of \$10.3 million, or 68.7%. This was primarily due to a \$9.5 million increase in earnings from Duquesne Light's electricity supply business segment. This increase includes a \$6.5 million after-tax increase in earnings as a result of an increase in the fair value of the mark-to-market energy contracts since June 30, 2005 and a \$4.8 million after-tax charge related to the termination of the acquisition of the Sunbury generation station that was included in the third quarter of 2004 results. These increases were partially offset by a \$1.8 million decrease in earnings primarily due to the fact that Duquesne Light earns no margin on sales to large commercial and industrial customers under the POLR III arrangement.

Nine months ended September 30, 2005. Our net income was \$100.1 million, or \$1.29 basic earnings per share in the first nine months of 2005, compared to \$68.8 million, or \$0.90 basic earnings per share, in the first nine months of 2004. The average shares outstanding increased 1.3 million, or 1.7%, compared to 2004.

Our income from continuing operations was \$99.7 million, or \$1.28 basic earnings per share, in the first nine months of 2005, compared to \$68.1 million, or \$0.89 basic earnings per share, in the first nine months of 2004. The increase of \$31.6 million is primarily due to the \$11.7 million after-tax gain recorded in the Energy Solutions business segment discussed above, a \$9.3 million increase in earnings at Duquesne Light, discussed below, the elimination of \$3.7 million of after-tax interest costs at DQE Capital Corporation related to the long-term debt redeemed in the fourth quarter of 2004, and a \$3.1 million increase in earnings from operations related to pipeline quality landfill gas. These increases were partially offset by \$1.4 million of additional after-tax interest costs related to the issuance of \$320 million of senior unsecured notes at Holdings in August 2005.

Duquesne Light's earnings available for common stock were \$57.8 million in the first nine months of 2005, compared to \$48.5 million in the first nine months of 2004, an increase of \$9.3 million, or 19.2%. The increase was primarily due to a \$17 million increase in earnings from Duquesne Light's supply business segment, primarily as a result of a \$13.1 million after-tax increase in the fair value of the mark-to-market energy contracts at Duquesne Power since December 31, 2004, and the \$4.8 million after-tax charge included in the 2004 results, discussed above. These increases were partially offset by a

\$7.7 million decrease in earnings from the electricity delivery business segment, primarily as a result of increases in operating expenses, interest expense and preferred dividends, as compared to the first nine months of 2004.

Business Segment Performance

Electricity Delivery Business Segment

Three months ended September 30, 2005. This segment reported earnings of \$16.3 million in the third quarter of 2005, compared to \$15.5 million in the third quarter of 2004, an increase of \$0.8 million, or 5.2%. This increase was the result of increased revenues more than offsetting higher operating expenses.

Operating revenues are primarily derived from the delivery of electricity, and include related excise taxes. Sales to residential and commercial customers are primarily influenced by weather conditions. Warmer summer and colder winter seasons generally 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 by national and global economic conditions.

The following table sets forth the MWh delivered to electric utility customers.

	MWh Delivered		
	<i>(In Thousands)</i>		
Third Quarter	2005	2004	Change
Residential	1,313	1,062	23.6%
Commercial	1,878	1,766	6.3%
Industrial	789	849	(7.1%)
	3,980	3,677	8.2%

Operating revenues increased \$4.9 million, or 5.3%, compared to the third quarter of 2004. The increase was primarily due to increased MWh sales to residential and commercial customers as a result of the relatively hot weather that occurred in 2005 compared to 2004. These increased sales were more than sufficient to offset a decline in MWh sales to and revenue from the industrial sector, as well as the loss of ancillary services revenue in 2005 as this revenue is now being reported in the Duquesne Light supply business segment as a result of the POLR III arrangement.

Operating expenses consist primarily of costs to operate and maintain the transmission and distribution system; meter reading, billing and collection costs; customer service; administrative

expenses; and non-income taxes, such as gross receipts, property and payroll taxes. Operating expenses increased \$3.1 million, or 7.6%, compared to the third quarter of 2004. Due to increased participation in the customer assistance program, collection costs increased \$2.2 million compared to the third quarter of 2004. In addition, approximately \$0.8 million of regulatory related expenses were incurred in the third quarter of 2005 related to preparation work for the upcoming distribution and transmission rate cases. Other cost increases are primarily due to the acceleration of the timing of certain maintenance projects in anticipation of significant capital expenditures to be done in the fourth quarter of 2005. Ancillary services expense decreased \$2.1 million in the third quarter of 2005, due to the majority of this cost now being reported in the Duquesne Light supply segment as a result of the POLR III arrangement.

Nine months ended September 30, 2005. This segment reported earnings of \$31.1 million in the first nine months of 2005, compared to \$38.8 million in the first nine months of 2004, a decrease of \$7.7 million, or 19.8%. The decrease was primarily the result of increases in operating expenses, interest expense and preferred dividends.

The following table sets forth the MWh delivered to electric utility customers.

	MWh Delivered		
	<i>(In Thousands)</i>		
First Nine Months	2005	2004	Change
Residential	3,182	2,954	7.7%
Commercial	5,130	4,971	3.2%
Industrial	2,381	2,457	(3.1%)
	10,693	10,382	3.0%

Operating expenses increased \$8.3 million, or 6.7%, compared to the first nine months of 2004. As a result of the increased focus on Duquesne Light following the sale of several of Holdings' non-complementary businesses, there are approximately \$4.3 million of additional costs that were borne by this segment in the first nine months of 2005 compared to the prior year. Due to increased participation in the customer assistance program, collection costs increased \$3.5 million compared to the first nine months of 2004. In addition, approximately \$1.8 million of regulatory related expenses have been incurred in 2005 related to the filing for recovery of SECA charges and preparation work for the upcoming distribution and transmission rate cases. Other cost increases are primarily due to the

acceleration of the timing of certain maintenance projects, as previously discussed. Ancillary services expense decreased \$5.3 million in the first nine months of 2005, for the reason discussed above.

Interest and other charges increased \$2.4 million, or 7.0%, compared to the first nine months of 2004, primarily due to \$4.3 million in additional interest on the \$200 million of 5.7% debt issued in May 2004, and \$2.3 million in additional interest expense resulting from higher interest rates in 2005 on variable rate debt. These increases were partially offset by a \$3.1 million reduction in interest due to the redemption of \$151.5 million of subordinated debentures in the first six months of 2004.

Dividends on preferred and preference stock increased \$1.4 million, or 30.4%, compared to the first nine months of 2004 due to the \$75 million of 6.5% preferred stock issued in April 2004.

Dividends on Duquesne Light's preferred stock are included in interest and other charges in the Holdings presentation of the Electricity Delivery Business Segment.

Duquesne Light Supply Business Segment

Three months ended September 30, 2005. As previously discussed, the factors impacting this segment in 2005 have significantly changed when compared to the prior year. The following table summarizes the earnings from this segment.

	Earnings		
	<i>(In Millions)</i>		
Third Quarter	2005	2004	Change
Residential and small commercial	\$ 2.5	\$3.2	\$(0.7)
Large commercial and industrial	—	1.1	(1.1)
Mark-to-market of energy contracts	6.5	—	6.5
Acquisition termination cost	—	(4.8)	4.8
Total Earnings	\$ 9.0	\$(0.5)	\$ 9.5

Under the POLR II arrangement in 2004, the margin on sales to residential and small commercial customers was a fixed dollar amount per MWh supplied, while under the POLR III arrangement in 2005, the margin on these customers is no longer fixed. The \$0.7 million decrease in earnings from the residential and small commercial customers compared to the third quarter of 2004 reflects the higher POLR III rates as well as the seasonal effects on the costs to serve those customers. As previously

stated, costs per MWh under the POLR III arrangement are expected to have a seasonal element, and are expected to be higher in the third quarter, reflecting peak energy consumption during the cooling season. Under the POLR II arrangement, Duquesne Light earned a margin per MWh on sales to large commercial and industrial customers, however there is no margin under the POLR III arrangement associated with these customers, which accounts for a \$1.1 million decrease in earnings from the third quarter of 2004. In addition, certain energy contracts entered into by Duquesne Power are accounted for on a mark-to-market basis, with changes in the fair value of these contracts recorded currently in earnings in 2005. As shown above, the earnings from the Duquesne Light supply business segment were favorably impacted in the third quarter of 2005 by a \$6.5 million after-tax increase in the fair value of these energy contracts. In the third quarter of 2004, Duquesne Light recorded a \$4.8 million after-tax charge related to the termination of the acquisition of the Sunbury generation station.

Operating revenues are derived primarily from the supply of electricity to POLR retail customers. Retail energy requirements fluctuate as the number of customers choosing alternative generation suppliers changes. Energy requirements for residential and commercial customers are also influenced by weather conditions; temperature extremes lead to changes in customer use of electricity for cooling and heating. Commercial energy requirements are also affected by regional economic development. Energy requirements for industrial customers are primarily influenced by national and global economic conditions.

In addition, operating revenues include, to a lesser extent, the supply of electricity to wholesale customers. Beginning in 2005, these sales are primarily comprised of sales to DLE by Duquesne Power under its full-requirements energy supply contract. In 2004, these sales primarily consisted of short-term sales to other utilities that were made at market rates, and resulted primarily from excess daily energy deliveries to Duquesne Light's electricity delivery system.

The following tables set forth the MWh supplied.

Third Quarter	MWh Supplied		
	<i>(In Thousands)</i>		
	2005		
	POLR I	POLR III	Total
Residential and small commercial	—	1,664	1,664
Large commercial and industrial	131	65	196
Total Retail	131	1,729	1,860
Wholesale			316
POLR Customers (MWh basis):			
Residential and small commercial			74%
Large commercial and industrial			11%

Third Quarter	MWh Supplied		
	<i>(In Thousands)</i>		
	2004		
	POLR I	POLR II	Total
Residential and small commercial	—	1,437	1,437
Large commercial and industrial	449	532	981
Total Retail	449	1,969	2,418
Wholesale			97
POLR Customers (MWh basis):			
Residential and small commercial			73%
Large commercial and industrial			57%

Operating revenues increased \$9.6 million, or 8.2%, compared to the third quarter of 2004. Effective January 1, 2005, Duquesne Light began operating under the POLR III arrangement, which allows for a higher average generation rate to be charged to customers compared to the POLR II arrangement. In addition, ancillary services revenue is now being reported in this segment, as previously discussed. These two items represent an approximate \$25 million increase in operating revenues as compared to the third quarter of 2004. There was also an approximate \$12 million increase in wholesale sales of electricity in the third quarter of 2005, primarily due to sales to DLE. As expected, there has been a significant decrease in MWh supplied to large commercial and industrial customers compared to 2004, as a higher percentage of these customers chose an alternative generation supplier in 2005. This resulted in an approximate \$28 million decrease in operating revenues compared to the third quarter of 2004.

In 2005, operating expenses consist of (i) costs to obtain energy and capacity for Duquesne Light's POLR service and to supply DLE, (ii) changes in the market value of derivative energy commodity contracts, (iii) administrative expenses at Duquesne Power, and (iv) gross receipts tax. In 2004, operating expenses consisted primarily of costs to obtain energy for our POLR service and gross receipts tax, both of which fluctuated directly with operating revenues.

Operating expenses increased \$1.0 million, or 0.9%, compared to the third quarter of 2004. The cost for the energy supplied was approximately \$10.5 million higher in the third quarter of 2005, but was offset by an increase in the fair value of the energy commodity contracts from June 30, 2005.

Nine months ended September 30, 2005. The following table summarizes the earnings from this segment.

First Nine Months	Earnings		
	2005	2004	Change
	(In Millions)		
Residential and small commercial	\$ 13.5	\$10.8	\$ 2.7
Large commercial and industrial	—	3.6	(3.6)
Mark-to-market of energy contracts	13.1	—	13.1
Acquisition termination cost	—	(4.8)	4.8
Total Earnings	\$ 26.6	\$ 9.6	\$ 17.0

The \$2.7 million increase in the earnings from the residential and small commercial customers from the first nine months of 2004 reflects the higher POLR III rates as well as the seasonal effects on the costs to serve those customers. As previously stated, costs per MWh under the POLR III arrangement are expected to have a seasonal element, and are expected to be higher in the first and third quarters, reflecting the peak energy consumption in the heating and cooling seasons, and lower in the second quarter. Under the POLR II arrangement, Duquesne Light earned a margin per MWh on sales to large commercial and industrial customers, however there is no margin under the POLR III arrangement associated with these customers, and this accounts for a \$3.6 million decrease in earnings from the first nine months of 2004. In addition, some of the energy contracts entered into by Duquesne Power are accounted for on a mark-to-market basis, with

changes in the fair value of these contracts recorded currently in earnings in 2005. As shown above, the earnings from the Duquesne Light supply business segment were favorably impacted in the first nine months of 2005 by a \$13.1 million after-tax increase in the fair value of these energy contracts since December 31, 2004. The results for 2004 included the \$4.8 million after-tax charge related to the termination of the Sunbury acquisition.

The following tables set forth the MWh supplied.

First Nine Months	MWh Supplied		
	(In Thousands)		
	2005		
	POLR I	POLR III	Total
Residential and small commercial	—	4,295	4,295
Large commercial and industrial	858	238	1,096
Total Retail	858	4,533	5,391
Wholesale			716
POLR Customers (MWh basis):			
Residential and small commercial			74%
Large commercial and industrial			22%

First Nine Months	MWh Supplied		
	(In Thousands)		
	2004		
	POLR I	POLR II	Total
Residential and small commercial	—	4,043	4,043
Large commercial and industrial	1,262	1,659	2,921
Total Retail	1,262	5,702	6,964
Wholesale			235
POLR Customers (MWh basis):			
Residential and small commercial			73%
Large commercial and industrial			60%

Operating revenues increased \$9.2 million, or 2.8%, compared to the first nine months of 2004. The combination of the higher average generation rate charged to customers under the POLR III arrangement, and the addition of the ancillary services revenue that is being reported in this segment in 2005 caused an approximate \$49 million increase in operating revenues in the first nine months of 2005 compared to the prior year. In addition, there was an approximate \$26 million increase in wholesale sales of electricity in the first

nine months of 2005, due primarily to sales to DLE. As shown in the tables above, there has been a significant decrease in the MWh supplied to large commercial and industrial customers as a higher percentage of these customers chose an alternative generation supplier in 2005. This resulted in an approximate \$66 million decrease in operating revenues as compared to the first nine months of 2004.

Operating expenses decreased \$12.7 million, or 4.1%, compared to the first nine months of 2004, due primarily to the reduction in purchased power expense as a result of the increase in the fair value of the mark-to-market energy commodity contracts from December 31, 2004. This decrease was partially offset by increased selling, general and administrative expenses as well as gross receipts tax in 2005.

Electricity Supply Business Segment

Three and nine months ended September 30, 2005. Earnings from this segment include the results of the Duquesne Light supply business segment and, beginning January 1, 2005, the results of Holdings' unregulated retail electric generation supplier, DLE. The revenues and energy and capacity costs relating to the full-requirements contract between Duquesne Power (which are included in the Duquesne Light supply business segment) and DLE are eliminated and instead DLE's retail sales to its large commercial and industrial customers are presented. As a result, overall earnings and operating revenues and expenses of this segment are substantially unchanged from corresponding amounts discussed in the Duquesne Light supply business segment above.

The following tables set forth the retail MWh supplied to the electricity supply business segment customers.

	MWh Supplied	
	(In Thousands)	
Third Quarter	2005	2004
Duquesne Light	1,860	2,418
DLE	301	—
Total Retail	2,161	2,418

	MWh Supplied	
	(In Thousands)	
First Nine Months	2005	2004
Duquesne Light	5,391	6,964
DLE	639	—
Total Retail	6,030	6,964

Energy Solutions Business Segment

Three months ended September 30, 2005. This segment reported income of \$19.1 million in the second quarter of 2005, compared to \$6.9 million in the second quarter of 2004, an increase of \$12.2 million, or 176.8%. The increase is primarily due to an \$11.7 million after-tax gain related to the sale of our equity investment in an energy facility operating partnership.

Operating revenues are derived primarily from the facility management services for synthetic fuel, industrial, and manufacturing customers. Operating revenues for the third quarter of 2005 increased \$1.3 million, or 6.4%, compared to 2004 as a result of increased revenues from both the synthetic fuel and energy facility contracts in the third quarter of 2005.

Other income consisted of income from an equity investment in an energy facility operating partnership until its sale in the third quarter of 2005, and various other gains and losses. Other income increased \$18.3 million from the third quarter of 2004 primarily as a result of an \$18 million pre-tax gain on the sale of our equity investment previously discussed.

Nine months ended September 30, 2005. This segment reported income of \$29.5 million in the first nine months of 2005, compared to \$16.2 million in the first nine months of 2004, an increase of \$13.3 million, or 82.1%. The increase is primarily due to the \$11.7 million after-tax gain previously discussed and a \$2.3 million increase in earnings from the synthetic fuel facilities management services contract.

Operating revenues for the first nine months of 2005 increased \$3.7 million, or 7.4%, compared to 2004. The increase was primarily due to a \$2.6 million increase in revenues related to the synthetic fuel facilities as a result of an approximate 6% increase in synthetic fuel production in the first nine months of 2005.

Other income increased \$17.6 million from the first nine months of 2004 primarily as a result of the \$18 million pre-tax gain previously discussed.

Financial Business Segment.

Three months ended September 30, 2005. This segment reported income of \$4 million in the third quarter of 2005, compared to \$6 million in the third quarter of 2004, a decrease of \$2 million, or 33.3%, primarily due to a net after-tax reduction in earnings of \$2.6 million in the third quarter of 2005 relating to the divestitures of certain equity investments. This decrease was partially offset by a \$0.9 million increase in earnings from operations related to pipeline quality landfill gas.

Operating revenues are derived primarily from the sale of landfill gas and related services. Operating revenues for the third quarter of 2005 increased \$3.8 million, or 50.7%, compared to 2004. The increase is primarily the result of \$1.9 million of revenues included in the results for the third quarter of 2005 related to the consolidation of WET as a result of our purchase of the remaining 50% interest in the company in the fourth quarter of 2004. In addition, there was a \$1.8 million increase in pipeline quality landfill gas sales in the third quarter of 2005, compared to the same period in 2004. This increase is a result of an approximate 42% increase in the average price of pipeline quality landfill gas, which more than offset the approximate 7% decrease in volumes of pipeline quality landfill gas sold primarily as a result of planned outages that occurred in the third quarter of 2005.

Operating expenses consist of various costs to operate and maintain the landfill gas sites, as well as expenses related to alternative fuel investments. Operating expenses increased \$2.2 million, or 20.6%, compared to the third quarter of 2004, primarily due to \$1.6 million of net operating expenses included in the results for the third quarter of 2005 related to the consolidation of WET.

Other income consists of income from the structured lease, affordable housing and equity investments, and various other gains and losses. Other income decreased \$1.9 million compared to the third quarter of 2004, primarily due a \$1.3 million pre-tax loss from the sale of an investment in a leveraged lease transaction.

Income taxes consist of our provision for federal income taxes as well as the tax credits generated from our synthetic fuel limited partnership, landfill gas and affordable housing investments. The income tax benefit for the third quarter of 2005 decreased \$1.6 million, or 20.5%, compared to 2004 due to a \$2 million decrease in tax credits generated in the third quarter of 2005, primarily as a result of our sale of 50% of our investment in the synthetic fuel partnership in 2004.

Nine months ended September 30, 2005. This segment reported income of \$22.8 million in the first nine months of 2005, compared to \$19.7 million in the first nine months of 2004, an increase of \$3.1 million, or 15.7%, primarily due to a \$3.1 million increase in earnings from operations related to pipeline quality landfill gas.

Operating revenues for the first nine months of 2005 increased \$10.1 million, or 45.5%, compared to 2004. The increase is primarily the result of \$6.3 million of revenue included in the results for the first nine months of 2005 related to the consolidation of WET. In addition, there was a \$4 million increase in pipeline quality landfill gas sales as a result of an approximate 22% increase in the average price of pipeline quality landfill gas sold in the first nine months of 2005, compared to the same period in 2004.

Operating expenses increased \$3.4 million, or 10.9%, compared to the first nine months of 2004, primarily due to \$4.4 million of net operating expenses for the first nine months of 2005 related to the consolidation of WET.

Other income for the first nine months of 2005 increased \$5.2 million, or 102%, compared to 2004, primarily due to the pre-tax gain of \$7.1 million related to the sale of the investment in a natural gas partnership. These increases were partially offset by a \$2.4 million decrease in other income in the first nine months of 2005 due to the consolidation of the affordable housing investments as described below.

The benefit from limited partners' interest reflects the portion of the losses related to the affordable housing guarantee funds that are not owned by the DQE Financial subsidiary as a result of the consolidation of the affordable housing investments effective March 31, 2004.

The income tax benefit for the first nine months of 2005 decreased \$10.8 million, or 47.2%, compared to 2004, due to a \$5.9 million decrease in tax credits generated in the first nine months of 2005, primarily due to the sale of 50% of our investment in the synthetic fuel partnership as previously discussed, and the increase in pre-tax earnings in the first nine months of 2005 as compared to 2004.

Communications Business Segment.

Three and nine months ended September 30, 2005. This segment reported income of \$0.7 million in the third quarter of 2005, compared to \$0.6 million in the third quarter of 2004, an increase of \$0.1 million, or 16.7%. This segment reported income of \$1.9 million in the first nine months of 2005, compared to \$1.3 million in the first nine months of 2004, an increase of \$0.6 million, or 46.2%. The

increases are primarily due to increases in revenues from new and existing customers.

All Other.

Three months ended September 30, 2005. The all other category reported a loss of \$5.6 million in the third quarter of 2005, compared to a loss of \$4.8 million in the third quarter of 2004, a decrease of \$0.8 million, or 16.7%. The decrease is primarily due to an increase in operating expenses, due in large part to costs related to the current IRS audits.

Nine months ended September 30, 2005. The all other category reported a loss of \$11.9 million in the first nine months of 2005, compared to a loss of \$17.3 million in the first nine months of 2004, an improvement of \$5.4 million, or 31.2%. The improvement is primarily due to the elimination of \$3.7 million of after-tax interest costs related to the retirement of \$100 million of debt in the fourth quarter of 2004 and a \$2.4 million after-tax gain recorded at Holdings resulting from the favorable settlement of an interest rate lock arrangement in 2005. These improvements were partially offset by \$1.4 million of additional after-tax interest costs related to the issuance of \$320 million of senior unsecured notes at Holdings in August 2005.

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures

In the first nine months of 2005, Duquesne Light spent \$73.9 million of capital expenditures for electric utility construction. In addition, Holdings spent \$2.8 million of capital expenditures relating to its other business lines and other investments. We estimate that during 2005, Duquesne Light will spend, excluding the allowance for funds used during construction, approximately \$150 million for electric utility construction related to its transmission and distribution infrastructure, and Holdings will spend approximately \$5 million for construction by its other businesses.

Financing Plan

During August 2005, Holdings issued \$200 million of 5.5% senior notes due August 15, 2015 and \$120 million of 6.25% senior notes due August 15, 2035. Proceeds were used to repay the \$250 million intercompany loan with Duquesne Light and approximately \$37 million of variable rate borrowings under Holdings' credit facility. The remaining balance was used for general corporate purposes.

Duquesne Light used the proceeds received from the repayment of Holdings' intercompany loan plus available cash to purchase at par upon mandatory tender \$320.1 million of variable rate Pollution Control Revenue Refunding Bonds (PCRBs) with maturity dates ranging from 2020 to 2033. This purchase was in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and is presented on Duquesne Light's balance sheet as an extinguishment of debt, because Duquesne Light is the primary obligor of the PCRBs. Duquesne Light could remarket all of the PCRBs at future dates to refinance higher cost securities, fund infrastructure investments, and for general corporate purposes.

Duquesne Light has embarked on a significant infrastructure investment program and plans to fund the program using equity infusions from Holdings and available cash. This financing plan originally included an equity issuance by Holdings of up to \$150 million, however the ultimate amount of equity issued may be less, depending on a number of factors, including available cash. We continue to explore other sources of funds for the infrastructure investment, including the potential divestiture of certain non-core assets. The timing of the equity issuance will depend on the need for funds, and may occur as late as nine months after the distribution rate case is filed with the PUC, as discussed below in "Rate Matters."

Liquidity

On October 18 2005, we filed a shelf registration statement for up to \$400 million of preferred stock, common stock, stock purchase contracts, stock purchase units, warrants and debt securities, to be issued from time to time. Our ability to issue such securities will depend on, among other things, market demand, interest rates, and corporate strategy.

During the first ten months of 2005, Holdings received cumulative cash proceeds from dispositions of certain non-core assets totaling approximately \$60 million. Holdings anticipates additional proceeds of approximately \$5 million related to sales of two additional energy facility management projects that are expected to close in the fourth quarter of 2005. Also in 2005, Holdings settled a series of interest rate lock agreements for cumulative cash proceeds of \$11.4 million. These proceeds are to be used to fund capital expenditures and for general corporate purposes.

In addition, during the first quarter of 2005, Duquesne Light contributed \$32.1 million to its pension plans, pursuant to a 2001 PUC order.

We believe that cash on hand, access to debt and equity capital markets, and bank borrowing capacity continue to provide sufficient resources to fund our ongoing operating requirements, capital expenditures and estimated future infrastructure investments.

Available cash at all subsidiaries, including Duquesne Light, is deposited in the DQE Capital cash pool. Duquesne Light's investments in or withdrawals from this cash pool are reflected as cash flows from investing activities on its condensed consolidated statements of cash flows.

Bank Credit Facilities. Prior to July 27, 2005 Holdings and Duquesne Light maintained unsecured credit facilities (Prior Revolvers) expiring in September 2007, Holdings for \$175 million and Duquesne Light for \$100 million. On July 27, 2005 the Prior Revolvers were amended and extended to July 2010 (2005 Revolvers). Holdings 2005 Revolver is for \$200 million and Duquesne Light's 2005 Revolver is for \$100 million. Both 2005 Revolvers permit borrowings at interest rates of LIBOR (plus a margin of 0.40% to 1.00%) or an alternate base rate, as defined in the credit facilities. Both 2005 Revolvers have commitment fees applicable to the remaining available amount. Interest rates and commitment fees are based on the borrower's then-current senior unsecured credit rating. Both 2005 Revolvers are subject to cross-default if the borrower or any of its subsidiaries defaults on any payment due under any indebtedness exceeding \$50 million. Undrawn amounts under both 2005 Revolvers are fully available for the issuance of letters of credit.

Under our Prior Revolvers and 2005 Revolvers, we are subject to financial covenants requiring each of Holdings and Duquesne Light to maintain a debt-to-capitalization ratio of not more than 65%, as defined in the facilities. In addition, Holdings is required to maintain a minimum coverage ratio of 2-to-1, as defined in the facilities. As of September 30, 2005, we were in compliance with the applicable covenants.

As of September 30, 2005, our total borrowing capacity under our 2005 Revolvers and the use of this borrowing capacity were as follows:

	Committed Capacity	Borrowed	LOCs Issued	Available Capacity
Holdings	\$200.0	\$ —	\$55.4	\$144.6
Duquesne Light	100.0	—	6.7	93.3
Total	\$300.0	\$ —	\$62.1	\$237.9

During the first nine months of 2005, the maximum amount of credit facility borrowings outstanding was \$50 million (all at Holdings), the average daily borrowings were \$6.1 million and the weighted average daily interest rate was 4.15%. As of September 30, 2005, Holdings had \$18.2 million of outstanding letters of credit (LOCs) (including \$12.7 million at Duquesne Light) unrelated to the credit facilities.

OFF-BALANCE SHEET ARRANGEMENTS

Except for the guarantees discussed in Note 7, neither Holdings nor Duquesne Light has any material off-balance sheet arrangements. Neither Holdings nor Duquesne Light is involved in any material contract trading activities.

RATE MATTERS

Seams Elimination Charge Adjustment

Effective January 1, 2005, Duquesne Light joined PJM, becoming (along with other electric generation suppliers) a load-serving entity within PJM. In addition, POLR III became effective on that date.

As previously reported, the FERC has issued a series of orders eliminating the regional through and out rates (RTOR) for certain transmission services between the Midwest Independent System Operator (MISO) and PJM effective December 1, 2004. A transitional pricing mechanism called the seams elimination charge adjustment (SECA) has been put in place through March 2006 in order to compensate transmission owners for the estimated revenue lost as a result of the elimination of the RTOR. Total SECA charges for the Duquesne Light zone are expected to be approximately \$39 million. The FERC has accepted revised compliance filings implementing SECA charges among load-serving entities within the Duquesne Light zone. Under that filing, Duquesne Light was allocated approximately \$11 million of the SECA charges. The other load-serving entities in the Duquesne Light zone were allocated the remainder of such charges. DLE's allocation of SECA charges will depend on the amount of load it serves; based on current load, DLE's allocation is expected to be approximately \$1.8 million.

The SECA charges must be paid by load-serving entities within the Duquesne Light zone on a current basis. In June 2005, Duquesne Light filed a request with the PUC for permission to pass SECA charges through to its POLR customers. This request was granted, subject to disposition of any complaints filed

against the request, by the PUC in August 2005. Duquesne Light has put these charges into effect for service beginning August 26, 2005. However, if the FERC ultimately adopts a SECA level and allocation method that differs from the proposed charges initially accepted by the FERC for billing purposes, refunds or surcharges will be used to compensate or charge the appropriate entity for the difference between the amounts initially accepted by the FERC and the amounts ultimately determined to be just and reasonable by the FERC. The final amount of our SECA obligations therefore remains uncertain.

Distribution and Transmission Rate Cases

As a regulated utility, Duquesne Light may only change its distribution or transmission rates by applying, through the rate case process, to the PUC or the FERC for approval. The goal of a rate case is to establish customer rates such that the utility (i) recovers its costs of providing the service, (ii) recovers its costs of investing in the transmission and/or distribution infrastructure, and (iii) earns a reasonable and fair return on that investment. During a rate case, the utility must prove that its proposed rate increase is needed by showing its costs during a given test year. The utility's costs and expenditures are reviewed and challenged during this process. A rate case also considers a utility's rate of return on its investment, as well as its costs of financing, in order to derive its annual revenue requirement. The rates ultimately set are intended to give the utility a reasonable chance to achieve its revenue requirement.

Since customer choice was instituted in Pennsylvania in 1996, rate caps have prevented recovery of any new investment in transmission and distribution. The last Duquesne Light rate case involving transmission and distribution costs dates back to 1987. Our transmission and distribution rate freeze expired at the end of 2003. We plan to file a distribution rate case with the PUC in the first half of 2006. The PUC has nine months from the date of the filing to render a final decision. We also plan to file a transmission rate case with the FERC later in 2006.

Item 3. Quantitative and Qualitative Disclosures About 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.

Both Holdings and Duquesne Light have potential market risk exposures to interest rate risk, commodity price risk and credit/default risk. Holdings also faces

the potential risk of Section 29 tax credit phase-out. Holdings and Duquesne Light have risk management procedures to monitor and assist in controlling these market risks and may use derivative and other instruments to manage some of these exposures.

Interest Rate Risk. Currently, neither Holdings nor Duquesne Light have any variable interest rate debt outstanding. We manage our interest rate risk by retiring and issuing debt from time to time and by maintaining a range of maturity dates. A 10% reduction in interest rates would have increased the market value of fixed-rate debt by approximately \$36.1 million for Holdings and \$27.6 million for Duquesne Light as of September 30, 2005. Such changes would not have had a significant near-term effect on our future earnings or cash flows.

In anticipation of the August 2005 issuance of \$320 million of senior unsecured debt Holdings entered into a series of interest rate lock agreements during the second quarter of 2005 to hedge exposure to interest rate fluctuations for \$250 million of the senior unsecured debt. These agreements were designated as cash flow hedges under SFAS No. 133. Holdings settled the rate lock agreements in conjunction with the issuance of the debt, therefore the hedge was determined to be 100% effective. As a result of the settlement, Holdings received \$7.4 million in cash and recorded \$4.3 million in the statement of comprehensive income, net of deferred taxes of \$3.1 million. Amounts recorded in comprehensive income related to these agreements will be recognized as an approximate \$0.3 million reduction of annual interest expense through August 2015, and an approximate \$0.2 million annual reduction from September 2015 through August 2035.

Commodity Price Risk. Both Holdings and Duquesne Light are exposed to commodity price risk arising from market price fluctuations in electricity supply. We manage this risk by entering into energy commodity contracts, principally through Duquesne Power.

The energy commodity contracts have been structured to begin and end primarily during the POLR III time period. The net result of these transactions is that, as of September 30, 2005, Duquesne Power had secured substantially all of the combined expected load obligation for its full-requirements contracts with Duquesne Light and DLE.

If Duquesne Power does not enter into contracts for the remaining portion of its anticipated obligations, it will acquire the necessary supply through spot market purchases, and will therefore be exposed to

market risk. Assuming Duquesne Power were to make such spot market purchases, we performed a sensitivity analysis using a hypothetical 10% increase in the projected forward market prices of electricity supply in our valuation model. The analysis indicated that such market movements would change the projected cost of acquiring electricity supply by approximately \$3.5 million for the remaining POLR III period through 2007. The projected forward market prices used in our valuation model are derived from broker quotes for the applicable delivery points for both on-peak and off-peak power. Our valuation model seasonalizes annual or quarterly prices based on historical trends. Actual costs in the future may differ significantly from our analysis, however, based on changes in the timing and amount of commodity price fluctuations and our actual exposures.

The fair value of the sale contracts, and certain purchase contracts that are classified as derivative instruments, is recorded as mark-to-market derivative assets or liabilities in the condensed consolidated financial statements.

The mark-to-market contracts are exposed to commodity price risk based on price changes in the forward energy market. Therefore, as the forward market prices change, so will the fair value of these contracts. A hypothetical 10% increase or decrease in the projected forward market prices of electricity supply would increase or decrease the fair value of our mark-to-market energy contracts by approximately \$10.9 million as of September 30, 2005.

As a result of fixed POLR prices for our residential and small commercial customers through December 31, 2007, and customers being able to initiate switches to and from POLR service, we have an additional risk of loss. Specifically, customers could opt for POLR service in a period of high energy prices or leave POLR service for an alternative generation supplier in a period of low energy prices. Significant changes in customer switching behavior could cause Duquesne Power's energy supply portfolio to be disproportionate to its full requirements obligations to Duquesne Light and DLE. Accordingly, Duquesne Power could be required to purchase or sell power in periods of high or low prices which could result in a loss.

During the third quarter of 2005, one alternative supplier notified Duquesne Light that their customers would be returning to POLR service beginning in the fourth quarter of 2005. Had these customers been served under the POLR arrangement during the nine months ended September 30, 2005, the POLR retention for residential and small commercial customers would have increased approximately 1%.

Once these customers return to POLR service, essentially all of the residential customers that are not currently on POLR service are served by one alternative supplier. Should this alternative supplier also return these residential customers to POLR service, the POLR retention for residential and small commercial customers would increase approximately 10%.

We mitigate risks associated with our POLR obligation by contracting for firm energy purchases within a range of probabilities based on historical customer retention rates and switching trends along with projected forward energy prices.

Credit/Default Risk. Our credit risk is the exposure to the possibility of economic loss that would occur as a result of nonperformance by counter-parties of their contractual obligations.

As part of our overall risk management strategy, Duquesne Power has entered into fixed-price energy contracts with eight investment-grade suppliers and has contracted for unforced capacity credits from six suppliers.

As of September 30, 2005, Duquesne Power has contracted to purchase from one supplier approximately 56%, 40% and 35% of the notional values of the energy commodity contracts for the years ended December 31, 2005, 2006 and 2007, with no other supplier representing as much as 25% for each of the respective years.

Duquesne Power's energy commodity contracts contain certain safeguards designed to mitigate potential losses by requiring collateral to be posted by either party depending on changes in energy or capacity prices.

As of October 31, 2005, no collateral was required to be posted under these contracts.

Duquesne Light purchases energy and capacity, beginning January 1, 2005, under a full-requirements contract from two investment grade suppliers for sale to its large commercial and industrial customers receiving fixed-price POLR III service. Duquesne Light's contracts only require collateral to be posted by the counter-party. As of October 31, no collateral was required to be posted under these contracts.

In addition to collateral postings, supplier default risk is further mitigated by accelerated damage payment terms. If a supplier fails to deliver the contracted power, we may exercise our right to force the supplier to compensate us for the difference between the market price and the contracted price of power. If such supplier would fail to make the accelerated damage payments, the supplier would be in default and we would be permitted to apply any

funds due that supplier against our excess energy costs.

Other than large commercial and industrial POLR III customers on hourly-priced service, Duquesne Light is obligated to serve its POLR III customers at fixed rates. Duquesne Power is also contractually obligated to serve its customers, Duquesne Light and DLE, at fixed rates. If an energy supplier to Duquesne Light or Duquesne Power were to default on its contract, we could potentially be acquiring energy and/or capacity at a cost in excess of our revenues, resulting in a loss, if the collateral provisions were not sufficient to cover such excess.

If this would occur it is uncertain, under the current PUC-approved POLR III arrangement, that Duquesne Light could pass any additional costs related to these energy and capacity purchases on to its customers.

Tax Credit Phase-Out. Section 29 tax credits are subject to a phase-out provision that reduces tax credits as the average annual wellhead price per barrel of domestic crude oil increases into an inflation-adjusted phase-out range. For 2004, the tax credit would have begun to phase out if the annual average wellhead price of domestic crude oil had exceeded \$51.35 per barrel and would have been completely phased out if the annual average wellhead price of domestic crude oil had exceeded \$64.47 per barrel.

The 2005 phase-out range will be calculated using inflation rates published in 2006 by the IRS. We have estimated that for 2005 the tax credits will begin to phase out if the annual average wellhead price of domestic crude oil exceeds approximately \$52 per barrel and will be completely phased out if that price exceeds approximately \$66 per barrel. For the first ten months of 2005 the estimated average wellhead price was approximately \$50 per barrel. In order for the price to reach the low end of the phase-out range, the estimated average wellhead price would need to be approximately \$64 per barrel for the remainder of 2005. Based on both the average wellhead price to date and current futures prices for the remaining months of 2005, we do not anticipate that there will be a phase-out of tax credits in 2005.

If domestic crude oil prices continue to increase over the remainder of 2005 and stay at a high level in 2006 and/or 2007, the estimated tax credits to be generated from DQE Financial's landfill gas operations and investment in a synthetic fuel partnership of approximately \$20 million, as well as Duquesne Energy Solutions' estimated annual after-tax earnings of approximately \$20 million from its synthetic fuel facilities management contract may be

substantially reduced or eliminated. However, due to significant levels of tax credit carry-forwards existing at Holdings, the potential phase-out of DQE Financial's tax credits in 2006 and 2007 would not adversely impact our cash flow in those years. Based upon our evaluation, we have thus far determined not to enter into hedging arrangements to reduce this potential exposure.

In addition, as of September 30, 2005, we have certain tangible and intangible assets related to DQE Financial's landfill gas operations with a net book value of approximately \$6 million that may become impaired if domestic crude oil prices continue to increase in the future. As of September 30, 2005, we have no net book value related to synthetic fuel assets or investments.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Management of both Holdings and Duquesne Light, with the participation of each entity's Chief Executive Officer and the Chief Financial Officer, has evaluated their respective disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Each entity's Chief Executive Officer and the Chief Financial Officer have concluded that these controls and procedures are effective to ensure that the information required to be disclosed in Holdings' and Duquesne Light's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Changes in Internal Control Over Financial Reporting

There have been no changes in Holdings' or Duquesne Light's internal control over financial reporting during the third quarter that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings.

Shareholder Class Action. In October and November 2001, a number of putative class action lawsuits were filed by purported shareholders of Holdings against Holdings and David Marshall, our

former chairman, chief executive officer and president, in the United States District Court for the Western District of Pennsylvania. These cases were consolidated under the caption *In re DQE, Inc. Securities Litigation*, Master File No. 01-1851 (W.D. Pa.), and the plaintiffs filed a second consolidated amended complaint on April 15, 2002. The complaint alleged violations of Section 10(b) of the Securities Exchange Act of 1934 (Exchange Act) and Rule 10b-5 promulgated thereunder, and Section 12(a)(2) of the Securities Act of 1933 (Securities Act). The complaint also alleged controlling person liability under Section 20(a) of the Exchange Act and Section 15 of the Securities Act. The complaint alleged that between December 6, 2000 and April 30, 2001, the defendants issued a number of materially false and misleading statements concerning investments made by our subsidiary, DQE Enterprises, Inc., and the impact that these investments would have on our current and future financial results.

On May 20, 2003, the court certified a class to include purchasers of our common stock during the period from December 6, 2000 through April 30, 2001, and a sub-class to include purchasers of our common stock through our dividend reinvestment and stock purchase plan during the same period.

On October 7, 2005 the court approved a final settlement of all claims. Our insurance covers the settlement in full.

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

Item 6. Exhibits.

- 12.1 Holdings Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividend Requirements.
- 12.2 Duquesne Light Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividend Requirements.
- 31.1 Holdings' CEO Section 302 Certification.
- 31.2 Holdings' CFO Section 302 Certification.
- 31.3 Duquesne Light's CEO Section 302 Certification.
- 31.4 Duquesne Light's CFO Section 302 Certification.
- 32.1 Holdings' CEO Section 906 Certification.
- 32.2 Holdings' CFO Section 906 Certification.
- 32.3 Duquesne Light's CEO Section 906 Certification.
- 32.4 Duquesne Light's CFO Section 906 Certification.

SIGNATURES

Pursuant to the requirements the Securities Exchange Act of 1934, the registrant identified below has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Duquesne Light Holdings, Inc.

(Registrant)

Date: November 8, 2005

/s/ Mark E. Kaplan

(Signature)

Mark E. Kaplan
Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer)

Date: November 8, 2005

/s/ Susan S. Mullins

(Signature)

Susan S. Mullins
Controller
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant identified below has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Duquesne Light Company

(Registrant)

Date: November 8, 2005

/s/ Mark E. Kaplan

(Signature)

Mark E. Kaplan
Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer)

Date: November 8, 2005

/s/ Susan S. Mullins

(Signature)

Susan S. Mullins
Controller
(Principal Accounting Officer)

EXHIBIT 12.1

DUQUESNE LIGHT HOLDINGS AND SUBSIDIARIES

Calculation of Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividend Requirements

(Millions of Dollars)

	Nine Months Ended		Year Ended December 31,			
	September 30,		2003	2002	2001	2000
	2005	2004				
Fixed Charges:						
Interest on long-term debt	\$ 39.3	\$ 55.2	\$ 53.1	\$ 55.3	\$ 62.3	\$ 73.6
Other interest	0.9	2.0	12.3	13.3	25.6	35.0
Portion of lease payments representing an interest factor	2.8	3.9	4.9	3.2	3.1	6.8
Dividend requirement (a)	<u>6.0</u>	<u>6.6</u>	<u>9.5</u>	<u>15.8</u>	<u>16.0</u>	<u>14.1</u>
Total Fixed Charges	<u>\$ 49.0</u>	<u>\$ 67.7</u>	<u>\$ 79.8</u>	<u>\$ 87.6</u>	<u>\$ 107.0</u>	<u>\$ 129.5</u>
Earnings:						
Income (loss) from continuing operations	\$ 99.7	\$ 87.2	\$ 93.2	\$ 26.7	\$ (44.5)	\$ 145.3
Income tax expense (benefit)	45.9	20.6	17.7	(11.6)	(77.4)	25.0
Fixed charges as above	<u>49.0</u>	<u>67.7</u>	<u>79.8</u>	<u>87.6</u>	<u>107.0</u>	<u>129.5</u>
Total Earnings	<u>\$ 194.6</u>	<u>\$ 175.5</u>	<u>\$ 190.7</u>	<u>\$ 102.7</u>	<u>\$ (14.9)</u>	<u>\$ 299.8</u>

Ratio Of Earnings To Fixed Charges and Preferred and Preference Stock Dividend Requirements

Dividend Requirements	<u>3.97</u>	<u>2.59</u>	<u>2.39</u>	<u>1.17</u>	<u>(0.14) (b)</u>	<u>2.32</u>
-----------------------	-------------	-------------	-------------	-------------	-------------------	-------------

- (a) Includes annual dividend requirements of \$12.6 million for the Monthly Income Preferred Securities (MIPS) per year for 2002 and prior. For 2003, only \$6.3 million is included for the period January 1 – June 30. From July 1, 2003 until their redemption in 2004, MIPS dividends were included with interest on long-term debt due to the adoption of SFAS No. 150.
- (b) In order to achieve a ratio of earnings to fixed charges and preferred and preference stock dividend requirements of one to one, Total Earnings would need to increase by approximately \$122 million.

EXHIBIT 12.2

DUQUESNE LIGHT COMPANY AND SUBSIDIARIES

Calculation of Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividend Requirements

(Millions of Dollars)

	Nine Months Ended September 30,		Year Ended December 31,			
	2005	2004	2003	2002	2001	2000
Fixed Charges:						
Interest on long-term debt	\$ 37.0	\$ 45.6	\$ 53.1	\$ 55.2	\$ 62.3	\$ 73.5
Other interest	1.4	1.4	1.5	2.2	0.7	3.1
Company obligated mandatorily redeemable preferred securities dividend requirement (a)	—	—	6.3	12.6	12.6	12.6
Portion of lease payments representing an interest factor	1.7	2.5	3.9	1.9	3.1	6.8
Dividend requirements	<u>6.0</u>	<u>6.6</u>	<u>3.2</u>	<u>3.3</u>	<u>3.4</u>	<u>3.4</u>
Total Fixed Charges	<u>\$ 46.1</u>	<u>\$ 56.1</u>	<u>\$ 68.0</u>	<u>\$ 75.2</u>	<u>\$ 82.1</u>	<u>\$ 99.4</u>
Earnings:						
Net income	\$ 63.8	\$ 67.8	\$ 69.6	\$ 75.4	\$ 53.4	\$ 92.6
Income tax expense	42.8	44.3	45.4	48.9	30.8	40.5
Fixed charges as above	<u>46.1</u>	<u>56.1</u>	<u>68.0</u>	<u>75.2</u>	<u>82.1</u>	<u>99.4</u>
Total Earnings	<u>\$152.7</u>	<u>\$168.2</u>	<u>\$183.0</u>	<u>\$199.5</u>	<u>\$166.3</u>	<u>\$232.5</u>
Ratio Of Earnings To Fixed Charges and Preferred and Preference Stock Dividend Requirements						
	<u>3.31</u>	<u>3.00</u>	<u>2.69</u>	<u>2.65</u>	<u>2.03</u>	<u>2.34</u>

(a) From July 1, 2003 until their redemption in 2004, dividends on the monthly income preferred securities were included with interest on long-term debt due to the adoption of SFAS No. 150.

CONFIDENTIAL

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

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2005

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period From _____ to _____

<u>Commission File Number</u> <u>No.</u>	<u>Registrant; State of Incorporation;</u> <u>Address; Telephone Number</u>	<u>IRS Employer Identification</u>
1-10290	Duquesne Light Holdings, Inc. (A Pennsylvania Corporation) 411 Seventh Avenue Pittsburgh, Pennsylvania 15219 412-393-6000	25-1598483
1-956	Duquesne Light Company (A Pennsylvania Corporation) 411 Seventh Avenue Pittsburgh, Pennsylvania 15219 412-393-6000	25-0451600

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

<u>Registrant</u>	<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Duquesne Light Holdings, Inc.	Common Stock (no par value)	New York Stock Exchange Philadelphia Stock Exchange Chicago Stock Exchange
Duquesne Light Company	Preferred Stock (\$50 per share liquidation value) 3.75% Series 4.00% Series 4.10% Series 4.15% Series 4.20% Series \$2.10 Series 6.50% Series	New York Stock Exchange
	6.7% Public Income Notes, due 2032	New York Stock Exchange

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

<u>Registrant</u>	<u>Title of Each Class</u>
Duquesne Light Company	Preference Stock, Plan Series A

Indicate by check mark if either registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Duquesne Light Holdings, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Duquesne Light Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate by check mark if either registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Duquesne Light Holdings, Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Duquesne Light Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Duquesne Light Holdings, Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Duquesne Light Company	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>

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

Duquesne Light Holdings, Inc.	<input checked="" type="checkbox"/>
Duquesne Light Company	<input checked="" type="checkbox"/>

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Duquesne Light Holdings, Inc.	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>
Duquesne Light Company	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>

Indicate by check mark whether either registrant is a shell company (as defined in Rule 12b-2 of the Act).

Duquesne Light Holdings, Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Duquesne Light Company	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

The aggregate market value of Duquesne Light Holdings, Inc. voting common stock held by non-affiliates as of June 30, 2005 (the last business day of its most recently completed second fiscal quarter) was \$1,435,007,239 based on the New York Stock Exchange closing price of \$18.68 per share on that date.

No common stock of Duquesne Light Company was held by non-affiliates as of the last business day of its most recently completed second fiscal quarter.

As of January 31, 2006, there were 78,162,741 shares of Duquesne Light Holdings, Inc.'s single class of common stock outstanding.

As of January 31, 2006, there were 10 shares of Duquesne Light Company's single class of common stock outstanding, all held by Duquesne Light Holdings, Inc.

Documents incorporated by reference: Specified portions of the Duquesne Light Holdings, Inc. Proxy Statement relating to the 2006 Annual Meeting of Shareholders, to be filed with the Commission not later than 120 days after the close of such registrant's fiscal year, are incorporated by reference into Part III.

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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 this usage-based charge. As of December 31, 2005, Duquesne Light has fully collected the CTC.

CUSTOMER CHOICE – The *Pennsylvania Electricity Generation Customer Choice and Competition Act* gives consumers the right to contract for electricity at market prices from PUC-approved electric generation suppliers.

DISTRIBUTION – Distribution is the flow of electricity from our substations to the ultimate customer (businesses and homes).

ENERGY COMMODITY CONTRACTS – Contracts for the purchase or sale of electric energy and capacity credits.

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.

PROVIDER OF LAST RESORT (POLR) – Under Customer Choice, the local distribution utility is required to provide electricity for customers who do not choose an alternative generation supplier, or whose supplier fails to deliver. (See Item 1, "Business," for a description of our historical and current POLR arrangements.)

REGIONAL TRANSMISSION ORGANIZATION (RTO)

– Organization formed by transmission-owning utilities to put transmission facilities within a region under common control. On January 1, 2005, Duquesne Light joined PJM Interconnection, an RTO, which coordinates the movement of electricity in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

REGULATORY ASSETS – 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 regulators for deferral and future recovery. These deferred costs are capitalized as regulatory assets by the regulated utility.

SEAMS ELIMINATION CHARGE ADJUSTMENT (SECA) – A transitional pricing mechanism put in place by the FERC through March 2006 in order to compensate transmission owners for the estimated revenue lost as a result of the elimination of the regional through and out rates (RTOR). SECA charges must be paid by load-serving entities, including Duquesne Light and Duquesne Light Energy on a current basis. The PUC granted a request by Duquesne Light to pass SECA charges through to its POLR customers, effective for service beginning August 26, 2005.

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 – Transmission is the flow of electricity from generating stations over high voltage lines to substations. The electricity then flows from the substations into our distribution network.

Item 1. Business.**CORPORATE STRUCTURE**

Part I of this Annual Report on Form 10-K should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, and with the audited consolidated financial statements, set forth in Part II, Item 8.

This combined Annual Report on Form 10-K presents information on both Duquesne Light Holdings, Inc. (Holdings) and Duquesne Light Company (Duquesne Light). Information on Holdings and its subsidiaries (not including Duquesne Light and its subsidiaries) shall not be deemed to be included as part of Duquesne Light's Annual Report on Form 10-K. Specifically, information on the Energy Solutions, Financial and Communications business segments, the "all other" category, and discontinued operations is not so included.

References in this report to "we," "us" and "our" are to Holdings and its subsidiaries, collectively. References to "Notes" are to the notes to the consolidated financial statements set forth in Item 8.

Holdings is an energy services holding company formed in 1989 to serve as the holding company for Duquesne Light and to engage in unregulated energy and related businesses.

Continuing Operations

Duquesne Light was formed in 1912 by the consolidation and merger of three constituent companies. Duquesne Light is an electric utility engaged in the supply (through its provider-of-last-resort service (POLR)), transmission and distribution of electric energy.

Under Pennsylvania ratemaking practice, electric utilities were granted exclusive geographic franchises to sell electricity, in exchange for making investments and incurring obligations to serve customers. Through the rate-making process, these prudently incurred costs were recovered, along with a return on the investment, from customers. Additionally, certain operating costs were approved for deferral for future recovery from customers. As a result of this process, utilities had assets recorded on their balance sheets at above-market costs, creating transition costs. With the 1996 passage of the *Pennsylvania Electricity Generation Customer Choice and Competition Act*, electric generation was deregulated, allowing

customers to purchase electricity at market prices from a variety of electric generation suppliers. Under the Competition Act, utilities are permitted to recover transition costs by collecting the competitive transition charge (CTC). Transmission and delivery of electricity remain regulated in substantially the same manner as under historical regulation.

In early 2000, Duquesne Light completed the divestiture of its generation assets, and applied the net sale proceeds to reduce transition costs, thus accelerating its CTC collection period for most customers. In conjunction with the sale of its generation assets, Duquesne Light entered into POLR I, a full requirements arrangement with an unrelated vendor, which provided Duquesne Light the necessary electricity to satisfy its provider of last resort obligation during the CTC collection period. Although the CTC collection period ended during the third quarter of 2005, POLR I remains in place for a few industrial customers under special contracts. In January 2002, Duquesne Light began operating under POLR II, which extended the full requirements arrangement to service customers from whom the CTC had already been fully collected. Unlike POLR I, which was income neutral, the POLR II arrangement permitted Duquesne Light to collect a margin on the energy supplied. POLR II expired on December 31, 2004.

POLR III is Duquesne Light's rate plan and related generation supply plan for the period beginning January 1, 2005. Currently, most customers who do not choose an alternative generation supplier are served through POLR III. Under POLR III, residential and small commercial customers receive electric supply through December 31, 2007 at fixed rates approximately 11.5% above POLR II generation rates. For our large commercial and industrial customers, the current POLR III supply options are either a fixed price service based upon the results of a competitive request-for-proposal process (available through May 31, 2006), or an hourly price service that passes through real-time spot market electricity prices. Duquesne Light receives an adder as compensation for costs and risks involved in providing energy to these customers. In January 2006, Duquesne Light requested and received approval from the PUC to extend the fixed-price service offering for an additional year. This offering will be subject to the results of another competitive wholesale request-for-proposal to be conducted. Concurrent with the beginning of POLR III, Duquesne Light joined PJM Interconnection (PJM), as part of its commitment to ensuring reliability to its customers.

Duquesne Power, LLC (formerly Duquesne Power, L.P.), an unregulated subsidiary, maintains a portfolio

of energy commodity contracts to provide full-requirements energy supply contracts for both (i) Duquesne Light's residential and small commercial POLR customers and (ii) Duquesne Light Energy, LLC's large commercial and industrial customers. These energy commodity contracts are with unrelated parties and include payment guarantees from Holdings. Duquesne Power was a subsidiary of Duquesne Light until December 31, 2005, at which time ownership was transferred to another Holdings subsidiary. In 2003, Duquesne Power announced its agreement to purchase the Sunbury generation station to serve Duquesne Light's residential and small commercial customers as part of POLR III. However, in September 2004, the planned acquisition was canceled.

Duquesne Light Energy, LLC (DLE) is an unregulated, competitive, retail electric generation supplier that offers customized solutions tailored to meet its customers' specific electricity needs. DLE's primary focus is on the large commercial and industrial customer market segment in Duquesne Light's service territory. DLE began operations in November 2004.

Duquesne Energy Solutions, LLC (DES) is an energy facilities management company that provides energy outsourcing solutions including operation and maintenance of synthetic fuel and energy facilities. During 2005, DES sold its investments in three of six on-site energy facility management projects.

DQE Financial Corp. owns, operates and maintains landfill gas collection and processing systems, and is an investment and portfolio management organization focused on structured finance and alternative energy investments.

DQE Communications, LLC owns, operates and maintains a high-speed, fiber optic based metropolitan network, and leases dark fiber from the network to commercial, industrial and academic customers.

DQE Capital Corporation provides financing to Holdings for use with its affiliates.

Proposed Acquisition

On November 14, 2005, Holdings entered into a Purchase and Sale Agreement to acquire Atlantic City Electric Company's (ACE) combined 108 megawatt ownership interests in the Keystone and Conemaugh coal-fired power plants. The aggregate purchase price is approximately \$176 million, subject to adjustments based on, among other things, the transaction's ultimate closing date. Currently, the closing is anticipated to occur in mid-2006, subject to approvals from the New Jersey Bureau of Public Utilities, the Pennsylvania Public Utility Commission (PUC) and other regulatory entities. Both Keystone and Conemaugh are jointly owned by ACE and a consortium of other companies. Holdings will be

acquiring ACE's undivided 2.47% interest, or 42 megawatts, in Keystone and undivided 3.83% interest, or 66 megawatts, in Conemaugh, plus related inventories, equipment and other property.

Service Areas and Customer Concentrations

Duquesne Light's electric utility operations provide service to approximately 587,000 direct customers in southwestern Pennsylvania (including in the City of Pittsburgh), a territory of approximately 800 square miles.

Our other business lines have operations and investments in several states and Canada. Our Canadian operations recognized revenue of \$9.4 million, \$11.9 million and \$8.7 million in 2005, 2004 and 2003. Associated long-lived assets, excluding financial instruments, were zero, \$4.2 million and \$4.8 million as of December 31, 2005, 2004 and 2003. DES relies on a single customer, that owns several synthetic fuel facilities, for substantially all of its revenues and earnings.

Regulation

Holdings and Duquesne Light are subject to the accounting and reporting requirements of the Securities and Exchange Commission (SEC). Duquesne Light's electricity delivery business is also subject to regulation by the PUC and the Federal Energy Regulatory Commission (FERC) with respect to rates for delivery of electric power, accounting and other matters.

Business Segments

This information is set forth in Item 7 under "Results of Operations" and in Note 20 to the consolidated financial statements.

FORWARD-LOOKING STATEMENTS

We use forward-looking statements in this report. Statements that are not historical facts are forward-looking statements, and are based on beliefs and assumptions of our management, and on information currently available to management. Forward-looking statements include statements preceded by, followed by or using such words as "believe," "expect," "anticipate," "plan," "estimate" or similar expressions. Such statements speak only as of the date they are made, and we undertake no obligation to update publicly any of them in light of new information or future events. Actual results may materially differ from those implied by forward-looking statements due to known and unknown risks and uncertainties, some of which are discussed in Item 7.

EMPLOYEES

As of December 31, 2005, Holdings and its subsidiaries had approximately 1,600 employees. Duquesne Light is party to a labor contract with the International Brotherhood of Electrical Workers (IBEW), which represents 71% of Duquesne Light's approximately 1,400 employees. Duquesne Light and the IBEW are parties to a collective bargaining agreement which was renegotiated in 2005 and expires in September 2010.

ENVIRONMENTAL MATTERS

Legacy Liabilities

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. Following the generation asset divestiture, Duquesne Light retained certain facilities which remain subject to these regulations. We have assessed our residual waste management sites, and the DEP has approved our compliance strategies. As of December 31, 2005, we expect the costs of compliance to be approximately \$4 million with respect to sites we will continue to own. These costs were recovered in the CTC.

Duquesne Light also owns the closed Warwick Mine, located along the Monongahela River in Greene County, Pennsylvania. This property had been used in the electricity supply business segment. Duquesne Light has been selling unused portions of the property and plans to continue to do so. As of December 31, 2005, Duquesne Light's current estimated liability for closing the Warwick Mine, including final site reclamation, mine water treatment and certain health care liabilities, is approximately \$26 million.

These amounts are combined and included in legacy liabilities on both Holdings and Duquesne Light's consolidated balance sheets. Our operations are subject to environmental laws and regulation by federal, state and local authorities. Due to the inherent uncertainties surrounding the development of federal and state environmental and energy laws and regulations, we cannot determine the impact such laws may have on our existing and future facilities.

Discontinued Operations

AquaSource Inc.'s (formerly our water resource management subsidiary) former water and water-related operations were, and remain, 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. AquaSource's former operations also were, and remain, subject to the

Federal *Clean Water Act*, which regulates the discharge of pollutants into waterways. AquaSource is aware of various compliance issues at its former water and wastewater facilities attributable to the period of time during which it owned these facilities. AquaSource has agreed to indemnify the purchasers of these facilities for certain pre-closing environmental liabilities.

Prior to divesting its former operations, AquaSource entered into various consent agreements regarding certain environmental compliance matters. In connection with divesting its former operations, AquaSource assigned these consent agreements to the relevant purchasers. AquaSource has agreed to indemnify the purchasers of its former operations for certain pre-closing environmental liabilities.

As part of the transaction, we retained certain obligations related to the business that was sold to Aqua America, Inc., including responsibility for certain existing litigation matters as well as a 10-year indemnity for certain pre-closing environmental claims. We purchased an environmental liability policy to mitigate this indemnity.

We do not believe that any of AquaSource's indemnity obligations described above will have a material effect on Holdings' financial position, results of operations or cash flows.

OTHER

Recent Accounting Pronouncements

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment (revised December 2004)," using the modified prospective application method. The use of this method will result in the recognition of compensation cost for all equity awards we grant after the time of adoption and the recognition of the unvested portion of previously granted equity awards that remain outstanding at the time of adoption as the requisite service is rendered. The compensation cost will be based on the grant-date fair value of the equity award. The initial adoption of SFAS No. 123R was not material to our financial statements.

We have applied Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and provided the required pro forma disclosures of SFAS No. 123 "Accounting for Stock-Based Compensation" through December 31, 2005.

Proposed Accounting Standards

In July 2005, the Financial Accounting Standards Board (FASB) issued proposed FASB Staff Position No. 13-a "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease

Transaction" (FSP No. 13-a). The proposed changes included in FSP No. 13-a are not yet in effect, but are expected to be issued in 2006, and to be effective for the first annual period beginning after December 15, 2006. As the December 2003 settlement with the Internal Revenue Service (IRS) regarding DQE Financial's structured lease and other similar investments modified our tax benefits under these leases, this proposed staff position, if issued in its current form, would apply to us and would require recognition of the modified tax benefits from the inception of the leases. As a result, upon adoption of this standard, we would record an after-tax, cumulative effect charge of approximately \$85 million. We previously disclosed that the earnings volatility of the lease investments was removed as a result of the settlement with the IRS, and the revised earnings of \$3 million to \$4 million annually would be realized over the remaining lives of these leases. After adopting this staff position, the amount of the cumulative effect charge initially recorded would be recognized as additional lease earnings over the remaining lives of these leases, which range from 23 to 31 years (with early buy-out periods ranging from 7 to 18 years). Our current and future cash flows would be unaffected by the adoption of this proposed FASB Staff Position.

In July 2005, the FASB issued an exposure draft of a proposed interpretation of FASB Statement No. 109 "Accounting for Uncertain Tax Positions." The proposed changes are not yet in effect, but are expected to be issued in the first quarter of 2006, and to be effective for the first annual period beginning after December 31, 2006. We currently have certain tax disputes and are under audit by both the Commonwealth of Pennsylvania and the IRS, as outlined in Note 10 to the consolidated financial statements. This proposed interpretation, if issued in its current form, would apply to both Holdings and Duquesne Light and would require recognition of a cumulative effect upon adoption. We are currently evaluating the overall impact of this proposed interpretation on both Holdings' and Duquesne Light's financial statements.

Pending Litigation

See Item 3, "Legal Proceedings," for a discussion of pending litigation.

Available Information

Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports for both Holdings and Duquesne Light are available free of charge through

our website (www.duquesnelightholdings.com) when they become available on the SEC website.

EXECUTIVE OFFICERS OF THE REGISTRANTS

Set forth below are the names, ages as of December 31, 2005, and positions during the past five years of the executive officers for Holdings and for Duquesne Light.

Ms. Hogel and Messrs. O'Brien, Belechak, Kaplan, Fields and Schott are executive officers of both Holdings and Duquesne Light. Messrs. Schmitt and Wilson are executive officers only of Holdings.

Morgan K. O'Brien, age 45. At Holdings: President and Chief Executive Officer since September 2001. Chief Operating Officer from August 2000 to September 2001. Executive Vice President - Corporate Development from January 2000 to August 2000.

At Duquesne Light: Director since June 1999. President and Chief Executive Officer since August 2003.

Joseph G. Belechak, age 46. At Holdings: Senior Vice President and Chief Operations Officer since August 2003. Senior Vice President - Operations and Customer Service from December 2002 to August 2003.

At Duquesne Light: Director since April 2003. Senior Vice President and Chief Operations Officer since August 2003. Senior Vice President - Operations and Customer Service from October 2001 to August 2003. Vice President, Asset Management & Operations from August 2000 to October 2001.

Maureen L. Hogel, age 45. At Holdings: Senior Vice President and Chief Legal & Administrative Officer since August 2003. Senior Vice President and Chief Administrative Officer from December 2002 to August 2003.

At Duquesne Light: Director since April 2003. Senior Vice President and Chief Legal & Administrative Officer since August 2003. Senior Vice President and Chief Administrative Officer from December 2002 to August 2003. Senior Vice President - Human Resources and Administration from October 2001 through November 2002. Vice President - Development, Legal and Administrative Affairs from January 2001 through October 2001.

Mark E. Kaplan, Age 44. At Holdings: Senior Vice President and Chief Financial Officer since September 2005.

At Duquesne Light: Director, Senior Vice President and Chief Financial Officer since October 2005.

Previously: Managing Director of CLJ Consulting Group LLC (a management consulting firm) from 2004 until September 2005. From 1995 until 2004, served in various capacities with Weirton Steel Corporation, including as President and Chief Financial Officer, Senior Vice President - Finance and Administration, and Vice President and Controller. Also a director of WesMark Funds, an open-end, management investment company.

William F. Fields, Age 55. At Holdings: Vice President and Treasurer since December 2002. At DQE Financial: Treasurer since December 2002. President from June 2001 to August 2004.

At Duquesne Light: Vice President and Treasurer since December 2002.

John R. Schmitt, Age 42. At Holdings: Vice President since April 2005. At DQE Financial: Vice President since August 2000. Also serves as Vice President of DQE Systems and Duquesne Energy Solutions.

Stevan R. Schott, age 42. At Holdings: Vice President - Finance since September 2005. Senior Vice President and Chief Financial Officer from August 2003 to September 2005. Vice President and Controller from October 2001 to August 2003.

At Duquesne Light: Director from April 2003 to October 2005. Vice President - Finance since October 2005. Senior Vice President and Chief Financial Officer from August 2003 to October 2005. Vice President and Controller from October 2001 to August 2003. Vice President - Finance and Customer Service from August 2000 to October 2001.

James E. Wilson, age 40. At Holdings: Vice President - Corporate Development since September 2005. Senior Vice President and Chief Strategic Officer from August 2003 to September 2005. Vice President - Corporate Development and Rates from December 2002 to August 2003. Vice President - Corporate Development from October 2001 to December 2002. Vice President and Controller from March 2000 to October 2001.

At Duquesne Light: Director from April 2003 to June 2004. Senior Vice President and Chief Strategic Officer from August 2003 to June 2004. Vice President - Corporate Development and Rates from December 2002 to July 2003. Vice President - Corporate Development from October 2001 to November 2002. Vice President and Chief Accounting Officer from August 2000 to October 2001.

Item 1A. Risk Factors.

We are subject to substantial governmental regulation. If we receive unfavorable regulatory treatment, our business could be negatively affected.

Our transmission and distribution businesses are subject to regulation by various federal, state and local regulatory agencies that significantly affects our operations. The PUC regulates, among other things, the rates we can charge retail customers for the delivery of electricity. In addition, the FERC regulates, among other things, the rates that we can charge for electricity transmission. We cannot change transmission or delivery rates without approval by the applicable regulatory authority. While the approved transmission and delivery rates are intended to permit us to recover costs of service and earn a reasonable rate of return, there is no guarantee that the rates authorized by regulators will match our actual costs or provide a particular return on capital at any given time. Additionally, we initiated a \$500 million to \$550 million capital expenditure program for the years 2005 through 2007. While we will attempt to recover a portion of our capital expenditures by passing these costs along to our customers, there is a risk that governmental regulation of the rates we may charge to customers will prevent, hinder or delay our recovery of these capital expenditures.

The FERC also regulates the rates that other utilities charge to us for wholesale sales of electricity and can change the rates that other utilities charge for wholesale electricity sales. Since electric generation is now deregulated, we may not be able to recover increased costs associated with higher rates charged to us by electric generation suppliers.

We also are required to have numerous permits, approvals and certificates from governmental agencies that regulate our business. We are unable to predict the impact of future regulatory activities of any of these agencies on our business.

The Energy Policy Act of 2005 (the Energy Act) went into effect on August 8, 2005. The Energy Act, among other things, repeals the Public Utility Holding Company Act of 1935 effective February 2006, amends certain provisions of the Federal Power Act and the Public Utility Regulatory Policies Act of 1978, and expands the FERC's authority to review mergers and acquisitions.

Changes in, or reinterpretations of, existing laws or regulations, or the imposition of new laws or regulations, may require us to change the way we conduct our operations or may result in substantial costs to us.

Shifting federal and state regulatory policies impose risks on our operations.

Our operations are subject to regulatory policies that are evolving as a result of various initiatives, including initiatives regarding the deregulation of the production and sale of electricity and changes in transmission regulation. Any new requirements arising from these actions could lead to increased operating expenses and capital expenditures, the amount of which cannot be predicted at this time.

Delays, discontinuations or reversals of electricity market restructurings in the markets in which we operate, or may operate in the future, could have a material adverse effect on our results of operations and financial condition. For instance, at this time the PUC has delayed the enactment of final rules that will apply to the default generation service to be provided by Duquesne Light after the expiration of its POLR III arrangements, which currently expire December 31, 2007. At a minimum, these types of actions raise uncertainty concerning the continued development of competitive power markets.

Our financial obligations under the Seams Elimination Charge Adjustment remain uncertain.

In addition to the regulatory risks described above, as a result of the FERC's regulatory efforts to implement a new long-term rate design for public utilities in the Midwest and Mid-Atlantic regions, and specifically due to the FERC's elimination of the regional through and out rates (RTOR) for certain transmission services between the Midwest Independent System Operator (MISO) and PJM, our transmission and distribution businesses may not fully recover their transmission costs and may have costs shifted to them from other transmission owners. A transitional pricing mechanism called the seams elimination charge adjustment (SECA) was put in place through March 2006 in order to compensate transmission owners for the estimated revenue lost as a result of the elimination of RTOR. The allocation of SECA charges has not yet been resolved. Each PJM pricing zone, including the Duquesne Light zone, has been allocated a portion of the SECA based on transmission services provided to that zone in 2002 and 2003. In February 2005, the FERC issued an order accepting certain compliance filings that implemented the SECA for other (*i.e.*, non-Duquesne Light) PJM pricing zones, subject to refund and surcharge, as appropriate, and set the case in its entirety for a formal hearing. Also in February 2005, MISO filed with the FERC proposed allocations of the SECAs to be collected from other transmission owners in PJM (including Duquesne Light).

Total SECA charges for the Duquesne Light zone are currently expected to be approximately \$39 million.

In June 2005, the FERC accepted revised compliance filings implementing SECA charges among load-serving entities within the Duquesne Light zone. Under that filing, Duquesne Light was allocated approximately \$11 million of the SECA charges. The other load-serving entities in the Duquesne Light zone were allocated the remainder of such charges. DLE's allocation of SECA charges will depend on the amount of load it serves; based on the December 31, 2005 load, DLE's allocation is expected to be approximately \$1.8 million.

The FERC is treating SECAs in the Duquesne Light zone in the same manner it has treated the earlier SECA filings, and has consolidated Duquesne Light's filing with the on-going hearing for the other zones. While we anticipate that the case may take over a year to reach a final decision, we cannot predict when it might be fully resolved.

The SECA charges must be paid by load-serving entities within the Duquesne Light zone on a current basis. In June 2005, Duquesne Light filed a request with the PUC for permission to pass SECA charges through to its POLR customers. This request was granted, subject to disposition of any complaints filed against the request, by the PUC in August 2005. Duquesne Light put these charges into effect for service beginning August 26, 2005. However, if the FERC ultimately adopts a SECA level and allocation method that differs from the proposed charges initially accepted by the FERC for billing purposes, refunds or surcharges will be used to compensate or charge the appropriate entity for the difference between the amounts initially accepted by the FERC and the amounts ultimately determined to be just and reasonable by the FERC. The final amount of our SECA obligations therefore remains uncertain.

We may be required to make additional state tax payments for adjustments proposed by the Pennsylvania Department of Revenue.

Our state income tax returns are subject to review by the relevant state taxing jurisdictions, the Commonwealth of Pennsylvania being the most significant. The Pennsylvania Department of Revenue (the "Department") has issued assessments of additional tax for 1999 through 2002 primarily to include income of an out-of-state subsidiary as Pennsylvania taxable income. If, as expected, the Department asserts the same positions for 2003 through 2005, our total exposure for all years, without interest or penalty, could approximate \$78 million (net of associated federal benefit). We do not agree with the Department on this matter, and have filed an appeal for the 1999 tax year with the Pennsylvania Commonwealth Court. The assessments for the 2000,

2001 and 2002 tax years have been appealed to various administrative levels within the Commonwealth of Pennsylvania. Ultimately, we expect all years involved to be appealed to and decided at the Pennsylvania Commonwealth Court.

It is not possible to predict if, when or to what extent any state income tax adjustments ultimately proposed for the period 1999 through 2005 will be sustained. The ultimate resolution of these state tax issues, depending on the extent and timing thereof, could have a material adverse effect on cash flows for the period in which they are paid.

We are subject to risks associated with our POLR III obligations.

Duquesne Light's residential and small commercial customers may choose to receive their electric energy from an alternative generation supplier. If such customers do not choose an alternative generation supplier, they will be served through Duquesne Light's POLR, or provider of last resort, arrangements. Residential and small commercial customers who select an alternative generation supplier pay for generation charges set by that supplier, and pay Duquesne Light both transmission and distribution charges. In connection with these POLR III transactions, Duquesne Light retains the risk that such customers will not pay for the POLR generation supply. Duquesne Light procures the energy and capacity needed to serve these residential and small commercial customers under a full-requirements contract with Duquesne Power. Failure or delay by Duquesne Power to provide the energy and capacity anticipated in the contract could require Duquesne Light to incur additional expenses to meet the needs of its POLR III customers.

We are subject to risks associated with procuring energy and capacity for Duquesne Light's small customers and DLE's customers.

In addition to supplying the energy and capacity needs of Duquesne Light's small customers, Duquesne Power also has a full-requirements contract with its affiliate DLE to provide all of its large commercial and industrial customers' energy and capacity needs. During 2004 and 2005, Duquesne Power entered into wholesale power purchase contracts that have been structured primarily to begin and end during the POLR III time period. The net result of these transactions is that, as of December 31, 2005, Duquesne Power has secured a substantial portion of the combined expected load obligation for its full-requirements contracts with Duquesne Light and DLE through 2007.

Actual load may differ from expected load due to weather, customer switching, economic and other

factors. If Duquesne Power did not have sufficient supplies, Duquesne Power would be required to procure the requirements in the energy markets. If market prices were higher than the rates to be paid by Duquesne Light and DLE to Duquesne Power under the full-requirements contracts, Duquesne Power could potentially be acquiring the energy or capacity at a loss, and any such losses could have a material adverse effect on our consolidated results of operations and financial condition. Likewise, if Duquesne Power has contracted for supplies in excess of its needs, Duquesne Power could potentially be selling energy or capacity at a loss, and any such losses could have a material adverse effect on our consolidated results of operations and financial condition. Duquesne Power's energy commodity contracts contain provisions designed to mitigate potential losses by requiring that Duquesne Power post collateral depending on changes in energy or capacity prices. Because Holdings guarantees these contracts, any such collateral postings would reduce cash and/or the availability under Holdings' credit facility.

The pending acquisition of ownership interests in the Keystone and Conemaugh generation stations will subject us to risks that we do not currently face.

The acquisition and ownership of an interest in a generation station involves numerous risks, including:

- the plants' ability to operate at expected capacity factors;
- unforeseen operating problems and capital and other expenditures, including unforeseen environmental compliance costs;
- equipment failures;
- the ability to comply with applicable regulations;
- unanticipated cost increases;
- labor force matters;
- weather-related incidents;
- the impact of changes in environmental laws and regulations; and
- the ability to finance the acquisition.

Any of these factors could give rise to lost revenues and/or increased expenses and/or capital expenditures. In addition, the performance of an investment in the Keystone and Conemaugh generation stations will depend on:

- cost and availability of fuel; and
- changes in market prices of power.

Events or circumstances that adversely affect our financial position could result in defaults under our credit agreements.

Holdings and Duquesne Light are subject to financial covenants contained in their respective credit

agreements. For instance, our credit agreement requires us to maintain at all times a ratio of consolidated debt to consolidated capital of not more than 0.65 to 1.0 and an interest coverage ratio, with respect to each twelve-month period ending on the last day of each fiscal quarter, of at least 2.0 to 1.0. Duquesne Light's credit agreement requires Duquesne Light to maintain at all times a ratio of indebtedness to total capitalization of not more than 0.65 to 1.0. As of December 31, 2005 we were in compliance with those covenants. However, any events or circumstances (including any charges to earnings) which have an effect, directly or indirectly, of reducing our common equity, increasing our indebtedness or reducing interest coverage, in relative terms, could result in non-compliance with these covenants. If we default under our credit agreements, our lenders could elect to declare all amounts borrowed to be immediately due and payable, together with accrued and unpaid interest; and/or terminate their commitments, if any, to make further extensions of credit. Both credit agreements include cross-default provisions that would be triggered if the borrower or any of its subsidiaries defaults on any payment due under any indebtedness exceeding \$50 million.

The cost of compliance with environmental laws is significant. The costs of compliance with new environmental laws and the incurrence of environmental liabilities could adversely affect our cash flow and profitability.

The operations of our subsidiaries are subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources, site remediation, and health and safety. These statutes, rules and regulations require us to commit significant resources and funds to, among other things, conduct site remediation and perform environmental monitoring. We also may be required to pay significant remediation costs with respect to third party sites in connection with previously divested assets. If we fail to comply with applicable environmental statutes, rules and regulations, even if caused by factors beyond our control, such failure could result in the assessment of civil or criminal penalties and liabilities and the need to expend significant sums to come into compliance. Alleged violations of environmental laws and regulations may require us to expend significant resources defending ourselves against these claims.

New environmental statutes, rules and regulations, or amendments to or new interpretations of existing statutes, rules and regulations, could impose additional or more stringent limitations on our operations or require us to incur significant additional costs. Our

current compliance strategy may not successfully address the relevant standards and interpretations of the future.

Our operating results fluctuate on a seasonal basis and can be adversely affected by changes in weather.

Our electric utility business is sensitive to variations in weather conditions and significant variations from normal weather patterns can have a material impact on our operating performance. Historically, demand for electricity is generally greater in the *summer months* associated with cooling compared to other times of the year. Accordingly, we have generated less revenues and income when weather conditions are cooler than usual in the summer.

Severe weather, such as tornadoes, hurricanes, storms, ice and droughts, may cause outages and property damage which may require us to incur additional costs that may not be insured and that may not be recoverable from customers.

Also, while Duquesne Light's margin on residential and small commercial customers was previously a fixed dollar amount per megawatt-hour (MWh), beginning in 2005, the margin has an element of seasonality. Revenues per MWh, while fixed on an annual basis through 2007, are lowest in the first and fourth quarters reflecting the discount rate offered to electric heating customers in the November through April heating season. The revenues per MWh are then higher in the remaining months. Similarly, costs per MWh are expected to have a seasonal element, being higher in the first and third quarters reflecting the peak energy consumption in the heating and cooling seasons. As a result, margins on residential and small commercial customer energy supply are anticipated to be higher in the second and fourth quarters.

We may be adversely affected by economic conditions.

Periods of slowed economic activity generally result in decreased demand for power, particularly as industrial customers reduce production during such economic downturns, resulting in less consumption of electricity. Additionally, a general downturn in overall economic conditions may result in an increased number of bankruptcy filings by our customers, which would restrict our ability to collect revenue from these customers. As a consequence, recessions or other downturns in the economy may result in decreased revenues and cash flows for us.

Our insurance coverage may not be sufficient to cover all casualty losses that we might incur.

We currently have insurance coverage for our facilities and operations in amounts and with

deductibles that we consider appropriate. However, there is no assurance that such insurance coverage will be available in the future on commercially reasonable terms. In addition, some risks, such as weather-related casualties, may not be insurable. In the case of loss or damage to property, plant or equipment, there is no assurance that the insurance proceeds, if any, received by us will be sufficient to cover the entire cost of replacement or repair.

Our transmission facilities are interconnected with the facilities of other transmission facility owners whose actions may have a negative impact on our operations.

Our transmission facilities are directly interconnected with the transmission facilities of contiguous utilities and as such are part of an interstate power transmission grid. The FERC has approved certain Regional Transmission Organizations (RTOs) that coordinate and have operational control of portions of the interstate transmission grid. PJM and the other regional transmission operators have established sophisticated systems that are designed to ensure the reliability of the operation of transmission facilities and prevent the operations of one utility from having an adverse impact on the operations of the other utilities. The systems put in place by PJM and the other RTOs may not, however, always be adequate to prevent problems at other utilities from causing service interruptions in our transmission facilities. If we were to suffer such a service interruption due to an unexpected or uncontrollable event occurring on the system of another utility, it could have a negative impact on our business. Additionally, any changes in PJM policies or market rules, including changes that may be under consideration by the FERC, could adversely affect our business, financial condition or results of operations.

Physical limitations in the electricity transmission system may give rise to increases in electric transmission congestion charges.

Energy pricing within PJM includes the costs or benefits of transmission congestion experienced at each location within the region. This is known as locational marginal pricing (LMP). LMP recognizes that the marginal price of electricity may be different at varying locations on the system and at different times. Differences in prices between two locations in the region at the same time reflect physical limitations in the transmission lines used to move power across the system. These physical limitations may give rise to increases in electric transmission congestion charges.

We are dependent on our ability to cost-effectively access capital markets. Our inability to obtain capital on acceptable terms may adversely affect our business. A reduction in our credit ratings could increase our borrowing costs.

We rely on access to both short-term debt markets and longer-term capital markets as a source of liquidity and to satisfy our capital requirements in excess of cash flow from our operations. Any inability to maintain our current credit ratings could affect, especially during times of uncertainty in the capital markets, our ability to raise capital on favorable terms that, in turn, could impact our ability to manage our business. Moody's Investors Service, Inc., Standard & Poor's Ratings Services, and Fitch Ratings periodically assign credit ratings on our debt and preferred securities. We raise capital primarily by issuing senior-unsecured debt (currently rated Baa3, BBB- and BBB-, respectively) and bank borrowings. Duquesne Light raises capital primarily by issuing first mortgage bonds (currently rated Baa1, BBB+ and BBB, respectively), preferred stock (currently rated Ba1, BB+ and BBB-, respectively), senior-unsecured debt (currently rated Baa2, BBB- and BBB-, respectively) and bank borrowings. Any downgrades in these ratings could have a negative impact on our liquidity, our access to capital markets, our costs of financing and could increase the amount of collateral required by energy-contract counterparties. Capital market disruptions could also adversely affect our ability to access one or more financial markets.

Moody's Investors Service has also stated that our rating could be impacted negatively if we diverge from our current strategy of repositioning our business around our core regulated utility and make investments in higher risk unregulated businesses that would increase overall business risk. Additionally, Moody's Investors Service has noted that a rating downgrade could also occur if there is a sustained deterioration in our cash flows or an increase in leverage resulting in weaker credit metrics that would include the ratio of funds from operations to consolidated debt being in the low teens or below.

A rating is not a recommendation to buy, sell or hold the notes, inasmuch as such rating does not comment as to market price or suitability for a particular investor. The ratings assigned to the notes address the likelihood of payment of principal and interest on the notes pursuant to their terms. A rating may be subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating that may be assigned to our securities.

We may have difficulty retaining our aging utility workforce or finding skilled personnel to replace them.

Workforce demographic issues are a national phenomenon that is of particular concern to the electric utility industry. The median age of utility workers is significantly higher than the national average. Currently, nearly one-half of the utility workforce is age 45 or higher. As of December 31, 2005, the median age of utility workers at Duquesne Light was 51.37. Consequently, the utility industry generally faces, and we specifically face, the difficult challenge of finding ways to retain our aging skilled workforce while recruiting new talent in the hopes of decreasing losses in critical knowledge and skills due to retirements. *Mitigating these risks may require additional financial commitments.*

Labor disputes may have a material adverse effect on our operations and profitability.

As of December 31, 2005, we, together with our various subsidiaries, had approximately 1,600 employees. Of this total, approximately 1,400 were employed by Duquesne Light. We collectively bargain with a labor union that represents approximately 71% of these Duquesne Light employees. When the current collective bargaining agreement expires September 30, 2010, failure to reach an agreement could result in strikes or other labor protests that could disrupt our operations. If we were to experience a strike or work stoppage, it would be difficult for us to find a sufficient number of employees with the necessary skills to replace these employees. We cannot assure you that we will reach any such agreement or that we will not encounter strikes or other types of conflicts with the labor union of our personnel. Such labor disputes could have an adverse effect on our business, financial condition or results of operations, could cause us to lose revenues and customers and might have permanent effects on our business.

Our revenues and results of operations are subject to other risks beyond our control, including, but not limited to, accidents, storms, natural catastrophes and terrorism.

The lost revenues and cost of repairing damage to our facilities due to storms, natural disasters, wars, terrorist acts and other catastrophic events may exceed reserves and/or insurance coverage established for repairs necessitated by such events, which may adversely impact our results of operations and financial condition. We cannot assure you that our facilities will not face damage or disruptions from these or other events. In addition, in the current geopolitical climate, enhanced concern regarding the risks of terrorism throughout the economy may impact our

operations in unpredictable ways. Insurance coverage may not cover risks of this nature adequately or at all.

Changes in financial or regulatory accounting principles or policies could affect our future earnings or cash flows.

See Item 1, "Proposed Accounting Standards," for further discussion.

We may experience a significant reduction in our earnings as a result of the December 31, 2007 expiration or the earlier phase-out of certain tax credits related to our synthetic fuel and landfill gas projects.

In addition to operating five of the six synthetic fuel plants owned by an unrelated third party, we also hold a limited partnership interest in an entity that owns and operates plants that produce and sell synthetic fuel. These synthetic fuel projects are important contributors to our earnings. We also produce Section 29 tax credits from some of our landfill gas operations.

Section 29 tax credits are set to expire on December 31, 2007. Once such tax credits expire we do not believe that there will be a market for the sale of the synthetic-fuel. We cannot guarantee that we will be able to bridge the 2008 earnings gap that will result from the loss of earnings from our synthetic-fuel and landfill-gas projects following the expiration of the tax credits.

Section 29 tax credits are subject to a phase-out provision that could reduce or eliminate the tax credits if the average annual wellhead price per barrel of domestic crude oil increases into an inflation-adjusted phase-out range. The IRS publishes the phase-out range in April for the previous year. We estimate that for 2005 the tax credits would have begun to phase out when the annual average wellhead price of domestic crude oil exceeded \$53 per barrel and would have completely phased out if that price exceeded approximately \$66 per barrel. For 2005, the estimated average wellhead price was approximately \$50 per barrel. The wellhead price per barrel of domestic crude oil in recent years has averaged approximately 90% of the New York Mercantile Exchange price per barrel of domestic crude oil. We cannot predict the phase-out range for future years.

If domestic crude oil prices stay at a high level in 2006 and/or 2007, the estimated annual tax credits to be generated from DQE Financial's landfill gas operations and its investment in a synthetic fuel partnership of approximately \$18 million, as well as DES' estimated annual after-tax earnings of approximately \$20 million from its synthetic fuel facilities management contract, may be substantially reduced or eliminated. Based upon our evaluation,

we have thus far determined not to enter into hedging arrangements to reduce this potential exposure.

Natural gas prices are volatile, and a decline in natural gas prices would significantly affect our landfill gas business' financial results and impede its growth.

Our landfill gas-related revenue, profitability and cash flow depend upon the prices and demand for natural gas. The market for this commodity is very volatile and changes in prices can affect our financial results. Prices for natural gas may fluctuate widely in response to relatively minor changes in the supply of and demand for natural gas, market uncertainty and a variety of additional factors that are beyond our control, such as:

- weather conditions;
- technological advances affecting energy consumption;
- governmental regulations;
- proximity and capacity of pipelines and other transportation facilities; and
- the price and availability of alternative fuels.

Our significant indebtedness could adversely affect our business.

At December 31, 2005, Holdings had total indebtedness of approximately \$999 million (including approximately \$638 million at Duquesne Light), which could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations related to any such indebtedness;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a disadvantage compared to competitors that have less debt; and
- limit our ability to borrow additional funds or refinance existing debt.

Any of these consequences could have a material adverse effect on our ability to satisfy our indebtedness. The indenture under which Duquesne Light's first mortgage bonds are issued permits Duquesne Light to issue additional first mortgage bonds from time to time if certain financial requirements are satisfied. The terms of our credit

agreements also do not prohibit us or our subsidiaries from incurring additional indebtedness. As of December 31, 2005, approximately \$180 million of unused commitments remain under Holdings' credit agreements (including approximately \$92 million at Duquesne Light), and our credit agreements would permit additional borrowings. If new debt is added to our and our subsidiaries' current debt levels, the leverage-related risks described above could intensify.

Our ability to pay dividends or service indebtedness is largely dependent upon the earnings of our subsidiaries and the distribution of such earnings to us.

We are a holding company, and substantially all of the assets shown on our consolidated balance sheets are held by subsidiaries. Our operating cash flow and our ability to service our indebtedness depend on the operating cash flow of our subsidiaries and the payment of funds by them to us in the form of dividends or advances. Our indebtedness is not guaranteed by our subsidiaries and our subsidiaries are separate and distinct legal entities. We hold no assets and have no sources of revenue other than the ownership interests in our subsidiaries and the right to any dividends thereon and the right to receive payments on any existing or future loans made to our subsidiaries.

Our subsidiaries are separate and distinct legal entities and have no obligation to make payments on their common stock, or to make any funds available for such payment. Our subsidiaries' ability to make dividend payments or other distributions to us may be restricted by their obligations to holders of their outstanding debt, their other creditors and holders of their preferred and preference stock, and the availability of earnings and the needs of their businesses. For instance, no dividends or distributions may be made on Duquesne Light's common stock if it has not paid dividends on its preferred or preference stock. Dividends on Duquesne Light stock may also be effectively limited by the terms of certain financing arrangements. Further, under Duquesne Light's articles of incorporation, the aggregate amount of 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. No part of Duquesne Light's retained earnings was restricted at December 31, 2005.

In addition, as discussed above, Duquesne Light is regulated by the PUC, which generally possesses broad powers to ensure that the needs of the utility customers are being met. To the extent that the PUC attempts to impose restrictions on the ability of Duquesne Light to pay dividends to us, it could

adversely affect our ability to make payments on our indebtedness or otherwise meet our financial obligations.

In the event of a bankruptcy, liquidation, winding-up, dissolution, receivership, insolvency, reorganization, administration or similar proceeding relating to one of our subsidiaries, holders of such subsidiaries' indebtedness, trade creditors of such subsidiaries and holders of such subsidiaries' preferred and/or preference stock will generally be entitled to payment of their claim from the assets of those subsidiaries before assets are made available for distribution to us.

We cannot assure investors that future dividend payments will be made, or if made, in what amounts they may be paid.

Our Board of Directors regularly evaluates our common stock dividend policy and sets the amount each quarter. The level of dividends will continue to be influenced by many factors, including, among other things, our earnings, financial condition and cash flows from subsidiaries, as well as general economic and competitive conditions. We cannot assure investors that dividends will be paid in the future, or that, if paid, dividends will be at the same amount or with the same frequency as in the past.

Because Duquesne Light is a wholly owned subsidiary of Holdings, Holdings can exercise substantial control over its dividend policy and business and operations.

All of the members of Duquesne Light's board of directors and its executive officers are also officers of Holdings. Among other decisions, the Duquesne Light board is responsible for decisions regarding financing and capital raising activities, and acquisition and disposition of assets. Within the limitations of applicable law, Duquesne Light's articles of incorporation and subject to the covenants under its outstanding debt instruments, the Duquesne Light board of directors will base its business decisions on its earnings, cash flow and capital structure, but may also take into account the business plans and financial requirements of Holdings and its other subsidiaries.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties.

Our principal properties consist of Duquesne Light's facilities for both transmitting and distributing electricity, and supplemental properties and appurtenances, located substantially in Allegheny and Beaver counties in southwestern Pennsylvania. Substantially all of the electric utility properties are subject to a lien under the Indenture of Mortgage and Deed of Trust dated as of April 1, 1992.

Duquesne Light owns 527 substations, of which over 60% are located on customer-owned land and are used to service that customer. Duquesne Light has 672 circuit-miles of transmission lines, comprised of 345,000, 138,000 and 69,000 volt lines. Street lighting and distribution circuits of 23,000 volts and less include approximately 16,420 circuit-miles of lines and cable. These properties are used in the electricity delivery business segment.

Our total investment in property, plant and equipment (PP&E) and the related accumulated depreciation balances for major classes of property are as follows:

Holdings PP&E and Related Accumulated Depreciation

	(Millions of Dollars) as of December 31, 2005		
	Investment	Accumulated Depreciation	Net Investment
Duquesne Light			
electric plant	\$2,235.8	\$ 738.5	\$1,497.3
Fiber optic			
network	32.9	9.2	23.7
Other energy			
facilities	21.1	8.6	12.5
Landfill gas	19.0	11.9	7.1
Other - Holdings	6.8	5.3	1.5
Total	\$2,315.6	\$ 773.5	\$1,542.1

	(Millions of Dollars) as of December 31, 2004		
	Investment	Accumulated Depreciation	Net Investment
Duquesne Light			
electric plant	\$2,120.8	\$ 714.5	\$1,406.3
Fiber optic			
network	30.1	7.2	22.9
Other energy			
facilities	28.3	10.4	17.9
Landfill gas	22.2	13.4	8.8
Other - Holdings	9.0	5.5	3.5
Total	\$2,210.4	\$ 751.0	\$1,459.4

Duquesne Light electric plant includes: (1) distribution poles and equipment; (2) lower voltage distribution wires used in delivering electricity to customers; (3) substations and transformers; (4) high voltage transmission wires used in delivering electricity to substations; (5) meters and automated meter reading assets; and (6) internal telecommunication equipment, vehicles and office equipment, primarily used in our electricity delivery business segment. The fiber optic network owned by DQE Communications is reported in our Communications business segment. The other energy facilities and landfill gas equipment are used in our Energy Solutions and Financial business segments, respectively. The other PP&E is comprised of office furniture and fixtures.

Item 3. Legal Proceedings.

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

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of Holdings' shareholders during the fourth quarter of 2005.

Pursuant to a written consent of the sole stockholder dated October 31, 2005, the following individuals were elected as the full board of directors of Duquesne Light: Morgan K. O'Brien, Joseph G. Belechak, Maureen L. Hogel and Mark E. Kaplan. All 10 outstanding shares of Duquesne Light common stock were voted in favor of each individual.

P A R T I I

Item 5. Market for Registrants' Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Information relating to the market price for Holdings common stock is set forth in Note 21 to the consolidated financial statements hereto, and incorporated herein by reference.

Holdings has continuously paid dividends on its common stock since 1953. Dividends of \$0.25 per share were declared and paid quarterly for the last two years. At January 31, 2006 there were approximately 45,300 holders of record of our common stock. Holdings common stock is listed and traded on the New York, Philadelphia and Chicago Stock Exchanges.

Duquesne Light common stock is not publicly traded; Holdings owns all 10 shares outstanding. Quarterly dividends totaling \$13 million and \$58 million were declared in 2005 and 2004. Duquesne Light paid common stock dividends of \$20 million, \$71 million and \$69 million in 2005, 2004 and 2003. During 2005 Duquesne Light embarked on a significant capital expenditure program, and therefore has been retaining more of its earnings than in prior years.

We have no program regarding the repurchase of Holdings common stock. However, we repurchase shares in connection with the issuance of so-called "stock swap exercises" of employee stock options or restricted stock in which shares are surrendered or deemed surrendered to Holdings to pay the exercise price and/or to satisfy tax withholding obligations. The following table presents information with respect to such repurchases that occurred during the quarter ended December 31, 2005.

Period	(a)	(b)	(c)	(d)
	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
Oct. 1-31	—	\$ —	—	—
Nov. 1-30	—	\$ —	—	—
Dec. 1-31	26,309	\$16.50	—	—
Total	26,309	\$16.50	—	—

For information regarding equity compensation plans, see Item 12.

Item 6. Selected Financial Data.

Duquesne Light Holdings

(Millions of Dollars, Except Per Share Amounts)

	2005	2004	2003	2002	2001
Income Statement Items					
Total operating revenues (a)	\$ 922.2	\$ 897.3	\$ 902.8	\$ 1,026.0	\$ 1,142.4
Operating income (b)	178.3	150.7	150.9	95.7	3.8
Income (loss) from continuing operations before taxes, limited partners' interest and cumulative effect of change in accounting principle (b) (c)	155.8	100.4	110.9	15.1	(121.9)
Income tax expense (benefit)	53.0	20.6	17.7	(11.6)	(77.4)
Income (loss) from continuing operations	112.9	87.2	93.2	26.7	(44.5)
Cumulative effect of change in accounting principle (d)	—	—	—	(113.7)	—
Earnings (loss) available for common stock	114.2	87.0	175.5	(215.2)	(153.9)
Basic EPS from continuing operations (e)	1.45	1.14	1.24	0.40	(0.80)
Basic EPS (e)	1.47	1.14	2.34	(3.28)	(2.75)
Balance Sheet Items					
Property, plant and equipment – net	\$ 1,542.1	\$ 1,459.4	\$ 1,437.3	\$ 1,425.5	\$ 1,431.5
Total assets	2,820.6	2,632.8	2,540.8	2,800.8	3,235.7
Capitalization					
Common shareholders' equity	\$ 655.9	\$ 610.4	\$ 575.4	\$ 452.6	\$ 508.5
Preferred and preference stock (f)	147.5	146.9	70.7	93.2	85.6
Duquesne Light obligated mandatorily redeemable preferred securities (g)	—	—	—	150.0	150.0
Long-term debt (g) (h)	957.8	958.0	977.5	1,082.0	1,184.5
Total Capitalization	\$ 1,761.2	\$ 1,715.3	\$ 1,623.6	\$ 1,777.8	\$ 1,928.6
Dividends declared per share	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.34	\$ 1.68

- (a) Total operating revenues increased in 2005, primarily due to the higher average generation rates charged, and the increase in pipeline quality landfill gas sales. Total operating revenues declined from 2001 through 2004 due to the collection of Duquesne Light's allocated CTC balance.
- (b) Operating income in 2005 was positively impacted by the \$16.1 million increase in the fair value of certain derivative energy contracts, the \$13.2 million gain on asset sales, and was negatively impacted by the \$6.7 million charge related to an energy facility management project. (See Notes 3 and 4.) Results were negatively impacted by the \$8.3 million Sunbury acquisition termination cost in 2004. (See Note 3.) Results were negatively impacted by asset impairment charges of \$30.2 million and \$67.3 million and restructuring charges of \$5.2 million and \$27.9 million in 2002 and 2001. (See Note 9.)
- (c) Results in 2005 were positively impacted by \$24.1 million of gains on asset and investment sales. Results were negatively impacted by investment impairment charges of \$33.7 million and \$61.7 million in 2002 and 2001.
- (d) Holdings changed its method of accounting for goodwill and other intangible assets in 2002.
- (e) Beginning in 2002, earnings per share were impacted by the public offering of approximately 17 million shares of common stock.
- (f) This reflects the 2004 issuance, at par, of \$75 million of Duquesne Light preferred stock. (See Note 15.)
- (g) Adoption of SFAS No. 150 required reclassification to long-term debt.
- (h) Proceeds from the sale of AquaSource were used to reduce long-term debt in 2003.

Duquesne Light Company

(Millions of Dollars)

	2005	2004	2003	2002	2001
Income Statement Items					
Total operating revenues (a)	\$ 792.4	\$ 789.3	\$ 806.1	\$ 944.6	\$ 1,053.6
Operating income (b)	147.3	141.7	155.1	161.5	120.1
Net income	73.0	67.8	69.6	75.4	53.4
Earnings available for common stock	65.0	61.2	66.4	72.1	50.0
Balance Sheet Items					
Property, plant and equipment – net (c)	\$ 1,497.3	\$ 1,406.3	\$ 1,382.7	\$ 1,364.9	\$ 1,344.9
Total assets (d)	2,123.1	2,293.0	2,209.2	2,488.2	2,570.0
Capitalization					
Common shareholder's equity (e)	\$ 630.6	\$ 531.4	\$ 530.1	\$ 521.0	\$ 526.7
Non-redeemable preferred and preference stock (f)	146.5	145.9	69.7	69.8	68.2
Company obligated mandatorily redeemable preferred securities (g)	—	—	—	150.0	150.0
Long-term debt (g) (h)	636.5	956.4	857.7	959.5	1,061.1
Total Capitalization	\$ 1,413.6	\$ 1,633.7	\$ 1,457.5	\$ 1,700.3	\$ 1,806.0
Dividends declared (e)	\$ 13.0	\$ 58.0	\$ 65.0	\$ 75.0	\$ 52.7

- (a) Total operating revenues increased in 2005 due to the higher average generation rates charged under the POLR III arrangement, partially offset by a decline in large commercial and industrial customer retention. Total operating revenues declined from 2001 through 2004 due to the collection of the allocated CTC balance.
- (b) Results were positively impacted by the \$16.1 million increase in the fair value of certain derivative energy contracts in 2005. (See Note 4.) Results were negatively impacted by the \$8.3 million Sunbury acquisition termination cost in 2004. (See Note 3.) Results were negatively impacted by restructuring charges of \$3.7 million and \$10.8 million in 2002 and 2001. (See Note 9.)
- (c) During 2005, Duquesne Light embarked on a significant capital expenditure program.
- (d) This reflects the repayment from Holdings, of a \$250 million loan in 2005.
- (e) As a result of the significant capital expenditure program started in 2005, Duquesne Light has been retaining more of its earnings. During 2005, Duquesne Light received \$82.5 million of equity contributions from Holdings.
- (f) This reflects the 2004 issuance, at par, of \$75 million of Duquesne Light preferred stock. (See Note 15.)
- (g) Adoption of SFAS No. 150 required reclassification to long-term debt.
- (h) Duquesne Light used proceeds from the repayment of its loan to Holdings to reduce long-term debt in 2005. (See Note 14.) Duquesne Light reduced its investment in the DQE Capital cash pool to reduce long-term debt in 2003.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Unless otherwise stated, the terms "earnings" and "loss" used in this Item 7 refer to after-tax amounts.

BUSINESS STRATEGY

Our strategy is to continue to focus building on successes at our core, regulated utility business. Our objective is to be an economical, reliable and safe provider of electric energy to our customers while creating shareholder value through opportunities related to our core business. We will maintain and enhance our position as a safe and reliable provider of electric energy by making prudent investments in

our transmission infrastructure and our distribution infrastructure, in each case using the most cost efficient financing available. We will seek to recover our increased costs of service and the cost of our infrastructure investments in a manner that results in reasonable rates for our customers while providing the base for a fair return for our shareholders through a stable stream of cash flows. Our business strategy is summarized as follows:

Duquesne Light:

- Continue to make prudent investments in both our transmission infrastructure and distribution infrastructure.
- Maintain our high standards for reliability and customer service.

- File a distribution rate case with the PUC.
- File a transmission rate case with the FERC.

Energy Supply Opportunities:

- Continue to actively manage supply requirements for both Duquesne Light's residential and small commercial POLR III customers and DLE's customers, through Duquesne Power or our other unregulated subsidiaries, using sound risk management policies.
- Maximize large commercial and industrial customer retention through our unregulated retail electric generation supplier, DLE.
- Strategically align our unregulated energy supply subsidiaries outside Duquesne Light to provide greater flexibility to capitalize on opportunities that may arise.
- Proceed with closing the planned acquisition of the interests in the Keystone and Conemaugh power plants, providing a physical hedge to complement our portfolio of energy commodity contracts for our supply plan.
- Continue to evaluate additional power plant acquisitions.

Complementary Businesses:

- Focus on expanding landfill gas and related businesses to capitalize on current market conditions utilizing our existing position within the marketplace, while helping to solve a growing environmental challenge.
- Identify and develop other unregulated investments that are both closely aligned with our business strategy and that provide reasonable prospects for a fair return and moderate growth.
- Continue to divest non-core investments that are not consistent with our overall business strategy, while maximizing sale proceeds.

Financing:

- Use the most cost efficient sources of funds to finance the continued infrastructure investment, proposed acquisition of power plant interests, landfill gas investments and general corporate purposes.
- Continue to improve credit quality and maintain acceptable levels of liquidity.

OVERVIEW OF BUSINESS SEGMENTS

Duquesne Light reports the following business segments: (1) transmission and distribution of electricity (electricity delivery business segment), (2) supply of electricity by Duquesne Light (Duquesne Light supply business segment), and (3) collection of

transition costs (which were fully collected as of December 31, 2005) (CTC business segment).

Holdings reports the following business segments: (1) transmission and distribution of electricity (electricity delivery business segment), (2) supply of electricity (which includes the Duquesne Light supply business segment and, beginning in 2005, supply by DLE) (electricity supply business segment), (3) collection of transition costs (which were fully collected as of December 31, 2005) (CTC business segment), (4) DES' development, operation and maintenance of energy facilities and, for a single customer, synthetic fuel facilities (Energy Solutions business segment), (5) DQE Financial's collection and processing of landfill gas and management of structured finance and alternative energy investments (Financial business segment), and (6) DQE Communications' operation, maintenance and leasing of its fiber optic based network (Communications business segment). We also report an "all other" category to include our other subsidiaries below the quantitative threshold for disclosure. These subsidiaries provide corporate administrative functions, financing, and insurance services for our various affiliates.

Note 20 to the consolidated financial statements shows the financial results of each principal business segment in tabular form. Following is a discussion of these results.

Electricity Delivery Business. In our continued effort to provide a stable, reliable source of electric energy for our customers, we have embarked on a significant investment program to upgrade both our transmission infrastructure and our distribution infrastructure. Capital expenditures related to the program were approximately \$150 million in 2005 and we expect to spend an additional \$350 to \$400 million through 2007. The cost of these infrastructure investments is to be funded through operating cash flows, equity infusions from Holdings, bank debt and the possible sale of low cost pollution control revenue bonds (PCRBs) in 2006 as part of our overall financing plan. In addition, effective January 1, 2005 we successfully integrated our transmission operations into those of PJM as a part of our commitment to ensuring reliability.

The net income from our regulated electricity delivery business was lower in 2005, as expected, due to higher operating costs related to customer assistance programs, increased labor costs and the realignment of certain revenues and expenses related to ancillary energy services that are now reflected in our supply segment. These changes more than offset the increased revenue generated from favorable weather conditions during 2005. In

2006 we expect to file a distribution rate case with the PUC and a transmission rate case with the FERC to recover our increased costs of service and to receive a fair return on our investments. Duquesne Light last filed such rate cases in 1987.

Supply Business. The factors impacting the Duquesne Light supply business segment have significantly changed when compared to prior periods. From the time that Duquesne Light sold its generation assets in April 2000 through December 31, 2004, the default energy supply requirement for all customers had been met through a full requirements contract with one supplier. From the time that Duquesne Light completed its stranded cost recovery (different by each rate class, but generally during the 2002 to 2003 time period) through December 31, 2004, Duquesne Light had earned a margin on each megawatt-hour (MWh) supplied.

Effective January 1, 2005, residential and small commercial customers remaining on POLR service saw an average increase of 11.5% above their POLR II generation rates, reflecting the increase in market energy prices in the time since the POLR II rates were established. Despite this increase in rates, residential and small commercial customer retention has increased to 75% in 2005 from 74% in 2004.

Also effective January 1, 2005, Duquesne Light has been meeting its POLR III energy supply requirements for residential and small commercial customers through Duquesne Power's portfolio of energy and capacity supply contracts with multiple investment-grade counter-parties as well as through transactions with PJM. This change in energy supply strategy is designed to provide the opportunity to earn a larger margin in the supply business. While taking on increased commodity price risk, we have decreased our supplier credit/default risk. The increased commodity price risk has been managed at a prudent level through the portfolio of energy commodity contracts. Because some of these contracts are not settled at the Duquesne Light zone, the normal exemption is not applicable and they are accounted for on a mark-to-market basis, with changes in the fair value of these contracts recorded currently in earnings unless certain hedge accounting criteria are met.

During the year ended December 31, 2005, earnings were positively impacted by a \$7.9 million after-tax increase in the fair value of mark-to-market derivative energy contracts, whose duration varies, but extends no later than December 31, 2007. While it is impossible to determine how the value of these contracts will change during 2006 and 2007, the fair value of these contracts will be zero by the latest

expiration date of December 31, 2007. Contracts accounted for as cash flow hedges differ from those accounted for as mark-to-market, in that the fair value of these contracts is generally not recognized currently in earnings, but rather as the contracts are settled.

While previously Duquesne Light's margin on residential and small commercial customers was a fixed dollar amount per MWh, beginning in 2005 the margin has an element of seasonality. Revenues per MWh, while fixed on an annual basis through 2007, are lowest in the first and fourth quarters reflecting the discount rate offered to electric heating customers in the November through April heating season. The revenues per MWh are then higher in the remaining months. Similarly, costs per MWh are expected to have a seasonal element, being higher in the first and third quarters reflecting the peak energy consumption in the heating and cooling seasons. As a result, margins on residential and small commercial customer energy supply are anticipated to be higher in the second and fourth quarters.

For large business customers, effective January 1, 2005, the POLR energy supply product is a fluctuating hourly-priced service. Additionally, through May 31, 2006, Duquesne Light offers a fixed-price service whose rate reflects the results of a competitive wholesale request-for-proposal. In January 2006, Duquesne Light requested and received approval from the PUC to extend the fixed-price service offering for an additional year. This offering will be subject to the results of another competitive wholesale request-for-proposal to be conducted. Duquesne Light continues to meet its POLR energy supply requirement for large customers through interactions with PJM and with full requirements contracts, now with two investment-grade suppliers. Because of the uncertainty inherent in hourly-priced POLR service and the increase in the fixed-price rates, POLR retention for large commercial and industrial customers has decreased from 58% in 2004 to 19% in 2005. As of December 31, 2005, the POLR retention rate for large commercial and industrial customers was less than 10%, and is expected to remain at approximately this level throughout 2006.

Under the POLR II arrangement that ended December 31, 2004, Duquesne Light earned a margin on each MWh sold to its large commercial and industrial customers. During the twelve months ended December 31, 2004, Duquesne Light earned net income of \$4.6 million in the supply business related to sales to its large commercial and industrial customers. Under the POLR III arrangement that became effective January 1, 2005, Duquesne Light

no longer earns a margin in the supply business on these sales.

In response to the change in large customer POLR service, DLE has begun to offer competitive electric generation (EGS) service to customers in the Duquesne Light service territory. Duquesne Power manages the DLE supply requirements together with the Duquesne Light residential and small commercial customer POLR III supply requirements.

2006 Supply Business Realignment. Effective December 31, 2005, Duquesne Power was transferred from Duquesne Light to another Holdings subsidiary. The operations of Duquesne Power will only be reported as part of the Holdings electricity supply segment beginning January 1, 2006. The transfer of Duquesne Power was completed to strategically align our unregulated businesses outside of Duquesne Light in order to provide flexibility to capitalize on future supply opportunities. The transfer will effectively eliminate the net income included in Duquesne Light's supply segment.

If this transfer had taken place on January 1, 2003, the net effect to Duquesne Light's earnings would have been an increase of \$0.1 million in 2003 and \$6.0 million in 2004. Earnings in 2005 would have decreased \$27.2 million. In 2003, Duquesne Power was just being formed and had minimal activity. The 2003 increase would have been caused by a decrease in other operating and maintenance expense. The 2004 increase would have been caused by the removal of the acquisition termination cost associated with the cancelled Sunbury acquisition and other costs. The 2005 decrease would have been caused primarily by the removal of some revenue and an increase in operating expenses, the effect of which would eliminate Duquesne Power's margin on its sales to Duquesne Light and DLE.

Changes to the balance sheets would have been immaterial in 2003 and 2004. There would be no change to the 2005 balance sheet as the transfer took place at close of business on December 31, 2005.

Landfill Gas Business. Our landfill gas business (a part of our Financial business segment) is comprised of investments in 20 landfill sites around the country and the ownership of Waste Energy Technologies, LLC (WET), which was acquired in the fourth quarter of 2004. WET has provided landfill gas collection system engineering, design and construction services to the landfill business for over 20 years. Our 20 sites are comprised of three that currently produce pipeline quality gas sold at market

rates; five sites where unprocessed landfill gas production is currently sold at significantly lower unit prices than pipeline quality gas, but due to lower operating costs and capital requirements, still provide the opportunity to earn modest returns, and 12 passive investment sites we do not project to be involved with beyond 2007 due to the scheduled expiration of Section 29 tax credits.

We have made small, strategic capital investments to maximize our existing production capacities and improve the throughput of the landfill gas processing sites we expect to continue to operate, and have focused our efforts to streamline and minimize our operating costs. These sites also have sufficient quantities of available gas to remain viable beyond the expiration of Section 29 tax credits on December 31, 2007.

We are a significant producer of pipeline quality landfill gas in the United States. The majority of our earnings from our landfill gas business are derived from the three pipeline quality production sites. Our contract at one of these sites located in New York City is scheduled to terminate on June 30, 2006; our earnings for 2005 included \$7.4 million related to this site. We expect to operate our other two pipeline quality landfill gas sites for approximately 15 more years. In December 2005, we also entered into a price swap agreement for approximately 60% of our anticipated 2006 pipeline quality landfill gas sales in order to lock in the recent unprecedented increases in natural gas prices.

We continue to evaluate opportunities to expand this business. In December 2005, we entered into a joint venture agreement to develop a liquefied natural gas application at one of our five fixed-price sites, while at another of these sites we reached agreement for the expansion of our existing gas rights and extended the agreement through 2020. We will continue to invest in new landfill gas sites, or expand at existing sites that meet our investment criteria.

Energy Solutions Business. The primary operations of this business segment in 2006 will be the operation and maintenance of synthetic fuel facilities for a single customer, from which we earn fees based on production. Given that synthetic fuel qualifies for Section 29 tax credits, which are set to expire on December 31, 2007, we expect our operation and maintenance of the synthetic fuel facilities to cease at that time. In addition, Section 29 tax credits are subject to a phase-out provision that could reduce tax credits if the average annual wellhead price per barrel of domestic crude oil increases into an inflation-adjusted phase-out range. As such, it is possible that operations at these

facilities could be curtailed or terminated prior to December 31, 2007.

Asset Divestitures. We continue to divest businesses that we have determined not to be in line with our core business strategies. In 2005 and 2004 our Financial business segment sold all or portions of tax-advantaged limited partnership investments to generate current cash benefits instead of increasing Holdings significant tax credit carryforward position. We also sold investments in two leveraged lease transactions.

In 2005, our Energy Solutions business segment entered into agreements to ultimately sell our investments in five energy facility management projects. We have closed on three of the projects in 2005 and anticipate closing the remaining two in early 2006. These energy facility management projects did not significantly contribute to the earnings of the Energy Solutions business segment.

RESULTS OF OPERATIONS

Overall Performance

2005 Compared to 2004

Our net income was \$114.2 million, or \$1.47 basic earnings per share in 2005, compared to \$87.0 million, or \$1.14 basic earnings per share in 2004. The average shares outstanding increased 1.3 million, or 1.7%, compared to 2004. Our income from continuing operations was \$112.9 million, or \$1.45 basic earnings per share in 2005, compared to \$87.2 million, or \$1.14 basic earnings per share in 2004, an increase of \$25.7 million, or 29.5%.

Duquesne Light's earnings available for common stock were \$65.0 million in 2005, compared to \$61.2 million in 2004, an increase of \$3.8 million, or 6.2%. Earnings from Duquesne Light's supply business segment increased \$14.7 million from the prior year, primarily as a result of a \$9.4 million after-tax increase in earnings resulting from certain changes in the fair value of the derivative energy contracts at Duquesne Power since December 31, 2004, and a \$4.8 million after-tax charge included in the 2004 results related to the termination of the acquisition of the Sunbury generation station. Earnings from the electricity delivery business segment decreased \$10.6 million from the prior year, primarily as a result of an increase in operating expenses, which includes \$3.9 million of additional after-tax administrative expenses previously borne by Holdings prior to the sale of several non-complementary businesses.

Earnings from continuing operations at Holdings were also affected by the following:

- DES' earnings increased \$13.2 million, primarily as a result of \$19.4 million in after-tax gains on the sale of investments in three energy facility management projects during 2005, partially offset by \$6.7 million of charges related to another energy facility management project.
- Earnings from DQE Financial increased \$3.8 million, primarily as a result of a \$4.9 million increase in earnings from operations related to pipeline quality landfill gas.
- DQE Communications earnings increased \$0.8 million, as a result of increased revenues from new and existing customers.
- Holdings earnings also include a \$2.4 million after-tax gain resulting from the settlement of an interest rate lock agreement during 2005, the reduction of \$3.9 million in after-tax administrative costs discussed above, partially offset by increased operating expenses associated with the current IRS audit.

2004 Compared to 2003

Our 2004 earnings available for common stock were \$87.0 million, or \$1.14 basic earnings per share, compared to \$175.5 million, or \$2.34 basic earnings per share, for 2003. The average shares outstanding increased 1.4 million, or 1.9%.

Our earnings from continuing operations available for common stock were \$87.2 million, or \$1.14 basic earnings per share, in 2004, compared to \$92.8 million, or \$1.24 basic earnings per share, in 2003.

Duquesne Light's earnings available for common stock were \$61.2 million in 2004, compared to \$66.4 million in 2003. The \$5.2 million decrease in earnings at Duquesne Light is primarily due to the \$4.8 million after-tax charge for the write-off of deposits and deferred costs related to the termination of the Sunbury acquisition.

Earnings from continuing operations at Holdings were also affected by the following:

- Earnings from DQE Financial decreased \$6.8 million from 2003, primarily due to a \$9.7 million decrease in earnings from structured lease investments primarily as a result of the IRS settlement and a \$7.0 million after-tax gain, recognized in 2003, on the sale of an investment in a natural gas operating partnership. These decreases were partially offset by an \$8.2 million increase in earnings related to our landfill gas business.
- Earnings from DES increased \$2.4 million primarily due to lower employee compensation costs.

- Earnings from DQE Communications increased \$0.9 million primarily due to revenue growth from new and existing customers.

The 2004 loss from discontinued operations was \$0.2 million, or zero basic earnings per share, compared to income of \$82.7 million, or \$1.10 basic earnings per share, in 2003. The 2003 income included a \$66.6 million tax benefit related to the use of capital losses generated in connection with the sale of the AquaSource subsidiaries and an \$11.5 million after-tax gain related to the increase in fair value of AquaSource's investor-owned utilities as a result of the sale of these utilities to Aqua America, Inc. (See Note 17.)

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

2005 Compared to 2004

Electricity Delivery Business Segment. This segment reported \$36.5 million of earnings in 2005, compared to \$47.1 million in 2004, a decrease of \$10.6 million or 22.5%. This decrease was primarily due to increased operating expenses in 2005.

Operating revenues are primarily derived from the delivery of electricity, including related excise taxes. Sales to residential and commercial customers are primarily 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 by national and global economic and competitive conditions.

The following table sets forth the MWh delivered to electric utility customers.

	MWh Delivered		
	<i>(In Thousands)</i>		
	2005	2004	Change
Residential	4,134	3,886	6.4%
Commercial	6,635	6,522	1.7%
Industrial	3,128	3,229	(3.1%)
	13,897	13,637	1.9%

Operating revenues decreased \$1.2 million, or 0.3%, compared to 2004. The decrease was primarily due to ancillary services revenue being reported in the Duquesne Light supply segment in 2005. This reclassification of ancillary revenue (\$11.8 million in 2004) offset the \$3.2 million of revenue collected in

2005 to recover SECA charges. It also offset the increased delivery revenues to residential and commercial customers resulting from the higher megawatt-hour (MWh) sales in 2005 due to the warmer summer weather as compared to 2004.

Operating expenses consist primarily of costs of operation and maintenance of the transmission systems and distribution systems; meter reading, billing and collection; customer service; administrative expenses; and non-income taxes such as gross receipts, property and payroll taxes. Operating expenses increased \$13.5 million, or 8.2%, compared to 2004. Following the sale of several of Holding's non-complementary businesses, approximately \$6.5 million of additional costs were borne by this segment in 2005 compared to 2004. Included in this amount was \$3.4 million related to insurance. Rising energy prices in 2005 placed a strain on the budgets of the elderly and low-income customers. Duquesne Light attempted to balance this impact with sound business practices through increased participation in customer assistance programs. This had the effect of a \$7.2 million increase in uncollectible accounts expense. In addition, \$4.9 million of increased labor costs were incurred in 2005. These increases were partially offset by a \$6.5 million decrease in the costs of ancillary services, because the majority of this cost is now being reported in the Duquesne Light supply segment as a result of the POLR III arrangement.

Depreciation and amortization expense includes depreciation on property, plant and equipment and amortization of intangibles. Depreciation and amortization expense increased \$4.8 million, or 7.7%, compared to 2004. The increase was primarily due to \$3.0 million of amortization expense recognized in 2005 relating to SECA, as discussed in the revenue section above.

Dividends on preferred and preference stock reflect the annual payments made to preferred and preference shareholders. Preferred dividends increased \$1.4 million, or 21.2%, compared to the prior year due to the \$75 million of 6.5% preferred stock issued in April 2004. Dividends on all issues of Duquesne Light's preferred stock are included in interest and other charges in the Holdings presentation of the electricity delivery business segment.

Duquesne Light Supply Business Segment. As previously discussed, the factors impacting this segment in 2005 have changed significantly compared to the prior year. The following table summarizes the earnings from this segment.

	Earnings		
	(In Millions)		
	2005	2004	Change
Residential and small commercial	\$ 19.0	\$13.9	\$ 5.1
Large commercial and industrial	—	4.6	(4.6)
Derivative energy contracts	9.4	—	9.4
Acquisition termination cost	—	(4.8)	4.8
Total Earnings	\$ 28.4	\$ 13.7	\$ 14.7

Under the POLR II arrangement in 2004, the margin on sales to residential and small commercial customers was a fixed dollar amount per MWh supplied, while under the POLR III arrangement in 2005, the margin on these customers is no longer fixed.

The \$5.1 million increase in the earnings from the residential and small commercial customers reflects the higher POLR III rates. Under the POLR II arrangement, Duquesne Light earned a margin per MWh on sales to large commercial and industrial customers. However, there is no margin under the POLR III arrangement associated with these customers, which accounts for a \$4.6 million decrease in earnings from 2004. In addition, some of the energy contracts entered into by Duquesne Power are derivative instruments, the accounting for which results in certain changes in the fair value of these contracts being recorded currently in earnings. As shown above, there was a \$9.4 million increase in earnings in 2005 resulting from certain changes in the fair value of these energy contracts since December 31, 2004. The results for 2004 included the \$4.8 million after-tax charge related to the termination of the Sunbury acquisition.

Operating revenues are derived primarily from the supply of electricity to POLR retail customers. Retail energy requirements fluctuate as the number of customers choosing alternative generation suppliers changes. Energy requirements for residential and commercial customers are also influenced by weather conditions; temperature extremes lead to changes in customer use of electricity for cooling and heating. Commercial energy requirements are also affected by regional economic development. Energy requirements for industrial customers are primarily influenced by national and global economic conditions.

In addition, operating revenues include, to a lesser extent, the supply of electricity to wholesale

customers. Beginning in 2005, these sales are primarily comprised of sales to DLE by Duquesne Power under its full-requirements energy supply contract. In 2004, these sales primarily consisted of short-term sales to other utilities that were made at market rates, and resulted primarily from excess daily energy deliveries to Duquesne Light's electricity delivery system.

The following tables set forth the MWh supplied.

	MWh Supplied		
	(In Thousands)		
	2005		
	POLR I	POLR III	Total
Residential and small commercial	—	5,631	5,631
Large commercial and industrial	912	278	1,190
Total Retail	912	5,909	6,821
Wholesale			1,048
POLR Customers (MWh basis):			
Residential and small commercial			75%
Large commercial and industrial			19%

	MWh Supplied		
	(In Thousands)		
	2004		
	POLR I	POLR II	Total
Residential and small commercial	—	5,322	5,322
Large commercial and industrial	1,622	2,121	3,743
Total Retail	1,622	7,443	9,065
Wholesale			311
POLR Customers (MWh basis):			
Residential and small commercial			74%
Large commercial and industrial			58%

Operating revenues increased \$9.3 million, or 2.1%, compared to 2004. The combination of the higher average generation rate charged to residential and small commercial customers under the POLR III arrangement and the addition of the ancillary services revenue that is being reported in this segment in 2005 caused an approximate \$51 million increase in operating revenues in 2005 compared to the prior year. This was augmented by an approximate \$12 million increase in retail revenue from increased MWh sales due to the warmer summer weather that occurred in 2005 and an increase in the number of customers being served under the POLR III

arrangement. In addition, there was an approximate \$39 million increase in wholesale sales of electricity in 2005, due primarily to sales to DLE. As shown in the tables above, there has been a significant decrease in the MWh supplied to large commercial and industrial customers as a higher percentage of these customers chose an alternative generation supplier in 2005. This resulted in an approximate \$92 million decrease in operating revenues compared to 2004.

In 2005, operating expenses consisted of (i) costs to obtain energy and capacity for Duquesne Light's POLR service and to supply DLE, (ii) certain changes in the fair value of derivative energy contracts, (iii) administrative expenses at Duquesne Power, and (iv) gross receipts tax. In 2004, operating expenses consisted primarily of costs to obtain energy for our POLR service and gross receipts tax, both of which fluctuated directly with operating revenues. Beginning in the third quarter of 2004, operating expenses also included administrative expenses at Duquesne Power.

Operating expenses decreased \$8.0 million, or 2.0%, compared to 2004. The primary reason for the decrease was a \$15.2 million decrease in purchased power expense, primarily due to certain increases in the fair value of the derivative energy contracts. Partially offsetting this decrease was a \$2.7 million increase in administrative costs, and increased gross receipts taxes.

CTC Business Segment. Collection of the CTC was completed in the third quarter of 2005. Changes in revenue and expenses between 2005 and 2004 reflect the full collection of this regulatory asset in 2005.

Electricity Supply Business Segment. Earnings from this segment include the results for the Duquesne Light supply segment and, beginning January 1, 2005, the results of Holdings' unregulated retail electric generation supplier, DLE.

The revenues and energy and capacity costs relating to the full-requirements contract between Duquesne Power (which are included in the Duquesne Light supply segment) and DLE are eliminated and instead DLE's retail sales to its large commercial and industrial customers are presented. As a result, overall earnings and operating revenues and expenses of this segment are substantially unchanged from corresponding amounts discussed in the Duquesne Light supply segment above.

The following tables set forth the retail MWh supplied to the electricity supply business segment customers.

	MWh Supplied	
	(In Thousands)	
	2005	2004
Duquesne Light	6,821	9,065
DLE	932	--
Total Retail	7,753	9,065

Energy Solutions Business Segment. This segment reported income of \$35.9 million in 2005, compared to \$22.7 million in 2004, an increase of \$13.2 million, or 58.1%. The increase is primarily due to the \$19.4 million of after-tax gains on the sale of investments in certain energy facility management projects partially offset by \$6.7 million of charges related to another energy facility management project.

Operating revenues are derived primarily from the facility management services for synthetic fuel, industrial and airport customers. Operating revenues for 2005 increased \$0.2 million, or 0.3%, compared to 2004. Revenues for the synthetic fuel facilities increased \$3.2 million from 2004 due to an approximate 5% increase in production. This increase was partially offset by a cumulative reduction to revenue recognized in 2005 relating to a contract dispute with the counter-party of another energy facility management project.

Operating expenses consist of the operating and maintenance costs to manage the facilities, as well as general corporate overhead and other gains and losses associated with the operations of the facilities. Operating expenses decreased \$7.5 million, or 23.1%, compared to 2004, primarily due to the \$13.2 million pre-tax gain on the sale of two energy facilities in the fourth quarter of 2005, partially offset by a \$3.9 million impairment charge associated with another energy facility management project and a \$3.3 million increase in energy commodity costs related to the energy facility operations.

Other income consists of income from an equity investment in an energy facility operating partnership (which was sold in the third quarter of 2005) and various other gains and losses. Other income increased \$17.7 million from 2004 primarily as a result of an \$18 million pre-tax gain on the sale of our equity investment as previously discussed.

Financial Business Segment. This segment reported income of \$30.2 million in 2005, compared to \$26.4 million in 2004, an increase of \$3.8 million, or 14.4%, primarily due to a \$4.9 million increase in

earnings from operations related to pipeline quality landfill gas.

Operating revenues are derived primarily from the sale of landfill gas and landfill gas site-related services. Operating revenues for 2005 increased \$16.2 million, or 49.4%, compared to 2004. The increase is primarily the result of a \$9.8 million increase in pipeline quality landfill gas sales (as a result of an approximate 35% increase in the average price of pipeline quality landfill gas sold in 2005 as compared to 2004) and a \$6.6 million increase in revenues related to the consolidation of WET for an entire year in 2005 as a result of our purchase of the remaining 50% interest in the company in the fourth quarter of 2004.

Operating expenses consist of various costs to operate and maintain the landfill gas sites, as well as expenses related to alternative fuel investments. Operating expenses increased \$8.9 million, or 21.9%, compared to 2004, primarily due to a \$5.8 million increase in net operating expenses related to the consolidation of WET, and increased royalty expenses attributable to pipeline quality landfill gas operations as a result of the increased revenues.

Other income consists of income from structured leases and affordable housing and equity investments, and various other gains and losses. Other income for 2005 increased \$3.1 million, or 32.6%, compared to 2004, primarily due to incremental net pre-tax gains of \$5.9 million related to the sales of various non-core investments during 2005, partially offset by a \$2.4 million decrease in other income in 2005 due to the full year effect in 2005 of the consolidation of the affordable housing investments as described below.

The benefit from limited partners' interest reflects the portion of the losses related to the affordable housing guarantee funds that are not owned by the DQE Financial subsidiary as a result of the consolidation of the affordable housing investments effective March 31, 2004.

Income taxes consist of our provision for federal income taxes as well as the tax credits generated from our synthetic fuel limited partnership, landfill gas and affordable housing investments. The income tax benefit for 2005 decreased \$10.7 million, or 43.1%, compared to 2004, due to a \$4.3 million decrease in tax credits generated in 2005, primarily due to the sale of 50% of our investment in the synthetic fuel partnership as previously discussed, and the increase in pre-tax earnings in 2005 as compared to 2004.

Communications Business Segment. This segment reported income of \$2.5 million in 2005,

compared to \$1.7 million in 2004, an increase of \$0.8 million, or 47.1%. The increase is primarily due to increases in revenues from new and existing customers.

All Other. The all other category reported a loss of \$19.6 million in 2005, compared to a loss of \$24.2 million in 2004, an improvement of \$4.6 million, or 19.0%. The improvement is primarily due to a \$2.4 million after-tax gain recorded at Holdings resulting from the favorable settlement of an interest rate lock arrangement in 2005 and the reduction of \$3.9 million in after-tax administrative costs allocated to Duquesne Light. These improvements were partially offset by a \$1.7 million after-tax increase in operating expenses related to the current IRS audit.

2004 Compared to 2003

Electricity Delivery Business Segment. This segment reported \$47.1 million of earnings in 2004, compared to \$46.1 million in 2003, an increase of \$1.0 million, or 2.2%. This increase was primarily due to higher revenue and lower interest and other charges, partially offset by higher operating expenses in 2004.

The following table sets forth MWh delivered to electric utility customers.

MWh Delivered

	(In Thousands)		
	2004	2003	Change
Residential	3,886	3,759	3.4%
Commercial	6,522	6,415	1.7%
Industrial	3,229	3,189	1.3%
	13,637	13,363	2.1%

Operating revenues increased \$6.3 million, or 1.9%, compared to 2003. The increase is primarily due to a 2.1% increase in megawatt-hours (MWh) sales from 2003. Residential and commercial sales increased compared to 2003, as the effect of the hotter summer and the extra day due to leap year in 2004 more than offset the warmer 2004 winter.

In 2003, we recognized a \$4.9 million charge related to vacant leased office space. Operating expenses increased by \$7.4 million, or 4.7%, compared to 2003 (\$12.3 million after considering the 2003 lease charge). Reasons for this increase include a \$7.2 million increase in labor, pension and other fringe benefit costs, a \$1.7 million increase in insurance costs, and a \$1.7 million increase in billing and collection costs.

Interest and other charges include interest on long-term debt and other interest. Interest and other charges decreased \$14.2 million, or 23.5%, due to (i)

\$200 million of debt retirements in late 2003, which reduced interest expense by \$11.6 million, and (ii) \$151.5 million of 8.375% subordinated debenture redemptions in the first six months of 2004, which reduced interest expense \$9.6 million. These reductions were partially offset by the \$7.1 million increase in interest expense resulting from the issuance of \$200 million of 5.7% debt in May 2004.

Dividends on preferred and preference stock increased \$3.4 million, or 106.3%, due to the \$75 million of 6.5% preferred stock issued in April 2004.

Duquesne Light Supply and Electricity Supply Business Segments. In 2004, these segments reported earnings of \$13.7 million, compared with \$19.7 million in 2003. The decrease of \$6.0 million, or 30.5%, is primarily due to the \$4.8 million after-tax charge (\$8.3 million pre-tax) incurred by Duquesne Power related to the termination of the Sunbury acquisition.

The following tables set forth MWh supplied for POLR customers.

MWh Supplied

	(In Thousands)		
	2004		
	POLR I	POLR II	Total
Residential	—	2,886	2,886
Commercial	84	3,707	3,791
Industrial	1,538	850	2,388
Total	1,622	7,443	9,065
POLR Retention (MWh basis)			66%

MWh Supplied

	(In Thousands)		
	2003		
	POLR I	POLR II	Total
Residential	57	2,673	2,730
Commercial	242	4,110	4,352
Industrial	1,641	931	2,572
Total	1,940	7,714	9,654
POLR Retention (MWh basis)			72%

Operating revenues decreased \$15.7 million, or 3.5%, compared to 2003, due to the 6.1% decline in POLR MWh. The decline resulted from a higher percentage of our commercial and industrial customers choosing alternative generation suppliers.

Operating expenses decreased \$13.7 million, or 3.3%, compared to 2003, primarily due to an \$11.7 million decrease in purchased power expense. This decrease was caused by the decline in the POLR MWh supplied to customers.

CTC Business Segment. Operating revenues are derived by billing electric delivery customers for generation-related transition costs. Duquesne Light is allowed to earn an 11% pre-tax return on the net of tax CTC balance. As revenues are billed to customers on a monthly basis, we amortize the CTC balance. The resulting decrease in the CTC balance causes a decline in the return earned by Duquesne Light.

This segment reported earnings of \$0.4 million in 2004, compared to \$0.6 million in 2003, a decrease of \$0.2 million, or 33.3%.

Energy Solutions Business Segment. This segment reported earnings of \$22.7 million in 2004, compared to \$20.3 million in 2003, an increase of \$2.4 million, or 11.8%. The 2004 results were positively impacted by reductions in incentive compensation costs paid to former executives of this subsidiary.

Operating revenues increased \$4.9 million, or 7.7%, compared to 2003. The increase was primarily due to a \$2.6 million increase in revenues related to the energy facility operations, and a \$2.0 million revenue adjustment in 2003 related to a scale calibration deficiency identified and corrected at one of the synthetic fuel facilities.

Operating expenses decreased \$0.6 million, or 1.8%, compared to 2003, primarily due to a \$4.2 million decrease in the incentive compensation costs discussed above. This decrease was partially offset by increased energy commodity costs related to the energy facility operations.

Financial Business Segment. This segment reported earnings of \$26.4 million in 2004, compared to \$33.2 million in 2003, a decrease of \$6.8 million, or 20.5%. This decrease was due in part to a \$9.7 million decrease in 2004 earnings recognized from the structured lease investments as a result of the IRS settlement and a \$7.0 million after-tax gain recognized in 2003 on the sale of an investment in a natural gas operating partnership. The 2004 decrease was partially offset by a \$4.0 million increase in earnings related to operations at the Fresh Kills landfill site that were affected by the settlement reached with the City of New York, increased earnings from equity investments, and higher earnings from increased sales revenues related to landfill gas.

Operating revenues increased \$5.0 million, or 18%, compared to 2003. The increase is the result of a \$3.4 million increase in landfill gas sales primarily as a result of an 11.6% increase in average price and

a 9% increase in volumes of pipeline quality landfill gas sold in 2004, as compared to 2003. In addition, \$1.6 million of revenues are included in the 2004 results that are related to the consolidation of operations of WET as a result of our purchase of the remaining 50% interest in the company in the fourth quarter of 2004. Prior to the purchase, we owned 50% of the company and accounted for the investment using the equity method.

Operating expenses decreased \$4.7 million, or 10.4%, compared to 2003, primarily due to a \$3.6 million decrease in operating expenses at the landfill sites, and a \$3.5 million decrease in expenses related to our limited partnership investment in a synthetic fuel partnership as a result of the sale of 50% of our investment in this partnership in the fourth quarter of 2004. In addition, there was a \$1.7 million decrease in legal fees related to the settlement of the Fresh Kills litigation. These decreases were partially offset by a \$2.4 million expense recognized for a fee due under a contract with an unrelated party, and the consolidation of \$1.0 million in operating expenses related to the purchase of WET.

Other income decreased \$19.9 million, or 67.7%, compared to 2003, primarily due to a \$14.9 million decrease in pre-tax earnings from the structured lease investments as a result of the IRS settlement, the 2003 pre-tax gain of \$10.8 million related to the sale of the investment in a natural gas partnership previously discussed, and a \$6.8 million decrease in other income in 2004 due to the consolidation of the affordable housing investments resulting from the adoption of FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" (revised December 2003) (FIN 46R) (see below). These decreases were partially offset by \$5.9 million of pre-tax earnings primarily from the debt forgiveness related to the Fresh Kills settlement, a \$3.8 million increase in pre-tax earnings from equity investments, and lower expenses related to the affordable housing investments in 2004, as compared to 2003.

As of March 31, 2004, we adopted FIN 46R and accordingly consolidated the seven low-income housing development guarantee funds in which a DQE Financial subsidiary owns a 1% general partner interest. The losses from these investments were recorded in other income, and the benefit from limited partners' interest reflects the portion of the losses related to the affordable housing guarantee funds that are not owned by the DQE Financial subsidiary.

The income tax benefit decreased \$4.8 million, or 16.2%, compared to 2003, due primarily to a \$2.9 million decrease in tax credits generated in 2004 from our investment in the synthetic fuel partnership in which we sold 50% of our investment in the fourth

quarter of 2004, as discussed above, and a \$2.4 million decrease in 2004 tax credits from the Fresh Kills landfill site as the February 2004 settlement reached with the City of New York eliminated our ability to claim future tax credits from this site.

Communications Business Segment. This segment reported earnings of \$1.7 million in 2004, compared to \$0.8 million in 2003, an increase of \$0.9 million, or 112.5%. The increase is primarily due to increases in revenues from new and existing customers.

All Other. The all other category reported a loss of \$24.2 million in 2004, compared with a \$26.0 million loss in 2003.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions with respect to values and conditions 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 we are required to make. We evaluate these estimates on an ongoing basis, using historical experience, consultation with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates.

In preparing our financial statements and related disclosures, we have adopted the following accounting policies which management believes are particularly important to the financial statements and that require the use of estimates and assumptions in the financial preparation process.

Accounting for the Effects of Regulation. Duquesne Light prepares its financial statements in accordance with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," which differs in certain respects from the application of accounting principles generally accepted in the United States of America by non-regulated businesses. In general, SFAS No. 71 recognizes that accounting for rate-regulated enterprises should reflect the economic effects of regulation. As a result, a regulated utility is required to defer the recognition of costs (a regulatory asset) if it is probable that, through the rate-making process,

there will be a corresponding increase in future rates. Accordingly, Duquesne Light defers certain costs, which will be amortized over future periods. To the extent that collection of such costs is no longer probable as a result of changes in regulation or competitive position, the associated regulatory assets are charged to expense. (See Note 1.)

Unbilled Electricity Revenues. Holdings and Duquesne Light record revenues related to the sale of electricity when delivery is made to customers. However, the determination of such sales to individual customers is based on the reading of their meters, which Duquesne Light reads on a systematic basis throughout the month. At the end of each month, Holdings and Duquesne Light estimate the amount of electricity delivered to customers since the date of the last meter reading based on actual daily meter reads or, alternatively, estimated daily use based on rate-specific, statistically estimated, hourly consumption patterns. Unbilled revenues are estimated each month based on the rate class-specific unbilled electricity sales and the corresponding average retail rate.

Impairment of Long-Lived Assets and Investments. We evaluate long-lived assets (including other intangibles) of identifiable business activities and investments for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. For long-lived assets to be held and used, these computations use judgments and assumptions inherent in management's estimate of undiscounted future cash flows to determine recoverability of the assets. It is possible that a computation under a "held for sale" situation for certain of these long-lived assets could result in a significantly different assessment because of market conditions, specific transaction terms or a buyer's different viewpoint of future cash flows. For investments, we considered our investee's cash on-hand, financing abilities, customers, contracts and overall ability to continue as a going concern.

Pension and Other Postretirement Benefit Plan Assumptions. We provide pension benefit plans covering substantially all of our full-time employees. We also provide postretirement benefits for some retired employees. The retiree medical benefits terminate when retirees reach age 65. We account for these benefits in accordance with SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." We record amounts

related to our pension and other postretirement benefit plans based on actuarial valuations. Inherent in those valuations are key assumptions including discount rates, expected returns on plan assets, compensation increases, and health care cost trend rates. These actuarial assumptions are reviewed annually and modified as appropriate. Changes in these assumptions could have a significant effect on our non-cash pension income or expense or on our postretirement benefit costs. The effect of changes in these assumptions is generally recorded or amortized over future periods.

We discounted our future pension and other postretirement plan obligations using a rate of 5.70% as of December 31, 2005, compared to 5.75% as of December 31, 2004. The discount rate is determined by (i) considering the timing and amount of projected future benefit payments and (ii) using an outside advisor to produce a yield curve model that represents the yields on high-quality corporate bonds. When applied to our projected future benefit payments, this model determines the weighted-average discount rate. Both the pension and other postretirement plan obligations and related expense increase as the discount rate is reduced.

The assumed rate of return on plan assets in the pension plans is the weighted average of long-term returns forecast for the type of investments held by the plans. As the expected rate of return on plan assets increases, the pension plan expense decreases, however the postretirement plan expense is unaffected as this plan has no assets. For 2003, the assumed rate of return on plan assets in the pension plans was 7.5%. We revised this assumption to 8.0% for both 2004 and 2005 to more closely align with our actual and expected long-term rate of return on plan assets.

Due to changes in health care costs over recent years, the health care trend assumption used in the development of the fiscal 2006 expense will be adjusted to better reflect the current and future cost environment. The health care trend assumption reflected in the December 31, 2005, SFAS No. 106 year-end disclosure, which will also be used in the development of fiscal 2006 expense, is 9.50%, decreasing 0.75% per year to an ultimate rate of 4.75% (reached in 2013).

We believe the assumptions used in recording obligations under the plans are reasonable based on our prior experience, market conditions, and the advice of plan actuaries. See Note 12 to the consolidated financial statements for information about these assumptions, actual performance, amortization of investment and other actuarial gains

and losses and calculated plan costs for the past three years.

As of December 31, 2005, the fair value of the pension plan assets of \$759.8 million represented approximately 91% of the projected benefit obligation of our pension plans.

Our pension gain for 2005 was \$0.4 million and our expected pension cost for 2006 is \$3.4 million. Our expense or gain for actual pension benefits in future periods will depend upon actual returns on plan assets and the key assumptions we use for future periods.

We were not required to make cash contributions to our pension plans in 2005, nor will we be required to do so in 2006, due to a sufficient credit balance as determined by actuarial valuations. In accordance with current funding rules, this credit balance can be applied against the minimum funding requirements. In January 2005, Duquesne Light met its obligation, pursuant to the January 18, 2001 PUC order regarding Duquesne Light's final generation asset sale proceeds accounting, by contributing \$32.1 million to the pension plans. Also, in January and February of 2006, Duquesne Light made aggregate discretionary contributions of \$20 million to the pension plans.

Income Taxes. In accordance with SFAS No. 109, "Accounting for Income Taxes," we use the liability method in computing deferred taxes on all differences between book and tax bases of assets and liabilities. 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. Our overall effective tax rate is significantly reduced by the income tax credits generated from our synthetic fuel, landfill gas and affordable housing investments.

We file a consolidated U.S. federal income tax return with our subsidiaries, all of whom participate in an intercompany tax sharing arrangement which generally provides that taxable income for each subsidiary be calculated as if it filed a separate return.

Duquesne Light recognizes a regulatory asset for deferred tax liabilities that are expected to be recovered through rates. The difference in the provision for deferred income taxes related to depreciation of electric plant in service and the amount that otherwise would be recorded under generally accepted accounting principles is deferred and included in regulatory assets on the consolidated balance sheets. (See Note 1.)

Derivative Instruments. In the normal course of business, we have entered into various contracts to mitigate risks associated with fluctuations in market prices of electricity supply, pipeline quality landfill gas sales and interest rates that are accounted for as derivatives under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. The contracts are in compliance with a Board-approved risk management policy that permits transactions for the prudent management of market related risks, and precludes any speculative transactions. The contracts that are determined to fall within the scope of SFAS No. 133, and that are required to be recorded at fair value, are included as derivative assets and liabilities on the consolidated balance sheets. Changes in fair value, except those related to derivative instruments designated as cash flow hedges, are accounted for using mark-to-market accounting and are included currently in earnings in each reporting period until the contracts are ultimately settled.

Management's expectations and intentions are key factors in determining the appropriate accounting for a derivative instrument, and as a result, such expectations and intentions are formally documented at inception. Management continues to evaluate these initial expectations and intentions as they relate to the underlying contract on an ongoing basis. Cash flow hedge accounting treatment may be used for contracts used to buy or sell a commodity at a fixed price for future delivery corresponding with anticipated physical sales or purchases or to lock in current interest rates on existing or planned debt issuances. Fair value hedge accounting may be used to hedge the risk that the fair value of specific assets and liabilities or specific firm commitments may change between inception and anticipated delivery date. To the extent that the hedge is fully effective in offsetting the transaction being hedged, there is no impact on earnings prior to settlement of the hedge. In addition, we apply the normal purchases and sales exemption, provided by SFAS No. 133, to certain contracts. The normal purchases and sales exemption provides that no recognition of the contract's fair value in the consolidated financial statements is required until the settlement of the contract.

The fair values of contracts are estimated through the use of valuation models using quoted market prices, when available. Such estimates require significant judgment as to assumptions and valuation methodologies deemed appropriate by management. Actual future results may vary from those

assumptions utilized in the valuation models. See Item 7A "Quantitative and Qualitative Disclosures About Market Risk" for additional information regarding the fair value of derivative instruments.

Contingent Liabilities. We establish reserves for estimated loss contingencies when it is management's assessment that a loss is probable and the amount can be reasonably estimated. Reserves for contingent liabilities are based upon management's assumptions and estimates, advice of legal counsel, or other third parties regarding the probable outcomes of the matter. Should additional information become known, or circumstances change with respect to the likelihood or amount of loss indicating that the ultimate outcome will differ from the estimates, revisions to the estimated reserves for contingent liabilities would be recognized in income in that period. Such contingent liabilities include, but are not limited to, restructuring liabilities (see Note 9), income tax matters (see Note 10), and other commitments and contingencies (see Note 13).

LIQUIDITY AND CAPITAL RESOURCES

Our cash and temporary cash investments increased \$16.5 million, or 26.3%, from \$62.7 million at December 31, 2004 to \$79.2 million at December 31, 2005. Duquesne Light had a \$135.8 million investment in the DQE Capital cash pool at December 31, 2004, exited the cash pool during 2005, and as of December 31, 2005, had cash of \$76.1 million. We require cash principally for day-to-day operations, energy purchases, debt service, capital expenditures and dividends. We have historically financed our cash needs primarily from cash from operations, debt and equity issuances, asset sales and bank or commercial paper borrowings. Duquesne Light has historically financed its cash needs with cash from operations, capital contributions received from Holdings, debt issuances, and bank or commercial paper borrowings.

Cash Flows from Operating Activity. Cash flows from operating activities at Holdings were \$119.7 million in 2005, compared to \$178.3 million in 2004. Cash flows from operating activities at Duquesne Light were \$81.9 million in 2005, compared to \$112.2 million in 2004. Net cash provided from operating activities in 2005 was reduced by the \$32.1 million contribution Duquesne Light made to its pension plans in the first quarter of 2005.

Cash Flows from Investing Activity. In 2005, 2004 and 2003, Duquesne Light's capital expenditures were \$153.9 million (with \$21.7 million of this amount reflected as a non-cash increase in accounts payable), \$83.5 million and \$76.1 million for electric utility construction. In addition, Holdings' incremental capital expenditures were \$3.7 million, \$2.9 million and \$1.9 million in 2005, 2004 and 2003 relating to our other business lines and other investments.

During 2005, we received \$61 million of proceeds from dispositions of investments/assets, primarily leverage lease investments and energy facility management projects.

Duquesne Light received \$250 million from Holdings as repayment of an intercompany note during 2005, and exited the DQE Capital cash pool.

Cash Flows from Financing Activity. During August 2005, Holdings issued \$200 million of 5.5% senior notes due August 15, 2015 and \$120 million of 6.25% senior notes due August 15, 2035. Proceeds were used to repay the \$250 million intercompany loan with Duquesne Light and approximately \$37 million of variable rate borrowings under Holdings' credit facility. The remaining balance was used for general corporate purposes. As of December 31, 2005, Holdings had \$40 million of borrowings outstanding under the revolving credit facility.

Duquesne Light used the proceeds received from the repayment of Holdings' intercompany loan plus available cash to purchase at par upon mandatory tender \$320.1 million of variable rate Pollution Control Revenue Refunding Bonds (PCRBs) with maturity dates ranging from 2020 to 2033. This purchase was in accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and is presented on Duquesne Light's balance sheet as an extinguishment of debt, because Duquesne Light is the primary obligor of the PCRBs. Duquesne Light plans to sell all of the PCRBs at future dates to refinance higher cost securities, fund infrastructure investments, and for general corporate purposes.

Holdings paid cash dividends on common and preferred stock of \$67.1 million, \$66.0 million and \$64.4 million in 2005, 2004, and 2003. These amounts are net of the cash received back from our shareholders who participate in our dividend reinvestment plan.

Duquesne Light paid cash dividends on common and preferred stock of \$28.4 million, \$76.9 million, and \$72.8 million in 2005, 2004 and 2003. During 2005, Duquesne Light embarked on a significant capital expenditure program, and began retaining more of its earnings than in prior years. Also during

2005, Holdings contributed \$82.5 million to Duquesne Light Company in support of the capital expenditure program.

Financing Plan

We estimate that for the period from 2006 through 2007, Duquesne Light's capital expenditures will be approximately \$350 to \$400 million for electric utility construction related to transmission and distribution infrastructure. During 2006 through 2007, Holdings is expected to spend approximately \$200 million to \$250 million, primarily related to investments in the Keystone and Conemaugh power stations (including acquisition costs) and landfill gas facilities.

We plan to issue debt and equity securities and to borrow under our credit facilities to provide equity contributions to Duquesne Light and to fund our investments. Duquesne Light plans to use a combination of parent equity contributions, sale of debt securities and credit-facility borrowings to fund its capital expenditures and cash needs.

On October 18, 2005, we filed a shelf registration statement for up to \$400 million of preferred stock, common stock, stock purchase contracts, stock purchase units, warrants and debt securities, to be issued from time to time. Our ability to issue such securities will depend on, among other things, market demand, interest rates, and corporate strategy. We expect to use a substantial portion of the registered securities during 2006 to fund our planned expenditures.

Liquidity

We believe that cash on hand, access to debt and equity capital markets, and bank borrowing capacity continue to provide sufficient resources to fund our ongoing operating requirements, capital expenditures and investments.

Available cash at all subsidiaries, including Duquesne Light, has historically been deposited in the DQE Capital cash pool. Duquesne Light's investments in or withdrawals from this cash pool have been reflected as cash flows from investing activities on its consolidated statements of cash flows. Duquesne Light began investing its cash outside of the cash pool during the fourth quarter of 2005.

Bank Credit Facilities. Prior to July 27, 2005 Holdings and Duquesne Light maintained unsecured credit facilities (Prior Revolvers) expiring in September 2007, Holdings for \$175 million and Duquesne Light for \$100 million. On July 27, 2005 the Prior Revolvers were amended and extended to

July 2010 (2005 Revolvers). Holdings 2005 Revolver was for \$200 million and Duquesne Light's 2005 Revolver was for \$100 million. Both 2005 Revolvers permit borrowings at interest rates of LIBOR (plus a margin of 0.40% to 1.00%) or an alternate base rate, as defined in the credit facilities. Both 2005 Revolvers have commitment fees applicable to the remaining available amount. Interest rates and commitment fees are based on the borrower's then-current senior unsecured credit rating. Both 2005 Revolvers are subject to cross-default if the borrower or any of its subsidiaries defaults on any payment due under any indebtedness exceeding \$50 million. Undrawn amounts under both 2005 Revolvers are fully available for the issuance of letters of credit.

Under our Prior Revolvers and 2005 Revolvers, we are subject to financial covenants requiring each of Holdings and Duquesne Light to maintain a debt-to-capitalization ratio of not more than 65%, as defined in the facilities. In addition, Holdings is required to maintain a minimum interest coverage ratio of 2-to-1, as defined in the facilities. As of December 31, 2005, we were in compliance with the applicable covenants.

As of December 31, 2005, our total borrowing capacity under our 2005 Revolvers and the use of this borrowing capacity were as follows:

	Committed Capacity	Borrowed	LOCs Issued	Available Capacity
Holdings	\$200.0	\$ 40.0	\$71.4	\$ 88.6
Duquesne Light	100.0	—	8.2	91.8
Total	\$300.0	\$ 40.0	\$79.6	\$180.4

During 2005, the maximum amount of credit facility borrowings outstanding was \$50 million (all at Holdings), the average daily borrowings were \$4.8 million and the weighted average daily interest rate was 4.2%. As of December 31, 2005, Holdings had \$18.2 million of outstanding letters of credit (LOCs) (including \$12.7 million at Duquesne Light) unrelated to the credit facilities.

On January 31, 2006, Holdings and Duquesne Light amended their credit facilities, increasing the borrowing capacity of each by \$50 million. As of January 31, 2006, our total borrowing capacity under our credit facilities and the use of this borrowing capacity were as follows:

	Committed Capacity	Borrowed	LOCs Issued	Available Capacity
Holdings	\$250.0	\$60.0	\$76.4	\$113.6
Duquesne Light	150.0	—	8.2	141.8
Total	\$400.0	\$60.0	\$84.6	\$255.4

In addition, as of January 31, 2006, Holdings had \$18.2 million of outstanding LOCs (including \$12.7 million at Duquesne Light) unrelated to the credit facilities.

Current Maturities of Long-Term Debt. None of Duquesne Light's long-term debt is scheduled to mature before 2008. The Holdings' current maturities represent scheduled principal payments on other long-term debt.

Ratings Triggers. Holdings and its subsidiaries do not have material liquidity exposures caused by a ratings downgrade below "investment grade" that

would accelerate the due dates of borrowings or cause collateral to be posted under Duquesne Power's power purchase agreements. Under one of its surety bond agreements, Holdings has a requirement to post letters of credit in the event its debt ratings fall below investment grade. At December 31, 2005, the letters of credit posting requirement would have been approximately \$28 million if our ratings had been below investment grade.

OFF-BALANCE SHEET ARRANGEMENTS

Except for the guarantees discussed in Note 13, neither Holdings nor Duquesne Light has any material off-balance sheet arrangements. As a wholly owned subsidiary of Holdings, Duquesne Light is involved in various transactions with affiliates. (See Notes 1 and 18.)

Contractual Obligations and Commitments

As of December 31, 2005, we have certain contractual obligations and commitments that extend into and beyond 2006, the amounts of which are set forth in the following table:

Payments Due By Period

	Total	(Millions of Dollars)			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Short-Term Borrowings	\$ 40.0	\$ 40.0	\$ —	\$ —	\$ —
Long-Term Debt – Principal					
Duquesne Light	637.9	—	40.0	—	597.9
Holdings and Other Affiliates (a)	321.6	0.3	0.6	0.6	320.1
Long-Term Debt - Interest					
Duquesne Light	389.9	38.2	74.2	71.2	206.3
Holdings and Other Affiliates	323.6	18.6	37.1	37.0	230.9
Energy Commodity Contracts	799.4	421.7	377.7	—	—
Operating Leases					
Duquesne Light	23.8	4.6	8.1	7.6	3.5
Other Affiliates	3.1	0.5	1.1	1.0	0.5
IRS Settlement Payment	53.6	53.6	—	—	—
Landfill Gas Contractual Obligation	7.4	7.4	—	—	—
Legacy Liability Obligations – Duquesne Light	29.8	1.6	2.4	2.0	23.8
Restructuring – Duquesne Light	0.8	0.8	—	—	—
Total	\$2,630.9	\$587.3	\$541.2	\$119.4	\$1,383.0

(a) Includes current maturities.

RATE MATTERS

Distribution Rate Case and Transmission Rate Case

As a regulated utility, Duquesne Light may only change its distribution rates or transmission rates by applying, through the rate case process, to the PUC or the FERC for approval. The goal of a rate case is to establish customer rates such that the utility (i) recovers its costs of providing the service, (ii) recovers its costs of investing in the transmission and/or distribution infrastructure, and (iii) earns a reasonable and fair return on that investment. During a rate case, the utility must prove that its proposed rate increase is needed by showing its costs during a given test year. The utility's costs and expenditures are reviewed and challenged during this process. A rate case also considers a utility's rate of return on its investment, as well as its costs of financing, in order to derive its annual revenue requirement. The rates ultimately set are intended to give the utility a reasonable chance to achieve its revenue requirement.

Since customer choice was instituted in Pennsylvania in 1996, rate caps have prevented recovery of any new investment in transmission and distribution. The last Duquesne Light rate case involving transmission and distribution costs dates back to 1987. Our transmission and distribution rate freeze expired at the end of 2003. Duquesne Light expects to file a request for a distribution rate increase with the PUC in March 2006. The PUC has nine months from the date of the filing to render a decision. If approved, the new distribution rates are expected to go into effect in January 2007. Duquesne Light cannot predict the amount of the rate increase that will ultimately be approved by the PUC. We also plan to file a transmission rate case with the FERC later in 2006.

Seams Elimination Charge Adjustment

See Item 1A. Risk Factors, "Our financial obligations under the Seams Elimination Charge Adjustment remain uncertain."

FORWARD-LOOKING STATEMENTS

The preceding sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations" contain forward-looking statements, the results of which may materially differ from those implied due to known and unknown risks and uncertainties, some of which are discussed below.

- Cash flow, earnings, earnings growth, capitalization, capital expenditures and

dividends will depend on the performance of Holdings' subsidiaries, and board policy.

- Demand for and pricing of electricity and landfill gas, changing market conditions, and weather conditions could affect earnings levels.
- Duquesne Light's earnings will be affected by the number of customers who choose to receive electric generation through POLR III, by our ability to negotiate appropriate terms with suitable generation suppliers, and by the performance of these suppliers.
- Projected POLR supply requirements will depend on POLR customer retention, which in turn may depend on market generation prices, as well as the marketing efforts of competing generation suppliers.
- Distribution rate base and earnings will depend on the ultimate structure of our distribution rate case, which in turn will be subject to PUC review and approval. Transmission rate base and earnings will depend on the ultimate structure of our transmission rate case, which in turn will be subject to FERC review and approval. Earnings will also be affected by rate base, equity and allowed return levels.
- RTO rules and FERC-mandated transmission charges could affect earnings.
- Changes in electric energy prices could affect earnings as the fair value of our energy commodity contracts fluctuates.
- The amount and timing of any debt reduction or refinancing will depend on the availability of cash flows and appropriate replacement or refinancing vehicles.
- The amount and timing of any securities issuance (debt or equity) will depend on financial market performance and the need for funds.
- The credit ratings received from the rating agencies could affect the cost of borrowing, access to capital markets and liquidity.
- Changes in synthetic fuel plant operations owned by a single customer could affect DES' earnings.
- Competition, operating costs and gas prices could affect earnings and expansion plans in our landfill gas business, as well as the anticipated operating life of our landfill gas sites.
- Earnings with respect to synthetic fuel operations, landfill gas and affordable housing investments will depend, in part, on the continued availability of, and compliance with the requirements for, applicable federal tax credits. The availability of synthetic fuel and landfill gas tax credits depends in part on the average well-head price per barrel of domestic crude oil.

- Demand for dark fiber will affect DQE Communications' earnings.
- The final resolution of proposed adjustments regarding state income tax liabilities (which could depend on negotiations with the appropriate authorities) could affect financial position, earnings, and cash flows.
- Overall performance by Holdings and its affiliates could be affected by economic, competitive, regulatory, governmental and technological factors affecting operations, markets, products, services and prices, as well as the factors discussed in Holdings' SEC filings made to date.

Item 7A. Quantitative and Qualitative Disclosures About 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.

Both Holdings and Duquesne Light have potential market risk exposures to interest rate risk and credit/default risk. Holdings also faces the risks related to commodity prices and the potential of Section 29 tax credit phase-out. Holdings and Duquesne Light have risk management procedures to monitor and assist in controlling these market risks and may use derivative and other instruments to manage some of these exposures.

Interest Rate Risk.

Currently, neither Holdings nor Duquesne Light have any variable interest rate debt outstanding. As of December 31, 2004, the variable interest rate debt for Holdings and for Duquesne Light was \$320.1 million, which represented approximately 33.5% of both Holdings' and Duquesne Light's long-term debt. This variable rate debt was low-cost, tax-exempt debt with an average variable interest rate of 1.6% for the year ended December 31, 2004. A 10% increase in interest rates would have affected both Holdings' and Duquesne Light's variable rate debt obligations by increasing interest expense by approximately \$0.6 million for the year ended December 31, 2004. We manage our interest rate risk by retiring and issuing debt from time to time and by maintaining a range of maturity dates. A 10% reduction in interest rates would have increased the market value of fixed-rate debt by approximately \$47.2 million for Holdings and \$27.9 million for Duquesne Light as of December 31, 2005 and approximately \$29 million for both Holdings and Duquesne Light as of December 31,

2004. Such changes would not have had a significant near-term effect on our future earnings or cash flows.

Commodity Price Risk.

We are exposed to commodity price risk arising from market price fluctuations in electricity supply and for sales of pipeline quality landfill gas. We manage these risks by entering into various fixed price contracts as part of our overall board approved risk management strategy.

Electricity Supply. We mitigate this risk by entering into energy commodity contracts, principally through Duquesne Power, for anticipated electricity supply obligations within a range of probabilities based on historical customer retention rates and switching trends along with projected forward energy prices.

The energy commodity contracts have primarily been structured to begin and end during the POLR III time period. The net result of these transactions is that, as of December 31, 2005, Duquesne Power had secured a substantial portion of the combined expected load obligation for its full-requirements contracts with Duquesne Light and DLE.

If Duquesne Power does not enter into contracts for the remaining portion of its anticipated obligations, it will acquire the necessary supply through spot market purchases, and will therefore be exposed to market risk. Assuming Duquesne Power were to make such spot market purchases, we performed a sensitivity analysis using a hypothetical 10% change in the projected forward market prices of electricity supply in our valuation model. The analysis indicated that such market movements would change the projected cost of acquiring electricity supply by approximately \$13 million as of December 31, 2005 and approximately \$12 million as of December 31, 2004 for the POLR III period through 2007. The projected forward market prices used in our valuation model are derived from broker quotes for the applicable delivery points for both on-peak and off-peak power. Our valuation model seasonalizes annual or quarterly prices based on historical trends. Actual costs in the future may differ significantly from our analysis, however, based on changes in the timing and amount of commodity price fluctuations and our actual exposures.

The fair value of the sale contracts and certain purchase contracts that are classified as derivative instruments, is recorded as derivative assets or liabilities in the consolidated financial statements.

The derivative energy contracts are exposed to commodity price risk based on price changes in the forward energy market. Therefore, as the forward market prices change, so will the fair value of these

contracts. A hypothetical 10% change in the projected forward market prices of electricity supply would increase or decrease the fair value of our derivative energy contracts by approximately \$13 million (including \$2 million related to our mark-to-market energy contracts) as of December 31, 2005 and approximately \$20 million (all mark-to-market energy contracts) as of December 31, 2004. The amounts related to our mark-to-market energy contracts would also result in an increase or decrease to purchased power expense.

As a result of fixed POLR prices for our residential and small commercial customers through December 31, 2007, and customers being able to initiate switches to and from POLR service, we have an additional risk of loss. Specifically, customers could opt for POLR service in a period of high energy prices or leave POLR service for an alternative generation supplier in a period of low energy prices. Significant changes in customer switching behavior could cause Duquesne Power's energy supply portfolio to be disproportionate to its full requirements obligations to Duquesne Light and DLE. Accordingly, Duquesne Power could be required to purchase or sell power in periods of high or low prices which could result in a loss.

During the third quarter of 2005, one alternative supplier notified Duquesne Light that their customers would be returning to POLR service beginning in the fourth quarter of 2005. Had these customers been served under the POLR arrangement during 2005, the POLR retention for residential and small commercial customers would have increased approximately one percentage point. Now that these customers have returned to POLR service, one alternative supplier serves essentially all of the residential customers that are not currently on POLR service. This supplier recently announced a significant increase in its rates. Should all of these residential customers return to POLR service, the POLR retention for residential and small commercial customers would increase approximately ten percentage points.

Landfill Gas Sales. Revenues from our pipeline quality landfill gas operations are based on current market prices of natural gas as calculated by the terms of the individual contracts. Recent increases in natural gas prices over historical levels have resulted in the realization of increased profits from this line of business. In order to mitigate this exposure to fluctuations in market prices of natural gas, during 2005 we entered into a cash flow hedge for a portion of our anticipated 2006 sales. For the remaining anticipated 2006 sales, a hypothetical 10% change in

the projected forward market prices of natural gas in our valuation model would not materially change projected revenues from pipeline quality landfill gas for 2006. The forward market prices used in our valuation model are derived from quoted market prices for the applicable pricing points. Actual costs in the future may differ significantly from our analysis, however, based on changes in the timing and amount of commodity price fluctuations and our actual exposures.

Credit/Default Risk.

Our credit risk is the exposure to the possibility of economic loss that would occur as a result of nonperformance by counter-parties of their contractual obligations.

Duquesne Power has entered into fixed-price energy contracts and unforced capacity credit agreements. As of December 31, 2005 all of the suppliers are investment grade.

As of December 31, 2005, Duquesne Power has contracted to purchase from one supplier approximately 37% and 33% of the notional values of the energy commodity contracts for the years ended December 31, 2006 and 2007. Duquesne Power has also contracted to purchase from one additional supplier approximately 27% of the notional value of the energy commodity contracts for 2007. No other supplier represents as much as 20% for each of the respective years.

Duquesne Power's energy commodity contracts contain certain provisions designed to mitigate potential losses by requiring collateral to be posted by either party depending on changes in energy or capacity prices. As of January 31, 2006, no collateral was required to be posted under these contracts.

Duquesne Light purchases energy and capacity, beginning January 1, 2005, under a full-requirements contract from two investment grade suppliers for sale to its large commercial and industrial customers receiving fixed-price POLR III service. Duquesne Light's contracts only require collateral to be posted by the counter-party. As of January 31, 2006, no collateral was required to be posted under these contracts.

In addition to collateral postings, supplier default risk is further mitigated by accelerated damage payment terms. If a supplier fails to deliver the contracted power, we may exercise our right to force the supplier to compensate us for the difference between the market price and the contracted price of power. If such supplier would fail to make the accelerated damage payments, the supplier would be in default and we would be permitted to apply any

funds due that supplier against our excess energy costs.

Other than large commercial and industrial POLR III customers on hourly-priced service, Duquesne Light is obligated to serve its POLR III customers at fixed rates. Duquesne Power is also contractually obligated to serve its customers, Duquesne Light and DLE, at fixed rates. If an energy supplier to Duquesne Light or Duquesne Power were to default on its contract, we could potentially be acquiring energy and/or capacity at a cost in excess of our revenues, resulting in a loss, if the collateral provisions were not sufficient to cover such excess.

If this would occur it is uncertain, under the current PUC-approved POLR III arrangement, that Duquesne Light could pass any additional costs related to these energy and capacity purchases on to its customers.

Tax Credit Phase-Out.

Section 29 tax credits are subject to a phase-out provision that reduces tax credits as the average annual wellhead price per barrel of domestic crude oil increases into an inflation-adjusted phase-out range.

The 2005 phase-out range will be calculated using inflation rates published in 2006 by the IRS, but based on the average wellhead price to date we do not anticipate that there will be a phase-out of tax credits in 2005. There was no phase-out in 2004.

If domestic crude oil prices stay at a high level in 2006 and/or 2007, the estimated annual tax credits to be generated from DQE Financial's landfill gas operations and investment in a synthetic fuel partnership of approximately \$18 million, as well as Duquesne Energy Solutions' estimated annual after-tax earnings of approximately \$20 million from its synthetic fuel facilities management contract may be substantially reduced or eliminated. However, due to significant levels of tax credit carry-forwards existing at Holdings, the potential phase-out of DQE Financial's tax credits in 2006 and 2007 would not adversely impact our cash flow in those years. Based upon our evaluation, we have thus far determined not to enter into hedging arrangements to reduce this potential exposure.

In addition, as of December 31, 2005, we have certain tangible and intangible assets related to DQE Financial's landfill gas operations with a net book value of approximately \$5.4 million that may become impaired if domestic crude oil prices continue to increase in the future. As of December 31, 2005, we have no net book value related to synthetic fuel assets or investments.

Item 8. Consolidated Financial Statements and Supplementary Data.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Duquesne Light Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Duquesne Light Holdings, Inc. and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, common shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Duquesne Light Holdings, Inc. and subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 6, 2006

To the Board of Directors and Shareholder of
Duquesne Light Company:

We have audited the accompanying consolidated balance sheets of Duquesne Light Company and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, common shareholder's equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Duquesne Light Company and subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 6, 2006

Duquesne Light Holdings, Inc.
Consolidated Statements of Income

(All Amounts in Millions,
Except Per Share Amounts)
Year Ended December 31,

	2005	2004	2003
Operating Revenues:			
Retail sales of electricity	\$ 772.6	\$ 761.8	\$ 780.8
Other	149.6	135.5	122.0
Total Operating Revenues	922.2	897.3	902.8
Operating Expenses:			
Purchased power	366.8	382.0	393.7
Other operating and maintenance	250.1	224.4	221.8
Acquisition termination cost (Note 3)	—	8.3	—
Depreciation and amortization	82.3	83.4	87.3
Taxes other than income taxes	54.0	48.5	49.1
Other (Note 3)	(9.3)	—	—
Total Operating Expenses	743.9	746.6	751.9
Operating Income	178.3	150.7	150.9
Investment and Other Income	40.1	12.7	34.4
Interest and Other Charges	(62.6)	(63.0)	(74.4)
Income from Continuing Operations Before Income Taxes and Limited Partners' Interest	155.8	100.4	110.9
Income Tax Expense	(53.0)	(20.6)	(17.7)
Benefit from Limited Partners' Interest	10.1	7.4	—
Income from Continuing Operations	112.9	87.2	93.2
Income (Loss) from Discontinued Operations – Net (Note 17)	1.3	(0.2)	82.7
Net Income	114.2	87.0	175.9
Dividends on Preferred Stock (Note 15)	—	—	0.4
Earnings Available for Common Stock	\$ 114.2	\$ 87.0	\$ 175.5
Average Number of Common Shares Outstanding	77.7	76.4	75.0
Basic Earnings Per Share of Common Stock:			
Earnings from Continuing Operations	\$ 1.45	\$ 1.14	\$ 1.24
Earnings from Discontinued Operations	0.02	—	1.10
Basic Earnings Per Share of Common Stock	\$ 1.47	\$ 1.14	\$ 2.34
Diluted Earnings Per Share of Common Stock:			
Earnings from Continuing Operations	\$ 1.45	\$ 1.14	\$ 1.22
Earnings from Discontinued Operations	0.02	—	1.07
Diluted Earnings Per Share of Common Stock	\$ 1.47	\$ 1.14	\$ 2.29
Dividends Declared Per Share of Common Stock	\$ 1.00	\$ 1.00	\$ 1.00

See notes to consolidated financial statements.

Duquesne Light Holdings, Inc.
Consolidated Balance Sheets

(Millions of Dollars)
As of December 31,

Assets	2005	2004
Current Assets:		
Cash and temporary cash investments	\$ 79.2	\$ 62.7
Receivables:		
Electric customers	76.2	75.8
Unbilled electric customers	32.1	31.3
Other	27.1	26.5
Less: Allowance for uncollectible accounts	(21.1)	(18.1)
Total Receivables – Net	114.3	115.5
Materials and supplies (at average cost)	18.1	14.6
Derivative instruments	43.3	0.8
Deferred income taxes - net	28.9	—
Other	8.4	27.2
Discontinued operations	1.7	—
Total Current Assets	293.9	220.8
Long-Term Investments:		
Leases	505.8	512.1
Gas rights and related investments	9.9	16.9
Affordable housing	31.5	42.9
Other	2.7	8.0
Total Long-Term Investments	549.9	579.9
Property, Plant and Equipment:		
Electric plant in service	2,176.7	2,052.9
Construction work in progress – electric	59.1	67.9
Fiber optic network	32.9	30.1
Other energy facilities	21.1	28.3
Landfill gas equipment	19.0	22.2
Other	6.8	9.0
Gross property plant and equipment	2,315.6	2,210.4
Less: Accumulated depreciation and amortization	(773.5)	(751.0)
Property, Plant and Equipment – Net	1,542.1	1,459.4
Other Non-Current Assets:		
Regulatory assets	300.0	295.1
Prepaid pension cost	31.2	26.1
Intangible assets	52.4	16.3
Other	51.1	35.2
Total Other Non-Current Assets	434.7	372.7
Total Assets	\$ 2,820.6	\$ 2,632.8

See notes to consolidated financial statements.

Duquesne Light Holdings, Inc.
Consolidated Balance Sheets

(Millions of Dollars)
As of December 31,

Liabilities and Capitalization	2005	2004
Current Liabilities:		
Short-term debt and current debt maturities	\$ 40.3	\$ 0.2
Accounts payable	93.0	91.7
Accrued taxes	64.6	33.8
Accrued compensation	20.0	18.1
Common stock dividends	20.0	19.5
Pension liability	20.0	—
Accrued interest	15.9	9.8
Other	42.2	33.7
Discontinued operations	2.5	3.4
Total Current Liabilities	318.5	210.2
Non-Current Liabilities:		
Deferred income taxes – net	451.4	408.2
Deferred income	2.8	12.3
Pension liability	92.8	62.9
Other postretirement benefits	40.7	38.1
Legacy liabilities	29.8	32.1
Other	88.0	105.7
Total Non-Current Liabilities	705.5	659.3
Limited partners' interest	35.4	48.0
Commitments and contingencies (Note 13)		
Capitalization:		
Long-term debt	957.8	958.0
Preferred and Preference Stock: (aggregate involuntary liquidation value of \$149.8 and \$151.0):		
Preferred stock of subsidiaries	136.6	136.6
Preference stock of subsidiaries	13.3	14.5
Total preferred and preference stock before deferred employee stock ownership plan (ESOP) benefit	149.9	151.1
Deferred ESOP benefit	(2.4)	(4.2)
Total Preferred and Preference Stock	147.5	146.9
Common Shareholders' Equity:		
Common stock – no par value (authorized – 187,500,000 shares; issued – 126,929,154 shares)	1,200.5	1,206.7
Retained earnings	600.0	563.6
Treasury stock (at cost) (48,935,435 and 49,927,343 shares)	(1,132.5)	(1,157.3)
Unearned compensation (Note 12)	(1.8)	(2.6)
Accumulated other comprehensive loss	(10.3)	—
Total Common Shareholders' Equity	655.9	610.4
Total Capitalization	1,761.2	1,715.3
Total Liabilities and Capitalization	\$ 2,820.6	\$ 2,632.8

See notes to consolidated financial statements.

Duquesne Light Holdings, Inc.
Consolidated Statements of Cash Flows

(Millions of Dollars)
 Year Ended December 31,

	2005	2004	2003
Cash Flows From Operating Activities:			
Net income	\$114.2	\$ 87.0	\$ 175.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	82.3	83.4	87.3
Bad debt expense	19.3	12.0	10.8
Derivative instruments	(8.8)	—	—
Impairment of long-lived assets	3.9	—	—
Acquisition termination cost	—	8.3	—
Capital lease and investment amortization	4.2	8.0	13.0
Investment income	(6.2)	(8.2)	(20.8)
Gain on disposition of investments/assets	(37.5)	—	(12.1)
Deferred taxes	17.4	9.2	(134.0)
Pension contribution	(32.1)	—	—
Other	(18.4)	(7.0)	(8.7)
Changes in working capital other than cash (Note 19)	(16.0)	(9.0)	(11.9)
Discontinued operations	(2.6)	(5.4)	(24.6)
Net Cash Provided from Operating Activities	119.7	178.3	74.9
Cash Flows From Investing Activities:			
Proceeds from disposition of investments/assets	61.0	13.3	21.4
Long-term investments	(1.9)	(0.2)	(3.7)
Acquisitions	—	(8.4)	—
Capital expenditures	(135.9)	(86.4)	(78.0)
Other	(0.1)	(5.0)	6.4
Discontinued operations	1.0	(12.9)	194.9
Net Cash (Used in) Provided from Investing Activities	(75.9)	(99.6)	141.0
Cash Flows From Financing Activities:			
Issuance of long-term debt obligations	320.0	200.0	—
Reductions of long-term debt obligations	(320.1)	(254.5)	(204.8)
Issuance of preferred stock	—	73.1	—
Revolving credit facility borrowings, net	40.0	—	—
Dividends on common and preferred stock (Note 16)	(67.1)	(66.0)	(64.4)
Repurchase of common and preferred stock	—	(0.9)	(6.0)
Other	(0.1)	6.7	(0.6)
Discontinued operations	—	(8.2)	(0.2)
Net Cash Used in Financing Activities	(27.3)	(49.8)	(276.0)
Net increase (decrease) in cash and temporary cash investments	16.5	28.9	(60.1)
Cash and temporary cash investments at beginning of year	62.7	33.8	93.9
Cash and temporary cash investments at end of year	\$ 79.2	\$ 62.7	\$ 33.8
Supplemental Cash Flow Information			
Cash paid during the year:			
Interest (net of amount capitalized)	\$ 44.2	\$ 46.0	\$ 67.7
Income taxes paid (refunded)	\$ 34.7	\$ (5.6)	\$ 86.1

See notes to consolidated financial statements.

Duquesne Light Holdings, Inc.
Consolidated Statements of Comprehensive Income

(Millions of Dollars)
Year Ended December 31,

	2005	2004	2003
Net income	\$ 114.2	\$ 87.0	\$ 175.9
Other comprehensive loss:			
Unrealized holding losses on securities, net of tax of \$—, \$— and \$(0.3)	—	—	(0.4)
Unrealized holding gains on interest rate hedging instruments, net of tax of \$3.0, \$— and \$—	4.2	—	—
Unrealized holding gains on cash flow hedging instruments, net of tax of \$6.4, \$— and \$—	9.1	—	—
Minimum pension liability adjustment, net of tax of \$(16.8), \$— and \$—	(23.6)	—	—
Other comprehensive loss	(10.3)	—	(0.4)
Reclassification adjustment for holding loss, net of tax	—	—	0.7
Comprehensive income	\$ 103.9	\$ 87.0	\$ 176.2

See notes to consolidated financial statements.

Duquesne Light Holdings, Inc.
Consolidated Statements of Common Shareholders' Equity

	Common Stock	Retained Earnings	Treasury Stock	Unearned Compensation	Accumulated Other Comprehensive Income	Total
Balances at December 31, 2002	\$1,219.1	\$452.9	\$(1,219.1)	\$ —	\$(0.3)	\$452.6
Net Income	—	175.9	—	—	—	175.9
Dividends on common stock (\$1/share)	—	(75.0)	—	—	—	(75.0)
Issuance of treasury stock	(10.4)	—	29.4	(3.4)	—	15.6
Other comprehensive income	—	—	—	—	0.3	0.3
Deferred incentive payments	1.5	—	—	—	—	1.5
Other	5.2	(0.7)	—	—	—	4.5
Balances at December 31, 2003	\$1,215.4	\$553.1	\$(1,189.7)	\$(3.4)	\$ —	\$575.4
Net Income	—	87.0	—	—	—	87.0
Dividends on common stock (\$1/share)	—	(76.5)	—	—	—	(76.5)
Issuance of treasury stock	(6.8)	—	32.4	0.8	—	26.4
Preferred stock issuance costs	(1.9)	—	—	—	—	(1.9)
Balances at December 31, 2004	\$1,206.7	\$563.6	\$(1,157.3)	\$(2.6)	\$ —	\$610.4
Net Income	—	114.2	—	—	—	114.2
Dividends on common stock (\$1/share)	—	(77.7)	—	—	—	(77.7)
Issuance of treasury stock	(6.4)	—	24.4	0.8	—	18.8
Other comprehensive loss	—	—	—	—	(10.3)	(10.3)
Other	0.2	(0.1)	0.4	—	—	0.5
Balances at December 31, 2005	\$1,200.5	\$600.0	\$(1,132.5)	\$(1.8)	\$(10.3)	\$655.9

See notes to consolidated financial statements.

Duquesne Light Company
Consolidated Statements of Income

(Millions of Dollars)
Year Ended December 31,

	2005	2004	2003
Retail sales of electricity	\$ 723.2	\$ 761.8	\$ 780.8
Other	69.2	27.5	25.3
Total Operating Revenues	792.4	789.3	806.1
Operating Expenses:			
Purchased power	366.8	382.0	393.7
Other operating and maintenance	157.2	138.0	129.5
Acquisition termination cost (Note 3)	—	8.3	—
Depreciation and amortization	71.8	71.4	76.4
Taxes other than income taxes	49.3	47.9	51.4
Total Operating Expenses	645.1	647.6	651.0
Operating Income	147.3	141.7	155.1
Investment and Other Income	16.2	16.6	20.3
Interest and Other Charges	(48.0)	(46.2)	(54.1)
Company Obligated Mandatorily Redeemable Preferred Securities Dividend Requirements (Note 14)	—	—	(6.3)
Income Before Income Taxes	115.5	112.1	115.0
Income Tax Expense	42.5	44.3	45.4
Net Income	73.0	67.8	69.6
Dividends on Preferred and Preference Stock	8.0	6.6	3.2
Earnings Available for Common Stock	\$ 65.0	\$ 61.2	\$ 66.4

See notes to consolidated financial statements.

Duquesne Light Company
Consolidated Balance Sheets

(Millions of Dollars)
As of December 31,

Assets	2005	2004
Current Assets:		
Cash and temporary cash investments	\$ 76.1	\$ —
Investment in DQE Capital cash pool	—	135.8
Receivables:		
Electric customers	72.5	75.8
Unbilled electric customers	28.9	31.1
Other	9.9	10.1
Less: Allowance for uncollectible accounts	(20.8)	(17.9)
Total Receivables - Net	90.5	99.1
Affiliate Receivables:		
Loan receivable from parent	—	250.0
Other	3.3	1.8
Total Affiliate Receivables	3.3	251.8
Materials and supplies (at average cost)	18.1	14.6
Deferred income taxes - net	14.4	—
Other	6.7	7.0
Total Current Assets	209.1	508.3
Long-Term Investments:		
Investment in parent's common stock	19.7	22.8
Other investments	2.5	2.8
Total Long-Term Investments	22.2	25.6
Property, Plant and Equipment:		
Electric plant in service	2,176.7	2,052.9
Construction work in progress	59.1	67.9
Gross property, plant and equipment	2,235.8	2,120.8
Less: Accumulated depreciation and amortization	(738.5)	(714.5)
Property, Plant and Equipment - Net	1,497.3	1,406.3
Other Non-Current Assets:		
Regulatory assets	300.0	295.1
Prepaid pension cost	31.2	26.1
Pension intangible asset	42.7	5.8
Other	20.6	25.8
Total Other Non-Current Assets	394.5	352.8
Total Assets	\$2,123.1	\$2,293.0

See notes to consolidated financial statements.

Duquesne Light Company
Consolidated Balance Sheets

(Millions of Dollars)
As of December 31,

Liabilities and Capitalization	2005	2004
Current Liabilities:		
Accounts payable	\$ 46.8	\$ 85.7
Payable to affiliates	42.6	4.4
Pension liability	20.0	—
Accrued compensation	17.9	17.0
Accrued interest	9.3	9.6
Other	12.7	14.2
Total Current Liabilities	149.3	130.9
Non-Current Liabilities:		
Deferred income taxes – net	336.6	323.1
Pension liability	92.8	62.9
Other postretirement benefits	40.7	38.1
Legacy liabilities	29.8	32.1
Other	60.3	72.2
Total Non-Current Liabilities	560.2	528.4
Commitments and Contingencies (Note 13)		
Capitalization:		
Long-term debt	636.5	956.4
Preferred and Preference Stock:		
(aggregate involuntary liquidation value of \$148.8 and \$150.0):		
Non-redeemable preferred stock	135.6	135.6
Non-redeemable preference stock	13.3	14.5
Total preferred and preference stock before deferred ESOP benefit	148.9	150.1
Deferred ESOP benefit	(2.4)	(4.2)
Total Preferred and Preference Stock	146.5	145.9
Common Shareholder's Equity:		
Common stock (authorized – 90,000,000 shares; issued and outstanding – 10 shares)	—	—
Capital surplus	568.9	486.4
Retained earnings	88.2	46.0
Accumulated other comprehensive loss	(26.5)	(1.0)
Total Common Stockholder's Equity	630.6	531.4
Total Capitalization	1,413.6	1,633.7
Total Liabilities and Capitalization	\$2,123.1	\$2,293.0

See notes to consolidated financial statements.

Duquesne Light Company
Consolidated Statements of Cash Flows

(Millions of Dollars)
Year Ended December 31,

	2005	2004	2003
Cash Flows From Operating Activities:			
Net income	\$ 73.0	\$ 67.8	\$ 69.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	71.8	71.4	76.4
Bad debt expense	19.1	11.9	10.2
Derivative instruments	(16.1)	—	—
Acquisition termination cost	—	8.3	—
Deferred taxes	12.6	3.5	(27.0)
Pension contribution	(32.1)	—	—
Other	(8.0)	4.1	0.7
Changes in working capital other than cash (Note 19)	(38.4)	(54.8)	(52.1)
Net Cash Provided from Operating Activities	81.9	112.2	77.8
Cash Flows From Investing Activities:			
Construction expenditures	(132.2)	(83.5)	(76.1)
Investment in DQE Capital cash pool	135.8	(66.7)	276.8
Collection of loan to parent (Note 14)	250.0	—	—
Other	(1.6)	(7.3)	0.4
Net Cash Provided from (Used in) Investing Activities	252.0	(157.5)	201.1
Cash Flows From Financing Activities:			
Issuance of long-term debt obligations	—	200.0	—
Issuance of preferred stock, net	—	73.1	—
Reductions of long-term debt obligations	(320.1)	(150.0)	(202.8)
Net borrowings under affiliate demand note	7.8	—	—
Equity contributions from parent	82.5	—	—
Dividends on common and preferred stock	(28.4)	(76.9)	(72.8)
Other	0.4	(0.9)	(3.3)
Net Cash (Used in) Provided from Financing Activities	(257.8)	45.3	(278.9)
Net increase in cash and temporary cash investments	76.1	—	—
Cash and temporary cash investments at beginning of year	—	—	—
Cash and temporary cash investments at end of year	\$ 76.1	\$ —	\$ —
Supplemental Cash Flow Information			
Cash paid during the year:			
Interest (net of amount capitalized)	\$ 45.0	\$ 35.0	\$ 45.6
Income taxes (Note 18)	\$ 26.0	\$ 84.0	\$ 94.5

See notes to consolidated financial statements.

Duquesne Light Company
Consolidated Statements of Comprehensive Income

(Millions of Dollars)
Year Ended December 31,

	2005	2004	2003
Net income	\$ 73.0	\$ 67.8	\$ 69.6
Other comprehensive (loss) income:			
Unrealized holding gains on securities, net of tax of \$(1.2), \$0.2 and \$1.6	(1.9)	0.4	2.3
Unrealized holding gains on cash flow hedging instruments, net of tax of \$5.5, \$— and \$—	7.8	—	—
Minimum pension liability adjustment, net of tax of \$(16.8), \$— and \$—	(23.6)	—	—
Other comprehensive (loss) income	(17.7)	0.4	2.3
Comprehensive income	\$ 55.3	\$ 68.2	\$ 71.9

See notes to consolidated financial statements.

Duquesne Light Company
Consolidated Statement of Common Shareholder's Equity

	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2002	\$483.3	\$ 41.4	\$ (3.7)	\$521.0
Net Income	—	69.6	—	69.6
Dividends on common stock	—	(65.0)	—	(65.0)
Dividends on preferred and preference stock (See Note 15)	—	(3.2)	—	(3.2)
Other comprehensive income	—	—	2.3	2.3
Other	5.3	0.1	—	5.4
Balances at December 31, 2003	\$488.6	\$ 42.9	\$ (1.4)	\$530.1
Net Income	—	67.8	—	67.8
Dividends on common stock	—	(58.0)	—	(58.0)
Dividends on preferred and preference stock (See Note 15)	—	(6.6)	—	(6.6)
Other comprehensive income	—	—	0.4	0.4
Preferred stock issuance costs	(1.9)	—	—	(1.9)
Other	(0.3)	(0.1)	—	(0.4)
Balances at December 31, 2004	\$486.4	\$ 46.0	\$ (1.0)	\$531.4
Net Income	—	73.0	—	73.0
Dividends on common stock	—	(13.0)	—	(13.0)
Dividends on preferred and preference stock (See Note 15)	—	(8.0)	—	(8.0)
Transfer subsidiary to parent	—	(9.9)	(7.8)	(17.7)
Other comprehensive income	—	—	(17.7)	(17.7)
Equity contributions from parent	82.5	—	—	82.5
Other	—	0.1	—	0.1
Balances at December 31, 2005	\$568.9	\$ 88.2	\$ (26.5)	\$630.6

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following Notes present information on both Duquesne Light Holdings, Inc. (Holdings) and Duquesne Light Company (Duquesne Light). Information on Holdings and its subsidiaries (not including Duquesne Light and its subsidiaries) shall not be deemed to be included as part of Duquesne Light's Notes. Specifically, information on the Energy Solutions, Financial and Communications business segments, the all other category, and discontinued operations is not so included.

References in the Notes to "we," "us" and "our" are to Holdings and its subsidiaries, collectively.

1. Accounting Policies

CONSOLIDATION

Holdings is an energy services holding company. Our subsidiaries include those discussed below.

The consolidated financial statements of Holdings and Duquesne Light include their accounts and their wholly and majority owned subsidiaries. The equity method of accounting is used for 20% to 50% interests in other companies. Under the equity method, original investments are recorded at cost and adjusted by our share of undistributed earnings or losses of these companies. All material intercompany balances and transactions have been eliminated in the consolidation.

In addition, effective March 31, 2004, we consolidate variable interest entities for which we are the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, "Consolidation of Variable Interest Entities" (revised December 2003) (FIN 46R), regardless of the ownership percentage held by us.

Continuing Operations

Duquesne Light is an electric utility engaged in the supply (through its provider-of-last-resort service (POLR)), transmission and distribution of electric energy.

Duquesne Power, LLC (formerly Duquesne Power, L.P.), an unregulated subsidiary, maintains a portfolio of energy commodity contracts to provide full-requirements energy supply contracts for both (i) Duquesne Light's residential and small commercial POLR customers and (ii) Duquesne Light Energy, LLC's large commercial and industrial customers. These energy commodity contracts are with

unrelated parties and include payment guarantees from Holdings. This entity was a subsidiary of Duquesne Light until December 31, 2005, at which time ownership was transferred to another Holdings subsidiary. The transfer of Duquesne Power, at recorded book value, was completed to strategically align our unregulated businesses outside of Duquesne Light in order to provide flexibility to capitalize on future supply opportunities. The transfer will effectively eliminate the net income included in Duquesne Light's supply segment. The Holdings supply segment will not be affected by the realignment.

Duquesne Light Energy, LLC (DLE) is an unregulated, competitive, retail electric generation supplier that offers customized solutions tailored to meet its customers' specific electricity needs. DLE's primary focus is on the large commercial and industrial customer market segment in Duquesne Light's service territory.

Duquesne Energy Solutions, LLC (DES) is an energy facilities management company that provides energy outsourcing solutions including operation and maintenance of synthetic fuel and energy facilities. During 2005, DES sold three investments in on-site energy facility management projects.

DQE Financial Corp. owns, operates and maintains landfill gas collection and processing systems, and is an investment and portfolio management organization focused on structured finance and alternative energy investments.

DQE Communications, Inc. owns, operates and maintains a high-speed, fiber optic based metropolitan network, and leases dark fiber from the network to commercial, industrial and academic customers.

DQE Capital Corporation provides financing to Holdings for use with its affiliates.

Discontinued Operations

During 2003, AquaSource, Inc. (formerly our water resource management subsidiary) completed the sale of its assets, pursuant to agreements entered into in 2002. We sold the propane distribution business of our subsidiary, Pro Am, Inc. in December 2002. (See Note 17.)

BASIS OF ACCOUNTING

Holdings and Duquesne Light are subject to the accounting and reporting requirements of the Securities and Exchange Commission (SEC). Duquesne Light's electricity delivery business is also subject to regulation by the Pennsylvania Public Utility Commission (PUC) and the Federal Energy

Regulatory Commission (FERC) with respect to rates for delivery of electric power, accounting and other matters.

As a result of Duquesne Light's PUC-approved restructuring plan in 1998, the electricity supply segment does not meet the criteria of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Pursuant to the PUC's final restructuring order, and as provided in the Pennsylvania Electricity Generation Customer Choice and Competition Act (Customer Choice Act), generation-related transition costs were being recovered through a competitive transition charge (CTC) collected in connection with providing transmission and distribution services. This collection period ended in the third quarter of 2005 when the remaining CTC balance was collected from the last customer class. 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 Note 2.)

Regulatory Assets as of December 31,

	(Millions of Dollars)	
	2005	2004
Regulatory tax receivables	\$224.7	\$218.5
Unamortized debt costs	48.8	49.3
Transition costs	—	4.7
Deferred employee costs	11.5	11.3
SECA charges (a)	6.4	—
Other	8.6	11.3
Total	\$300.0	\$295.1

(a) Seams elimination charge adjustment

The majority of these assets are currently being recovered over a period of approximately 30 years and are not earning a rate of return.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions with respect to values and conditions 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. Management evaluates these estimates on an ongoing basis, using historical experience and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from these estimates.

CUSTOMER CONCENTRATIONS

Duquesne Light's electric utility operations provide service to approximately 587,000 direct customers in southwestern Pennsylvania (including in the City of Pittsburgh), a territory of approximately 800 square miles.

DES relies on a single customer, who owns several synthetic fuel facilities for substantially all of its revenues and earnings.

REVENUES FROM UTILITY SALES

Duquesne Light's meters are read monthly, and electric utility customers are billed on the same basis. Revenues reflect actual customer usage in an accounting period, regardless of when billed.

Electricity sales revenue includes related excise and other taxes, primarily gross receipts taxes, that are collected from ratepayers and remitted to the appropriate taxing agency. These taxes are recorded in a taxes payable account at the time of sale and as an expense in taxes other than income taxes. The payable is relieved when payment is made to the appropriate taxing agency. The excise and other taxes recorded in Holdings revenue were approximately \$42 million, \$42 million and \$43 million in 2005, 2004 and 2003 and \$39 million, \$42 million and \$43 million at Duquesne Light for the same period.

OTHER OPERATING REVENUES

Duquesne Light's other operating revenues include rental fees from third parties who have cable or other equipment attached to its utility poles and transmission towers, or who have cable included in its underground ducts. Also included are transmission fees charged to others that use Duquesne Light's transmission system and late payment and other customer fees. Duquesne Light's other operating revenues also include short-term sales to other utilities made at market rates resulting from excess daily deliveries to Duquesne Light's electricity delivery system, and in 2005, sales of electricity from Duquesne Power to Duquesne Light Energy under its full requirements contract, which are eliminated in consolidation at Holdings.

Holdings' other operating revenues also include revenues from the sale of landfill gas and landfill gas site related services, revenues from facility

management services for synthetic fuel, industrial and airport customers and revenues from the rental of dark fiber from our fiber optic based network.

OTHER INCOME

Duquesne Light's other income consists primarily of interest income from the loan receivable from Holdings, until its repayment in the third quarter of 2005, and the investment in the DQE Capital cash pool (discussed below) until November 2005. This interest income is eliminated in the consolidated statements of income of Holdings with the associated interest expense of Holdings and DQE Capital. Gains or losses resulting from the disposition of certain assets are also included here.

Holdings other income consists primarily of income from long-term investments, and various other gains or losses, including gains and losses related to the disposition of certain assets. On March 31, 2004, we adopted FIN 46R and began consolidating seven low-income housing development guarantee funds, in which we own a 1% general partner interest. Beginning April 1, 2004, the results of these seven funds are included in our consolidated results and are reflected as a decrease in other income offset by the benefit from limited partners' interest.

STOCK-BASED COMPENSATION

We continue to account for stock-based employee compensation using the intrinsic value method under the recognition and measurement principles of Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation cost is measured as the excess, if any, of the quoted market price of Holdings common stock at the date of the grant over the amount an employee must pay to acquire the stock and is spread over the vesting period, as applicable. For stock-based compensation with specified performance criteria, compensation cost is generally recognized as the excess, if any, of the quoted market price of Holdings common stock at the date the specified criteria are met, over the amount an employee must pay to acquire the stock, and is spread over the vesting period, as applicable. The following tables illustrate the effect on reported income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as required under SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123."

Duquesne Light Holdings

(Millions of Dollars, Except Per Share Amounts)

	Year Ended December 31,		
	2005	2004	2003
Reported net income	\$114.2	\$ 87.0	\$175.9
Add:			
Stock-based compensation determined under the intrinsic value method for all option awards, net of tax	0.9	1.1	0.6
Deduct:			
Stock-based compensation determined under the fair value method for all option awards, net of tax	(2.2)	(0.9)	(0.5)
Pro forma net income	\$112.9	\$ 87.2	\$176.0
Basic earnings per share:			
Reported	\$1.47	\$1.14	\$2.34
Pro forma	\$1.45	\$1.14	\$2.34
Diluted earnings per share:			
Reported	\$1.47	\$1.14	\$2.29
Pro forma	\$1.45	\$1.14	\$2.30

Duquesne Light Company

(Millions of Dollars)

	Year Ended December 31,		
	2005	2004	2003
Reported net income	\$73.0	\$67.8	\$69.6
Add:			
Stock-based compensation determined under the intrinsic value method for all option awards, net of tax	0.3	0.4	0.2
Deduct:			
Stock-based compensation determined under the fair value method for all option awards, net of tax	(1.4)	(0.4)	(0.3)
Pro forma net income	\$71.9	\$67.8	\$69.5

DEPRECIATION AND AMORTIZATION

Depreciation expense of \$71.0 million, \$69.3 million and \$70.9 million was recorded at Holdings in 2005, 2004 and 2003. Depreciation expense of \$64.1 million, \$61.6 million and \$60.0 million was recorded at Duquesne Light in 2005, 2004 and 2003.

Depreciation of property, plant and equipment is recorded on a straight-line basis over the estimated remaining useful lives of properties, which is *approximately 30 years for both the transmission and distribution portions of electric plant in service.* Depreciation of other property, plant and equipment is recorded on a straight-line basis over the estimated useful lives of properties, which are between 3 and 30 years.

Amortization expense of \$11.3 million, \$14.1 million and \$16.4 million was recorded at Holdings in 2005, 2004 and 2003. Amortization expense of \$7.7 million, \$9.8 million and \$16.4 million was recorded at Duquesne Light in 2005, 2004 and 2003.

Amortization of gas rights and depreciation of related property is on a straight-line basis over the estimated remaining useful lives. Amortization of transition costs represents the difference between CTC revenues billed to customers (net of gross receipts tax) and the allowed 11% pre-tax return on the unrecovered net of tax transition cost balance.

Amortization expense of \$4.7 million, \$9.1 million and \$15.7 million was recorded at Duquesne Light related to the CTC in 2005, 2004 and 2003. SECA is amortized as it is billed to customers, with \$3.0 million of amortization recorded at Duquesne Light in 2005.

EARNINGS PER SHARE

Basic earnings per share are computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share are computed on the basis of the weighted average *number of common shares outstanding, plus the effect of the outstanding Employee Stock Ownership Plan shares, Holdings preferred stock, stock options and other types of stock-based compensation discussed in Note 12, unless the inclusion of these shares would be anti-dilutive.* 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 Holdings diluted earnings per share.

Holdings Diluted Earnings Per Share for the Year Ended December 31,

	(Millions of Dollars)		
	2005	2004	2003
Income from continuing operations	\$112.9	\$ 87.2	\$ 93.2
Less: Preferred dividends	—	—	0.4
Earnings from continuing operations for common stock	112.9	87.2	92.8
Dilutive effect of:			
ESOP dividends	1.1	1.2	1.4
Preferred stock dividends	—	0.4	0.8
Diluted Earnings from Continuing Operations for Common Stock	\$114.0	\$ 88.8	\$ 95.0

	(Millions of Shares)		
	2005	2004	2003
Basic average shares	77.7	76.4	75.0
Dilutive effect of:			
ESOP shares	0.8	0.8	1.2
Holdings preferred stock	—	0.5	1.4
Performance share awards and stock options	—	0.3	—
Diluted average shares	78.5	78.0	77.6
Diluted Earnings Per Share from Continuing Operations	\$1.45	\$1.14	\$1.22

Note: In 2005, 2004 and 2003, 0.2 million, 0.2 million and 1.4 million options are not included because the exercise price of these options exceeds the average stock price.

TEMPORARY CASH INVESTMENTS

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

DQE CAPITAL CASH POOL

As of December 31, 2005, Holdings and its subsidiaries, excluding Duquesne Light, participate in a cash pool arrangement with their affiliate DQE Capital. Through this arrangement, available cash is deposited with DQE Capital and interest is earned daily at a market rate. DQE Capital from time to time lends funds from the pool, on a demand basis, to Holdings which, in turn, makes loans and/or capital contributions to its other subsidiaries to provide funds for capital expenditures, new investments or operating expenses. An investor in the pool is entitled

to withdraw its investment at any time, and, to the extent that sufficient cash is not then on deposit, DQE Capital would have to demand full or partial repayment by Holdings of the loan to it. In order to repay DQE Capital, Holdings may be required to borrow under its revolving credit facility. (See Note 8.) If the amount of the facility would be insufficient to satisfy this repayment, Holdings would be required to access the equity or debt markets. Until November 2005, Duquesne Light participated in the cash pool arrangement and its investment in the pool was shown on its consolidated balance sheets as investment in DQE Capital cash pool.

RECEIVABLES

Receivables on the consolidated balance sheets are comprised of outstanding billings for electric customers, other utilities, and amounts related to unbilled revenues. In addition, Duquesne Light has certain transactions with affiliates that give rise to receivables. (See Note 18.) At Holdings, receivables include the outstanding billings of our other business lines.

INVESTMENT IN HOLDINGS STOCK

As of December 31, 2005 and 2004, the fair market value of Duquesne Light's investment in Holdings common stock was \$19.7 million and \$22.8 million, and the cost of the investment was \$24.6 million in both years. This investment is eliminated in the consolidated balance sheets of Holdings with the related shares and cost reflected as treasury stock.

This investment was in a continuous unrealized loss position for more than 12 months as of December 31, 2005, with a total unrealized loss of \$4.9 million. If the unrealized loss is determined to be other than temporary, it will be written off and an impairment charge will be recognized on the statement of income.

PROPERTY, PLANT AND EQUIPMENT

The asset values of Duquesne Light's utility properties are stated at original construction cost, which includes labor costs, 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.

Substantially all of the electric utility properties are subject to the lien of Duquesne Light's first mortgage indenture.

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

GOODWILL AND INTANGIBLE ASSETS

We account for acquired goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill and intangible assets with indefinite useful lives not be amortized but, instead, be tested at least annually for impairment, and more frequently if certain indicators appear.

In November 2004, as a result of our purchase of the remaining 50% interest in Waste Energy Technology, LLC (WET), we allocated amounts to separately identifiable intangible assets for customer related intangibles and certain covenant not-to-compete contracts with estimated lives between 2 and 14 years. We also allocated amounts for goodwill and the WET trade name which have indefinite useful lives. (See Note 7.)

INCOME TAXES

In accordance with SFAS No. 109, "Accounting for Income Taxes," Holdings and Duquesne Light use the liability method in computing deferred taxes on all differences between book and tax bases of assets and liabilities. 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. Valuation allowances are provided against deferred tax assets for amounts which are not considered "more likely than not" to be realized. Holdings' overall effective tax rate is significantly reduced by the income tax credits generated from our synthetic fuel, landfill gas and affordable housing investments.

We file a consolidated U.S. federal income tax return with our subsidiaries, all of whom participate in an intercompany tax sharing arrangement which generally provides that taxable income for each subsidiary be calculated as if it filed a separate return. The federal tax liability for Duquesne Light is reflected in payable to affiliates on its consolidated balance sheets. (See Note 18.)

Duquesne Light recognizes a regulatory asset for deferred tax liabilities that are expected to be recovered through rates. The difference in the provision for deferred income taxes related to depreciation of electric plant in service and the amount that otherwise would be recorded under generally accepted accounting principles is deferred and included in regulatory assets on the consolidated balance sheets.

PENSION AND OTHER POSTRETIREMENT BENEFITS

See Note 12 for a discussion of the accounting for pension and other postretirement benefits.

CONTINGENT LIABILITIES

Holdings and Duquesne Light establish reserves for estimated loss contingencies when it is management's assessment that a loss is probable and the amount can be reasonably estimated. Reserves for contingent liabilities are based upon management's assumptions and estimates, advice of legal counsel, or other third parties regarding the probable outcomes of the matter. Should additional information become known, or circumstances change with respect to the likelihood or amount of loss indicating that the ultimate outcome will differ from the estimates, revisions to the estimated reserves for contingent liabilities would be recognized in income in that period. Such contingent liabilities include, but are not limited to, restructuring liabilities (see Note 9), income tax matters (see Note 10), and other commitments and contingencies (see Note 13).

GUARANTEES

In the normal course of business, Holdings and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit and surety bonds. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended business

purposes. To determine if there is a liability, and its fair value, we use a probabilistic model to assess the possibilities of future payments under the indemnifications. We discount these future cash payments using estimated interest rate values and, if necessary, record a liability. (See Note 13.)

DERIVATIVE INSTRUMENTS

Holdings and Duquesne Light account for derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. Our derivative instruments consist of energy purchase and sale contracts, interest rate lock agreements and a natural gas price swap agreement. A Board-approved risk management policy permits transactions for the prudent management of market related risks, and precludes any speculative transactions. All derivative instruments that do not qualify for accrual accounting under the normal purchase and sale exemption are recorded at fair value as derivative assets and liabilities.

When a derivative instrument is entered into, management also determines if the derivative qualifies as either a cash flow hedge (a hedge of variable cash flows of a single transaction or a group of similar transactions) or as a fair value hedge (a hedge of the fair value of specific assets and liabilities or specific firm commitments), in accordance with SFAS No. 133. This process includes formally documenting (i) the hedging relationships and its risk-management objective and strategy for undertaking the hedge transactions, (ii) the hedging instrument, (iii) the hedged item or transaction, (iv) the nature of the risk being hedged, (v) how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and (vi) a description of the method of measuring ineffectiveness. Management also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows or fair values of hedged items.

Changes in the fair value of a derivative designated as a cash flow hedge that is determined to be highly effective are recorded in the statement of comprehensive income, net of tax, and are recognized in earnings as the hedged item affects income. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash flow hedge is recognized currently in earnings. Changes in the fair value of a derivative designated as a fair value hedge that is determined to be highly effective, along with the corresponding gain or loss

on the hedged item, are recognized currently in earnings.

When it is determined that a derivative has ceased to be a highly effective hedge, hedge accounting is discontinued prospectively. When hedge accounting is discontinued for cash flow hedges, the derivative asset or liability remains on the consolidated balance sheet at its fair value, and gains and losses that were in accumulated other comprehensive income are recognized in earnings as the hedge transactions affect income. When hedge accounting is discontinued for fair value hedges, the derivative asset or liability remains on the consolidated balance sheet at its fair value and the hedged asset or liability is no longer adjusted for changes in its fair value. (See Note 4).

DIVIDENDS

Holdings' practice has been for its subsidiaries to dividend their earnings on a quarterly basis, if cash is available. In addition, special dividends are declared periodically related to proceeds from asset sales and other special circumstances. During the years ended December 31, 2005, 2004 and 2003, Duquesne Light declared cash dividends on common stock of approximately \$13 million, \$58 million and \$65 million to Holdings. Duquesne Light also declared a \$17.7 million non-cash dividend to Holdings in 2005 related to the transfer of a subsidiary. During 2005 Duquesne Light embarked on a significant capital expenditure program, and therefore has been retaining more of its earnings than in prior years. (See Note 16.)

RECLASSIFICATION

The 2004 and 2003 consolidated financial statements have been reclassified to conform with the 2005 presentation.

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting for Conditional Asset Retirement Obligations

In December 2005, we adopted Financial Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143" (FIN 47), which clarifies that the term "conditional asset retirement obligation" refers to a legal obligation to perform an asset retirement activity. This interpretation also states that the fair value of a liability for the conditional asset obligation should be recognized when incurred. The initial adoption of FIN 47 was not material to our financial statements.

Share-Based Payments

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment (revised December 2004)," which will eliminate the use of APB No. 25. SFAS No. 123R requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. This standard is effective at the beginning of the first fiscal year that begins after June 15, 2005. The initial adoption of SFAS No. 123R was not material to our financial statements.

2. Rate Matters

Duquesne Light customers may choose to receive their electric energy from an alternative generation supplier; otherwise they will be served through Duquesne Light's POLR arrangements. Customers who select an alternative generation supplier pay for generation charges set by that supplier, and pay Duquesne Light both transmission and distribution charges.

COMPETITIVE TRANSITION CHARGE AND POLR I AND II

The POLR I arrangement began in early 2000 in conjunction with Duquesne Light's divestiture of its generation assets and was designed to be an income neutral arrangement. As of December 31, 2005, although the CTC has been fully collected, a few industrial customers under special contracts continue to receive electric generation through Duquesne Light's POLR I supply arrangement. Until December 31, 2004, POLR customers from whom the CTC had been fully collected received their generation supply through POLR II. Duquesne Light earned a margin per MWh supplied under POLR II.

In connection with POLR II, Duquesne Light accepted a rate freeze for generation, transmission and distribution rates. The rate freeze fixed generation rates for retail POLR II customers through December 31, 2004, and continued the transmission and distribution rates for all customers at then-current levels through 2003.

POLR III

Currently, most customers who do not choose an alternative generation supplier are served through Duquesne Light's POLR III plan, which became effective January 1, 2005. Under POLR III, residential and small commercial customers receive electric supply through December 31, 2007 at fixed rates

approximately 11.5% above POLR II generation rates. For our large commercial and industrial customers, the current POLR III supply options are either a fixed price service based upon the results of a competitive request-for-proposal process (available through May 31, 2006), or an hourly price service that passes through real-time spot market electricity prices. Duquesne Light receives an adder as compensation for costs and risks involved in providing energy to these customers. In January 2006, Duquesne Light requested and received approval from the PUC to extend the fixed-price service offering for an additional year. This offering will be subject to the results of another competitive wholesale request-for-proposal to be conducted.

There are certain safeguards in our POLR III arrangements and our energy commodity contracts designed to mitigate losses in the event that suppliers default on their performance under the arrangements. Contractually, both Duquesne Power and Duquesne Light have various credit enhancements to address market exposure, e.g., collateral may be required to be posted by their counterparties depending on changes in energy or capacity prices. In addition to collateral postings, supplier default risk is further mitigated by accelerated damage payment terms. If a supplier fails to deliver the contracted power, we may exercise our right to force the supplier to compensate us for the difference between the market price and the contracted price of power. If such supplier would fail to make the accelerated damage payments, the supplier would be in default and we would be permitted to apply any funds due that supplier against our excess energy costs.

Other than large commercial and industrial POLR III customers on hourly-priced service, Duquesne Light is obligated to serve its POLR III customers at fixed rates. Duquesne Power is also contractually obligated to serve its customers, Duquesne Light and DLE, at fixed rates. If an energy supplier to Duquesne Light or Duquesne Power were to default on its contract, we could potentially be acquiring energy and/or capacity at a cost in excess of our revenues, resulting in a loss, if the contractual provisions were not sufficient to cover such excess. If this were to occur it is uncertain, under the current PUC-approved POLR III arrangement, that Duquesne Light could pass any additional costs related to these energy and capacity purchases onto its customers.

Seams Elimination Charge Adjustment

Effective January 1, 2005, concurrent with the beginning of POLR III, Duquesne Light joined PJM,

becoming (along with other electric generation suppliers) a load-serving entity within PJM.

As previously reported, the FERC has issued a series of orders eliminating the regional through and out rates (RTOR) for certain transmission services between the Midwest Independent System Operator (MISO) and PJM effective December 1, 2004. A transitional pricing mechanism called SECA has been put in place through March 2006 in order to compensate transmission owners for the estimated revenue lost as a result of the elimination of the RTOR. Total SECA charges for the Duquesne Light zone are expected to be approximately \$39 million. The FERC has accepted revised compliance filings implementing SECA charges among load-serving entities within the Duquesne Light zone. Under that filing, Duquesne Light was allocated approximately \$11 million of the SECA charges. The other load-serving entities in the Duquesne Light zone were allocated the remainder of such charges. DLE's allocation of SECA charges will depend on the amount of load it serves; based on the December 31, 2005 load, DLE's allocation is expected to be approximately \$1.8 million.

The SECA charges must be paid by load-serving entities within the Duquesne Light zone on a current basis. In June 2005, Duquesne Light filed a request with the PUC for permission to pass SECA charges through to its POLR customers. This request was granted, subject to disposition of any complaints filed against the request, by the PUC in August 2005. Duquesne Light put these charges into effect for service beginning August 26, 2005. However, if the FERC ultimately adopts a SECA level and allocation method that differs from the proposed charges initially accepted by the FERC for billing purposes, refunds or surcharges will be used to compensate or charge the appropriate entity for the difference between the amounts initially accepted by the FERC and the amounts ultimately determined to be just and reasonable by the FERC. The final amount of our SECA obligations therefore remains uncertain.

Distribution Rate Case and Transmission Rate Case

As a regulated utility, Duquesne Light may only change its distribution rates or transmission rates by applying, through the rate case process, to the PUC or the FERC for approval. The goal of a rate case is to establish customer rates such that the utility (i) recovers its costs of providing the service, (ii) recovers its costs of investing in the transmission and/or distribution infrastructure, and (iii) earns a

reasonable and fair return on that investment. During a rate case, the utility must prove that its proposed rate increase is needed by showing its costs during a given test year. The utility's costs and expenditures are reviewed and challenged during this process. A rate case also considers a utility's rate of return on its investment, as well as its costs of financing, in order to derive its annual revenue requirement. The rates ultimately set are intended to give the utility a reasonable chance to achieve its revenue requirement.

Since customer choice was instituted in Pennsylvania in 1996, rate caps have prevented recovery of any new investment in transmission and distribution. The last Duquesne Light rate case involving transmission and distribution costs dates back to 1987. *Our transmission and distribution rate freeze expired at the end of 2003.*

3. Acquisitions and Dispositions

In September 2005, DQE Financial sold its investment in a leveraged lease involving a gas processing facility, received \$9.9 million in cash and recorded a pre-tax loss of \$1.3 million in other income on Holdings consolidated statement of income.

In August 2005, DES entered into agreements to sell its investments in up to six on-site energy facility management projects to DTE Energy Services for expected aggregate cash proceeds of between \$35 and \$40 million, subject to working capital adjustments. In 2005, DES closed on the sale of three of the energy facility management projects, received \$34.6 million in cash and the assumption by the buyer of certain lease related liabilities and recognized pre-tax gains of \$18.0 million in other income and \$13.2 million recorded as a reduction to other operating expenses on Holdings consolidated statement of income.

In October 2005, DES agreed to terminate the agreement to sell one of the six energy facility management projects entered into in August 2005. The termination of this agreement does not materially change the total expected proceeds resulting from these sales. Subsequent to the termination of the agreement, we determined based on future expected cash flows associated with the project that the fair value of the long-lived assets was less than the carrying value of the assets. Therefore, we have recorded a \$3.9 million impairment charge in other operating expenses on Holdings consolidated statement of income in 2005.

In October 2004, DQE Financial sold 50% of a limited partnership investment in a synthetic fuel partnership and received \$0.8 million in cash at closing and recognized a pre-tax gain in other income on Holdings consolidated statement of income. During 2005, DQE Financial received \$3.4 million in additional cash sales proceeds related to the sale, and has recognized an additional pre-tax gain in other income on Holdings consolidated statement of income. Additional sale proceeds may be received through December 2007, but are contingent upon the generation of qualified tax credits related to synthetic fuel production of the partnership.

In September 2004, DQE Financial sold an investment in a landfill gas operation; received \$2.9 million of cash at closing; and recognized a pre-tax loss of \$2.1 million in other income on Holdings consolidated statement of income. A portion of the sale was contingent upon a favorable ruling from the Internal Revenue Service (IRS) on the qualification of the tax credits to be generated. In August 2005, DQE Financial determined that no additional proceeds were to be received related to the contingent portion of this sale, and therefore recognized an additional pre-tax loss of \$3.1 million in other income on Holdings consolidated statement of income related to the basis in the assets that were subject to the contingent portion of the sale.

In January 2005, DQE Financial sold its investment in a natural gas operating partnership for \$12.7 million in cash and recognized a pre-tax gain of \$7.1 million in other income on Holdings consolidated statement of income.

In November 2004, DQE Financial acquired the remaining 50% membership interest in WET for \$8.4 million in cash (net of cash received of \$0.9 million). Prior to November 15, 2004, DQE Financial owned a 50% membership interest in WET with a net book value of \$9.0 million and accounted for the investment using the equity method of accounting. The results of operations for WET have been included in the consolidated financial statements since the acquisition date.

In November 2004, DQE Financial agreed to an early termination of a leveraged lease, received net proceeds of \$9.6 million and recorded a pre-tax gain of \$1.3 million in other income on Holdings consolidated statement of income.

In October 2003, Duquesne Power announced an agreement to purchase WPS Resources Corporation's (WPS) Sunbury generation station for approximately \$120 million. When the PUC ordered that the POLR III period would end December 31, 2007 (instead of 2010), Duquesne Power terminated

the Sunbury acquisition agreement on September 30, 2004, and recorded an \$8.3 million pre-tax (\$4.8 million after-tax) charge related to the write-off of deferred costs and deposits made.

In 2003, DQE Financial sold a limited partnership investment in a natural gas operating partnership for \$18.5 million and recognized a pre-tax gain of \$10.8 million in other income on Holdings consolidated statement of income. DQE Enterprises received \$2.5 million for the sale of stock in three publicly traded companies and recognized a pre-tax gain of \$1.0 million in other income on Holdings consolidated statement of income. Duquesne Light sold its 50% investment in a small mining operation for \$1.4 million (\$1.0 million of which was a note receivable), which resulted in a pre-tax gain of \$0.6 million recognized in other income on its consolidated statement of income.

4. Derivative Instruments

The following table summarizes the derivative assets, liabilities and related accumulated other comprehensive income (AOCI) that are included in the consolidated balance sheets for Holdings as of December 31, 2005, and for both Holdings and Duquesne Light as of December 31, 2004:

	December 31, 2005 (Millions of Dollars)		AOCI	
	Assets	Liabilities	AOCI, net	Expected to be Re- classified to Earnings in 2006
Mark-to-Market:				
Energy contracts	\$42.9	\$29.2		
Cash Flow Hedges:				
Energy contracts	15.8	—	\$ 7.8	\$5.4
Interest rate lock	—	—	4.2	0.2
Natural gas price swap	2.2	—	1.3	1.3
Total	\$60.9	\$29.2	\$13.3	\$6.9

	December 31, 2004 (Millions of Dollars)	
	Assets	Liabilities
Mark-to-Market:		
Energy contracts	\$0.8	\$0.7
Total	\$0.8	\$ 0.7

Energy Contracts

Duquesne Power is responsible for providing all of the energy requirements for both (i) residential and small commercial POLR customers and (ii) any customers with whom DLE contracts. To meet this obligation, Duquesne Power entered into energy commodity contracts with multiple investment-grade suppliers for a substantial portion of our expected customer requirements. These purchase contracts are designed to provide for the delivery of energy as needed to supply customer usage. The energy commodity contracts have primarily been structured to end by December 31, 2007.

The accounting for these contracts considers the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted. Under the terms of the contracts, some of the energy purchases are delivered to the Duquesne Light zone as defined by PJM. These purchases qualify for the normal purchase and sale exemption under SFAS No. 133 and are reflected as purchased power expense in the consolidated statements of income at their wholesale price upon delivery to us. As of December 31, 2005, the remaining notional value of these contracts was \$372.7 million.

We also entered into certain purchase contracts that are for delivery to points other than the Duquesne Light zone within PJM. Because these contracts are not settled at the Duquesne Light zone, they do not qualify for the normal purchase and sale exemption and are recorded in the consolidated financial statements at fair value. Subsequent changes in the fair value of these contracts are recorded currently in earnings unless certain hedge accounting criteria are met. The remaining notional amount of these contracts as of December 31, 2005, is \$405.3 million. This includes contracts with aggregate notional values of \$139.3 million that have been designated as cash flow hedges. To the extent the hedges are determined to be effective, and certain other criteria are met, the changes in the value of these contracts are included in the statement of comprehensive income, net of deferred taxes. Amounts recorded in the statement of comprehensive income related to cash flow hedges will be recognized in earnings as the related contracts are settled.

We entered into sales contracts maturing through 2007 that are accounted for on a mark-to-market basis. The remaining notional amount of these sales contracts was \$300.0 million as of December 31, 2005. These contracts were entered into primarily for

the purpose of offsetting volatility associated with the *mark-to-market accounting for the purchase contracts* maturing in 2006 and 2007, as described above. We record the revenue associated with our mark-to-market contracts on a net basis in purchased power expense in our consolidated statements of income.

The change in the net derivative assets, for contracts not accounted for as cash flow hedges, of \$13.6 million for the year ended December 31, 2005, has been recorded as an offset to purchased power expense in the consolidated statements of income for both Holdings and Duquesne Light. In addition, for the year ended December 31, 2005, a benefit of \$2.5 million related to hedge ineffectiveness of energy contracts has been recorded as an offset to purchased power expense in the consolidated statements of income for both Holdings and Duquesne Light.

Duquesne Power also contracted to secure unforced capacity credits for the POLR III period with notional amounts of \$21.4 million for 2006 and 2007. The capacity contracts were evaluated under SFAS No. 133 and deemed not to be derivative instruments.

Interest Rate Locks

In anticipation of the August 2005 issuance of \$320 million of senior unsecured debt, Holdings entered into a series of interest rate lock agreements during the second quarter of 2005 to hedge exposure to interest rate fluctuations for \$250 million of the senior unsecured debt. These agreements were designated as cash flow hedges under SFAS No. 133. Holdings settled the rate lock agreements in conjunction with the issuance of the debt and received \$7.4 million in cash, which will be recognized as a reduction of interest expense over the term of the debt. Holdings recognized a \$0.1 million reduction of interest expense related to the interest rate lock agreements in 2005.

On February 9, 2005, we entered into an interest-rate lock agreement for \$100 million of senior unsecured debt that we originally planned to issue in the first quarter of 2005. The interest-rate lock was designated as a cash flow hedge under SFAS No. 133. Changes in our cash requirements resulted in the postponement of the debt offering. On March 30, 2005, we unwound the interest-rate lock agreement, resulting in a \$4.0 million pre-tax gain that was recorded in other income on Holdings consolidated statements of income.

Natural Gas Price Swap

Revenues from our pipeline quality landfill gas operations are based on current market prices of natural gas as calculated by the terms of the individual contracts. In order to mitigate this exposure to fluctuations in market prices of natural gas, in December 2005, we entered into a price swap agreement which exchanges the floating price for a fixed price that has been designated as a cash flow hedge under SFAS No. 133, for a portion of our anticipated 2006 sales. No amounts related to hedge ineffectiveness have been recorded in the consolidated statements of income in 2005.

5. Long-Term Investments

DQE Financial participates in selected structured and leveraged lease transactions and maintains investments in landfill gas rights and equity investments in alternative fuel, natural gas reserve and affordable housing partnerships. Also, Duquesne Light holds an investment in Holdings stock. (See Note 1.)

Leases

As of December 31, 2005, we maintain investments in seven structured lease transactions involving a waste-to-energy facility, high-speed ferries and electric generating equipment. In September 2005, we sold our investment in a leveraged lease involving a gas processing facility. In November 2004, we had agreed to an early termination of an existing leveraged lease involving mining equipment. (See Note 3.) The remaining leases expire in various years beginning in 2029 through 2037. Holdings recognized \$5.8 million and \$5.9 million of pre-tax lease income, with associated tax expense of \$2.0 million and \$2.1 million, for the years ended December 31, 2005 and 2004, related to these leases. In 2003, we reached an agreement with the IRS regarding the tax treatment of our leases. (See Note 10.)

The aggregate structured lease investment represents approximately 20% of the total aggregate transaction. The remaining 80% was financed by non-recourse debt, which is substantially defeased. Equity in these transactions is protected by a combination of defeasance accounts, letters of credit and lessee guarantees.

Net Lease Investments as of December 31,

	(Millions of Dollars)	
	2005	2004
Rentals receivable – net	\$ 593.7	\$601.0
Estimated residual value	—	8.0
Less: Unearned Income	(87.9)	(96.9)
Lease investments	505.8	512.1
Less: Deferred taxes	(239.7)	(238.6)
Net Lease Investments	\$ 266.1	\$273.5

Gas Rights and Related Investments

Our gas rights and related investments represent investments in landfill gas rights at 20 landfills and limited partnership investments. The following table illustrates the net book values of these investments on Holdings consolidated balance sheets as of December 31, 2005 and 2004.

	(Millions of Dollars)	
	2005	2004
Landfill gas rights, net	\$ 9.1	\$ 12.3
Landfill gas equity investment	0.8	—
Natural gas equity investment	—	4.6
Total	\$ 9.9	\$ 16.9

Landfill gas rights are amortized on a straight-line basis over the estimated remaining useful life. Holdings recognized amortization expense of \$3.2 million, \$4.2 million and \$2.8 million for the years ended December 31, 2005, 2004 and 2003 related to the landfill gas rights.

We also own a limited partnership interest in a synthetic fuel operating partnership, with no book value as of December 31, 2005 and 2004.

Affordable Housing

Our affordable housing investments include equity investments in affordable housing guarantee funds.

6. Property, Plant and Equipment

Property, plant and equipment at Duquesne Light includes: (1) distribution poles and equipment; (2) lower voltage distribution wires used in delivering electricity to customers; (3) substations and transformers; (4) high voltage transmission wires used in delivering electricity to substations; (5) meters and automated meter reading assets; and (6) internal telecommunication equipment, vehicles and office equipment, primarily used in the electricity delivery business segment.

Property, plant and equipment at Holdings consists of energy facilities used in our Energy Solutions business segment, the fiber optic network used in our Communications business segment and landfill gas equipment used in our Financial business segment.

Neither the adoption, nor the continued application, of accounting standards related to asset retirement obligations had a material impact on our financial statements.

7. Intangible Assets

Pension

As a result of the recognition of an additional minimum pension liability in 2005 and 2004, we recorded a corresponding \$42.7 million and \$5.8 million intangible asset on both Holdings and Duquesne Light's consolidated balance sheets as of December 31, 2005 and 2004. If the required additional minimum pension liability changes in the future, the amount of the intangible asset will also change. (See Note 12.)

Purchased Intangibles

As a result of the purchase price allocation related to DQE Financial's purchase of WET in November 2004, a portion of the purchase price has been allocated to intangible assets with both definite and indefinite lives, including goodwill, on Holdings consolidated balance sheets as follows.

Purchased Intangibles as of December 31,

	(Millions of Dollars)	
	2005	2004
<i>Amortized intangible assets:</i>		
Contract intangibles	\$ 5.0	\$ 5.0
Less: Accumulated amortization	(0.5)	—
Net amortized intangible assets	4.5	5.0
<i>Goodwill and unamortized intangible assets:</i>		
Goodwill	4.6	4.9
Other	0.6	0.6
Net Purchased Intangibles	\$ 9.7	\$10.5

Intangible Assets Subject to Amortization. Intangible assets with definite lives are subject to amortization over their estimated useful lives. The assets included in this category are related to existing customer relationships for both construction and operations customers and covenants not-to-compete in the employment contracts with WET's key

executives. The weighted average useful life is approximately 13 years. The amortization expense related to these intangibles was \$0.5 million for the year ended December 31, 2005. Estimated aggregate amortization expense for each of the succeeding five years is \$0.4 million.

Goodwill and Indefinite Lived Intangible Assets.

Goodwill is the cost of an acquisition over the fair value of the net assets acquired. The other indefinite lived intangible asset relates to the WET trade name. These assets are not amortized, but are evaluated for impairment at least annually. During 2005, we finalized the purchase price allocation of WET, which resulted in the reduction of amounts classified as goodwill by \$0.3 million.

8. Short-Term Borrowing and Revolving Credit Arrangements

On January 31, 2006, Holdings and Duquesne Light amended their revolvers, increasing the borrowing capacity of each by \$50 million. Holdings' revolver capacity is now \$250 million and Duquesne Light's is now \$150 million. All other terms of the revolvers remain in effect.

Prior to July 27, 2005, Holdings and Duquesne Light maintained unsecured credit facilities (Prior Revolvers) expiring in September 2007, Holdings for \$175 million and Duquesne Light for \$100 million. On July 27, 2005, the Prior Revolvers were amended and extended to July 2010 (2005 Revolvers). Holdings 2005 Revolver was for \$200 million and Duquesne Light's 2005 Revolver was for \$100 million. Both 2005 Revolvers permit borrowings at interest rates of LIBOR (plus a margin of 0.40% to 1.00%) or an alternate base rate, as defined in the credit facilities. Both 2005 Revolvers have commitment fees applicable to the remaining available amount. Interest rates and commitment fees are based on the borrower's then-current senior unsecured credit rating. Both 2005 Revolvers are subject to cross-default if the borrower or any of its subsidiaries defaults on any payment due under any indebtedness exceeding \$50 million. Undrawn amounts under both 2005 Revolvers are fully available for the issuance of letters of credit.

Under our Prior Revolvers and 2005 Revolvers, we are subject to financial covenants requiring each of Holdings and Duquesne Light to maintain a debt-to-capitalization ratio of not more than 65%, as defined in the facilities. In addition, Holdings is required to maintain a minimum interest coverage ratio of 2-to-1, as defined in the facilities. As of

December 31, 2005, we were in compliance with the applicable covenants.

As of December 31, 2005, our total borrowing capacity under our 2005 Revolvers and the use of this borrowing capacity were as follows:

	Committed Capacity	Borrowed	LOCs Issued	Available Capacity
Holdings	\$200.0	\$ 40.0	\$ 71.4	\$ 88.6
Duquesne Light	100.0	—	8.2	91.8
Total	\$300.0	\$ 40.0	\$ 79.6	\$180.4

Holdings. As of December 31, 2005, we had \$40 million of short-term debt outstanding and \$0.3 million of current debt maturities. During 2005, the maximum amount of credit facility borrowings outstanding was \$50 million, the average daily borrowings were \$4.8 million and the weighted average daily interest rate was 4.2%. As of December 31, 2005, we had \$18.2 million of outstanding letters of credit (LOCs) unrelated to the credit facilities.

As of December 31, 2004, we had no short-term debt outstanding and \$0.2 million of current debt maturities. During 2004, the maximum amount of bank loans outstanding was \$120 million, the amount of average daily borrowings was \$18.6 million and the weighted average daily interest rate was 2.3%.

Duquesne Light. As of December 31, 2005, Duquesne Light had no short-term debt outstanding or current debt maturities. During 2005, there were no bank loans or short-term borrowings outstanding. As of December 31, 2005, we had \$12.7 million of outstanding LOCs unrelated to the credit facilities.

As of December 31, 2004, Duquesne Light had no short-term debt outstanding or current debt maturities. During 2004, the maximum amount of bank loans outstanding was \$120 million, the amount of average daily borrowings was \$18.6 million and the weighted average daily interest rate was 2.3%.

9. Restructuring Charges

In 2001, we recorded a pre-tax restructuring charge of \$27.9 million (including \$10.8 million at Duquesne Light) related to (1) the consolidation and reduction of certain administrative and back-office functions through an involuntary termination plan; (2) the abandonment of certain office facilities; and (3) the write-off of certain leasehold-improvements related to those office facilities. Approximately 170 employees (96 at Duquesne Light) were terminated in connection with this restructuring.

In 2002, we recorded a pre-tax restructuring charge of \$4.2 million (including \$3.7 million at Duquesne Light) related to further consolidation and centralization of certain administrative functions. The 2002 restructuring charge primarily included severance costs for 20 executive, management, professional and administrative personnel (14 at Duquesne Light), who were terminated in connection with this restructuring.

The following table summarizes the restructuring activities for the Holdings 2001 and 2002 restructuring plans.

Holdings Restructuring Liability

	(Millions of Dollars)		
	Employee Termination Benefits	Lease Costs	Total
Balance, December 31, 2002 (a)	\$ 8.3	\$ 4.8	\$13.1
Adjustments	0.6	(1.2)	(0.6)
Payments	(5.6)	(1.8)	(7.4)
Balance, December 31, 2003 (a)	3.3	1.8	5.1
Adjustments	(0.8)	0.7	(0.1)
Payments	(0.9)	(1.1)	(2.0)
Balance, December 31, 2004 (a)	1.6	1.4	3.0
Adjustments	(0.8)	(0.1)	(0.9)
Payments	(0.6)	(0.7)	(1.3)
Balance, December 31, 2005 (a)	\$ 0.2	\$ 0.6	\$ 0.8

(a) Excludes \$2.3 million, \$0.9 million, \$0.1 million and zero of restructuring liabilities as of December 31, 2002, 2003, 2004 and 2005 that are included in discontinued operations.

The Holdings \$0.8 million combined remaining restructuring liability as of December 31, 2005 is included in other current liabilities on the consolidated balance sheets. We believe that the remaining provision is adequate to complete the restructuring plan. We expect that the restructuring liability will be paid on a monthly basis through 2006.

The following table summarizes the restructuring activities for the Duquesne Light 2001 and 2002 restructuring plans.

Duquesne Light Restructuring Liability

	(Millions of Dollars)		
	Employee Termination Benefits	Lease Costs	Total
Balance, December 31, 2002	\$ 4.9	\$ 1.9	\$ 6.8
Adjustments	(0.2)	—	(0.2)
Payments	(3.0)	(0.3)	(3.3)
Balance, December 31, 2003	1.7	1.6	3.3
Adjustments	0.1	—	0.1
Payments	(0.6)	(0.3)	(0.9)
Balance, December 31, 2004	1.2	1.3	2.5
Adjustments	(0.4)	—	(0.4)
Payments	(0.6)	(0.7)	(1.3)
Balance, December 31, 2005	\$ 0.2	\$ 0.6	\$ 0.8

The Duquesne Light \$0.8 million combined remaining restructuring liability as of December 31, 2005 is included in other current liabilities on the consolidated balance sheets. Duquesne Light believes that the remaining provision is adequate to complete the restructuring plan and expects that the restructuring liability will be paid on a monthly basis through 2006.

10. Income Taxes

The IRS has audited all federal corporate tax returns for years through 1997 and these years are closed. In December 2003, we reached a settlement agreement with the IRS regarding DQE Financial's structured lease transactions and other similar investments that had been under review as a result of an IRS audit. The tax liability associated with the settlement was determined for the years 1994 through 1997. In addition, treatment of the structured lease transactions has been agreed to for all future years affected by the transactions. As a result of the confidential agreement, achieved through the IRS' fast track settlement program, we agreed to make additional cash payments for the tax years 1999 through 2002 of \$84.3 million, net of the \$12.4 million tax benefit associated with the interest due. We paid \$48.6 million in December 2003. There was no earnings impact in 2003 from this resolution. The balance, including interest, due to the IRS, of \$53.6 million and \$50.9 million as of December 31, 2005 and 2004 is included in accrued taxes on the Holdings consolidated balance sheets.

Section 29 of the Internal Revenue Code provides tax credits through 2007 for the production and sale of non-conventional fuels, including solid synthetic fuels and landfill gas. Holdings recognizes Section 29 credits from DQE Financial's landfill gas operations and an investment in a synthetic fuel partnership.

To qualify for the Section 29 tax credits from synthetic fuel, the synthetic fuel must meet three primary conditions: (i) there must be a significant chemical change in the coal feedstock, (ii) the product must be sold to an unaffiliated entity, and (iii) the production facility must have been placed in service before July 1, 1998. In recent years the synthetic fuel industry has been the focus of increased scrutiny by the IRS. Most recently the IRS has heightened its review of the "placed in service" dates of synthetic fuel plants, and some producers have indicated that the IRS has challenged whether their plants were placed in service by the required date in order to qualify for Section 29 tax credits.

The IRS is currently auditing the 1998 through 2002 tax years. During that period, one of our subsidiaries constructed and operated six synthetic fuel facilities, which were subsequently sold in the year 2000 to a third party. DES currently operates five of these six facilities under an agreement with the third party purchaser. In July 2005, the IRS issued a Notice of Proposed Adjustment in which it asserted that five of these six facilities were not placed in service by the required June 30, 1998 date and, therefore, the Section 29 tax credits for these five facilities should be disallowed. In February 2006, the IRS indicated in a letter to us, that upon further review, they have concluded that all six facilities were placed in service by the required June 30, 1998 date. Their letter also indicated that they would be withdrawing their Notice of Proposed Adjustment.

The synthetic fuel partnership that DQE Financial has invested in was audited by the IRS for the tax years 1998 through 2001. All of the relevant criteria for claiming the Section 29 credit from solid synthetic fuels has been accepted by the IRS.

During 2003, we sold the remainder of our investment in AquaSource. Due to this divestiture, capital losses were generated which were carried back against prior capital gains. In 2003, the results of discontinued operations reflect the tax benefit of approximately \$67 million resulting from the carryback claim.

Our state income tax returns are subject to review by the relevant taxing jurisdictions, Pennsylvania being the most significant. The Pennsylvania Department of Revenue has issued assessments of additional tax for 1999 through 2002 primarily to

include income of a Duquesne Light out of state subsidiary corporation in Pennsylvania taxable income. Although treatment of taxable income related to the out-of-state subsidiary remains in dispute, in January 2006, we reached a tentative settlement with the Pennsylvania Department of Revenue on all other matters disputed in our 1997 through 2003 tax returns. Pursuant to the terms of this agreement, Duquesne Light will withdraw refund claims in excess of assessments and pay an immaterial amount of cash. The result of this agreement reduces our total net exposure for the tax years at issue by approximately \$18 million. If, as expected, the Department asserts the same positions related to the out of state subsidiary for 2003 through 2005, Duquesne Light's total exposure for all years, without interest or penalty, could approximate \$78 million (net of associated federal benefit). Our cash flow exposure related to this issue should ultimately be reduced by approximately \$10 million due to refunds currently held by the state that could be applied against this issue. Ultimately, Duquesne Light expects all years involved to be appealed to and decided at the Pennsylvania Commonwealth Court.

It is not possible to predict if, when or to what extent any state income tax adjustments ultimately proposed for the period 1999 through 2005 will be sustained. Duquesne Light does not believe that the ultimate resolution of its state tax issue for this period will have a material adverse effect on its financial position or results of operation. However, the resolution, depending on the extent and timing thereof, could have a material adverse effect on cash flows for the period in which they are paid.

In connection with the above examinations, both Holdings and Duquesne Light have established tax reserves, which are included primarily in other current and non-current liabilities on the consolidated balance sheets. We believe these reserves are adequate in relation to the above matters. We regularly assess the likelihood of additional assessments resulting from these and subsequent years' examinations. Once established, reserves are adjusted only when there is more information available or when an event occurs that necessitates a change to the reserves.

Duquesne Light Holdings
Deferred Tax Assets (Liabilities) as of
December 31,

	(Millions of Dollars)	
	2005	2004
Restructuring charges and impairments	\$ 3.2	\$ 4.0
Tax credit carryforward (a)	121.1	118.3
Capital loss carryforward	17.5	17.5
Legacy liabilities	12.0	12.3
Pension and benefit costs	48.6	43.5
Other	32.6	26.0
Deferred tax assets	235.0	221.6
Property depreciation	(276.5)	(276.4)
Lease investments	(239.7)	(238.6)
Loss on reacquired debt unamortized	(19.2)	(15.6)
Regulatory assets	(93.0)	(90.7)
Derivative instruments	(16.2)	—
Other	(12.9)	(8.5)
Deferred tax liabilities	(657.5)	(629.8)
Net	\$ (422.5)	\$ (408.2)

(a) The 2005 amount includes \$57.5 million of general business tax credit carryforwards that expire in varying amounts between 2012 and 2025.

Income Tax Expense (Benefit)

	(Millions of Dollars)		
	Year Ended December 31,		
	2005	2004	2003
Current:			
Federal	\$ 26.6	\$ 4.1	\$ 142.8
State	9.0	7.3	8.9
Deferred:			
Federal	15.0	10.3	(132.9)
State	2.4	(1.1)	(1.1)
Income Taxes	\$ 53.0	\$ 20.6	\$ 17.7

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

	(Millions of Dollars)		
	Year Ended December 31,		
	2005	2004	2003
Computed federal income tax statutory rate (35%)	\$ 54.6	\$ 35.1	\$ 38.8
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal income tax benefits	8.3	4.7	5.2
Tax credits	(20.7)	(25.7)	(31.3)
Non-deductible expenses	2.8	2.2	2.5
Other	8.0	4.3	2.5
Total Income Tax Expense	\$ 53.0	\$ 20.6	\$ 17.7

Duquesne Light Company
Deferred Tax Assets (Liabilities) as of
December 31,

	(Millions of Dollars)	
	2005	2004
Pension and benefit costs	\$ 48.0	\$ 42.7
Legacy liabilities	12.0	12.3
Other	18.9	16.1
Deferred tax assets	78.9	71.1
Property depreciation	(281.2)	(281.0)
Loss on reacquired debt unamortized	(19.2)	(15.6)
Regulatory assets	(93.0)	(90.7)
Other	(7.7)	(6.9)
Deferred tax liabilities	(401.1)	(394.2)
Net	\$(322.2)	\$(323.1)

Income Tax Expense

	(Millions of Dollars)		
	Year Ended December 31,		
	2005	2004	2003
Current:			
Federal	\$ 23.9	\$ 33.8	\$ 63.3
State	6.0	7.0	9.1
Deferred:			
Federal	10.3	4.5	(26.4)
State	2.3	(1.0)	(0.6)
Income Taxes	\$ 42.5	\$ 44.3	\$ 45.4

Total income taxes differ from the amount computed by applying the statutory federal income tax rate to income before income taxes (after deducting dividends on preferred and preference stock), as set forth in the following table.

Income Tax Expense Reconciliation

	(Millions of Dollars)		
	Year Ended December 31,		
	2005	2004	2003
Computed federal income tax statutory rate (35%)	\$ 37.7	\$ 36.9	\$ 39.1
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal income tax benefits	6.3	4.5	5.6
Non-deductible expenses	2.8	2.2	1.1
Tax credits	(0.2)	(0.3)	(0.2)
Other	(4.1)	1.0	(0.2)
Total Income Tax Expense	\$ 42.5	\$ 44.3	\$ 45.4

11. Leases

We lease office buildings and other property and equipment.

Duquesne Light Holdings

Capital Leases as of December 31,

	(Millions of Dollars)	
	2005	2004
Electric plant	\$10.1	\$10.1
Less: Accumulated amortization	(8.8)	(8.3)
Capital Leases – Net	\$ 1.3	\$ 1.8

Summary of Rental Expense

	(Millions of Dollars)		
	Year Ended December 31,		
	2005	2004	2003
Operating leases	\$ 9.2	\$11.4	\$14.5
Amortization of capital leases	0.5	0.5	0.4
Interest on capital leases	0.2	0.2	1.1
Total Rental Expense	\$ 9.9	\$12.1	\$16.0

Future Minimum Lease Payments

Year Ended December 31,	(Millions of Dollars)	
	Operating Leases	Capital Leases
2006	\$ 5.1	\$ 0.7
2007	4.6	0.8
2008	4.6	—
2009	4.5	—
2010	4.1	—
2011 and thereafter	4.0	—
Total	\$26.9	\$ 1.5
Less: Amount representing interest		0.2
Present value		\$ 1.3

Duquesne Light Company

Capital Leases at December 31,

	(Millions of Dollars)	
	2005	2004
Electric plant	\$ 10.1	\$ 10.1
Less: Accumulated amortization	(8.8)	(8.3)
Capital Leases – Net	\$ 1.3	\$ 1.8

Summary of Rental Expense

	(Millions of Dollars)		
	Year Ended December 31,		
	2005	2004	2003
Operating leases	\$ 6.0	\$ 7.2	\$ 11.4
Amortization of capital leases	0.5	0.5	0.4
Interest on capital leases	0.2	0.2	1.1
Total Rental Expense	\$ 6.7	\$ 7.9	\$ 12.9

Future Minimum Lease Payments

Year Ended December 31,	(Millions of Dollars)	
	Operating Leases	Capital Leases
2006	\$ 4.6	\$ 0.7
2007	4.1	0.8
2008	4.0	—
2009	4.0	—
2010	3.6	—
2011 and thereafter	3.5	—
Total	\$23.8	\$ 1.5
Less: Amount representing interest		0.2
Present value		\$ 1.3

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

12. Employee Benefits

PENSION BENEFITS

We maintain several qualified retirement plans and one unqualified plan to provide pensions for all eligible full-time 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 (credited) to expense or construction were \$(0.4) million for 2005, \$2.3 million for 2004 and (\$2.0) million for 2003.

During 2005, we approved amendments to the pension plans which broadened the cash balance feature in the qualified plans, and updated the past service window period used in the calculation of pension benefits. These amendments caused an increase in the projected benefit obligation of \$10.6 million as of December 31, 2005. As of December 31, 2005, we changed our assumption regarding the age at which certain terminated vested participants would elect to receive benefits under our pension plans based on our expectation that our historical experience would continue. The result was an increase in the projected benefit obligation of approximately \$49 million.

In January 2005, Duquesne Light met its obligation, pursuant to the January 18, 2001 PUC order regarding Duquesne Light's final generation asset sale proceeds accounting, by contributing \$32.1 million to the pension plans. We made no cash contributions to our pension plans in 2004. In January

and February of 2006, Duquesne Light made aggregate discretionary contributions of \$20 million to the pension plans.

POSTRETIREMENT BENEFITS

In addition to pension benefits, we provide certain health care benefits and life insurance for some retired employees. The life insurance plan is non-contributory. Participating retirees make contributions, which may be adjusted annually, to the health care plan. Health care benefits terminate when retirees reach age 65. 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 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.

The health care trend assumption used in the development of the fiscal 2005 expense was 9.5%, decreasing each year to an ultimate rate of 4.75% (reached in 2015). The health care trend assumption reflected in the December 31, 2005, SFAS No. 106 year-end disclosure, which will also be used in the development of fiscal 2006 expense, is 9.5%, decreasing 0.75% per year to an ultimate rate of 4.75% (reached in 2013). A 0.95% spread between the discount rate (5.7% for 2006 expense) and the ultimate health care cost trend rate will be maintained.

We use a December 31 measurement date for all of our pension and postretirement plans. All of our plans for postretirement benefits, other than pensions, have no plan assets. The following tables apply to both Holdings and Duquesne Light, and provide a reconciliation of the changes in the pension and postretirement plans' benefit obligations and fair value of plan assets over the two-year period ended December 31, 2005, a statement of the funded status as of December 31, 2005 and 2004, and a summary of assumptions used in the measurement of our benefit obligations:

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

(Millions of Dollars)

	Pension		Postretirement	
	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 750.3	\$ 694.0	\$ 52.7	\$ 52.6
Service cost	8.9	8.1	1.4	1.1
Interest cost	42.6	42.2	3.4	3.0
Plan participants' contributions	—	—	0.5	0.5
Actuarial loss (gain)	62.4	43.5	(2.4)	(0.5)
Benefits paid	(38.4)	(37.5)	(4.7)	(4.0)
Plan amendments	10.6	—	—	—
Benefit obligation at end of year	836.4	750.3	50.9	52.7
Change in plan assets:				
Fair value of plan assets at beginning of year	715.8	679.0	—	—
Actual return on plan assets	50.3	74.3	—	—
Plan participants' contributions	—	—	0.5	0.5
Employer contributions	32.1	—	4.2	3.5
Benefits paid	(38.4)	(37.5)	(4.7)	(4.0)
Fair value of plan assets at end of year	759.8	715.8	—	—
Funded status	(76.6)	(34.5)	(50.9)	(52.7)
Unrecognized net actuarial loss (gain)	45.5	(21.9)	0.1	2.9
Unrecognized prior service cost	32.6	25.4	5.2	6.2
Unrecognized net transition obligation	—	—	4.9	5.5
Accrued benefit gain (cost)	\$ 1.5	\$ (31.0)	\$(40.7)	\$(38.1)

The following table summarizes the presentation of the accrued benefit cost related to the pension plans on the consolidated balance sheets of both Holdings and Duquesne Light as of December 31,

	(Millions of Dollars)	
	2005	2004
Prepaid pension cost	\$ 31.2	\$26.1
Pension intangible assets	42.7	5.8
Pension liability	(112.8)	(62.9)
Accumulated other comprehensive income	40.4	—
Accrued pension plans benefit gain (cost)	\$ 1.5	\$(31.0)

The accumulated benefit obligation for all defined benefit pension plans was \$810.0 million and \$719.8 million as of December 31, 2005, and 2004.

Information for Pension Plans with an Accumulated Benefit Obligation in Excess of Plan Assets as of December 31,

	(Millions of Dollars)	
	2005	2004
Projected benefit obligation	\$ 769.0	\$ 683.0
Accumulated benefit obligation	751.3	661.6
Fair value of plan assets	638.5	598.8

Weighted-Average Assumptions Used to Determine Projected Benefits Obligation as of December 31,

	Pension		Postretirement	
	2005	2004	2005	2004
Discount rate	5.70%	5.75%	5.70%	5.75%
Assumed change in compensation levels	4.00%	4.00%	—	—
Ultimate health care cost trend rate	—	—	4.75%	4.75%

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for the Years Ended December 31,

	Pension Benefits		Postretirement	
	2005	2004	2005	2004
Discount rate	5.75%	6.25%	5.75%	6.25%
Expected long-term return on plan assets	8.00%	8.00%	—	—
Rate of compensation increase	4.00%	4.00%	—	—
Ultimate health care costs trend rate	—	—	4.75%	5.00%

Components of Net Periodic Pension Cost for the Years Ended December 31,

	(Millions of Dollars)		
	2005	2004	2003
Service cost	\$ 8.9	\$ 8.1	\$ 6.8
Interest cost	42.6	42.2	41.6
Expected return on plan assets	(55.3)	(51.7)	(50.5)
Amortization of unrecognized net transition obligation	—	0.8	1.2
Amortization of prior service cost	3.4	3.4	2.6
Amortization of actuarial gain	—	(0.5)	(3.7)
Net periodic pension (gain) cost	\$ (0.4)	\$ 2.3	\$ (2.0)

Components of Net Periodic Postretirement Cost for the Years Ended December 31,

	(Millions of Dollars)		
	2005	2004	2003
Service cost	\$ 1.4	\$ 1.1	\$ 1.5
Interest cost	3.4	3.0	2.9
Amortization of unrecognized net transition obligation	0.7	0.7	0.7
Amortization of prior service cost	1.0	1.0	—
Amortization of net loss	0.4	—	—
Net periodic postretirement cost	\$ 6.9	\$ 5.8	\$ 5.1

Effect of a One Percent Change in Health Care Cost Trend Rates as of December 31, 2005

	(Millions 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	\$ 0.5	\$(0.4)
Effect on the health care component of the accumulated postretirement benefit obligation	3.5	(3.2)

Expected Rate of Return On Plan Assets and Investment Policy

We used an 8.00% expected long-term rate of return on plan assets in determining the 2005 net periodic benefit cost. We developed the long-term rate of return using a building block approach, taking into account the target asset class allocations contained in the table below as well as the investment management mix. Under this approach, current market factors such as inflation, interest rates, asset class risks and asset class returns are evaluated and considered before long-term capital market assumptions are determined. Long-term historical returns and relationships between the asset classes are reviewed to verify reasonability and appropriateness. The long-term rate of return is established through this building block approach with proper consideration of diversification to reduce volatility of expected return.

Asset Category	Target Investment Allocation
Equity securities	25% - 70%
Fixed income securities	25% - 55%
Real estate investments	0% - 15%
Other investments	0% - 10%

Pension Plan Assets

The pension plan weighted-average asset allocations by asset category are as follows:

Asset Category	Plan Assets as of December 31,	
	2005	2004
Equity securities	60.5%	57.2%
Fixed income securities	25.5%	30.8%
Real estate investments	11.4%	10.5%
Other investments	2.6%	1.5%
Total	100.0%	100.0%

Pension plan assets as of December 31, 2005 and 2004, do not include any common stock of either Holdings or Duquesne Light.

Expected Benefit Payments for Future Years

The following benefit payments (shown net of postretirement plan participants' contributions), which reflect expected future service as appropriate, are expected to be paid:

(Millions of Dollars)

Year	Pension	Postretirement
2006	\$ 39.7	\$ 3.4
2007	41.3	3.6
2008	43.4	3.8
2009	45.5	4.1
2010	48.7	4.5
2011 - 2015	293.1	25.3

RETIREMENT SAVINGS PLANS

There are separate 401(k) retirement savings plans for our management and IBEW-represented employees.

The Holdings 401(k) Retirement Savings Plan provides for employer contributions that vary by Holdings subsidiary. These contributions may include one or more of the following: a participant base match, a participant incentive match and automatic contributions. The incentive match was achieved in 2004 and 2003 but not in 2005. We are funding our automatic and matching contributions to this plan through an ESOP established in December 1991. (See Note 15.) Compensation costs charged to expense or construction related to the 401(k) plan were \$0.9 million, \$1.3 million and \$0.9 million in 2005, 2004 and 2003 at Holdings and \$0.7 million, \$1.2 million and \$0.5 million in 2005, 2004 and 2003 at Duquesne Light.

The Duquesne Light 401(k) Retirement Savings Plan for IBEW Represented Employees provides that Duquesne Light will match employee contributions with a base match and an additional incentive match (paid in Holdings common stock), if certain targets are met. The incentive match was achieved in 2004 and 2003 but not in 2005. Duquesne Light recognized compensation expense of \$0.4 million, \$1.0 million and \$0.3 million in 2005, 2004 and 2003 related to this plan.

STOCK OPTIONS

In 2004, our shareholders approved amendments to the Holdings 2002 Long-Term Incentive Plan (the 2002 Plan). Under the Amended Incentive Plan the aggregate number of shares of common stock authorized for issuance increased from 2,690,468 to 3,690,468, and of this total, up to 700,000 shares, versus 500,000 shares under the previous terms, may be issued as restricted shares. Additionally, the amendments expanded the eligibility provisions to permit the grant of all types of awards available under the Amended Incentive Plan to non-employee directors, added a provision permitting grants of unrestricted shares of common stock to be made to non-employee directors as part of the regular

compensation package of non-employee directors and/or Board Chairman, Vice Chairman, and Committee Chairman, and eliminated the provisions of the 2002 Plan requiring only specific stock option grants to non-employee directors. The Amended Incentive Plan also includes restricted stock units as another type of award that may be granted, permits Holdings to change how dividend equivalent accounts and dividends accumulated on restricted shares are paid, and authorizes dividend equivalent accounts to be established in connection with performance awards.

The original 2002 Plan became effective as of January 1, 2002, and replaced the prior Long-Term Incentive Plan (the Prior Plan). Under the 2002 Plan, management may grant stock option awards, alternative stock appreciation rights and dividend equivalent accounts; restricted share awards; performance awards; and beginning in 2004, as described previously, restricted stock unit awards. Stock options awarded to eligible employees will be granted at an option price not less than 100% of the fair market value of our common stock on the date of grant. All stock options to directors will be granted at an option price equal to 100% of the fair market value of our common stock on the date of grant. Any stock options granted prior to January 1, 2002 are not affected by the adoption of the 2002 Plan, and are administered according to the Prior Plan. No new options may be granted under the Prior Plan. The 2002 Plan will terminate on December 31, 2011.

No stock option awards were granted in 2005 or 2004 to either employees or non-employee directors.

During 2003, 34,232 Holdings stock options were issued to non-employee directors, and as of December 31, 2003, were fully vested.

During December 2002, 774,500 stock options were granted to employees under the 2002 Plan with an exercise price of \$15.015 per share. Due to cancellations, forfeitures, and exercises, only 154,411 of these options remain outstanding as of December 31, 2005, all of which are exercisable and fully vested. They will expire on December 15, 2012. No compensation expense related to the December 2002 grant was recognized at either Holdings or Duquesne Light in 2005. Compensation expense related to the December 2002 grant of \$0.4 million was recognized in 2004, of which \$0.1 million was recorded at Duquesne Light.

During December 2001, 787,300 stock options were granted to employees under the Prior Plan with an exercise price of \$16.90 per share. Due to cancellations, forfeitures, and exercises, only 161,714 of these options remain as of December 31, 2005, all of which are exercisable, fully vested, and expire on December 10, 2011. No compensation expense related to this award was recognized in 2004 or 2005. In 2003, compensation expense related to the December 2001 grant of \$0.2 million was recognized.

The following tables summarize the transactions of our stock option plans for the three-year period ended December 31, 2005, and certain information about outstanding stock options as of December 31, 2005:

	Millions of Options			Weighted Average Price		
	2005	2004	2003	2005	2004	2003
Options outstanding, beginning of year	0.9	2.0	2.5	\$20.53	\$24.39	\$24.48
Options granted	—	—	—	—	—	16.23
Options exercised	(0.1)	(0.4)	—	15.16	24.55	38.77
Options canceled/forfeited	(0.3)	(0.7)	(0.5)	17.34	29.32	23.02
Options outstanding, end of year	0.5	0.9	2.0	23.10	20.53	24.39
Options exercisable, end of year	0.5	0.7	1.1	23.10	22.93	30.73
Shares available for future grants, end of year	2.6	2.4	1.3			

No stock appreciation rights (SARS) were issued during 2005, 2004 or 2003. As of December 31, 2005, 2004 and 2003, previously issued SARS were outstanding in connection with 98,719; 115,107; and 607,734 of options outstanding with weighted average exercise prices of \$39.03, \$39.53 and \$38.56. No SARS were exercised in 2005. During 2004 and 2003, 147,247 and 37,755 SARS were exercised.

Exercise Price Range	Outstanding			Exercisable	
	Number of Options (In Millions)	Average Remaining Life (In Years)	Weighted Average Exercise Price	Number of Options (In Millions)	Weighted Average Exercise Price
Under \$20	0.4	6.5	\$16.12	0.4	\$16.12
\$20 – \$30	—	—	—	—	—
\$30 – \$40	—	—	—	—	—
Over \$40	0.1	4.2	\$42.57	0.1	\$42.57
Options, End of Year	0.5			0.5	

The fair value of the options granted during 2003 was estimated on the date of grant using the Black-Scholes option pricing model. The estimated weighted average assumptions used and the fair values are as follows:

	2003
Expected dividend yield	6.16%
Risk-free interest rate	3.34%
Expected stock price volatility	30.91%
Expected term until exercise (years)	10.0
Weighted average fair value	\$2.40

OTHER STOCK-BASED COMPENSATION

On January 1, 2003, 58,500 shares of Holdings stock were issued to officers as part of a performance award. As of December 31, 2005, all shares were forfeited as Holdings' total shareholder return (TSR) did not achieve its required TSR rank against the TSR of its peer group.

On November 10, 2003, 198,417 shares of nonvested Holdings stock with voting and dividend rights were issued to officers of Holdings. In 2005, an additional 14,000 shares were issued to officers of Holdings. The right to the shares is subject to continued employment. An equal portion of the total shares for each issuance are earned each year over the vesting period ending on December 31, 2006. Due to forfeitures, only 200,417 shares remain as of December 31, 2005, of which 127,178 shares are vested. The market value of the nonvested stock at the grant dates was charged to stockholders' equity and reflected as unearned compensation on the consolidated balance sheets of Holdings. This unearned compensation will be charged evenly to expense over the vesting period. In 2005 and 2004, total compensation expense of \$1.1 million and \$1.0 million was recognized, of which \$0.6 million and \$0.5 million was recorded at Duquesne Light.

On November 10, 2003, 387,400 shares of Holdings stock were issued to the same officers under a performance-based deferred stock unit award. In 2005, an additional 33,367 of Holdings shares were issued under the same award. Due to forfeitures, only 396,567 shares remain to be earned as of December 31, 2005. The right to the shares is subject to the achievement of specified performance goals related to earnings per share (EPS) from continuing operations and TSR over the defined performance periods. The EPS performance period commenced on January 1, 2004 and ends on December 31, 2006. The TSR performance period commenced on October 20, 2003 and ends on December 31, 2006. At the end of the performance period, shares may vest within a range of 0% to 100%, with no more than 50% of the shares subject to each performance target. Holdings did not record compensation expense for the deferred stock unit award in 2003, 2004 or 2005.

On January 1, 2004, 56,427 shares of Holdings common stock were granted to non-officers of Holdings under a performance-based restricted stock unit award. As of December 31, 2005, due to forfeitures, only 52,390 shares remain to be earned. These shares are earned based upon Holdings' TSR rank against the TSR of its peer group, as defined, over a three-year performance period ending December 31, 2006. Holdings did not record compensation expense related to this award in 2004 or 2005.

On June 3, 2004 and June 2, 2005, under the Amended Incentive Plan, 2,500 shares of Holdings' nonvested stock with voting and dividends rights were granted to each of the then eight non-employee directors for a total of 20,000 shares awarded at each grant date. The shares vest over a two-year period ending on June 3, 2006 and June 2, 2007. On July 14, 2005 an additional 2,292 shares of Holdings nonvested stock were granted to a new non-employee director. These shares vest over a two-

year period ending July 14, 2007. The market value of the nonvested stock at the grant dates was charged to stockholders' equity and reflected as unearned compensation on the consolidated balance sheets of Holdings. This unearned compensation will be charged evenly to expense over the vesting periods. In 2005 and 2004, total compensation expense recognized on these shares was \$0.3 million and \$0.1 million.

On both June 3, 2004 and June 2, 2005, under the Amended Incentive Plan, 3,897 shares of Holdings common stock were issued to non-employee directors. In 2005 and 2004, the total compensation expense recognized on these shares was \$0.1 million and \$0.1 million.

13. Commitments and Contingencies

GUARANTEES

As part of DQE Financial's investment portfolio in seven affordable housing funds, we have received fees in exchange for guaranteeing a minimum defined yield to third-party investors. We entered into these transactions between 1995 and 1999 because of the attractive risk/reward characteristics available to guarantors. This group of guarantees will expire by 2015. In the event the underlying affordable housing properties do not generate the necessary minimum yield before their expiration, we will make cash payments necessary to achieve the minimum yield. The original amount guaranteed was approximately \$250 million, and has declined as investors have earned the guaranteed returns. We estimate the maximum potential amount of undiscounted future payments that we could be required to make under the guarantees if the investors earn no future returns was \$38.6 million at December 31, 2005.

In connection with the sale of six synthetic fuel facilities in 2000 by our indirect subsidiary, Duquesne Energy, Inc., we agreed to guarantee the subsidiary's obligation under the sales agreement to indemnify the purchaser against breach of warranties, representations or covenants. The guarantee generally extends up to six years or otherwise as stipulated under statute of limitations, based on the expiration of the underlying warranty, representation, or covenant. We have determined our exposure to be limited, as both legal and factual representations and warranties have been primarily limited to matters within the control and knowledge of our subsidiary. As such, no liability has been recorded on the consolidated balance sheets.

In connection with DES's sale of an investment in an energy facility management project, DES provided

the buyer with a guarantee that DES will repay a portion of the purchase price if the counterparty to the management contract terminates the contract for convenience, as defined by the agreement (the Repayment Guarantee). As of December 31, 2005, the maximum Repayment Guarantee amount is approximately \$3.6 million. The Repayment Guarantee is reduced daily, based on the passage of time, through January 1, 2016, at which time the Repayment Guarantee expires. The estimated liability for the fair value of the Repayment Guarantee is not material.

Holdings has guaranteed portions of the obligations of Duquesne Power under its energy commodity contracts in order to use Holdings' stronger credit profile to obtain better pricing and contract terms for Duquesne Power. In general, if Duquesne Power is required to make a payment under these contracts and fails to do so, Holdings would be required to make such payment. The notional value of the contracts (and consequently the guarantee amounts) changes as additional energy commodities are bought or sold, and as Duquesne Power pays for its energy commodity deliveries. As of December 31, 2005, the maximum amount of Holdings' payment guarantee related to the purchase and capacity obligations totaled \$687.1 million, or approximately 86%, of the total remaining notional value under these contracts. In addition, Holdings guarantees Duquesne Power's obligations to deliver energy under the energy sales contracts, to the extent that Duquesne Power would be obligated to compensate the counterparty for the difference in the counterparty's cost to procure the energy and the contract price. As of December 31, 2005, no guarantee amount has been recorded as a liability on the consolidated balance sheets. In addition, Holdings posts collateral on behalf of Duquesne Power as needed under the energy commodity contracts. As of December 31, 2005, no collateral was outstanding.

In conjunction with certain transactions, primarily divestitures, we provide routine indemnifications (e.g., retention of previously existing environmental, tax and employee liabilities) whose terms range in duration and often are not explicitly defined. Where appropriate, an obligation for such indemnifications is recorded as a liability. Because the obligated amounts of these types of indemnifications often are not explicitly stated, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture,

historically we have not made significant payments for these indemnifications.

EMPLOYEES

Duquesne Light is a party to a labor contract with the International Brotherhood of Electrical Workers, which represents more than 71% of Duquesne Light's approximately 1,400 employees. This contract expires in September 2010.

LEGAL PROCEEDINGS

Shareholder Class Action. In October and November 2001, a number of putative class action lawsuits were filed by purported shareholders of Holdings against Holdings and David Marshall, our former chairman, chief executive officer and president, in the United States District Court for the Western District of Pennsylvania. These cases were consolidated under the caption *In re DQE, Inc. Securities Litigation*, Master File No. 01-1851 (W.D. Pa.), and the plaintiffs filed a second consolidated amended complaint on April 15, 2002. The complaint alleged violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder, and Section 12(a)(2) of the Securities Act of 1933 (the "Securities Act"). The complaint also alleged controlling person liability under Section 20(a) of the Exchange Act and Section 15 of the Securities Act. The complaint alleged that between December 6, 2000 and April 30, 2001, the defendants issued a number of materially false and misleading statements concerning investments made by our subsidiary, DQE Enterprises, Inc., and the impact that these investments would have on our current and future financial results.

In March 2005, we reached an oral agreement in principle with counsel for the plaintiffs to settle all claims of the class and sub-class. In October 2005, the court approved a settlement of all claims of the class and sub-class. The settlement was covered in full by our insurance.

SECTION 29 TAX CREDITS AND SYNTHETIC FUEL

Holdings recognizes Section 29 credits from DQE Financial's landfill gas operations and an investment in a synthetic fuel partnership. DES operates synthetic fuel facilities for a single customer, earning fees based on production.

Section 29 tax credits are subject to a phase-out provision that could reduce tax credits as the average annual wellhead price per barrel of domestic crude oil increases into an inflation-adjusted phase-out range. For 2004, the tax credit would have begun to phase-

out if the annual average wellhead price per barrel of domestic crude oil exceeded \$51.35 per barrel and would have been completely phased out if the annual average wellhead price of domestic crude oil reached \$64.47 per barrel. The 2005 inflation adjustment has not been published by the IRS, but based on the prices of oil during the year, we do not believe that a phase-out of the credit for 2005 will occur. We cannot predict the level of domestic crude oil prices for 2006, nor whether a phase-out of the credit is likely to occur.

Absent any efforts to mitigate market price exposure, if domestic crude oil prices continue to stay at a high level in 2006 and/or 2007, tax credits and net income may be reduced substantially due to the phase-out. Based on our evaluation, as of December 31, 2005, we have not entered into hedging arrangements to reduce this exposure.

During 2005, we recorded \$20.2 million of Section 29 tax credits on Holdings consolidated statement of income. In addition, as of December 31, 2005, we have certain tangible and intangible assets related to DQE Financial's landfill gas operations with a net book value of approximately \$5.4 million that may become impaired if domestic crude oil prices continue to increase in the future. As of December 31, 2005, we have no net book value related to synthetic fuel assets or investments.

OTHER

Proposed Acquisition

On November 14, 2005, Holdings Inc. entered into a Purchase and Sale Agreement to acquire Atlantic City Electric Company's (ACE) combined 108 megawatt ownership interests in the Keystone and Conemaugh coal-fired power plants. The aggregate purchase price is approximately \$176 million, subject to adjustments based on, among other things, the transaction's ultimate closing date. Currently, the closing is anticipated to occur in mid-2006, subject to approvals from the New Jersey Bureau of Public Utilities, the Pennsylvania Public Utility Commission (PUC) and other regulatory entities. Both Keystone and Conemaugh are jointly owned by ACE and a consortium of other companies. Holdings will be acquiring ACE's undivided 2.47% interest, or 42 megawatts, in Keystone and undivided 3.83% interest, or 66 megawatts, in Conemaugh, plus related inventories, equipment and other property.

Legacy Liabilities

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. Following the generation asset divestiture, Duquesne Light retained certain facilities that remain subject to these regulations. As of December 31, 2005, we have assessed our residual waste management sites, and the DEP has approved our compliance strategies. As of December 31, 2005 and 2004, the expected costs of compliance were approximately \$4 million and \$5 million with respect to sites we continue to own. These costs were recovered in the CTC.

Duquesne Light also owns the closed Warwick Mine, located along the Monongahela River in Greene County, Pennsylvania. This property had been used in the electricity supply business segment. Duquesne Light has been selling unused portions of the property and will continue to do so. As of December 31, 2005 and 2004, Duquesne Light's estimated liability for closing the Warwick Mine, including final site reclamation, mine water treatment and certain healthcare liabilities, was approximately \$26 million and \$27 million.

These amounts are combined and included in legacy liabilities on both Holdings and Duquesne Light's consolidated balance sheets.

Discontinued Operations

AquaSource's former water and water-related operations were, and remain, 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. AquaSource's former operations were also, and remain, subject to the Federal *Clean Water Act*, which regulates the discharge of pollutants into waterways. AquaSource is aware of various

compliance issues at its former water and wastewater facilities attributable to the period of time during which it owned these facilities. AquaSource has agreed to indemnify the purchasers of these facilities for certain pre-closing environmental liabilities.

Prior to divesting its former operations, AquaSource entered into various consent agreements regarding certain environmental compliance matters. In connection with divesting its former operations, AquaSource assigned these consent agreements to the relevant purchasers. AquaSource has agreed to indemnify the purchasers of its former operations for certain pre-closing environmental liabilities.

As part of the transaction, we retained certain obligations related to the business that was sold to Aqua America, Inc., including responsibility for certain existing litigation matters as well as a 10-year indemnity for certain pre-closing environmental claims. We purchased an environmental liability policy to mitigate this indemnity. We also had a maximum three-year indemnity obligation for certain other pre-closing liabilities that was limited by a \$15 million indemnity cap. Because Aqua America had not made the minimum required threshold of indemnification requests during the first year after closing, this indemnity obligation was reduced to a \$7.5 million cap over a two year period. We have notified Aqua America that with the passage of the second anniversary of the closing of the transaction, the indemnification has terminated, and no further claims can be made under the indemnity obligation.

We do not believe that any of AquaSource's indemnity obligations described above will have a material effect on Holdings' financial position, results of operations or cash flows.

14. Long-Term Debt

Long-Term Debt as of December 31,

	Interest Rate	Maturity	(Millions of Dollars)	
			Principal Outstanding 2005	2004
Duquesne Light first mortgage bonds (a)	5.7%-6.7%	2008-2032	\$540.0	\$540.0
Duquesne Light pollution control notes (b) (c)	Adjustable	2020-2033	—	320.1
Duquesne Light pollution control notes (b)	4.05%-4.35%	2011-2013	97.9	97.9
Holdings' senior notes	5.5%-6.25%	2015-2035	320.0	—
Holdings miscellaneous			1.6	1.8
Less: Unamortized debt discount and premium – net (d)			(1.4)	(1.6)
Current maturities			(0.3)	(0.2)
Total Long-Term Debt			\$957.8	\$958.0

(a) Excludes first mortgage bonds issued to secure pollution control notes.

(b) Secured by an equal principal amount of first mortgage bonds.

(c) These adjustable interest rates averaged 2.4%, 1.6% and 1.1% in 2005, 2004 and 2003.

(d) Relates to Duquesne Light debt.

Holdings. As of December 31, 2005, maturities of long-term debt outstanding for the next five years were \$0.3 million, \$0.3 million, \$40.3 million, \$0.3 million, and \$0.3 million in 2006 through 2010.

Total interest and other charges were \$62.6 million in 2005, \$63.0 million in 2004 and \$74.4 million in 2003. Interest costs attributable to debt were \$55.3 million, \$57.2 million and \$65.4 million in 2005, 2004 and 2003. Included in the interest costs attributable to debt is \$3.1 million in 2004 and \$12.6 million in 2003 related to the 8 3/8% Monthly Income Preferred Securities (MIPS). Of the interest costs attributable to debt, \$0.7 million, \$0.8 million and \$0.5 million in 2005, 2004 and 2003 were capitalized as AFC. Debt discount or premium and related issuance expenses are amortized over the lives of the applicable issues. (See Note 1.)

As of December 31, 2005, the fair value of long-term debt, including current maturities, 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 \$988.0 million. The principal amount, excluding unamortized discounts and premiums, is \$959.5 million as of December 31, 2005.

As of December 31, 2005 and 2004, we were in compliance with all of our debt covenants.

During August 2005, Holdings issued \$200 million of 5.5% senior notes due August 15, 2015 and \$120 million of 6.25% senior notes due August 15, 2035. Proceeds were used to repay the \$250 million intercompany loan with Duquesne Light and approximately \$37 million of variable rate borrowings

under Holdings' credit facility. The remaining balance was used for general corporate purposes.

In October 2004, DQE Capital fully redeemed its \$100 million of 8.375% Public Income Notes, due 2039, at par. A \$1.9 million after-tax charge related to the write-off of the unamortized, original issue costs was recorded.

Duquesne Light. As of December 31, 2005, maturities of long-term debt outstanding for the next five years were zero in 2006 and 2007, \$40.0 million in 2008 and zero in 2009 and 2010.

Total interest and other charges were \$48.0 million 2005, \$46.2 million in 2004 and \$54.1 million in 2003. Interest costs attributable to debt were \$47.4 million, \$45.6 million and \$53.1 million in 2005, 2004 and 2003. Included in the interest costs attributable to debt is \$3.1 million in 2004 and \$6.3 million in 2003 related to the MIPS. Prior to the July 2003 adoption of SFAS No. 150, MIPS dividend requirements were shown separately on the consolidated statements of income. Of the interest costs attributable to debt, \$0.7 million in 2005, \$0.8 million in 2004 and \$0.5 million in 2003 were capitalized as AFC. The unamortized debt discount is amortized over the lives of the applicable issues. (See Note 1.)

As of December 31, 2005, the fair value of long-term debt, including current maturities, 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 \$665.2 million. The principal amount, excluding unamortized discounts

and premiums, is \$637.9 million as of December 31, 2005.

In the third quarter of 2005, Duquesne Light used the proceeds received from the repayment of the Holdings' intercompany loan plus available cash to purchase at par upon mandatory tender \$320.1 million of variable rate Pollution Control Revenue Refunding Bonds with maturity dates ranging from 2020 to 2033. The purchased bonds are presented as extinguished debt in conformity with SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The bonds have not been sold as of December 31, 2005.

In May 2004, Duquesne Light issued \$200 million of 5.7% first mortgage bonds (due 2014). Proceeds were used to redeem \$75 million of MIPS, repay \$40 million of outstanding revolving credit facility borrowings and replenish working capital.

During 2004, pursuant to the terms of MIPS, Duquesne Light redeemed \$151.5 million of its 8 3/8% Subordinated Deferrable Interest Debentures, Series A, due May 31, 2044 (Subordinated Debentures) held by Duquesne Capital, L.P., a special purpose subsidiary of Duquesne Light. Duquesne Capital simultaneously redeemed \$150 million principal amount of its MIPS.

In August 2003, Duquesne Light redeemed at par \$100 million principal amount of its 7 3/8% first mortgage bonds due 2038.

15. Preferred and Preference Stock

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This standard requires that an issuer classify a financial instrument that falls within its scope as a liability, or as an asset in some circumstances. This standard was adopted effective July 1, 2003.

Holdings Series A Preferred Stock (Holdings preferred stock) fell within the scope of SFAS No. 150 due to its mandatory conversion feature, and the fact that the monetary value of the obligation was based solely on a fixed monetary amount that is known at inception. Dividends paid on the stock were classified as interest and other charges, rather than dividends, effective July 1, 2003.

Prior to the adoption of SFAS No. 150, Holdings preferred stock was reflected as preferred stock on the consolidated balance sheets of Holdings. Upon adoption, we began classifying Holdings preferred stock as both current and non-current liabilities based upon conversion dates.

As of December 31, 2005 and 2004, zero and 66,149 shares of Holdings preferred stock with recorded values of zero and \$6.6 million were outstanding. These balances reflect (i) the conversions in 2005 and 2004 of 66,149 and 76,984 shares and (ii) the repurchase of 8,667 shares for \$98.00 per share in 2004.

Preferred and Preference Stock as of December 31,

(Millions of Dollars)

	Call Price Per Share	Shares	2005		2004	
			Amount	Shares	Amount	Shares
Preferred Stock Series of Subsidiaries:						
Duquesne Light 3.75% (a)	\$51.00	148,000	\$ 7.4	148,000	\$ 7.4	
Duquesne Light 4.00% (a)	51.50	549,709	27.5	549,709	27.5	
Duquesne Light 4.10% (a)	51.75	119,860	6.0	119,860	6.0	
Duquesne Light 4.15% (a)	51.73	132,450	6.7	132,450	6.7	
Duquesne Light 4.20% (a)	51.71	100,000	5.0	100,000	5.0	
Duquesne Light \$2.10 (a)	51.84	159,400	8.0	159,400	8.0	
Duquesne Light 6.50% (a)	50.00	1,500,000	75.0	1,500,000	75.0	
EnviroGas 6.5% (b)	—	10	1.0	10	1.0	
Total Preferred Stock of Subsidiaries			136.6		136.6	
Preference Stock Series of Subsidiaries:						
Duquesne Light Plan Series A (c)		374,615	13.3	408,609	14.5	
Deferred ESOP benefit			(2.4)		(4.2)	
Total Preferred and Preference Stock			147.5		146.9	

(a) 4,000,000 authorized shares; \$50 par value; cumulative; \$50 per share involuntary liquidation value.

(b) 1,500 authorized shares; \$100,000 par value; \$100,000 involuntary liquidation value; if declared, holders entitled to 6.5 % annual dividend each September; \$100,000 redemption price per share. EnviroGas is a DQE Financial subsidiary.

(c) 8,000,000 authorized shares; \$1 par value; cumulative; \$35.50 per share liquidation value; annual dividends of \$2.80 per share.

In April 2004, Duquesne Light issued 1.5 million shares of 6.5% non-convertible preferred stock (\$50 par and liquidation value), receiving net proceeds of approximately \$73 million. The holders of the preferred stock are entitled to cumulative quarterly dividends beginning on July 1, 2004. This stock is callable at par, plus accrued dividends, on or after April 1, 2009.

The Duquesne Light preferred stock ranks senior to Duquesne Light preference and common stock as to payment of dividends and the distribution of assets on liquidation, dissolution or winding-up of Duquesne Light.

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. As of

December 31, 2005, Duquesne Light had made all dividend payments.

Outstanding Duquesne Light preferred stock is generally callable on notice of not less than 30 days, at stated prices plus accrued dividends. The outstanding preference stock is callable at the liquidation price plus accrued dividends. None of the Duquesne Light preferred or preference stock issues has mandatory purchase requirements.

Preferred and preference dividends of Holdings and its affiliates included in interest and other charges were \$8.0 million, \$6.9 million and \$3.5 million in 2005, 2004, 2003. Total preferred and preference stock had involuntary liquidation values of \$149.8 million and \$151.0 million, which exceeded par by \$12.9 million and \$14.1 million as of December 31, 2005 and 2004.

Preferred and preference dividends of Duquesne Light were \$8.0 million, \$6.6 million and \$3.2 million in 2005, 2004 and 2003. Total preferred and preference stock had involuntary liquidation values of \$148.8 million and \$150.0 million, which exceeded par by \$12.9 million and \$14.1 million as of December 31, 2005 and 2004.

We have an Employee Stock Ownership Plan (ESOP) to provide matching contributions for the Holdings 401(k) Retirement Savings Plan. (See

Note 12.) We issued and sold 845,070 shares of Duquesne Light 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 the greater of one and one-half shares of Holdings common stock or \$35.50 worth of Holdings common stock. Dividends on the preference stock and cash contributions from Holdings are used to fund the repayment of the ESOP note. We made cash contributions of approximately \$0.2 million, \$0.5 million and \$0.3 million for 2005, 2004 and 2003. These cash contributions were the difference between the ESOP debt service and the amount of dividends on ESOP shares (\$1.1 million, \$1.2 million and \$1.3 million in 2005, 2004 and 2003). 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.

16. Equity

Holdings.

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

	(Millions of Shares)		
	2005	2004	2003
January 1	77.0	75.4	74.3
Issuances	1.0	1.6	1.1
December 31	78.0	77.0	75.4

Once all dividends on Holdings preferred stock have been paid, dividends may be paid on Holdings common stock as permitted by law and as declared by the board of directors. Since we are a holding company, substantially all of the assets shown on our consolidated balance sheets are held by our subsidiaries. Accordingly, our earnings and cash flow, and our ability to meet our obligations, are largely dependent upon the earnings and cash flows of such subsidiaries and the distribution or other payment of such earnings to us in the form of dividends, loans or advances, and repayment of loans and advances from us. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts due on our securities or to make any funds available for such payments. Our subsidiaries' ability to make dividend payments or other distributions to us may be restricted by their

obligations to holders of their outstanding debt and preferred securities and to their creditors, the availability of earnings and the needs of their businesses.

No part of the retained earnings of Holdings was restricted at December 31, 2005.

During 2005, we paid total common stock dividends of \$78.7 million (including \$1.2 million paid to Duquesne Light), and of this amount, \$10.4 million was reinvested to purchase approximately 570,000 shares of treasury stock for those shareholders who participated in our Dividend Reinvestment and Direct Stock Purchase Plan (DRIP).

Also during 2005, we issued approximately 199,000 shares of treasury stock for purchases made by shareholders under our DRIP and 352,244 shares as a result of the conversion of Holdings preferred stock.

During 2004, we paid total common stock dividends of \$76.1 million (including \$1.2 million paid to Duquesne Light), and of this amount, \$10.5 million was reinvested to purchase approximately 556,000 shares of treasury stock for those shareholders who participated in our DRIP.

Also during 2004, we issued approximately 191,000 shares of treasury stock for purchases made by shareholders under our DRIP and 406,000 shares as a result of the conversion of Holdings preferred stock.

During 2003, we paid total common stock dividends of \$75.1 million (including \$1.2 million paid to Duquesne Light), and of this amount, \$10.7 million was reinvested to purchase approximately 737,000 shares of treasury stock for those shareholders who participated in our DRIP.

Also during 2003, we issued approximately 241,000 shares of treasury stock for purchases made by shareholders under our DRIP and 72,794 shares as a result of the conversion of Holdings preferred stock.

When treasury stock is issued, the difference between the market price of our common stock, or the option exercise price, and the average cost of the treasury stock causes an increase or decrease in the value of common stock on the consolidated balance sheets.

Accumulated other comprehensive income consists of unrealized holding gains and losses on interest rate and cash flow hedging instruments and adjustments to the minimum pension liability.

Duquesne Light. In July 1989, Duquesne Light became a wholly owned subsidiary of Holdings, whose common stock replaced the outstanding

shares of Duquesne Light's common stock, except for the 10 shares Holdings owns.

Payments of dividends on Duquesne Light common stock may be restricted by obligations to holders of its preferred and preference stock, pursuant to its Restated Articles of Incorporation. No dividends or distributions may be made on Duquesne Light's common stock if it has not paid dividends on its preferred or preference stock. Dividends may also be effectively limited by the terms of certain financing agreements. Further, the aggregate amount of 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. No part of Duquesne Light's retained earnings was restricted at December 31, 2005.

During 2005, 2004 and 2003, Duquesne Light paid dividends on common stock to Holdings of \$20 million, \$71 million and \$69 million.

During 2005, Holdings made equity contributions to Duquesne Light totaling \$82.5 million.

Accumulated other comprehensive income consists of unrealized gains or losses on available for sale investments and adjustments to the minimum pension liability.

17. Discontinued Operations

Pursuant to agreements entered into as well as our subsequent sale of our investments in AquaSource and Pro Am, these subsidiaries have been reflected as discontinued operations in the consolidated financial statements.

AQUASOURCE

In July 2003, AquaSource closed the sale of its investor-owned water utilities (and certain related contract operations) to Aqua America for a purchase price of approximately \$178 million in cash, after working capital and purchase price adjustments, including the one described below. Aqua America also assumed \$10.4 million of debt associated with the business.

Unable to resolve purchase price adjustment issues regarding rate base and customer connections, AquaSource and Aqua America agreed to arbitrate their dispute. In August 2004, the arbitration panel found in Aqua America's favor, reducing the final purchase price by approximately \$12 million. The resulting payment to Aqua America had been reserved for, and accordingly did not have

a material adverse effect on our financial position or results of operations.

In May 2004, AquaSource repurchased the minority interest held by an unrelated party for approximately \$8.2 million.

Due to the earlier than anticipated closing of this sale, we were not required to make certain expenditures, thereby increasing the net recorded value of AquaSource by approximately \$11.5 million after-tax, which was recorded in June 2003. The 2003 income also included a \$66.6 million tax benefit related to the use of capital losses generated in connection with the sale of the AquaSource subsidiaries. (See Note 10.)

In 2003, AquaSource sold various other operations for \$17.7 million, though subsequent purchase price adjustments reduced the net amount to \$16.3 million. Of the total purchase price, \$3.3 million was in the form of a personally guaranteed promissory note, which was paid in full in January 2005. Also during 2003, we spent approximately \$16.8 million for water utility construction prior to the sale of AquaSource.

In connection with the assignment of certain rights to a previous construction contract, AquaSource received \$1.7 million in January 2006 in settlement of a receivable that had been previously fully reserved. This amount is included on Holdings' consolidated balance sheet as a current asset from discontinued operations as of December 31, 2005.

PRO AM

On December 13, 2002, we sold Pro Am's propane distribution business to Ferrellgas Partners, L.P., for approximately \$42 million, \$32 million of which was paid in cash at the closing. We received an unsecured note for the remaining \$10 million, which matured on December 13, 2003. We have collected \$9.4 million in full settlement of this note.

The following table summarizes income statement data from discontinued operations:

	(Millions of Dollars)		
	Year Ended December 31,		
	2005	2004	2003
Revenues	\$ —	\$ —	\$ 41.5
Operating Results, net of tax of \$—, \$0.5, and \$1.8	\$ —	\$ (0.9)	\$ (1.5)
Gain from sale, net of tax of \$0.8, \$0.4, and \$(71.6)	<u>1.3</u>	<u>0.7</u>	<u>84.2</u>
Income (Loss) from Discontinued Operations	\$ 1.3	\$ (0.2)	\$ 82.7

18. Duquesne Light Transactions With Affiliates

As a wholly owned subsidiary of Holdings, Duquesne Light has various transactions with its parent company and affiliates.

Duquesne Light generally pays quarterly dividends to Holdings. During 2005, Duquesne Light embarked on a significant capital expenditure program, and began retaining more of its earnings than in prior years. As of December 31, 2005 and 2004, Duquesne Light's dividend payable to Holdings was zero and \$7 million and was included in payable to affiliates on Duquesne Light's consolidated balance sheets.

Duquesne Light participates in a tax sharing arrangement with Holdings to provide, among other things, for the payment of taxes for periods during which Holdings and Duquesne Light are included in the same consolidated group for federal tax purposes. Duquesne Light shares in the consolidated tax liability to the extent of its income or loss for the year. (See Note 10.) As of December 31, 2005 and 2004, Duquesne Light's tax liability to (receivable from) Holdings under this arrangement was \$(6.0) million and \$(2.6) million and was included in payable to affiliates on Duquesne Light's consolidated balance sheets.

Following the sale of generation assets in 2000, Duquesne Light loaned \$250 million of the sale proceeds to Holdings. Duquesne Light recorded interest income from Holdings on this note until its redemption in 2005. On January 1, 2002, the interest rate charged on the note was lowered to reflect then-current market rates. The PUC had questioned this decrease, and in February 2006 we reached an agreement with the PUC, requiring Holdings to contribute approximately \$27.6 million to Duquesne Light, which represents the difference in interest that

would have been charged to Holdings had this interest rate not been lowered.

Duquesne Light participated in a cash pool arrangement with DQE Capital, until November 2005, and earned interest income on available cash that was deposited with DQE Capital. As a holder of Holdings common stock, Duquesne Light receives dividend income from Holdings.

Duquesne Light charges an administrative fee to Holdings and its affiliates based on an allocation method that considers the cost of actual or estimated services performed and other expenses incurred on behalf of Holdings or its affiliates. Following the sale of several of Holdings' non-complementary businesses, administrative cost allocations to affiliates is lower in 2005 as compared to 2004 and 2003.

Duquesne Light collects pole and duct revenue from its communications affiliate and pays the same affiliate for the rental of communication fiber. Duquesne Light purchases energy for its internal use from Duquesne Light Energy, and collects transmission revenues from the same affiliate.

During 2005, Duquesne Light's former subsidiary, Duquesne Power, made wholesale sales of energy to Duquesne Light Energy and incurred interest expense to Holdings on a working capital note. On December 31, 2005, Duquesne Light made a \$17.7 million non-cash dividend to Holdings through the transfer of its subsidiary, Duquesne Power. This entity was subsequently distributed to another Holdings subsidiary. This transfer will effectively eliminate the net income included in Duquesne Light's supply segment. As of December 31, 2005, Duquesne Light's payable to Duquesne Power for energy supplied under the full-requirements contract was \$46.2 million and was included in payable to affiliates on Duquesne Light's consolidated balance sheets.

Certain of Duquesne Light's revenues and expenses relate to transactions with Holdings and its affiliates, including the following:

(Millions of Dollars)
Year Ended December 31,
2005 2004 2003

Revenues and Other			
Income:			
Interest income	\$10.1	\$14.3	\$15.6
Dividend income from Holdings common stock	1.2	1.2	1.2
Wholesale energy sales	45.1	—	—
Transmission revenue	1.8	—	—
Duct and pole rental revenue	1.2	1.1	1.1
Expenses:			
Administrative cost allocations (a)	\$ (2.0)	\$ (8.3)	\$ (6.9)
Interest on Power's note with Holdings	1.0	—	—
Rental of communication fiber	0.5	0.4	0.2
Company use energy	1.5	—	—

(a) Allocated labor charges include the associated fringe benefits, including pension and health care costs.

19. Supplemental Cash Flow Disclosure

Non-cash investing activity in 2005 at both Holdings and Duquesne Light consisted of a \$21.7 million increase in accounts payable related to construction expenditures. Non-cash financing activity in 2005 at Duquesne Light consisted of a \$17.7 million non-cash dividend of a subsidiary to Holdings. The subsidiary's balance sheet consists primarily of derivative assets and liabilities and the related deferred tax liabilities and accumulated other comprehensive income.

Non-cash activity related to the pension plans in 2005 consisted of a \$5.1 million increase in prepaid pension costs, a \$36.9 million increase in pension intangible assets, a \$82.4 million increase in pension liabilities, a \$16.8 million decrease in deferred income taxes and a \$23.6 million decrease in accumulated other comprehensive income.

Non-cash activity related to the pension plans in 2004 consisted of a \$4.5 million increase in prepaid pension costs, a \$5.8 million increase in pension intangible assets and a \$10.3 million increase in pension liabilities.

Non-cash activity related to the pension plans in 2003 consisted of a \$4.7 million increase in prepaid pension costs and a \$4.7 million increase in pension liabilities.

Holdings Changes in Working Capital Other than Cash (a) for the Year Ended December 31,

(Millions of Dollars)			
	2005	2004	2003
Receivables	\$(16.1)	\$(10.1)	\$ 1.1
Other current assets	6.6	3.4	8.9
Accounts payable	(20.4)	(11.2)	(2.8)
Other current liabilities	13.9	8.9	(19.1)
Total	\$(16.0)	\$ (9.0)	\$ (11.9)

(a) The amounts shown exclude the effects of acquisitions, dispositions and restructuring charges.

Duquesne Light Changes in Working Capital Other than Cash (a) for the Year Ended December 31,

(Millions of Dollars)			
	2005	2004	2003
Receivables	\$(18.7)	\$ (5.7)	\$ 12.8
Other current assets	(4.3)	3.4	(4.5)
Accounts payable	(20.7)	(3.8)	(26.0)
Other current liabilities	5.3	(48.7)	(34.4)
Total	\$(38.4)	\$ (54.8)	\$ (52.1)

(a) The amounts shown exclude the effects of restructuring charges and the transfer of the subsidiary.

20. Business Segments and Related Information

Duquesne Light reports the following business segments: (1) transmission and distribution of electricity (electricity delivery business segment), (2) supply of electricity by Duquesne Light (Duquesne Light supply business segment), and (3) collection of transition costs (which were fully collected by December 31, 2005) (CTC business segment).

Holdings reports the following business segments: (1) transmission and distribution of electricity (electricity delivery business segment), (2) supply of electricity (which includes the Duquesne Light supply business segment and, beginning in 2005, supply by DLE) (electricity supply business segment), (3) collection of transition costs (which were fully collected by December 31, 2005) (CTC business segment), (4) DES' development, operation and

maintenance of energy facilities and, for a single customer, synthetic fuel facilities (Energy Solutions business segment), (5) DQE Financial's collection and processing of landfill gas and management of structured finance and alternative energy investments (Financial business segment), and (6) DQE Communications' operation, maintenance and leasing of its fiber optic based network

(Communications business segment). We also report an "all other" category to include our other subsidiaries below the quantitative threshold for disclosure. These subsidiaries provide corporate administrative functions, financing, and insurance services for our various affiliates.

Duquesne Light Company

Business Segments for the Twelve Months Ended December 31, 2005

	(Millions of Dollars)			
	Electricity Delivery	Duquesne Light Supply	CTC	Consolidated
Operating revenues	\$ 343.5	\$ 443.8	\$ 5.1	\$ 792.4
Operating expenses	178.2	394.8	0.3	573.3
Depreciation and amortization expense	67.1	—	4.7	71.8
Operating income	98.2	49.0	0.1	147.3
Other income - net	15.9	0.3	—	16.2
Interest and other charges	47.0	1.0	—	48.0
Income before income taxes	67.1	48.3	0.1	115.5
Income tax expense	22.6	19.9	—	42.5
Net Income	44.5	28.4	0.1	73.0
Dividends on preferred and preference stock	8.0	—	—	8.0
Earnings available for common stock	\$ 36.5	\$ 28.4	\$ 0.1	\$ 65.0
Assets	\$2,123.1	\$ —	\$ —	\$2,123.1
Capital expenditures	\$ 153.9	\$ —	\$ —	\$ 153.9

Duquesne Light Company

Business Segments for the Twelve Months Ended December 31, 2004

	(Millions of Dollars)			
	Electricity Delivery	Duquesne Light Supply	CTC	Consolidated
Operating revenues	\$ 344.7	\$434.5	\$ 10.1	\$ 789.3
Operating expenses	164.7	402.8	0.4	567.9
Acquisition termination cost	—	8.3	—	8.3
Depreciation and amortization expense	62.3	—	9.1	71.4
Operating income	117.7	23.4	0.6	141.7
Other income - net	16.6	—	—	16.6
Interest and other charges	46.2	—	—	46.2
Income before income taxes	88.1	23.4	0.6	112.1
Income tax expense	34.4	9.7	0.2	44.3
Net Income	53.7	13.7	0.4	67.8
Dividends on preferred and preference stock	6.6	—	—	6.6
Earnings available for common stock	\$ 47.1	\$ 13.7	\$ 0.4	\$ 61.2
Assets	\$2,287.1	\$ 1.2	\$ 4.7	\$2,293.0
Capital expenditures	\$ 83.4	\$ 0.1	\$ —	\$ 83.5

Business Segments for the Twelve Months Ended December 31, 2003

	(Millions of Dollars)			
	Electricity Delivery	Duquesne Light Supply	CTC	Consolidated
Operating revenues	\$338.4	\$450.2	\$ 17.5	\$806.1
Operating expenses	157.3	416.5	0.8	574.6
Depreciation and amortization expense	60.7	—	15.7	76.4
Operating income	120.4	33.7	1.0	155.1
Other income - net	20.3	—	—	20.3
Interest and other charges	60.4	—	—	60.4
Income before income taxes	80.3	33.7	1.0	115.0
Income tax expense	31.0	14.0	0.4	45.4
Net Income	49.3	19.7	0.6	69.6
Dividends on preferred and preference stock	3.2	—	—	3.2
Earnings available for common stock	\$ 46.1	\$ 19.7	\$ 0.6	\$ 66.4
Assets	\$2,200.8	\$ —	\$ 8.4	\$2,209.2
Capital expenditures	\$ 76.1	\$ —	\$ —	\$ 76.1

Duquesne Light Holdings

Business Segments for the Twelve Months Ended December 31, 2005

	(Millions of Dollars)								
	Electricity Delivery	Electricity Supply	CTC	Energy Solutions	Financial	Communi- cations	All Other	Elimina- tions	Consoli- dated
Operating revenues	\$ 343.5	\$ 451.4	\$ 5.1	\$ 68.6	\$ 49.0	\$ 9.5	\$ —	\$ (4.9)	\$ 922.2
Operating expenses	178.2	402.4	0.3	25.0	49.6	3.8	7.2	(4.9)	661.6
Depreciation and amortization expense	67.1	—	4.7	1.7	5.9	2.1	0.8	—	82.3
Operating income (loss)	98.2	49.0	0.1	41.9	(6.5)	3.6	(8.0)	—	178.3
Other income – net	15.9	0.4	—	19.1	12.6	0.2	6.2	(14.3)	40.1
Interest and other charges	55.0	1.1	—	0.1	0.1	—	19.6	(13.3)	62.6
Benefit from limited partners' interest	—	—	—	—	10.1	—	—	—	10.1
Income (loss) before income taxes	59.1	48.3	0.1	60.9	16.1	3.8	(21.4)	(1.0)	165.9
Income tax expense (benefit)	22.6	19.9	—	25.0	(14.1)	1.3	(1.8)	0.1	53.0
Income (loss) from continuing operations	\$ 36.5	\$ 28.4	\$ 0.1	\$ 35.9	\$ 30.2	\$ 2.5	\$ (19.6)	\$ (1.1)	\$ 112.9
Assets (a)	\$2,100.1	\$ 68.1	\$ —	\$ 17.9	\$573.9	\$29.9	\$29.0	\$ —	\$2,818.9
Capital expenditures	\$ 153.9	\$ —	\$ —	\$ 0.1	\$ 0.4	\$ 3.2	\$ —	\$ —	\$ 157.6

(a) Excludes discontinued operations assets.

Business Segments for the Twelve Months Ended December 31, 2004

	(Millions of Dollars)								
	Electricity Delivery	Electricity Supply	CTC	Energy Solutions	Financial	Communi- cations	All Other	Elimina- tions	Consoli- dated
Operating revenues	\$ 344.7	\$434.5	\$10.1	\$ 68.4	\$ 32.8	\$ 8.1	\$ 0.4	\$ (1.7)	\$ 897.3
Operating expenses	164.7	402.8	0.4	32.5	40.7	3.3	12.1	(1.6)	654.9
Acquisition termination cost	—	8.3	—	—	—	—	—	—	8.3
Depreciation and amortization expense	62.3	—	9.1	1.9	7.3	1.9	0.9	—	83.4
Operating income (loss)	117.7	23.4	0.6	34.0	(15.2)	2.9	(12.6)	(0.1)	150.7
Other income - net	16.6	—	—	1.4	9.5	0.1	1.3	(16.2)	12.7
Interest and other charges	52.8	—	—	0.1	0.1	—	26.0	(16.0)	63.0
Benefit from limited partners' interest	—	—	—	—	7.4	—	—	—	7.4
Income (loss) before income taxes	81.5	23.4	0.6	35.3	1.6	3.0	(37.3)	(0.3)	107.8
Income tax expense (benefit)	34.4	9.7	0.2	12.6	(24.8)	1.3	(13.1)	0.3	20.6
Income (loss) from continuing operations	\$ 47.1	\$ 13.7	\$ 0.4	\$ 22.7	\$ 26.4	\$ 1.7	\$ (24.2)	\$ (0.6)	\$ 87.2
Assets	\$1,879.5	\$ 1.1	\$ 4.7	\$32.6	\$604.4	\$ 28.6	\$ 81.9	\$ —	\$2,632.8
Capital expenditures	\$ 83.4	\$ 0.1	\$ —	\$ 0.1	\$ 0.9	\$ 1.9	\$ —	\$ —	\$ 86.4

Duquesne Light Holdings

Business Segments for the Twelve Months Ended December 31, 2003

	(Millions of Dollars)								
	Electricity Delivery	Electricity Supply	CTC	Energy Solutions	Financial	Communi- cations	All Other	Elimina- tions	Consoli- dated
Operating revenues	\$ 338.4	\$ 450.2	\$ 17.5	\$ 63.5	\$ 27.8	\$ 6.7	\$ 0.3	\$ (1.6)	\$ 902.8
Operating expenses	157.3	416.5	0.8	33.1	45.4	3.7	8.6	(0.8)	664.6
Depreciation and amortization expense	60.7	—	15.7	2.1	6.4	1.8	0.6	—	87.3
Operating income (loss)	120.4	33.7	1.0	28.3	(24.0)	1.2	(8.9)	(0.8)	150.9
Other income - net	20.3	—	—	1.8	29.4	—	0.7	(17.8)	34.4
Interest and other charges	63.6	—	—	0.2	1.8	—	25.5	(16.7)	74.4
Income (loss) before income taxes	77.1	33.7	1.0	29.9	3.6	1.2	(33.7)	(1.9)	110.9
Income tax expense (benefit)	31.0	14.0	0.4	9.6	(29.6)	0.4	(8.1)	—	17.7
Income (loss) from continuing operations	46.1	19.7	0.6	20.3	33.2	0.8	(25.6)	(1.9)	93.2
Dividends on preferred stock	—	—	—	—	—	—	0.4	—	0.4
Earnings (loss) from continuing operations available for common stock	\$ 46.1	\$ 19.7	\$ 0.6	\$ 20.3	\$ 33.2	\$ 0.8	\$(26.0)	\$ (1.9)	\$ 92.8
Assets	\$1,866.6	\$ —	\$ 8.4	\$34.2	\$572.1	\$30.0	\$ 29.5	\$ —	\$2,540.8
Capital expenditures	\$ 76.1	\$ —	\$ —	\$ 0.4	\$ 0.3	\$ 1.0	\$ 0.2	\$ —	\$ 78.0

21. Quarterly Financial Information (Unaudited)

Summary of Selected Quarterly Financial Data Duquesne Light Holdings

(Millions of Dollars, Except Per Share Amounts)				
2005 (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	\$218.7	\$221.9	\$263.3	\$218.3
Operating income	47.1	38.7	58.8	33.7
Income from continuing operations	34.6 (b)	21.6	43.5 (b)	13.2 (b)
Income (loss) from discontinued operations	0.4	(0.1)	0.1	0.9
Net income	35.0	21.5	43.6	14.1
Basic earnings (loss) per share:				
Continuing operations	0.45	0.28	0.56	0.17
Discontinued operations	—	—	—	0.01
Total	0.45	0.28	0.56	0.18
Stock price:				
High	19.17	19.25	19.43	17.40
Low	17.43	17.30	17.17	16.14
2004 (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	\$217.1	\$218.9	\$242.8	\$218.5
Operating income	35.2	36.4	40.2 (c)	38.9
Income from continuing operations	21.7	23.0	23.4	19.1
Income (loss) from discontinued operations	0.1	0.4	0.2	(0.9)
Net income	21.8	23.4	23.6	18.2
Basic earnings (loss) per share:				
Continuing operations	0.29	0.30	0.31	0.25
Discontinued operations	—	0.01	—	(0.01)
Total	0.29	0.31	0.31	0.24
Stock price:				
High	20.44	19.70	19.62	19.25
Low	18.05	17.71	17.96	17.01

(a) The quarterly data reflect seasonal weather variations in the electric utility's service territory. Stock prices reflect New York Stock Exchange data.

(b) First quarter results include a \$8.3 million increase in the fair value of certain derivative energy contracts at Duquesne Light and a \$4.6 million gain on the sale of an investment at DQE Financial. Third quarter results include a \$11.7 million gain on the sale of an energy facility management project at DES and an \$6.5 million increase in the fair value of certain derivative energy contracts at Duquesne Light. Fourth quarter results include a \$7.8 million gain on the sale of two energy facility management projects at DES, a \$3.7 million decrease in the fair value of certain derivative energy contracts at Duquesne Light and \$6.7 million of charges related to an energy facility management project.

(c) Third quarter results include a pre-tax charge of \$8.3 million at Duquesne Light for the write-off of deposits and deferred costs related to the termination of the acquisition of a generation station. (See Note 3.)

Duquesne Light Company

(Millions of Dollars)

2005 (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	\$ 191.5	\$ 189.9	\$ 225.8	\$185.2
Operating income	42.6 (b)	32.3	52.5 (b)	19.9 (b)
Net income	21.9	14.6	27.3	9.2
2004 (a)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	\$ 194.6	\$ 193.8	\$ 213.1	\$ 187.8
Operating income	36.6	36.2	34.9 (c)	34.0
Net income	17.8	18.3	17.0	14.7

- (a) The quarterly data reflect seasonal weather variations in our service territory.
 (b) First quarter results include a \$8.3 million increase in the fair value of certain derivative energy contracts. Third quarter results include an \$6.5 million increase in the fair value of certain derivative energy contracts. Fourth quarter results include a \$3.7 million decrease in the fair value of certain derivative energy contracts.
 (c) Third quarter results include an \$8.3 million pre-tax charge for the write-off of deposits and deferred costs related to the termination of the acquisition of a generation station. (See Note 3.)

Item 9. Changes In and Disagreements With Accountants On Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Management of both Holdings and Duquesne Light, with the participation of each entity's Chief Executive Officer and the Chief Financial Officer, has evaluated their respective disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Each entity's Chief Executive Officer and the Chief Financial Officer have concluded that these controls and procedures are effective to ensure that the information required to be disclosed in Holdings' and Duquesne Light's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Management's Report on Internal Control Over Financial Reporting

Management of both Holdings and Duquesne Light is responsible for establishing and maintaining adequate internal control over financial reporting. These internal control systems are designed to provide reasonable assurance to each entity's management

and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, implemented, and executed have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management of both entities assessed the effectiveness of their respective internal control over financial reporting as of December 31, 2005. In making these assessments, each entity used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Our assessment included reviewing the documentation of our controls, evaluating their design effectiveness, and testing their operating effectiveness. Based on our assessment, management of each entity believes that, as of December 31, 2005, the respective entity's internal control over financial reporting is effective based on those criteria.

The independent auditors for Holdings and Duquesne Light have issued the below attestation reports on each entity's assessment of its internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There has been no change in Holdings' or Duquesne Light's internal control over financial reporting that occurred during the fourth quarter that has materially affected, or is reasonably likely to

materially affect, such internal control over financial reporting.

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Duquesne Light Holdings, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Duquesne Light Holdings, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain

to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2005 of the Company and our report dated March 6, 2006 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 6, 2006

To the Board of Directors and Shareholder of
Duquesne Light Company:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Duquesne Light Company and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2005 of the Company and our report dated March 6, 2006 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 6, 2006

Item 9B. Other Information.

None.

P A R T I I I

Item 10. Directors and Executive Officers of the Registrants.

Information relating to Holdings' executive officers and Duquesne Light's executive officers and directors is set forth in Part I of this Report under the caption "Executive Officers of the Registrant." All other information about Holdings required under this Item 10 is set forth in and incorporated by reference from the 2006 Proxy Statement. All other information about Duquesne Light required under this Item 10 is set forth in and incorporated by reference from Exhibit 99.1.

Because Holdings lists its common stock on the New York Stock Exchange (NYSE), Holdings' Chief Executive Officer is required to make, and has made, an annual certification to the NYSE stating that he was not aware of any violation by Holdings of the corporate governance listing standards of the NYSE. Holdings' Chief Executive Officer made his annual certification to that effect to the NYSE as of June 8, 2005. Because Duquesne Light lists only debt and preferred securities on the NYSE, it is not required to make such annual certifications.

Both Holdings and Duquesne Light have filed, as exhibits to this combined Annual Report on Form 10-K, the Chief Executive Officer and Chief Financial Officer certifications required under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosure.

Item 11. Executive Compensation.

Information relating to executive compensation for Holdings is set forth in and incorporated by reference from the 2006 Proxy Statement. Information relating to executive compensation for Duquesne Light is set forth in and incorporated by reference from Exhibit 99.1.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information relating to the ownership of Holdings equity securities by Holdings' directors, officers and certain beneficial owners is set forth in and incorporated by reference from the 2006 Proxy Statement.

Information relating to the ownership of Holdings equity securities by Duquesne Light directors, officers and certain beneficial owners is set forth in and incorporated by reference from Exhibit 99.1.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing compensation plans as of December 31, 2005:

Plan Category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (2))
Equity compensation plans approved by security holders	1,130,602	\$23.10	2,622,280
Equity compensation plans not approved by security holders	—	—	—
Total	1,130,602	\$23.10	2,622,280

(1) Includes 352,373 shares of common stock issuable upon exercise of options granted under our prior Long-Term Incentive Plan (discontinued in 2002) and 199,631 shares of common stock issuable upon exercise of options granted under our current Incentive Plan. Reflects 363,200 and 33,367 deferred stock units awarded in 2003 and 2005, which may or may not be earned depending on our achieving cumulative total shareholder return and earnings per share goals through 2006. Awardees may earn up to 100% of the amounts awarded. Reflects 52,390 restricted stock units awarded in 2004, which may or may not be earned depending on our achieving cumulative total shareholder return goals through 2006. Awardees may earn up to 100% of the amounts awarded. Reflects 186,417; 20,000; and 36,292 restricted shares issued in 2003, 2004 and 2005.

(2) All of these shares are available under our current Incentive Plan.

Item 13. Certain Relationships and Related Transactions.

None.

Item 14. Principal Accounting Fees and Services.

Information regarding Deloitte & Touche LLP's fees and services is set forth in and incorporated by reference from the 2006 Proxy Statement. Such fees and services apply to Deloitte & Touche LLP's work for all of Holdings' consolidated subsidiaries, including Duquesne Light.

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following information is set forth in Part II, Item 8:

Reports of Independent Registered Public Accounting Firm.

Holdings Consolidated Statements of Income for the Three Years Ended December 31, 2005.

Holdings Consolidated Balance Sheets, December 31, 2005 and 2004.

Holdings Consolidated Statements of Cash Flows for the Three Years Ended December 31, 2005.

Holdings Consolidated Statements of Comprehensive Income for the Three Years Ended December 31, 2005.

Holdings Consolidated Statements of Common Shareholders' Equity for the Three Years Ended December 31, 2005.

Duquesne Light Consolidated Statements of Income for the Three Years Ended December 31, 2005.

Duquesne Light Consolidated Balance Sheets, December 31, 2005 and 2004.

Duquesne Light Consolidated Statements of Cash Flows for the Three Years Ended December 31, 2005.

Duquesne Light Consolidated Statements of Comprehensive Income for the Three Years Ended December 31, 2005.

Duquesne Light Consolidated Statements of Common Shareholder's Equity for the Three Years Ended December 31, 2005.

Notes to Consolidated Financial Statements.

(a)(2) The following financial statement schedules are filed here as a part of this Report:

Schedule for the Three Years Ended December 31, 2005:

- I - Condensed Financial Information of Registrant (Holdings)
- II - Valuation and Qualifying Accounts (Holdings)
- II - Valuation and Qualifying Accounts (Duquesne Light)

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

(a)(3) Exhibits are set forth in the Exhibit Index below, incorporated here by reference. Documents other than those designated as being filed here are incorporated here by reference. Documents incorporated by reference to a Holdings Annual Report on Form 10-K, a Quarterly Report on Form 10-Q or a Current Report on Form 8-K are at Securities and Exchange Commission File No. 1-10290. Documents incorporated by reference to a Duquesne Light Annual Report on Form 10-K, a Quarterly Report on Form 10-Q or a Current Report on Form 8-K are at Securities and Exchange Commission File No. 1-956.

The Exhibits include the management contracts and compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

(b) Exhibits Index.

Exhibit No.	Description	Method of Filing
3.1	Holdings Articles of Incorporation effective January 5, 1989.	Exhibit 3.1 to the Holdings Form 10-K for the year ended December 31, 1989.
3.2	Holdings Articles of Amendment effective April 27, 1989.	Exhibit 3.2 to the Holdings Form 10-K for the year ended December 31, 1989.
3.3	Holdings Articles of Amendment effective February 8, 1993.	Exhibit 3.3 to the Holdings Form 10-K for the year ended December 31, 1992.
3.4	Holdings Articles of Amendment effective May 24, 1994.	Exhibit 3.4 to the Holdings Form 10-K for the year ended December 31, 1994.
3.5	Holdings Articles of Amendment effective April 20, 1995.	Exhibit 3.5 to the Holdings Form 10-K for the year ended December 31, 1995.
3.6	Holdings Articles of Amendment effective September 30, 2003.	Exhibit 3.6 to the Holdings Form 10-K for the year ended December 31, 2002.
3.7	Holdings Statement with respect to the Preferred Stock, Series A (Convertible).	Exhibit 3.1 to the Holdings Form 10-Q for the quarter ended September 30, 1997.
3.8	Duquesne Light Restated Articles of Incorporation currently in effect.	Exhibit 3.1 to the Duquesne Light Form 10-Q for the quarter ended June 30, 1999.
3.9	Holdings By-Laws, as amended through September 30, 2003, and as currently in effect.	Exhibit 3.1 to the Holdings Form 10-Q for the quarter ended September 30, 2003.
3.10	Duquesne Light By-Laws, as amended through October 13, 2003, and as currently in effect.	Exhibit 3.1 to the Duquesne Light Form 10-Q for the quarter ended September 30, 2003.
3.11	Form of Duquesne Light Statement with respect to the 6.50% Preferred Stock.	Exhibit 3.3 to Registration Statement (Form S-3) No. 333-112929.
4.1	Indenture of Mortgage and Deed of Trust dated as of April 1, 1992, between Duquesne Light Company and JP Morgan Chase (a restatement of the Indenture in its entirety as amended through 2004).	Exhibit 4.1 to the Holdings Form 10-K for the year ended December 31, 2004.
4.2	Indenture dated as of August 16, 2005 between Holdings and J.P. Morgan Trust Company, National Association, as Trustee.	Exhibit 4.1 to the Holdings Form 8-K dated August 17, 2005.
4.3	Form of 2015 Senior Note.	Exhibit 4.2 to the Holdings Form 8-K dated August 17, 2005.

4.4	Form of 2035 Senior Note.	Exhibit 4.3 to the Holdings Form 8-K dated August 17, 2005.
4.5	Form of Officer's Certificate for the 2015 Senior Note.	Exhibit 4.4 to the Holdings Form 8-K dated August 17, 2005.
4.6	Form of Officer's Certificate for the 2035 Senior Note.	Exhibit 4.5 to the Holdings Form 8-K dated August 17, 2005.
4.7	Indenture, dated as of August 1, 1999, from DQE Capital Corporation and Holdings to The First National Bank of Chicago, as Trustee.	Exhibit 4.1 to the Form 8-A of DQE Capital Corporation and Holdings, filed September 16, 1999.
4.8	Form of Note.	Exhibit 4.2 to the Form 8-A of DQE Capital Corporation and Holdings, filed September 16, 1999.
10.1	Deferred Compensation Plan for Directors of Duquesne Light Company, as amended to date.	Exhibit 10.1 to the Holdings Form 10-K for the year ended December 31, 1992.
10.2	Restated Pension Service Supplement Program.	Exhibit 10.2 to the Holdings Form 10-K for the year ended December 31, 2004.
10.3	Duquesne Light Charitable Giving Program, as amended.	Exhibit 10.6 to the Holdings Form 10-K Annual Report for the year ended December 31, 2001.
10.4	Severance Agreement dated December 23, 2003 for Morgan K. O'Brien, with a schedule listing substantially identical agreements with Joseph G. Belechak, Maureen L. Hogel, Stevan R. Schott and James E. Wilson.	Exhibit 10.11 to the Holdings Form 10-K for the year ended December 31, 2003.
10.5	Schedule to Exhibit 10.4 listing substantially identical agreements with Joseph G. Belechak, Maureen L. Hogel, Mark E. Kaplan, Stevan R. Schott and James E. Wilson.	Filed here.
10.6	Employment Agreement dated as of September 14, 2001 between Holdings and Morgan K. O'Brien.	Exhibit 10.8 to the Holdings Form 10-K for the year ended December 31, 2001.
10.7	Non-Competition and Confidentiality Agreement dated as of September 14, 2001 for Morgan K. O'Brien.	Exhibit 10.13 to the Holdings Form 10-K for the year ended December 31, 2001.
10.8	Non-Competition and Confidentiality Agreement dated as of August 17, 2000 for William F. Fields.	Exhibit 10.7 to the Holdings Form 10-K for the year ended December 31, 2004.
10.9	Non-Competition and Confidentiality Agreement dated as of August 1, 2000 for Joseph G. Belechak.	Exhibit 10.7 to the Duquesne Light Form 10-K for the year ended December 31, 2001.

10.10	Non-Competition and Confidentiality Agreement dated as of April 2, 1997 for Maureen L. Hogel.	Exhibit 10.8 to the Duquesne Light Form 10-K for the year ended December 31, 2001.
10.11	Schedule to Exhibit 10.9 listing substantially identical agreements with Mark E. Kaplan, Stevan R. Schott and James E. Wilson.	Filed here.
10.12	Form of Stock Option Agreement for Officers (with change in control)	Exhibit 10.11 to the Holdings Form 10-K for the year ended December 31, 2004.
10.13	Form of Stock Option Agreement for Officers	Exhibit 10.12 to the Holdings Form 10-K for the year ended December 31, 2004.
10.14	Form of Deferred Stock Unit Agreement for Officers	Exhibit 10.13 to the Holdings Form 10-K for the year ended December 31, 2004.
10.15	Form of Performance Share Agreement for Officers	Exhibit 10.14 to the Holdings Form 10-K for the year ended December 31, 2004.
10.16	Form of Restricted Stock Agreement for Officers	Exhibit 10.15 to the Holdings Form 10-K for the year ended December 31, 2004.
10.17	Form of Stock Option Agreement for Directors	Exhibit 10.16 to the Holdings Form 10-K for the year ended December 31, 2004.
10.18	Form of Restricted Stock Agreement for Directors	Exhibit 10.17 to the Holdings Form 10-K for the year ended December 31, 2004.
10.19	Description of Executive Benefits	Filed here.
10.20	Description of Directors' Fees and Plans	Exhibit 10.19 to the Holdings Form 10-K for the year ended December 31, 2004.
10.21	Holdings' Amended and Restated \$200 Million Credit Agreement dated as of July 27, 2005.	Exhibit 10.1 to the Holdings Form 10-Q for the quarter ended June 30, 2005.
10.22	Increasing Lender Agreement between Holdings and Union Bank of California, N.A., dated January 31, 2006, modifying Holdings' Amended and Restated \$200 Million Credit Agreement, together with a schedule listing substantially identical agreements with the other lenders.	Filed here.
10.23	Accession and Amendment Agreement between Holdings and Keybank National Association, dated January 31, 2006, including Keybank as a lender under Holdings' Amended and Restated \$200 Million Credit Agreement.	Filed here.

10.24	Duquesne Light's Third Amended and Restated \$100 Million Credit Agreement dated as of July 27, 2005.	Exhibit 10.2 to the Duquesne Light Form 8-K dated July 27, 2005.
10.25	Increasing Lender Agreement between Duquesne Light and JPMorgan Chase, N.A., dated January 31, 2006, modifying Duquesne Light's Third Amended and Restated \$100 Million Credit Agreement, together with a schedule listing substantially identical agreements with the other lenders.	Filed here.
10.26	Accession and Amendment Agreement between Duquesne Light and Keybank National Association, dated January 31, 2006, including Keybank as a lender under Duquesne Light's Third Amended and Restated \$100 Million Credit Agreement.	Filed here.
10.27	POLR Agreement, dated as of September 24, 1999 by and between Duquesne Light Company and Orion Power Holdings, Inc.	Exhibit 2.2 to the Holdings Form 8-K dated September 24, 1999.
10.28	Amended and Restated POLR II Agreement by and between Duquesne Light Company and Orion Power MidWest, L.P., dated as of December 7, 2000.	Exhibit 10.11 to the Duquesne Light Form 10-K for the year ended December 31, 2000.
10.29	Purchase and Sale Agreement by and between Atlantic City Electric Company and Holdings dated November 14, 2005.	Exhibit 10.1 to the Holdings Form 8-K dated November 14, 2005.
12.1	Holdings' Ratio of Earnings.	Filed here.
12.2	Duquesne Light's Ratio of Earnings.	Filed here.
21.1	Subsidiaries of the registrants.	Filed here.
23.1	Consent of Independent Registered Public Accounting Firm regarding Holdings.	Filed here.
23.2	Consent of Independent Registered Public Accounting Firm regarding Duquesne Light.	Filed here.
31.1	Section 302 Certification of Holdings' CEO.	Filed here.
31.2	Section 302 Certification of Holdings' CFO.	Filed here.
31.3	Section 302 Certification of Duquesne Light's CEO.	Filed here.
31.4	Section 302 Certification of Duquesne Light's CFO.	Filed here.
32.1	Section 906 Certification of Holdings' CEO.	Filed here.
32.2	Section 906 Certification of Holdings' CFO.	Filed here.
32.3	Section 906 Certification of Duquesne Light's CEO.	Filed here.
32.4	Section 906 Certification of Duquesne Light's CFO.	Filed here.
99.1	Information regarding Duquesne Light directors, executive compensation and security ownership.	Filed here.

Copies of the exhibits listed above will be furnished, upon request, to holders or beneficial owners of any class of our stock as of January 31, 2006, subject to payment in advance of the cost of reproducing the exhibits requested.

SCHEDULE I

Condensed Financial Information of Registrant (Parent Company)

Duquesne Light Holdings, Inc.

Schedule I – Condensed Financial Information of Registrant (Parent Company)

Statements of Income

(All Amounts in Millions,
Except Per Share Amounts)
Year Ended December 31,

	2005	2004	2003
Operating Expenses:			
Operating and administrative	\$ 6.9	\$ 4.7	\$ 1.3
Intercompany administrative expenses	—	6.6	5.8
Depreciation and amortization	0.8	0.8	1.7
Total Operating Expenses	7.7	12.1	8.8
Operating Loss	(7.7)	(12.1)	(8.8)
Other Income – net	5.1	—	(0.5)
Intercompany Interest Expense	(11.3)	(23.8)	(24.1)
Interest and Other Charges	(7.5)	(0.4)	(0.3)
<i>Loss Before Income Taxes and Equity in Income of</i>			
Unconsolidated Subsidiaries	(21.4)	(36.3)	(33.7)
Income Tax Expense	(29.8)	(15.6)	(83.7)
Equity in Income of Unconsolidated Subsidiaries	165.4	138.9	293.3
Net Income	114.2	87.0	175.9
Dividends on Preferred Stock	—	—	0.4
Earnings Available for Common Stock	\$ 114.2	\$ 87.0	\$ 175.5
Average Number of Common Shares Outstanding	77.7	76.4	75.0
Basic Earnings Per Share of Common Stock	\$ 1.47	\$ 1.14	\$ 2.34
Diluted Earnings Per Share of Common Stock	\$ 1.47	\$ 1.14	\$ 2.29
Dividends Declared Per Share of Common Stock	\$ 1.00	\$ 1.00	\$ 1.00

See notes to condensed financial statements.

Duquesne Light Holdings, Inc.

Schedule I – Condensed Financial Information of Registrant (Parent Company)

Balance Sheets

	(Millions of Dollars)	
	As of December 31,	
Assets	2005	2004
Current Assets:		
Cash and temporary cash investments	\$ —	\$ 0.1
Receivables	—	13.2
Receivables – unconsolidated subsidiaries	1.0	11.8
Notes receivable – unconsolidated subsidiaries	7.8	—
Deferred income taxes – net	18.1	—
Derivative instruments	2.2	—
Other	0.1	0.1
Total Current Assets	29.2	25.2
Investments in Unconsolidated Subsidiaries (Note 2)	1,047.2	943.6
Other Non-Current Assets:		
Deferred income taxes – net	117.3	137.1
Other	9.0	5.4
Total Other Non-Current Assets	126.3	142.5
Total Assets	\$1,202.7	\$1,111.3
Liabilities and Capitalization		
Current Liabilities:		
Short-term debt	\$ 40.0	\$ —
Accounts payable	0.5	0.2
Accounts payable – unconsolidated subsidiaries	44.9	24.6
Notes payable – unconsolidated subsidiaries	55.7	384.5
Income taxes payable	56.2	32.7
Common stock dividends	20.0	19.7
Other	8.8	22.7
Total Current Liabilities	226.1	484.4
Total Non-Current Liabilities	0.7	16.5
Commitments and Contingencies		
Capitalization:		
Long-term debt	320.0	—
Common Shareholders' Equity:		
Common stock – no par value (authorized – 187,500,000 shares; issued – 126,929,154 shares)	1,200.5	1,206.7
Retained earnings	600.0	563.6
Treasury stock (at cost) (48,935,435 and 49,927,343 shares)	(1,132.5)	(1,157.3)
Unearned compensation	(1.8)	(2.6)
Accumulated other comprehensive income	(10.3)	—
Total Common Shareholders' Equity	655.9	610.4
Total Capitalization	975.9	610.4
Total Liabilities and Capitalization	\$1,202.7	\$1,111.3

See notes to condensed financial statements.

Duquesne Light Holdings, Inc.

Schedule I – Condensed Financial Information of Registrant (Parent Company)

Statements of Cash Flows

	(Millions of Dollars)		
	Year Ended December 31,		
	2005	2004	2003
Net Cash Provided from Operating Activities	\$ 123.3	\$ 81.6	\$ 100.7
Cash Flows From Investing Activities:			
Loans to unconsolidated subsidiaries, net	(7.8)	—	—
Investments in unconsolidated subsidiaries	(85.0)	—	(7.1)
Return of capital from unconsolidated subsidiaries	10.0	179.5	—
Capital expenditures	—	—	(0.2)
Net Cash (Used in) Provided from Investing Activities	(82.8)	179.5	(7.3)
Cash Flows From Financing Activities:			
Issuance of long-term debt obligations	320.0	—	—
Borrowings from unconsolidated subsidiaries	96.8	17.0	66.1
Repayments of unconsolidated subsidiary borrowings	(425.6)	(210.2)	(94.4)
Revolving credit facility borrowings, net	40.0	—	—
Dividends on common and preferred stock	(67.1)	(66.0)	(64.4)
Other	(4.7)	(1.8)	(0.7)
Net Cash Used in Financing Activities	(40.6)	(261.0)	(93.4)
Net (decrease) increase in cash and temporary cash investments	(0.1)	0.1	—
Cash and temporary cash investments at beginning of year	0.1	—	—
Cash and temporary cash investments at end of year	\$ —	\$ 0.1	\$ —
Supplemental Cash Flow Information			
Dividends received from unconsolidated subsidiaries	\$ 97.1	\$114.0	\$103.5
Cash paid during the year:			
Interest	\$ 13.6	\$ 24.6	\$ 24.2
Income taxes paid (refunded)	\$ 28.4	\$ (20.4)	\$ 80.9

See notes to condensed financial statements.

Duquesne Light Holdings, Inc.

Schedule I - Condensed Financial Information of Registrant (Parent Company)

Notes to Condensed Financial Statements

1. Basis of Presentation

Pursuant to rules and regulations of the Securities and Exchange Commission, the unconsolidated condensed financial statements of *Duquesne Light Holdings, Inc. (Holdings)* do not reflect all of the information and notes normally included with financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Therefore, these financial statements should be read in conjunction with the consolidated financial statements and related notes included in Item 8 in Holdings' annual report on Form 10-K.

Accounting for subsidiaries — Holdings has accounted for the earnings of its subsidiaries under the equity method in the unconsolidated condensed financial statements.

Income taxes — Income taxes are computed for Holdings in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", and reflect the assets and liabilities of Holdings on a stand-alone basis. Holdings also records the effect of filing consolidated federal tax returns with its subsidiaries.

2. Restricted Net Assets of Subsidiaries

As of December 31, 2005, Holdings' proportionate share of net assets from subsidiaries which may not be transferred to Holdings in the form of loans, advances or cash dividends without the consent of a third party was \$234.3 million.

SCHEDULE II

Valuation and Qualifying Accounts

For the Years Ended December 31, 2005, 2004 and 2003

Reserve deducted from the Asset to which it applies: Allowance for uncollectible accounts

(Millions of Dollars)

Description	Balance at Beginning of Year	Additions		Deductions (b)	Balance at End of Year
		Charged to Costs and Expenses	Charged to Other Accounts (a)		
DUQUESNE LIGHT HOLDINGS					
Year Ended December 31, 2005	\$18.1	\$19.3	\$3.3	\$19.6	\$21.1
Year Ended December 31, 2004	19.9	12.0	4.2	18.0	18.1
Year Ended December 31, 2003	21.7	10.8	3.6	16.2	19.9
DUQUESNE LIGHT COMPANY					
Year Ended December 31, 2005	\$17.9	\$19.1	\$3.2	\$19.4	\$20.8
Year Ended December 31, 2004	19.9	11.9	4.1	18.0	17.9
Year Ended December 31, 2003	21.7	10.2	3.6	15.6	19.9

Notes: (a) Recovery of accounts previously written off.
 (b) Accounts receivable written off.

SIGNATURES

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

Duquesne Light Company
(Registrant)

Date: March 7, 2006

By: /s/ Morgan K. O'Brien
(Signature)
Morgan K. O'Brien
President and Chief Executive Officer

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

Signature	Title	Date
<u>/s/ Morgan K. O'Brien</u> Morgan K. O'Brien	Director, President and Chief Executive Officer	March 7, 2006
<u>/s/ Mark E. Kaplan</u> Mark E. Kaplan	Director, Senior Vice President and Chief Financial Officer	March 7, 2006
<u>/s/ Susan S. Betta</u> Susan S. Betta	Controller (Principal Accounting Officer)	March 7, 2006
<u>/s/ Joseph G. Belechak</u> Joseph G. Belechak	Director	March 7, 2006
<u>/s/ Maureen L. Hogel</u> Maureen L. Hogel	Director	March 7, 2006

EXHIBIT 12.1

DUQUESNE LIGHT HOLDINGS AND SUBSIDIARIES

Calculation of Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividend Requirements

	(Millions of Dollars)				
	Year Ended December 31,				
	2005	2004	2003	2002	2001
Fixed Charges:					
Interest on long-term debt	\$ 54.2	\$ 55.2	\$ 53.1	\$ 55.3	\$ 62.3
Other interest	1.1	2.0	12.3	13.3	25.6
Portion of lease payments representing an interest factor	3.1	3.9	4.9	3.2	3.1
Dividend requirement (a)	<u>8.0</u>	<u>6.6</u>	<u>9.5</u>	<u>15.8</u>	<u>16.0</u>
Total Fixed Charges	<u>\$ 66.4</u>	<u>\$ 67.7</u>	<u>\$ 79.8</u>	<u>\$ 87.6</u>	<u>\$107.0</u>
Earnings:					
Income (loss) from continuing operations	\$112.9	\$ 87.2	\$ 93.2	\$ 26.7	\$ (44.5)
Income taxes	53.0	20.6	17.7	(11.6)	(77.4)
Fixed charges as above	<u>66.4</u>	<u>67.7</u>	<u>79.8</u>	<u>87.6</u>	<u>107.0</u>
Total Earnings	<u>\$232.3</u>	<u>\$175.5</u>	<u>\$190.7</u>	<u>\$102.7</u>	<u>\$ (14.9)</u>
Ratio Of Earnings To Fixed Charges and Preferred and Preference Stock Dividend Requirements					
	<u>3.50</u>	<u>2.59</u>	<u>2.39</u>	<u>1.17</u>	<u>(0.14) (b)</u>

- (a) Includes annual dividend requirements of \$12.6 million for the Monthly Income Preferred Securities (MIPS) per year for 2002 and prior. For 2003, only \$6.3 million is included for the period January 1 – June 30. From July 1, 2003 until their redemption in 2004, MIPS dividends were included with interest on long-term debt due to the adoption of SFAS No. 150.
- (b) In order to achieve a ratio of earnings to fixed charges and preferred and preference stock dividend requirements of one to one, Total Earnings would need to increase by approximately \$122 million.

EXHIBIT 12.2

DUQUESNE LIGHT COMPANY AND SUBSIDIARIES

Calculation of Ratio of Earnings to Fixed Charges and Preferred and Preference Stock Dividend Requirements

	(Millions of Dollars)				
	Year Ended December 31,				
	2005	2004	2003	2002	2001
Fixed Charges:					
Interest on long-term debt	\$ 47.4	\$ 45.6	\$ 53.1	\$ 55.2	\$ 62.3
Other interest	1.3	1.4	1.5	2.2	0.7
Company obligated mandatorily redeemable preferred securities dividend requirement (a)	—	—	6.3	12.6	12.6
Portion of lease payments representing an interest factor	2.0	2.5	3.9	1.9	3.1
Dividend requirements	<u>8.0</u>	<u>6.6</u>	<u>3.2</u>	<u>3.3</u>	<u>3.4</u>
Total Fixed Charges	<u>\$ 58.7</u>	<u>\$ 56.1</u>	<u>\$ 68.0</u>	<u>\$ 75.2</u>	<u>\$ 82.1</u>
Earnings:					
Net Income	\$ 73.0	\$ 67.8	\$ 69.6	\$ 75.4	\$ 53.4
Income taxes	42.5	44.3	45.4	48.9	30.8
Fixed charges as above	<u>58.7</u>	<u>56.1</u>	<u>68.0</u>	<u>75.2</u>	<u>82.1</u>
Total Earnings	<u>\$174.2</u>	<u>\$168.2</u>	<u>\$183.0</u>	<u>\$199.5</u>	<u>\$ 166.3</u>
Ratio Of Earnings To Fixed Charges and Preferred and Preference Stock Dividend Requirements	<u>2.97</u>	<u>3.00</u>	<u>2.69</u>	<u>2.65</u>	<u>2.03</u>

(a) From July 1, 2003 until their redemption in 2004, dividends on the monthly income preferred securities were included with interest on long-term debt due to the adoption of SFAS No. 150.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 33-60966 on Form S-3, Post Effective Amendment No. 3 to Registration Statement No. 33-29147 on Form S-8, Registration Statement Nos. 33-66488 and 33-72582 on Form S-8, Post Effective Amendment No. 1 to Registration Statement Nos. 33-46773 and 33-87974 on Form S-8, Amendment No. 1 to Registration Statement No. 333-32433 on Form S-4, Amendment No. 1 to Registration Statement Nos. 333-80377 and 333-80377-1 on Form S-3, Amendment No. 2 to Registration Statement Nos. 333-85612 and 333-85612-01 on Form S-3, Registration Statement No. 333-127459 on Form S-3, Registration Statement Nos. 333-102812 and 333-118324 on Form S-8, Registration Statement No. 333-127702 on Form S-3, and Registration Statement No. 333-129094 on Form S-3 of our reports dated March 6, 2006, relating to the consolidated financial statements and financial statement schedules of Duquesne Light Holdings, Inc. and management's report on the effectiveness of internal control over financial reporting, appearing in the Annual Report on Form 10-K of Duquesne Light Holdings, Inc. for the year ended December 31, 2005.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 6, 2006

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Amendment No. 1 to Registration Statement No. 333-112929 on Form S-3, Registration Statement No. 33-52782 on Form S-3, Registration Statement No. 33-63602 on Form S-3, Registration Statement No. 333-72408 on Form S-3, and Post Effective Amendment No. 1 to Registration Statement Nos. 33-53563 and 33-53563-01 on Form S-3 of our reports dated March 6, 2006 relating to the consolidated financial statements and financial statement schedule of Duquesne Light Company and management's report on the effectiveness of internal control over financial reporting, appearing in the Annual Report on Form 10-K of Duquesne Light Company for the year ended December 31, 2005.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 6, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

DLG COSIF 266228

Form S-3

REGISTRATION STATEMENT
AND
POST-EFFECTIVE AMENDMENT NO. 1
UNDER
THE SECURITIES ACT OF 1933

Duquesne Light Company

(Exact name of registrant as specified in its charter)

Pennsylvania 25-0451600
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

411 Seventh Avenue
Pittsburgh, Pennsylvania 15219
(412) 393-6000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

William F. Fields
Vice President and Treasurer
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, Pennsylvania 15219
(412) 393-1206

(Name, address, including zip code, and telephone number, including area code, of agents for service)

Copies to:

J. Anthony Terrell, Esq.
Catherine C. Hood, Esq.
Dewey Ballantine LLP
1301 Avenue of the Americas
New York, New York 10019
(212) 259-8000

M. Douglas Dunn, Esq.
Robert B. Williams, Esq.
Milbank, Tweed, Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, NY 10005
(212) 530-5000

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum aggregate price per unit*	Proposed maximum aggregate offering price*	Amount of registration fee
First Mortgage Bonds				
Preferred Stock	\$200,000,000	100%	\$200,000,000	\$25,340

* Inserted solely for the purpose of calculating the registration fee.

Pursuant to Rule 429 under the Securities Act of 1933, as amended (the "Securities Act"), the prospectus contained in this registration statement will be used as a combined prospectus in connection with this Registration Statement and Registration Statement No. 333-72408 which was originally filed on October 29, 2001 and became effective, as amended, on March 29, 2002 (the "Prior Registration Statement") under which \$100,000,000 in principal amount of first mortgage bonds remain unsold. This Registration Statement is a new registration statement and also constitutes Post-Effective Amendment No. 1 to the Prior Registration Statement. Such Post-Effective Amendment will become effective concurrently with the effectiveness of this Registration Statement in accordance with Section 8(c) of the Securities Act.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

\$300,000,000

Duquesne Light Company

**First Mortgage Bonds
Preferred Stock**

Duquesne Light Company may offer from time to time its First Mortgage Bonds or Preferred Stock, up to an aggregate amount of \$300,000,000.

One or more supplements to this prospectus will indicate the amount and terms of each issue of securities.

Duquesne Light may sell the securities to or through underwriters, dealers or agents or directly to one or more purchasers. The applicable prospectus supplement will describe each offering of the securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2004.

The information in this Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and it is not soliciting an offer to sell these securities in any jurisdiction in which the offer or sale is not permitted.

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus is part of a "shelf" registration statement that Duquesne Light filed with the United States Securities and Exchange Commission, or the "SEC." We may sell the securities described in this prospectus from time to time in one or more offerings, up to a total of \$300 million in principal amount. This prospectus only provides you with a general description of the securities. Each time we offer securities, we will provide a supplement to this prospectus that contains specific information about the terms of the securities then being offered. The supplement may also add, update or change information contained in this prospectus.

In addition to the information contained in this prospectus and applicable supplement, this prospectus incorporates by reference important business and financial information about Duquesne Light that is not included in or delivered with this prospectus. See "AVAILABLE INFORMATION." You may obtain copies of documents containing such information from us, without charge, by either calling or writing to us at:

Duquesne Light Company
 411 Seventh Avenue
 P.O. Box 1930
 Pittsburgh, Pennsylvania 15230-1090
 Attention: Corporate Secretary
 Telephone: 412-393-6000

You should rely only on the information contained or incorporated by reference in this prospectus and the applicable supplement. We have not authorized any other person to provide you with different information. You should not assume that the information contained or incorporated in this prospectus as of any time after the date of this prospectus or, if later, the date of an incorporated document, is accurate because our business, financial condition or results of operations may have changed since that date.

We are not making an offer to sell any securities in any jurisdiction where an offer or sale is not permitted.

AVAILABLE INFORMATION

Duquesne Light files annual, quarterly and other reports with the SEC pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You may read and copy these reports at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains Duquesne Light's reports filed with the SEC.

Duquesne Light incorporates by reference into this prospectus:

- Duquesne Light's most recent Annual Report on Form 10-K filed by Duquesne Light with the SEC pursuant to the Exchange Act and
- all other documents filed by Duquesne Light with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the filing of Duquesne Light's most recent Annual Report and before the termination of the offering made by this prospectus; *provided, however*, that we are not incorporating any information furnished under Item 9 or Item 12 of any Current Report on Form 8-K,

and all of these documents are deemed to be a part of this prospectus from the date of filing these documents. The documents incorporated or deemed to be incorporated in this prospectus by reference are sometimes called the "Incorporated Documents." Any statement contained in an Incorporated Document may be modified or superseded by a statement in this prospectus or in any prospectus supplement or in any subsequently filed Incorporated Document. The Incorporated Documents as of the date of this prospectus are:

- the Annual Report on Form 10-K for the year ended December 31, 2002; and
- the Quarterly Reports on Form 10-Q for the periods ended March 31, 2003, June 30, 2003 and September 30, 2003.

Duquesne Light Holdings, Inc. (formerly DQE, Inc.), the sole shareholder of Duquesne Light, maintains an Internet site (<http://www.duquesnelight.com>) that contains information concerning Duquesne Light Holdings and its affiliates including Duquesne Light. The information contained at the Internet site of Duquesne Light Holdings is *not incorporated in this prospectus by reference, and you should not consider it a part of this prospectus.*

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

Statements contained in this prospectus, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information about plans, objectives and strategies and possible future results of our operations, as well as the assumptions upon which these statements are based. Also, when we use any of the words "believes," "expects," "anticipates" or similar expressions, we are making forward-looking statements. Actual results or performance may differ materially from those contemplated by the forward-looking statements due to a number of known and unknown risks and uncertainties, many of which are beyond our control. Demand for electric utility service, as well as change in market and weather conditions, will affect cash flows, returns on investments and earnings levels. Energy prices will affect the number of customers using our provider-of-last-resort service, which in turn will affect earnings. Overall performance will also be affected by economic, competitive, regulatory, governmental and technological factors affecting operations, markets, products, services, and prices, as well as the factors discussed in our SEC filings made to date. We refer to the documents identified above under "AVAILABLE INFORMATION" for a discussion of these and other risks and uncertainties.

DUQUESNE LIGHT COMPANY

Duquesne Light Company was formed under the laws of Pennsylvania by the consolidation and merger in 1912 of three constituent companies. As part of a corporate reorganization, Duquesne Light became a wholly owned subsidiary of Duquesne Light Holdings in July 1989. Duquesne Light is engaged in the supply (through its provider-of-last-resort service), transmission and distribution of electric energy, providing electric service to customers in Allegheny County (including the City of Pittsburgh), Beaver County and to a limited extent, Westmoreland County, Pennsylvania. This represents a service territory of approximately 800 square miles. The principal executive office of Duquesne Light is located at 411 Seventh Avenue, Pittsburgh, Pennsylvania 15219. Its telephone number is 412-393-6000.

USE OF PROCEEDS

Duquesne Light is offering up to \$300 million aggregate principal amount of its First Mortgage Bonds and Preferred Stock. Duquesne Light intends to apply the net proceeds from the sale of the securities to refinance existing debt of Duquesne Light, for capital expenditures and for other corporate purposes. Duquesne Light will determine the timing and amounts of any sales of the securities in light of market conditions. The applicable prospectus supplement will describe the use of proceeds of each series of securities.

DESCRIPTION OF THE FIRST MORTGAGE BONDS

General

Duquesne Light may issue the Bonds in one or more series, or in one or more tranches within a series, as fully registered bonds, without coupons, under an Indenture of Mortgage and Deed of Trust, dated as of April 1, 1992 (the "Original Mortgage"), between Duquesne Light and JPMorgan Chase Bank (successor by merger to The Chase Manhattan Bank, successor in trust to Mellon Bank N.A.), as trustee (the "Trustee"). The Original Mortgage, as amended and supplemented from time to time, is hereinafter referred to as the "Mortgage." The terms of the Bonds will include those stated in the Mortgage and those made part of the Mortgage by the Trust Indenture Act of 1939, as amended. The following summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Mortgage and the Trust Indenture Act. Duquesne Light has filed the Mortgage as well as the form of supplemental indenture to establish a series of Bonds, as exhibits to the registration statement of which this prospectus is a part. Capitalized terms used under this heading which are not otherwise defined in this prospectus have the meanings set forth in the Mortgage. Wherever particular provisions of the Mortgage or terms defined therein are referred to, those provisions or definitions are incorporated by reference as a part of the statements made in this prospectus and those statements are qualified in their entirety by such reference. References to article and section numbers, unless otherwise indicated, are references to article and section numbers of the Original Mortgage.

In addition to the Bonds, other debt securities may be issued under the Mortgage, without any limit on the aggregate principal amount, on the basis of Property Additions, Retired Securities, cash and Class "A" Bonds. (See "—Issuance of Additional Mortgage Securities.") The Bonds and all other debt securities issued under the Mortgage are collectively referred to as the "Mortgage Securities." The Bonds will be entitled to the benefit of the Mortgage equally and ratably with all other Mortgage Securities issued under the Mortgage.

The applicable prospectus supplement or supplements will describe the following terms of the Bonds of each series or tranche:

- the title of such Bonds;
- any limit upon the aggregate principal amount of such Bonds;
- the person to whom interest on such Bonds will be payable on any interest payment date, if other than the persons in whose names such Bonds are registered at the close of business on the regular record date for such interest payment date;

- the date or dates on which the principal of such Bonds is payable or the method of determination thereof and the right, if any, to extend such date or dates;
- the rate or rates at which such Bonds will bear interest, if any, or the method by which such rate or rates, if any, will be determined, the date or dates from which any such interest will accrue, the interest payment dates on which any such interest will be payable, the right, if any, of Duquesne Light to defer or extend an interest payment date, the regular record date for any interest payable on any interest payment date and the basis of computation of interest;
- the place or places where, subject to the terms of the Mortgage as described below under “—Payment and Paying Agents,” the principal of and premium, if any, and interest, if any, on such Bonds will be payable and where, subject to the terms of the Mortgage as described below under “—Registration and Transfer,” such Bonds may be presented for registration of transfer or exchange and the place or places where notices and demands to or upon Duquesne Light in respect of such Bonds and the Mortgage may be served; the Security Registrar and Paying Agents for such Bonds; and, if such is the case, that the principal of such Bonds will be payable without presentation or surrender;
- any period or periods within which, date or dates on which, the price or prices at which and the terms and conditions upon which such Bonds may be redeemed, in whole or in part, at the option of Duquesne Light;
- the obligation or obligations, if any, of Duquesne Light to redeem or purchase any of such Bonds pursuant to any sinking fund or other mandatory redemption provisions or at the option of the holder, and the period or periods within which, or date or dates on which, the price or prices at which, and the terms and conditions upon which such Bonds will be redeemed or purchased, in whole or in part, pursuant to such obligation, and applicable exceptions to the requirements of a notice of redemption in the case of mandatory redemption or redemption at the option of the holder;
- the denominations in which any such Bonds will be issuable if other than denominations of \$1,000 and any integral multiple of such amount;
- if such Bonds are to be issued in global form—
 - any limitations on the rights of the registered holder or holders of such Bonds to transfer or exchange the same or to obtain registration of transfer thereof,
 - any limitations on the rights of beneficial owners of such Bonds to obtain certificates therefor, and
 - the identity of the depository and any other matters incidental to such Bonds; and
- any other terms of such Bonds not inconsistent with the provisions of the Mortgage.

Payment and Paying Agents

Except as may be provided in the applicable prospectus supplement, Duquesne Light will pay interest, if any, on each Bond on each interest payment date to the person in whose name such Bond is registered (the registered holder of any Mortgage Security being called a “Holder”) as of the close of business on the regular record date relating to such interest payment date; *provided, however*, that Duquesne Light will pay interest at maturity (whether at stated maturity, upon redemption or otherwise, “Maturity”) to the person to whom principal is paid. *However, if there has been a default in the payment of interest on any Bond, such defaulted interest may be payable, at Duquesne Light’s option, to the Holder of such Bond as of the close of business on a date selected by the Trustee which is not more than 15 days and not less than 10 days before the date proposed by Duquesne Light for payment of such defaulted interest or in any other lawful manner not inconsistent with the requirements of any securities*

exchange on which such Bond may be listed; if the Trustee deems such manner of payment practicable. (See Section 307.)

Unless otherwise specified in the applicable prospectus supplement, Duquesne Light will pay principal of and premium, if any, and interest on the Bonds at Maturity upon presentation of the Bonds at the corporate trust office of JPMorgan Chase Bank in New York, New York, as paying agent for Duquesne Light. Duquesne Light may change the place of payment on the Bonds, may appoint one or more additional paying agents (including itself) and may remove any paying agent, all at its discretion. (See Section 602.)

Registration and Transfer

Unless otherwise specified in the applicable prospectus supplement, Holders may register the transfer of Bonds, and may exchange Bonds for other Bonds of the same series and tranche, of authorized denominations and having the same terms and aggregate principal amount, at the corporate trust office of JPMorgan Chase Bank in New York, New York, as security registrar for the Bonds. (See Sections 109, 503 and 504.) Duquesne Light may change the place for registration of transfer of the Bonds, may appoint one or more additional security registrars (including Duquesne Light) and may remove any security registrar, all at its discretion. (See Section 602.) Except as otherwise provided in the applicable prospectus supplement, no service charge will be made for any transfer or exchange of the Bonds, but Duquesne Light may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of the Bonds. Duquesne Light will not be required to issue and no security registrar will be required to register the transfer of or to exchange (1) any Bond during a period of 15 days before giving any notice of redemption or (2) any Bond selected for redemption in whole or in part, except the unredeemed portion of any Bond being redeemed in part. (See Section 305.)

Redemption

The applicable prospectus supplement will set forth any terms for the optional or mandatory redemption of Bonds. Except as shall otherwise be provided in the applicable prospectus supplement with respect to Bonds redeemable at the option of the Holder, Bonds will be redeemable only upon notice by mail (except as otherwise permitted in the Mortgage) not less than 30 nor more than 60 days before the date fixed for redemption. (See Sections 109, 503 and 504.) If less than all the Bonds of a series, or any tranche thereof, are to be redeemed, the particular Bonds to be redeemed will be selected by such method as shall be provided for any particular series, or in the absence of any such provision, by such method as the Security Registrar deems fair and appropriate. (See Section 503.)

Any notice of redemption at the option of Duquesne Light may state that such redemption will be conditional upon receipt by the Trustee, on or before the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such Bonds and that if such money has not been so received, such notice will be of no force and effect and Duquesne Light will not be required to redeem such Bonds. (See Section 504.)

While the Original Mortgage contains provisions for the maintenance of the Mortgaged Property, it does not contain any provisions for a maintenance or sinking fund, and, except as may be provided in the applicable prospectus supplement, there will be no provisions for any such funds for the Bonds.

Security

General

Except as otherwise contemplated below under this heading and under “—Issuance of Additional Mortgage Securities,” and subject to the exceptions discussed under “—Release of Property” and “—Defeasance,” all Outstanding Mortgage Securities, equally and ratably,

- will be secured by the lien of the Mortgage on properties of Duquesne Light used in the generation (if any), purchase, transmission, distribution or sale of electric energy, and
- will enjoy the benefit of Class “A” Bonds (as defined below) delivered to the Trustee as the basis for the authentication and delivery of an equal principal amount of Mortgage Securities.

Lien of the Mortgage

General. Except as discussed below, the Mortgage constitutes (subject to the exceptions referred to below) a first mortgage lien on the properties of Duquesne Light used in the generation (if any), purchase, transmission, distribution or sale of electric energy and on any other property which Duquesne Light may from time to time subject to such lien after the date of this prospectus. The Mortgage does not constitute a lien on property expressly excepted from the lien of the Mortgage and property released from the lien of the Mortgage. At the date of this prospectus, Duquesne Light does not own any facilities related to the generation of electric energy, all of such facilities having been divested in 2000. At the date of this prospectus, there are no liens prior to the lien of the Mortgage other than Permitted Liens and certain other liens permitted to exist.

The Mortgage provides that all property (other than excepted property) used in the generation (if any), purchase, transmission, distribution or sale of electric energy and acquired by Duquesne Light after the date of the Original Mortgage will be subject to the lien of the Mortgage except as otherwise described in “—Consolidation, Merger, Transfer of Assets.” In addition, after-acquired property may be subject to vendors’ liens, purchase money mortgages and other liens thereon at the time of acquisition thereof, including the lien of any Class “A” Mortgage, and in certain circumstances, to liens attaching to such property prior to the recording and/or filing of an instrument specifically subjecting such property to the lien of the Mortgage.

Without the consent of the Holders, Duquesne Light and the Trustee may enter into supplemental indentures to subject to the lien of the Mortgage additional property, whether or not used in the electric utility business (including property which would otherwise be excepted from such lien). (See Section 1401.) Such property would thereupon constitute Property Additions (so long as it would otherwise qualify as Property Additions as described below) and be available as a basis for the issuance of Mortgage Securities. (See “—Issuance of Additional Mortgage Securities.”)

Excepted Property. The lien of the Mortgage does not cover, among other things, cash and securities not paid, deposited or held under the Mortgage; contracts, leases and other agreements of all kinds, contract rights, bills, notes and other instruments, accounts receivable, claims, certain intellectual property rights and other general intangibles; automobiles, other vehicles, movable equipment, aircraft and vessels; all goods, wares and merchandise held for sale in the ordinary course of business; nuclear fuel; fuel, materials, supplies and other personal property consumable in the operation of Duquesne Light’s business; computers, machinery and equipment used exclusively for corporate administrative or clerical purposes; coal, ore, gas, oil, minerals and timber mined or extracted from the land; electric energy, gas, steam, water and other products generated, produced or purchased; leasehold interests; and all property that is located outside of the Commonwealth of Pennsylvania and the States of Ohio and West Virginia. (See Granting Clauses.)

Properties held by subsidiaries of Duquesne Light, as well as properties leased from other Persons, are not subject to the lien of the Mortgage.

Permitted Liens. Permitted Liens include tax liens and other governmental charges which are not delinquent and which are being contested in good faith, construction and materialmen's liens, certain judgment liens, easements, reservations and rights of others (including governmental entities) in, and defects of title in, certain property of Duquesne Light, certain leasehold interests, and certain other liens and encumbrances. (See Granting Clauses and Section 101.)

Trustee's Lien. The Trustee will have a lien, prior to the lien on behalf of the holders of Mortgage Securities, upon Mortgaged Property, for the payment of its reasonable compensation and expenses and for indemnity against certain liabilities. (See Section 1107.)

Class "A" Bonds; Class "A" Mortgages

The term "Class 'A' Bonds" means bonds or other obligations now or hereafter issued and outstanding under and secured by any Class "A" Mortgage. The term "Class 'A' Mortgage" means a mortgage or deed of trust or similar indenture entered into by another corporation which is subsequently merged into or consolidated with Duquesne Light and, in connection with such merger or consolidation, is assumed by Duquesne Light and designated a "Class 'A' Mortgage" in accordance with the Mortgage. At the date of this prospectus, there is no Class "A" Mortgage on any property of Duquesne Light.

Class "A" Bonds to be made the basis for the authentication and delivery of Mortgage Securities will be delivered to, and registered in the name of, the Trustee or its nominee and will be owned and held by the Trustee, subject to the provisions of the Mortgage, for the benefit of the Holders of all Mortgage Securities Outstanding from time to time. Such Class "A" Bonds will mature on the same dates, and in the same principal amounts, as such Mortgage Securities. Class "A" Bonds are not required to bear interest and will contain mandatory redemption provisions correlative to any mandatory redemption provisions of such mortgage securities.

Any payment by Duquesne Light of principal of or premium or interest on Mortgage Securities authenticated and delivered on the basis of the delivery to the Trustee of Class "A" Bonds (other than by application of the proceeds of a payment in respect of such Class "A" Bonds) will, to the extent thereof, be deemed to satisfy and discharge the obligation of Duquesne Light, if any, to make a payment of principal, premium or interest, as the case may be, in respect of such Class "A" Bonds which is then due. (See Section 702.)

The Trustee may not sell, assign or otherwise transfer any Class "A" Bonds except to a successor trustee under the Mortgage. (See Section 704.) At the time any Mortgage Securities which have been authenticated and delivered upon the basis of Class "A" Bonds cease to be Outstanding (other than as a result of the application of the proceeds of the payment or redemption of such Class "A" Bonds), the Trustee will surrender to, or upon the order of, Duquesne Light an equal principal amount of such Class "A" Bonds having the same Stated Maturity and mandatory redemption provisions as such Mortgage Securities. (See Section 703.)

When no Class "A" Bonds are Outstanding under a Class "A" Mortgage except for Class "A" Bonds delivered to and held by the Trustee, then, at the request of Duquesne Light and subject to satisfaction of certain conditions, the Trustee will surrender such Class "A" Bonds for cancellation, the related Class "A" Mortgage will be satisfied and discharged, the lien of such Class "A" Mortgage on Duquesne Light's property subject thereto will cease to exist and the priority of the lien of the Mortgage, as to such property, will be increased accordingly. (See Section 707.)

Issuance of Additional Mortgage Securities

General

The aggregate principal amount of Mortgage Securities that may be authenticated and delivered under the Mortgage is unlimited. (See Section 301.) Bonds of any series may be authenticated and delivered from time to time on the basis of, and in an aggregate principal amount not exceeding:

- 70% of the Cost or fair value (as defined in the Mortgage) of Property Additions (as described below) to Duquesne Light (whichever is less) which do not constitute Funded Property (generally, Property Additions which have been made on the basis of the authentication and delivery of Mortgage Securities, the release of Mortgaged Property or the withdrawal of cash, which have been substituted for retired Funded Property or which have been used for other specified purposes) after certain deductions and additions, primarily including adjustments to offset property retirements;
- the aggregate principal amount of Retired Securities (as described below), but if Class "A" Bonds had been made the basis for the authentication and delivery of such Retired Securities, only if the related Class "A" Mortgage has been discharged;
- the amount of cash deposited with the Trustee; and
- the aggregate principal amount of Class "A" Bonds issued and delivered to the Trustee.

(See Article Four.)

Property Additions includes any property that is owned by Duquesne Light and subject to the lien of the Mortgage *except (with certain exceptions) goodwill, going concern value rights or intangible property, or any property the cost of acquisition or construction of which is properly chargeable to an operating expense account of Duquesne Light.* (See Section 104.)

Retired Securities means, generally, Mortgage Securities which are no longer Outstanding under the Mortgage, which have not been retired by the application of Funded Cash and which have not been used as the basis for the authentication and delivery of Mortgage Securities, the release of property or the withdrawal of cash. (See Section 101.)

Net Earnings Test

In general, the issuance of Mortgage Securities on the basis of Property Additions or cash is subject to Adjusted Net Earnings of Duquesne Light for 12 consecutive months within the preceding 18 months being at least twice the Annual Interest Requirements on all Mortgage Securities at the time outstanding, new Mortgage Securities then applied for, all outstanding Class "A" Bonds other than Class "A" Bonds held by the Trustee under the Mortgage, and all other indebtedness (with certain exceptions) secured by a lien prior to the lien of the Mortgage, except that no such net earnings requirement need be met if the additional Mortgage Securities to be issued are to have no Stated Interest Rate prior to Maturity. Adjusted Net Earnings are calculated before, among other things, provisions for income taxes; depreciation or amortization of property; interest on any indebtedness and amortization of debt discount and expense; any non-recurring charge to income of whatever kind or nature (including without limitation the recognition of expense due to the non-recoverability of investment), whether or not recorded as an extraordinary item in Duquesne Light's books of account; and any refund of revenues previously collected or accrued by Duquesne Light subject to possible refund. Adjusted Net Earnings also do not take into account profits or losses from the sale or other disposition of property, or extraordinary items of any kind or nature, whether items of revenue or expense. (See Sections 103 and 401.)

In general, the interest requirement with respect to variable interest rate indebtedness, if any, is determined with reference to the rate or rates in effect on the date immediately preceding such determination or the rate to be in effect upon initial authentication. With respect to Mortgage Securities of a series subject to a periodic offering (such as a medium-term note program), the Trustee will be entitled to receive a certificate evidencing compliance with the net earnings requirements only once, at or before the time of the first authentication and delivery of the Mortgage Securities of such series. (See Article Four.)

Duquesne Light is not required to satisfy the net earnings requirement prior to issuance of Mortgage Securities on the basis of Retired Securities or on the basis of Class "A" Bonds if such Class "A" Bonds have been authenticated and delivered under the related Class "A" Mortgage on the basis of retired Class "A" Bonds. (See Article Two of Supplemental Indenture No. 20.)

Bonds Issuable

At December 31, 2003, the amount of net Property Additions (as recorded at Cost) available to be used as the basis for the authentication and delivery of Mortgage Securities was approximately \$95 million; and, at that date, the aggregate principal amount of Retired Securities available to be so used was approximately \$514 million. Such Property Additions and Retired Securities would permit, and the net earnings requirement would not prohibit, the authentication and delivery of approximately \$580 million in aggregate principal amount of Mortgage Securities bearing interest at any reasonably foreseeable rate. Duquesne Light will determine at the time of issuance of the Bonds of each series whether such Bonds will be authenticated and delivered on the basis of Property Additions or Retired Securities.

Release of Property

Unless an Event of Default has occurred and is continuing, Duquesne Light may obtain the release from the lien of the Mortgage of any Funded Property, except for cash held by the Trustee, upon delivery to the Trustee of an amount in cash equal to the amount, if any, that the Cost of the property to be released (or, if less, the fair value of such property at the time it became Funded Property) exceeds the aggregate of:

- (1) the principal amount (subject to certain limitations described below) of obligations secured by purchase money mortgage upon the property to be released delivered to the Trustee;
- (2) the Cost or fair value to Duquesne Light (whichever is less) of certified Property Additions not constituting Funded Property after certain deductions and additions, primarily including adjustments to offset property retirements (except that such adjustments need not be made if such Property Additions were acquired or made within the 90-day period preceding the release);
- (3) an amount equal to 10/7ths of the principal amount of Mortgage Securities Duquesne Light would be entitled to issue on the basis of Retired Securities (with such entitlement being waived by operation of such release);
- (4) the principal amount (subject to certain limitations described below) of obligations secured by purchase money mortgage upon the property released, and/or an amount in cash, delivered to the trustee or other holder of a lien prior to the lien of the Mortgage;
- (5) an amount equal to 10/7ths of the principal amount of Mortgage Securities delivered to the Trustee (with such Mortgage Securities to be canceled by the Trustee); and
- (6) any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released. (See Section 803.)

The use of obligations secured by purchase money mortgage as a credit in connection with the release of property, as described in clauses (1) and (4) above, is subject to the following limitations:

(x) the aggregate credit which may be used as described in clauses (1) and (4) above in respect of any property being released may not exceed 75% of the fair value of such property; and

(y) no such obligations may be so used if the aggregate credit in respect of such obligations to be used as described in clauses (1) and (4) above plus the aggregate credits used by Duquesne Light pursuant to said clauses (1) and (4) in connection with all previous releases of property on the basis of purchase money obligations theretofore delivered to and then held by the Trustee or the trustee or other holder of a prior lien shall, immediately after the release then being applied for, exceed 40% of the sum of (A) the aggregate principal amount of Mortgage Securities then Outstanding and (B) the aggregate principal amount of Class "A" Bonds then Outstanding other than Class "A" Bonds then held by the Trustee; except that for purposes of the calculation contemplated in this clause (y) any obligations secured by a purchase money mortgage which limits obligations secured thereby to a principal amount of 70% of the cost or fair value to the issuer (whichever is less) of the property subject thereto and which contains a cross-default to the Mortgage will not be taken into account. (See Section 803 of Mortgage and Article Two of Supplemental Indenture No. 20.)

As used in the Mortgage, the term "purchase money mortgage" means, generally, a lien on the property being released which is retained by the transferor of such property or granted to one or more other persons in connection with the transfer or release thereof, or granted to or held by a trustee or agent for any such persons, and may include liens which cover property in addition to the property being released and/or which secure indebtedness in addition to indebtedness to the transferor of such property. (See Article Two of Supplemental Indenture No. 20.)

Property that is not Funded Property may generally be released from the lien of the Mortgage without depositing any cash or property with the Trustee as long as:

- the aggregate amount of Cost or fair value to Duquesne Light (whichever is less) of all Property Additions which do not constitute Funded Property (excluding the property to be released) after certain deductions and additions, primarily including adjustments to offset property retirements, is not less than zero or
- the Cost or fair value to Duquesne Light (whichever is less) of property to be released does not exceed the aggregate amount of the Cost or fair value to Duquesne Light (whichever is less) of Property Additions acquired or made within the 90-day period preceding the release. (See Section 804.)

The Mortgage provides simplified procedures for the release of property which has been released from the lien of a Class "A" Mortgage, minor properties and property taken by eminent domain, and provides for dispositions of certain obsolete property and grants or surrender of certain rights without any release or consent by the Trustee. (See Sections 805, 807 and 808.)

If any property released from the lien of the Mortgage continues to be owned by Duquesne Light after such release, the Mortgage will not become a lien on any improvement, extension or addition to such property or renewals, replacements or substitutions of or for any part or parts of such property. (See Section 810.)

Withdrawal of Cash

Unless an Event of Default has occurred and is continuing and subject to certain limitations, cash held by the Trustee may, generally, either:

- be withdrawn by Duquesne Light—
 - to the extent of the Cost or fair value to Duquesne Light (whichever is less) of Property Additions not constituting Funded Property, after certain deductions and additions, primarily

including adjustments to offset retirements (except that such adjustments need not be made if such Property Additions were acquired or made within the 90-day period preceding the withdrawal),

- in an amount equal to 10/7ths of the aggregate principal amount of Mortgage Securities that Duquesne Light would be entitled to issue on the basis of Retired Securities (with the entitlement to such issuance being waived by operation of such withdrawal) or
- in an amount equal to 10/7ths of the aggregate principal amount of any Outstanding Mortgage Securities delivered to the Trustee; or
- be applied, upon the request of Duquesne Light, to—
 - the purchase of Mortgage Securities (at prices not exceeding 10/7ths of the principal amount thereof) or
 - the payment at Stated Maturity or redemption of Mortgage Securities (see Section 806);

provided, however, that cash deposited with the Trustee as the basis for the authentication and delivery of Mortgage Securities, as well as cash representing a payment of principal of Class "A" Bonds, may only be withdrawn in an amount equal to the aggregate principal amount of Mortgage Securities Duquesne Light would be entitled to issue on any basis (with the entitlement to such issuance being waived by operation of such withdrawal), or may, upon the request of Duquesne Light, be applied to the purchase, redemption or payment of Mortgage Securities at prices not exceeding, in the aggregate, the principal amount thereof (see Sections 405 and 702).

Consolidation, Merger, Transfer of Assets

Duquesne Light may consolidate with or merge into any other corporation or convey, transfer or lease the Mortgaged Property as, or substantially as, an entirety to any Person only if:

- the terms of the transaction will fully preserve the lien and security of the Mortgage and the rights and powers of the Trustee and the Holders;
- the corporation formed by such consolidation or into which Duquesne Light is merged or the Person which acquires by conveyance or transfer, or which leases, the Mortgaged Property as or substantially as an entirety is a corporation organized and existing under the laws of the United States of America or any State or Territory thereof or the District of Columbia (the "Successor Corporation"), and the Successor Corporation executes and delivers to the Trustee a supplemental indenture that:
 - in the case of a consolidation, merger, conveyance or other transfer, or in the case of a lease if the term thereof extends beyond the last stated maturity of the Mortgage Securities then Outstanding, contains an assumption by the Successor Corporation of the due and punctual payment of the principal of and premium, if any, and interest, if any, on the Mortgage Securities and the performance of all of the covenants and conditions of Duquesne Light under the Mortgage and
 - in the case of a consolidation, merger conveyance or other transfer, which contains a grant, conveyance, transfer and mortgage by the Successor Corporation confirming the lien of the Mortgage on the Mortgaged Property and subjecting to such lien all property thereafter acquired by the Successor Corporation which shall constitute an improvement, extension or addition to the Mortgaged Property or a renewal, replacement or substitution of or for any part thereof, and, at the election of the Successor Corporation, subjecting to the lien of the Mortgage such other property then owned or thereafter acquired by the Successor Corporation as the Successor Corporation shall specify; and

- in the case of a lease, such lease is made expressly subject to termination by Duquesne Light or by the Trustee at any time during the continuance of an Event of Default. (See Section 1301.)

Unless, in the case of consolidation, merger, conveyance or other transfer described in the preceding paragraph, the Successor Corporation elects otherwise, the Mortgage will not become and be a lien upon any of the properties then owned or thereafter acquired by the Successor Corporation except properties acquired from Duquesne Light in or as a result of such transaction and improvements, extensions and additions to such properties and renewals, replacements and substitutions of or for any part of such properties. (See Section 1303.)

Nothing in the Mortgage prevents any consolidation or merger after the consummation of which Duquesne Light would be the surviving or resulting corporation or any conveyance, transfer or lease, subject to the lien of the Mortgage, of any part of the Mortgaged Property which does not constitute the entirety, or substantially the entirety, of the Mortgaged Property. Unless, in the case of a consolidation or merger described in the preceding sentence, a supplemental indenture otherwise provides, the Mortgage will not become or be a lien upon any of the properties acquired by Duquesne Light in or as a result of such transaction or any improvements, extensions or additions to such properties or any renewals, replacements or substitutions of or for any part thereof.

Modification of Mortgage

Modifications Without Consent

Without the consent of any Holders, Duquesne Light and the Trustee may enter into one or more supplemental indentures for any of the following purposes:

- to evidence the succession of another Person to Duquesne Light and the assumption by any such successor of the covenants of Duquesne Light in the Mortgage and in the Mortgage Securities;
- to add one or more covenants of Duquesne Light or other provisions for the benefit of all Holders or for the benefit of the Holders of, or to remain in effect only so long as there shall be outstanding, Mortgage Securities of one or more specified series, or one or more tranches thereof, or to surrender any right or power conferred upon Duquesne Light by the Mortgage;
- to correct or amplify the description of any property at any time subject to the lien of the Mortgage, or better to assure, convey and confirm to the Trustee any property subject or required to be subjected to the lien of the Mortgage, or to subject to the lien of the Mortgage additional property;
- to change or eliminate any provision of the Mortgage or to add any new provision to the Mortgage, provided that if such change, elimination or addition adversely affects the interests of the Holders of the Mortgage Securities of any series or tranche in any material respect, such change, elimination or addition will become effective with respect to such series or tranche only when no Mortgage Security of such series or tranche remains outstanding under the Mortgage;
- to establish the form or terms of the Mortgage Securities of any series or tranche as permitted by the Mortgage;
- to provide for the authentication and delivery of bearer securities and coupons appertaining thereto representing interest, if any, thereon and for the procedures for the registration, exchange and replacement thereof and for the giving of notice to, and the solicitation of the vote or consent of, the holders thereof, and for any and all other matters incidental thereto;
- to evidence and provide for the acceptance of appointment by a successor trustee or by a co-trustee or separate trustee;
- to provide for the procedures required to permit the utilization of a noncertificated system of registration for all, or any series or tranche of, the Mortgage Securities;

- to change the place where—
 - the principal of and premium, if any, and interest, if any, on the Mortgage Securities of any series, or any tranche thereof, will be payable,
 - any Mortgage Securities of any series, or any tranche thereof, may be surrendered for registration of transfer,
 - Mortgage Securities of any series, or any tranche thereof, may be surrendered for exchange or
 - notices and demands to or upon Duquesne Light in respect of the Mortgage Securities of any series, or any tranche thereof, and the Mortgage may be served; or
- to cure any ambiguity, to correct or supplement any provision therein which may be defective or inconsistent with any other provision therein, or to make any changes to the provisions thereof or to add other provisions with respect to matters and questions arising under the Mortgage, so long as such other changes or additions do not adversely affect the interests of the Holders of Mortgage Securities of any series or tranche in any material respect. (See Section 1401.)

Without limiting the generality of the foregoing, if the Trust Indenture Act is amended after the date of the Original Mortgage in such a way as to require changes to the Mortgage or the incorporation therein of additional provisions or so as to permit changes to, or the elimination of, provisions which, at the date of the Original Mortgage or at any time thereafter, were required by the Trust Indenture Act to be contained in the Mortgage, Duquesne Light and the Trustee may, without the consent of any Holders, enter into one or more supplemental indentures to evidence or effect such amendment. (See Section 1401.)

Modifications Requiring Consent

Except as provided above, the consent of the Holders of not less than a majority in aggregate principal amount of the Mortgage Securities of all series then Outstanding, considered as one class, is required for the purpose of adding any provisions to, or changing in any manner, or eliminating any of the provisions of, the Mortgage pursuant to one or more supplemental indentures. However, if less than all of the series of Mortgage Securities Outstanding are directly affected by a proposed supplemental indenture, then the consent only of the Holders of a majority in aggregate principal amount of Outstanding Mortgage Securities of all series so directly affected, considered as one class, will be required; and if the Mortgage Securities of any series have been issued in more than one tranche and if the proposed supplemental indenture directly affects the rights of the Holders of one or more, but less than all, such tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Mortgage Securities of all tranches so directly affected, considered as one class, will be required. No such amendment or modification may, without the consent of each Holder of the Outstanding Mortgage Securities of each series or tranche directly affected thereby,

- change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Mortgage Security, or reduce the principal amount thereof or the rate of interest thereon (or the amount of any installment of interest thereon) or change the method of calculating such rate or reduce any premium payable upon the redemption thereof, or reduce the amount of the principal of a Discount Security that would be due and payable upon a declaration of acceleration of maturity or change the coin or currency (or other property) in which any Mortgage Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date);
- permit the creation of any lien ranking prior to the lien of the Mortgage with respect to all or substantially all of the Mortgaged Property or terminate the lien of the Mortgage on all or substantially all of the Mortgaged Property, or deprive such Holder of the benefit of the security of the lien of the Mortgage;

- reduce the percentage in principal amount of the Outstanding Mortgage Securities of such series or tranche, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with any provision of the Mortgage or of any default thereunder and its consequences, or reduce the requirements for quorum or voting; or
- modify certain of the provisions of the Mortgage relating to supplemental indentures, waivers of certain covenants and waivers of past defaults.

A supplemental indenture which changes or eliminates any covenant or other provision of the Mortgage which has expressly been included solely for the benefit of the Holders of, or which is to remain in effect only so long as there shall be Outstanding, Mortgage Securities of one or more specified series, or one or more tranches thereof, or modifies the rights of the Holders of Mortgage Securities of such series or tranches with respect to such covenant or other provision, will be deemed not to affect the rights under the Mortgage of the Holders of the Mortgage Securities of any other series or tranche. (See Section 1402.)

Voting of Class "A" Bonds

The Mortgage provides that the Trustee will, as holder of Class "A" Bonds, attend such meetings of bondholders under the related Class "A" Mortgage, or deliver its proxy in connection therewith, as relate to matters with respect to which it, as such holder, is entitled to vote or consent. The Mortgage provides that, so long as no Event of Default as defined in the Mortgage has occurred and is continuing, the Trustee will, as holder of Class "A" Bonds, vote all Class "A" Bonds Outstanding under such Class "A" Mortgage then held by it, or consent with respect thereto, proportionately with what the Trustee reasonably believes will be the vote or consent of the holders of all other Class "A" Bonds Outstanding under such Class "A" Mortgage the holders of which are eligible to vote or consent. However, the Trustee will not vote in favor of, or consent to, any amendment or modification of a Class "A" Mortgage which, if it were an amendment or modification of the Mortgage, would require the consent of Holders of Mortgage Securities as described under "—Modification of Mortgage," without the prior consent of Holders of Mortgage Securities which would be required for such an amendment or modification of the Mortgage. (See Article Seven of the Mortgage.)

Waiver

The Holders of at least a majority in aggregate principal amount of all Mortgage Securities may waive Duquesne Light's obligations to comply with certain covenants, including Duquesne Light's obligation to maintain its corporate existence and properties, pay taxes and discharge liens, maintain certain insurance and to make such recordings and filings as are necessary to protect the security of the Holders and the rights of the Trustee, provided that such waiver occurs before the time such compliance is required. The Holders of at least a majority of the aggregate principal amount of Outstanding Mortgage Securities of all affected series or tranches, considered as one class, may waive, before the time for such compliance, compliance with Duquesne Light's obligations to maintain an office or agency where the Mortgage Securities of such series or tranches may be surrendered for payment, registration, transfer or exchange, and compliance with any other covenant specified with respect to Mortgage Securities of such series or tranches. (See Section 609.)

Events of Default

Any of the following events will constitute an "Event of Default" under the Mortgage:

- failure to pay interest on any Mortgage Security within 60 days after the same becomes due;
- failure to pay principal of, or premium, if any, on any Mortgage Security within 3 business days after its Maturity;
- failure to perform, or breach of, any covenant or warranty of Duquesne Light in the Mortgage (other than a covenant or warranty a default in the performance of which or breach of which is dealt with

elsewhere under this paragraph) for a period of 60 days after there has been given to Duquesne Light by the Trustee, or to Duquesne Light and the Trustee by the Holders of at least 25% in principal amount of Outstanding Mortgage Securities, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default," unless the Trustee, or the Trustee and the Holders of a principal amount of Mortgage Securities not less than the principal amount of Mortgage Securities the Holders of which gave such notice, as the case may be, agree in writing to an extension of such period prior to its expiration; *provided, however*, that the Trustee, or the Trustee and such Holders, as the case may be, will be deemed to have agreed to an extension of such period if corrective action has been initiated by Duquesne Light within such period and is being diligently pursued;

- certain events relating to reorganization, bankruptcy and insolvency of Duquesne Light or appointment of a receiver or trustee for its property; and
- the occurrence of a matured event of default under any Class "A" Mortgage; *provided* that the waiver or cure of any such event of default and the rescission and annulment of the consequences thereof shall constitute a waiver of the corresponding Event of Default under the Mortgage and a rescission and annulment of the consequences thereof. (See Section 1001.)

Remedies

Acceleration of Maturity

If an Event of Default occurs and is continuing, then the Trustee or the Holders of not less than 25% in principal amount of Mortgage Securities then Outstanding may declare the principal amount (or if the Mortgage Securities are Discount Securities, such portion of the principal amount as may be provided for such Discount Securities pursuant to the terms of the Mortgage) of all of the Mortgage Securities together with premium, if any, and accrued interest, if any, thereon to be immediately due and payable.

At any time after such declaration of the maturity of the Mortgage Securities then Outstanding, but before the sale of any of the Mortgaged Property and before a judgment or decree for payment of money shall have been obtained by the Trustee as provided in the Mortgage, the Event or Events of Default giving rise to such declaration of acceleration will, without further act, be deemed to have been waived, and such declaration and its consequences will, without further act, be deemed to have been rescinded and annulled, if

- Duquesne Light has paid or deposited with the Trustee a sum sufficient to pay—
 - all overdue interest, if any, on all Mortgage Securities then Outstanding;
 - the principal of and premium, if any, on any Mortgage Securities then Outstanding which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Mortgage Securities; and
 - all amounts due to the Trustee as compensation and reimbursement as provided in the Mortgage; and
- any other Event or Events of Default, other than the non-payment of the principal of Mortgage Securities which shall have become due solely by such declaration of acceleration, shall have been cured or waived as provided in the Mortgage. (See Sections 1002 and 1017.)

Possession of Mortgaged Property

Under certain circumstances and to the extent permitted by law, if an Event of Default occurs and is continuing, the Trustee has the power to take possession of, and to hold, operate and manage, the Mortgaged Property, or with or without entry, sell the Mortgaged Property. If the Mortgaged Property is sold, whether by the

Trustee or pursuant to judicial proceedings, the principal of the Outstanding Mortgage Securities, if not previously due, will become immediately due, together with premium, if any, and any accrued interest. (See Sections 1003, 1004 and 1005.)

Right to Direct Proceedings

If an Event of Default occurs and is continuing, the Holders of a majority in principal amount of the Mortgage Securities then Outstanding will have the right to direct the time, method and place of conducting any proceedings for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that (a) such direction does not conflict with any rule of law or with the Mortgage, and could not involve the Trustee in personal liability in circumstances where indemnity would not, in the Trustee's sole discretion, be adequate and (b) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction. (See Section 1016.)

Limitation on Right to Institute Proceedings

No Holder of any Mortgage Security will have any right to institute any proceeding, judicial or otherwise, with respect to the Mortgage for the appointment of a receiver or for any other remedy thereunder unless

(a) such Holder has previously given to the Trustee written notice of a continuing Event of Default;

(b) the Holders of not less than a majority in aggregate principal amount of the Mortgage Securities then Outstanding have made written request to the Trustee to institute proceedings in respect of such Event of Default and have offered the Trustee reasonable indemnity against costs and liabilities incurred in complying with such request; and

(c) for sixty days after receipt of such notice, the Trustee has failed to institute any such proceeding and no direction inconsistent with such request has been given to the Trustee during such sixty-day period by the Holders of a majority in aggregate principal amount of Mortgage Securities then Outstanding.

Furthermore, no Holder will be entitled to institute any such action if and to the extent that such action would disturb or prejudice the rights of other Holders. (See Section 1011.)

No Impairment of Right to Receive Payment

Notwithstanding that the right of a Holder to institute a proceeding with respect to the Mortgage is subject to certain conditions precedent, each Holder of a Mortgage Security has the right, which is absolute and unconditional, to receive payment of the principal of and premium, if any, and interest, if any, on such Mortgage Security when due and to institute suit for the enforcement of any such payment, and such rights may not be impaired without the consent of such Holder. (See Section 1012.)

Notice of Default

The Trustee is required to give the Holders notice of any default under the Mortgage to the extent required by the Trust Indenture Act, unless such default shall have been cured or waived, except that no such notice to Holders of a default of the character described in the third item under "—Events of Default" may be given until at least 45 days after the occurrence thereof. (See Section 1102.) The Trust Indenture Act currently permits the Trustee to withhold notices of default (except for certain payment defaults) if the Trustee in good faith determines the withholding of such notice to be in the interests of the Holders.

Indemnification of Trustee

As a condition precedent to certain actions by the Trustee in the enforcement of the lien of the Mortgage and institution of action on the Bonds, the Trustee may require adequate indemnity against costs, expenses and liabilities to be incurred in connection therewith. (See Sections 1011 and 1101.)

Additional Remedies

In addition to every other right and remedy provided in the Mortgage, the Trustee may exercise any right or remedy available to the Trustee in its capacity as owner and holder of Class "A" Bonds which arises as a result of a default or matured event of default under any Class "A" Mortgage, whether or not an Event of Default under the Mortgage has occurred and is continuing. (See Section 1020.)

Remedies Limited by State Law

The laws of the various states in which the Mortgaged Property is located may limit or deny the ability of the Trustee or security holders to enforce certain rights and remedies provided in the Mortgage in accordance with their terms.

Defeasance

Any Mortgage Securities, or any portion of the principal amount thereof, will be deemed to have been paid for purposes of the Mortgage, and, at Duquesne Light's election, the entire indebtedness of Duquesne Light in respect thereof will be deemed to have been satisfied and discharged, if there has been irrevocably deposited with the Trustee, in trust:

- (a) money in an amount which will be sufficient; or
- (b) in the case of a deposit made prior to the Maturity of such Mortgage Securities, Eligible Obligations, which do not contain provisions permitting the redemption or other prepayment thereof at the option of the issuer thereof, the principal of and the interest on which when due, without any regard to reinvestment thereof, will provide monies which, together with the money, if any, deposited with or held by the Trustee, will be sufficient; or
- (c) a combination of (a) and (b) which will be sufficient, to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Mortgage Securities or portions thereof. (See Section 901.)

For this purpose, Eligible Obligations include direct obligations of, or obligations unconditionally guaranteed by, the United States of America, entitled to the benefit of the full faith and credit thereof, and certificates, depository receipts or other instruments which evidence a direct ownership interest in such obligations or in any specific interest or principal payments due in respect thereof and such other obligations as shall be specified in an accompanying prospectus supplement.

The Mortgage will be deemed to have been satisfied and discharged when no Mortgage Securities remain outstanding thereunder and Duquesne Light has paid or caused to be paid all other sums payable by Duquesne Light under the Mortgage.

The right of Duquesne Light to cause its entire indebtedness in respect of the Mortgage Securities of any series to be deemed to be satisfied and discharged as described above will be subject to the satisfaction of conditions specified in the instrument creating such series.

Duties of Trustee; Resignation; Removal

The Trustee will have, and will be subject to, all the duties and responsibilities specified with respect to an indenture trustee under the Trust Indenture Act. Subject to such provisions, the Trustee will be under no obligation to exercise any of the powers vested in it by the Indenture at the request of any holder of Indenture Securities, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The Trustee will not be required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

The Trustee may resign at any time by giving written notice thereof to Duquesne Light or may be removed at any time by Act of the Holders of a majority in principal amount of Mortgage Securities then Outstanding delivered to the Trustee and Duquesne Light. No resignation or removal of the Trustee and no appointment of a successor trustee will become effective until the acceptance of appointment by a successor trustee in accordance with the requirements of the Mortgage. So long as no Event of Default or event which, after notice or lapse of time, or both, would become an Event of Default has occurred and is continuing, if Duquesne Light has delivered to the Trustee a resolution of its Board of Directors appointing a successor trustee and such successor has accepted such appointment in accordance with the terms of the Mortgage, the Trustee will be deemed to have resigned and the successor will be deemed to have been appointed as trustee in accordance with the Mortgage. (See Section 1110.)

Evidence to be Furnished to Trustee

Compliance with Mortgage provisions is evidenced by written statements of Duquesne Light officers or persons selected or paid by Duquesne Light. In certain cases, opinions of counsel and certification of an engineer, accountant, appraiser or other expert (who in some cases must be independent) must be furnished. In addition, the Trust Indenture Act currently requires that Duquesne Light give the Trustee, not less often than annually, a brief statement as to Duquesne Light's compliance with the conditions and covenants under the Mortgage.

DESCRIPTION OF THE PREFERRED STOCK

Duquesne Light may offer additional shares of preferred stock in one or more series. Duquesne Light's Restated Articles of Incorporation ("Restated Articles") authorize the Company to issue up to:

- 4,000,000 shares of preferred stock, \$50 par value per share (the "Preferred Stock"), of which 1,209,419 shares were outstanding at December 31, 2003;
- 8,000,000 shares of preference stock, \$1.00 par value per share (the "Preference Stock"), of which 438,243 shares were outstanding at December 31, 2003; and
- 90,000,000 shares of common stock, \$1.00 par value per share (the "Common Stock"), of which 10 shares were outstanding and held by Duquesne Light Holdings at December 31, 2003.

The new shares of Preferred Stock which may be offered by this prospectus are called the "New Preferred Stock". The Preference Stock and the Common Stock, together with any other class of stock which may be authorized in the future and which ranks junior to the Preferred Stock as to dividends or assets, are hereinafter called, collectively, "Junior Stock".

The rights and privileges of holders of Duquesne Light's capital stock are governed by the Company's Restated Articles and By-Laws and the Pennsylvania Business Corporation Law, or BCL. Certain provisions of the Restated Articles are summarized below. This summary is not complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the Restated Articles. Duquesne Light has filed the Restated Articles, as well as a form of amendment to establish a series of New Preferred Stock, as exhibits to the registration statement of which this prospectus is a part. Capitalized terms used under this heading which are not otherwise defined in this prospectus have the meanings set forth in the Restated Articles.

General

The Board of Directors is authorized to divide the Preferred Stock into series and, as to each series, to determine the designation and number of shares of such series and the relative rights and preferences of the shares of such series, as described in the following paragraph. These divisions and determinations will be set forth in one or more amendments to the Restated Articles adopted by the Board of Directors. All shares of Preferred Stock will be of equal rank, regardless of series, and will be identical except as otherwise provided in the amendments to the Restated Articles establishing the respective series of Preferred Stock.

The prospectus supplement relating to each series of New Preferred Stock offered by this prospectus will describe the relative rights and preferences of the shares of such series as set forth in the amendment to the Restated Articles, namely:

- the designation and number of shares of such series;
- the annual dividend rate of such series, and the date from which dividends will commence to accrue;
- the redemption price or prices of such series and the terms and conditions on which such shares may be redeemed;
- the sinking fund provisions, if any, for the redemption or purchase of shares of such series;
- the preferential amount or amounts payable upon shares of such series in the event of the voluntary or involuntary liquidation of the Company;
- the voting rights, if any, of such series in addition to those described or referred to under "Voting Rights" below;
- the terms and conditions, if any, upon which shares of such series may be converted and the class or classes or series of shares of the Company into which such shares may be converted; and
- such other terms, limitations and relative rights and preferences, if any, of shares of such series as the Board of Directors may lawfully determine under the laws of the Commonwealth of Pennsylvania.

Dividend Rights

The holders of each series of the Preferred Stock at the time outstanding are entitled to receive, if and when declared payable by the Board of Directors out of legally available funds, a dividend in cash at, but not exceeding, the fixed dividend rate for the particular series, payable quarterly. Dividends on each series of the Preferred Stock shall be cumulative, so that in no event may any dividend be declared or paid upon or set apart for, or any distribution be made or ordered in respect of, Junior Stock, nor may any moneys or other consideration be set aside for or applied to the purchase or redemption of Junior Stock, unless all dividends on each of the then outstanding series of the Preferred Stock for all past quarterly dividend periods have been paid, or declared and a sum sufficient for the payment thereof set apart, and the full dividend thereon for the then current quarterly dividend period has been or concurrently is being paid or declared. Any dividends declared or paid on the Preferred Stock in an amount less than full cumulative dividends accrued or in arrears upon all Preferred Stock outstanding will, if more than one series is outstanding, be divided between the different series in proportion to the aggregate amounts which would be distributable to the Preferred Stock of each series if full cumulative dividends to the next preceding quarterly dividend date were declared and paid thereon.

The applicable prospectus supplement will set forth the dividend rate and dividend payment dates for each series of New Preferred Stock.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the Company, the holders of the Preferred Stock of each series are entitled to receive in cash the fixed liquidation price for such series plus, if such action is voluntary, the fixed liquidation premium, if any, for such series, together in all cases with an amount equal to all dividends accrued or in arrears to the date fixed for such payment, before any distribution to the holders of any Junior Stock. If upon any such liquidation, dissolution or winding up, the assets distributable among the holders of Preferred Stock are insufficient to permit the payment of the full preferential amounts, then assets shall be distributed among the holders of all series of Preferred Stock outstanding ratably per share in proportion to the full preferential amounts per share to which they are respectively entitled. A consolidation or merger of the Company, or a sale or transfer of all or substantially all of its assets or a purchase or redemption of any of its stock, will not be a liquidation, dissolution or winding up within the meaning of this section.

The fixed liquidation price for all series of Preferred Stock outstanding at the date of this prospectus is \$50 per share; the fixed liquidation premium payable on any voluntary liquidation, dissolution or winding up of the Company is an amount equal to the then redemption price for shares of the respective series.

The applicable prospectus supplement will set forth the fixed liquidation price for each series of New Preferred Stock.

Redemption; Repurchases

The Company, at its option, may at any time or from time to time redeem the whole or any part of the Preferred Stock or of any series thereof at the applicable redemption price for each such series to be redeemed.

The applicable prospectus supplement will set forth the optional redemption prices for each series of Preferred Stock. Such prospectus supplement will also set forth the terms of any sinking fund for the redemption or purchase of shares of each series of New Preferred Stock as well as the applicable redemption or purchase prices.

Notice of any proposed redemption of any shares of Preferred Stock shall be given by mailing a copy of such notice to the holders of record of the shares of Preferred Stock to be redeemed, at their respective addresses then appearing on the books of the Company, not less than 30 nor more than 90 days prior to the date designated for such redemption and by publishing such notice as specified in the Restated Articles; *provided* that if notice of redemption is published as so specified, then mailing of notice as aforesaid is not a condition precedent to the redemption, and failure to mail such notice or any defect in the mailing thereof will not affect the validity of the redemption proceedings.

In the case of the redemption of less than all of the shares of any series of the Preferred Stock at the time outstanding, the shares to be redeemed shall be determined by lot or in another impartial manner determined by the Board of Directors.

From and after the date fixed for redemption, unless the Company fails to provide funds sufficient for such redemption, all dividends on the shares called for redemption will cease to accrue; and from and after that date, unless the Company has so failed to provide funds, or from and after the date of the earlier deposit by the Company with a bank or trust company having specified minimum capital requirements, in trust for the benefit of the holders of the shares of Preferred Stock so called for redemption, of all funds necessary for such redemption as aforesaid (provided in the latter case that notice of such deposit has been given or provided for), all rights of the holders of the shares so called for redemption as stockholders of the Company will cease, except only the right to receive the redemption price of such shares when due, and such shares will be deemed to be no longer outstanding.

The Company may not redeem or purchase any of its Preferred Stock so long as dividend arrearages exist on outstanding Preferred Stock of any series unless the redemption or purchase offer is made applicable to all Preferred Stock outstanding. Where purchases are made, the price paid may not exceed the current redemption price applicable to the shares purchased. Any shares of Preferred Stock redeemed, purchased or otherwise acquired shall

forthwith be cancelled and restored to the status of authorized but unissued shares of Preferred Stock without series designation.

Voting Rights

The holders of the Preferred Stock have no voting rights except as follows:

- as described under "Restrictions on Certain Corporate Action" below;
- as may be provided with respect to any particular series by the Board of Directors (other than any series outstanding at the date of this prospectus); and
- if dividends payable on any of the Preferred Stock are in default in an amount equal to four or more quarterly dividends per share, then the holders of the Preferred Stock of all series voting together as a class are entitled to elect the smallest number of directors necessary to constitute a majority of the Board of Directors until such time as all arrears in dividends on the Preferred Stock and the current dividend thereon have been paid or declared and set apart for payment.
- under Pennsylvania law, the holders of shares of Preferred Stock of all affected series will be entitled to vote, together as a single class, with respect to any merger or consolidation which would effect any change in the Restated Articles if such holders would have been entitled to a class vote with respect to such change if such change had been accomplished as an amendment to the Restated Articles rather than by merger or consolidation.

On any matter on which the holders of the Preferred Stock are entitled to vote, they are entitled to one vote per share except in the election of directors, as described below. So long as the holders of the Preferred Stock have the right to elect directors, the holders of the Common Stock voting separately as a class are entitled to elect the remaining directors; *provided, however*, that the holders of the Preference Stock of all series voting together as a class are entitled to elect two of such remaining directors if dividends payable on any series of the Preference Stock are in default in an amount equal to 1½ times the annual dividend rate per share.

In all elections for directors by class vote of the holders of the Preferred Stock or the Preference Stock, every holder of such class of stock entitled to vote has the right to multiply the number of votes to which such stockholder is otherwise entitled by the number of directors for the election of whom he is entitled to vote at such meeting, and such stockholder may cast the whole number of such votes for one candidate or may distribute them among any two or more candidates. The candidates receiving the highest number of votes up to the number of directors to be elected by such class shall be elected. The holders of the Common Stock do not have such cumulative voting rights.

Restrictions on Certain Corporate Action

Alteration of Rights; Creation of Prior Stock

So long as any shares of the Preferred Stock are outstanding, the Company will not, without the consent of the holders of at least two-thirds of the outstanding shares of Preferred Stock,

- adversely amend, alter or repeal any rights, preferences, or powers of any of the outstanding Preferred Stock; or
- create or authorize any stock ranking prior to the Preferred Stock as to dividends or assets, or issue any shares of any such stock more than 180 days after the vote of the Preferred Stock authorizing or creating such shares.

Additional Preferred Stock; Restrictions on Issuance, on Merger, on Unsecured Debt

So long as any shares of the Preferred Stock are outstanding, the Company will not, without the consent of the holders of at least a majority of the outstanding shares of Preferred Stock,

- create or authorize any shares of the Preferred Stock in addition to the 4,000,000 shares authorized at the date of this prospectus, or any other stock ranking on a parity with the Preferred Stock as to dividends or assets;
- issue any shares of Preferred Stock or any shares of stock ranking on a parity with the Preferred Stock as to dividends or assets, unless, after giving effect to such issuance and the elimination of any indebtedness or Preferred Stock, or stock ranking prior to or on a parity with the Preferred Stock as to dividends or assets, to be retired in connection with such issuance,
 - the “consolidated income of the Company and its subsidiaries available for interest charges”, as defined below, for any period of 12 consecutive calendar months within the 15 calendar months immediately preceding, is at least one and one-half times the sum of (i) the aggregate annual interest charges on all indebtedness of the Company and its subsidiaries, consolidated (excluding inter-company items), to be outstanding and (ii) the aggregate annual dividend requirements on all Preferred Stock and any prior or parity stock to be outstanding. The earnings of any property acquired during or after the period of computation or to be acquired in connection with the issuance of such additional shares, if capable of being separately determined or estimated, may be included as if such property had been owned for the whole of the period; and
 - the “Common Stock Equity” of the Company, as defined below, is not less than the aggregate amount payable on involuntary dissolution, liquidation or winding up of the Company in respect of all shares of Preferred Stock or prior or parity stock to be outstanding. If, for the purpose of meeting this requirement, it is necessary to take into consideration any earned surplus of the Company, the Company may not thereafter pay any dividends on shares of its Common Stock which would reduce the Common Stock equity to an amount less than the aforesaid amount payable upon involuntary dissolution, liquidation or winding up;
- merge or consolidate with or into any other corporation or sell, lease or dispose of all or substantially all of its assets, unless such action or the issuance or assumption of securities in connection therewith shall have been ordered, permitted or approved by the SEC under the Public Utility Holding Company Act of 1935, as amended (“PUHCA”), or by any successor commission or regulatory authority of the United States (but this clause does not apply to the purchase or acquisition by the Company of franchises (including franchises and rights granted by corporate charter) or assets of another corporation); or
- issue or assume any securities representing unsecured indebtedness for purposes other than
 - the refunding of outstanding unsecured indebtedness of the Company;
 - the reacquisition, redemption or other retirement of indebtedness pursuant to authorization by the SEC under PUHCA or by any successor commission or other regulatory authority of the United States; or
 - the reacquisition, redemption or other retirement of all outstanding Preferred Stock or prior or parity stock;

if immediately after such issuance or assumption the total principal amount of the Company’s outstanding unsecured securities would exceed 20% of the aggregate of (i) the principal amount of the

Company's secured indebtedness then outstanding and (ii) the capital stock and earned and capital surplus of the Company plus any premiums on any class of capital stock of the Company then carried on its books.

Restrictions on Junior Stock Payments

So long as any shares of the Preferred Stock are outstanding, the Company will not declare or pay any dividends on any shares of Junior Stock, other than dividends payable in shares of Junior Stock, or make any other distribution on Junior Stock, or purchase or redeem or otherwise acquire for value any shares of Junior Stock, other than by the issuance in exchange therefore, or by the application of the proceeds of the issuance and sale of Junior Stock, each such declaration, payment, distribution, purchase or acquisition being hereinafter referred to as a "Junior Stock Payment", in contravention of the following restrictions, namely:

- no Junior Stock Payment will be declared or made in an amount which, together with all other such Junior Stock Payments declared or made in the 12 months' period ending on (and including) the date of the declaration or making of such Junior Stock Payment, would in the aggregate exceed 50% of the "consolidated net income of the Company and its subsidiaries available for dividends on junior stock", as defined, for a period of 12 consecutive calendar months within the 15 calendar months immediately preceding the declaration or making of such Junior Stock Payment, if, after giving effect to such payment, the ratio (hereinafter referred to as the capitalization ratio) of the Common Stock equity of the Company to its "total capitalization", as defined below, would be less than 20%; and
- no Junior Stock Payment shall be declared or made in an amount which, together with all other such Junior Stock Payments declared or made in the 12 months' period ending on (and including) the date of the declaration or making of such Junior Stock Payment, would in the aggregate exceed 75% of the "consolidated net income of the Company and its subsidiaries available for dividends on junior stock" for a period of 12 consecutive calendar months within the 15 calendar months immediately preceding the declaration or making of such Junior Stock Payment, if, after giving effect to such payment, the capitalization ratio would be 20% or more, but less than 25%.

No Restrictions if Preferred Stock to be Retired

The foregoing restrictive provisions will not apply if, in connection with any matter specified therein, provision is to be made for the redemption or retirement of all the outstanding Preferred Stock.

Certain Defined Terms

"Consolidated income of the Company and its subsidiaries available for interest charges", as defined in the Restated Articles, means generally gross operating revenues and other income of the Company and its subsidiaries consolidated (excluding profits and losses from sales of capital assets or from the reacquisition of securities, and related taxes), after deducting

- all operating expenses not including (1) interest charges on outstanding securities, (2) charges for amortization of debt and stock discount or premium and expense or (3) charges for amortization of electric plant acquisition adjustments and amortization of adjustments of cost of property, or charges to reserves or expense in respect of any thereof; and
- the amount, if any, by which the expenditures for ordinary repairs and maintenance and charges for depreciation are less than an amount equal to 15% of the consolidated gross operating revenues (after deducting from such operating revenues an amount equal to the cost of electric energy and steam purchased and resold and rental expense for certain utility facilities, all on a consolidated basis).

"Consolidated net income of the Company and its subsidiaries available for dividends on junior stock", as defined in the Restated Articles, means generally an amount equal to the "consolidated income of the Company and its subsidiaries available for interest charges", as defined above, after adding back interest charged to construction

and then deducting interest on outstanding securities of the Company and its subsidiaries and charges for amortization of debt and stock discount or premium and expense and all dividends paid or accrued upon any shares of Preferred Stock or any class of stock ranking prior to or on a parity with the Preferred Stock as to dividends; but there is not deducted any write-off or charge-off against surplus of expenses in connection with the issuance, redemption or retirement of securities, including any amount paid in excess of the principal amount or par or stated value of securities redeemed or retired.

"Common Stock equity", as defined in the Restated Articles, means generally the aggregate of the par value of the outstanding shares of Common Stock of the Company, plus capital surplus and earned surplus. For this purpose, the surplus accounts are adjusted to eliminate

- the amount, if any, by which the expenditures of the Company for ordinary repairs and maintenance and charges for renewals, replacements, retirements and depreciation are less than an amount equal to 15% of the gross operating revenues of the Company (after deducting from such operating revenues an amount equal to the cost to the Company of electric energy and steam purchased and resold and rental expense of the Company for certain utility facilities for the period August 1, 1947 to the last day of the third month preceding the date as of which the computation is made),
- the excess, if any, of recorded value over original cost of utility plant and certain other amounts shown as assets as a result of accounting convention; and
- the excess, if any, of the aggregate amount payable on involuntary dissolution, liquidation or winding up upon all outstanding shares of Preferred Stock over the aggregate stated or par value of such shares.

"Total capitalization" of the Company, as defined in the Restated Articles, means generally the aggregate of

- the Common Stock equity,
- the principal amount of all outstanding indebtedness of the Company maturing more than 12 months after the date of issue or assumption thereof and
- the par value of, or stated capital represented by, and any premiums carried on the books of the Company in respect of, the outstanding shares of all classes of stock of the Company other than the Common Stock.

Other Provisions

The holders of Preferred Stock have no preemptive or subscription rights. There are no sinking fund provisions applicable to any series of Preferred Stock outstanding at the date of this prospectus. When issued, the New Preferred Stock will be fully paid and non-assessable.

Transfer Agent, Registrar

We will act as transfer agent for the New Preferred Stock. In addition, Wells Fargo Shareowner Services, St. Paul, Minnesota will also be a transfer agent for the New Preferred Stock. The registrars for the New Preferred Stock will be Mellon Bank, N.A., Pittsburgh, Pennsylvania and Wells Fargo Shareowner Services.

PLAN OF DISTRIBUTION

Duquesne Light may sell the Bonds or Preferred Stock being offered hereby in one or more of the following ways from time to time: (1) directly to one or a limited number of institutional purchasers, (2) through agents, (3) through underwriters and/or (4) through dealers.

The applicable prospectus supplement or a supplement thereto will set forth the terms of the offering of each series of securities, including the names of any agents, underwriters or dealers, the purchase price of the

securities and the net proceeds to Duquesne Light from such sale, any underwriting discounts or commissions and other items constituting underwriters' compensation, the initial public offering price and any discounts or concessions allowed or reallocated.

If Duquesne Light uses underwriters to sell securities, the underwriters will acquire such securities for their own account and resell them from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Such securities may be offered to the public either through underwriting syndicates represented by managing underwriters or by underwriters without a syndicate. Unless otherwise set forth in the applicable prospectus supplement, the obligations of the underwriters to purchase such securities will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all of such securities if any of such securities are purchased, except that, in certain cases involving a default by one or more underwriters, less than all of such securities may be purchased. The initial public offering prices and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

If Duquesne Light uses one or more agents to sell securities, the agents will be named, and any commissions payable by Duquesne Light to such agents will be set forth, in the applicable prospectus supplement. Unless otherwise indicated in the applicable prospectus supplement, any such agent will act on a best efforts basis for the period of its appointment.

If so indicated in the applicable prospectus supplement, Duquesne Light will authorize agents, underwriters or dealers to solicit offers by certain specified institutions to purchase the securities at the public offering price set forth in such prospectus supplement or supplement pursuant to delayed delivery contracts providing for payment and delivery on a future date specified in such prospectus supplement. Such contracts will be subject only to those conditions set forth in the applicable prospectus supplement and such prospectus supplement will set forth the commissions payable for solicitation of such contracts.

Any agents, underwriters or dealers participating in the distribution of the securities may be deemed to be underwriters and any discounts or commissions received by them on the sale or resale of the securities may be deemed to be underwriting discounts and commissions under the Securities Act of 1933, as amended (the "Securities Act"). Agents and underwriters may be entitled under agreements entered into with Duquesne Light to indemnification by Duquesne Light against certain liabilities, including liabilities under the Securities Act and other securities laws, or to contribution with respect to payments that the agents or underwriters may be required to make in respect thereof.

Unless otherwise provided in the applicable prospectus supplement relating to a series of securities, Duquesne Light does not intend to apply for the listing of the securities on a national securities exchange, but any agents, underwriters or dealers participating in the distribution of the securities may make a market in the securities, as permitted by applicable laws and regulations. Any such underwriters, dealers or agents would not be obligated to do so, however, and could discontinue making a market at any time without notice. No assurance can be given as to the liquidity of any trading market for the securities.

Any agents, underwriters or dealers or agents participating in the distribution of the securities, and/or affiliates thereof, may engage in transactions with and perform services for Duquesne Light and its affiliates in the ordinary course of business.

EXPERTS

The consolidated financial statements and the related financial statement schedule incorporated in this prospectus by reference from Duquesne Light's most recent Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is included in such Annual Report and also incorporated herein by reference (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in accounting for unbilled revenues), and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

VALIDITY

The validity of the securities will be passed upon for Duquesne Light by Dewey Ballantine LLP, special counsel for Duquesne Light, and by Douglas L. Rabuzzi, Assistant General Counsel of Duquesne Light, and for any agents, underwriters or dealers by Milbank, Tweed, Hadley & McCloy LLP. Dewey Ballantine LLP and Milbank, Tweed, Hadley & McCloy LLP may rely upon the opinion of Mr. Rabuzzi as to matters of Pennsylvania law.

PENNSYLVANIA TAXES

Debt securities owned by individuals residing in Pennsylvania are subject to the 4 mills (\$4.00 on each \$1,000 of principal amount) Pennsylvania corporate loan tax.

PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth an estimate of the expenses to be incurred by Duquesne Light in connection with the issuance and distribution of the securities being registered, other than underwriting discounts and commissions:

Securities and Exchange Commission registration fee	\$25,340*
Printing expenses	\$20,000
Trustees' charges, including authentication	\$10,000
Accounting fees and expenses	\$50,000
Legal fees and expenses	\$250,000
Rating agency fees	\$100,000
Miscellaneous	\$12,500
Total	<u>\$467,840</u>

* Actual amount

Item 15. Indemnification of Directors and Officers.

Under the Sixth Article of the Restated Articles of the Company and under Article II, Section 12 of the By-Laws of the Company, to the fullest extent that the laws of the Commonwealth of Pennsylvania, as now or as hereafter amended, permit elimination or limitation of the liability of directors, no director of the Company shall be personally liable for monetary damages for any action taken, or any failure to take action, as a director.

Under Article II, Section 11 (the "Indemnification By-law") of the By-Laws of the Company, the directors and officers of the Company are each entitled to be indemnified against reasonable expenses, including attorneys' fees, and liabilities paid or incurred by them in connection with any actual or threatened claim, action, suit or proceeding, civil, criminal, administrative, investigative or other, whether brought by or in the right of the Company or otherwise, by reason of the fact that they are or were serving at the request of the Company as a director, officer, employee, fiduciary or other representative of another corporation, partnership, joint venture, trust, employee benefit plan or other entity, except that no such right of indemnification shall exist with respect to an action brought by a director or officer against the Company other than a suit for indemnification. Such indemnification shall include the right to have expenses incurred by such person in connection with an action paid in advance by the Company prior to final disposition of such action, subject to such conditions as may be prescribed by law.

Section 1746(b) of the Pennsylvania Business Corporation Law prohibits indemnification in any case where the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

The Indemnification By-Law provides that it shall not be deemed exclusive of any other rights, whether existing now or later, of indemnification which a person seeking indemnity may be entitled under any agreement, By-Law or charter provision, vote of stockholders or directors or otherwise. Also, under the By-Laws, the Company may purchase insurance to protect itself and any person eligible to indemnification against any liability or expense asserted or incurred against such person in connection with any action, whether or not the Company would have the power to indemnify against such liability or expense by law or under the Indemnification By-Law.

The Company is insured under the director and officer liability insurance program of its parent, Duquesne Light Holdings, which provides coverage for the directors and officers of the Company and all its subsidiaries with respect to certain liabilities which may be incurred in connection with their service to the Company or any of its subsidiaries, including liabilities arising under the Securities Act of 1933, as amended. This insurance provides

reimbursement to the Company and its subsidiaries up to policy limits for amounts paid to directors and officers pursuant to the indemnification provisions summarized above.

Item 16. List of Exhibits.

Reference is made to the Exhibit Index on page II-4 hereof, such Exhibit Index being incorporated by such reference in this Item 16.

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

(1) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in the Registration Statement;

provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in this Registration Statement;

(2) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(3) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and

(4) that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 15 above, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted against the registrant, by such director, officer or controlling person in connection with the securities being registered the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a

court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

POWER OF ATTORNEY

Each director and/or officer of the registrant whose signature appears below hereby appoints Morgan K. O'Brien, Stevan R. Schott and William F. Fields, each of them severally, as his or her true and lawful attorney-in-fact and agent to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission, any and all amendments, including post-effective amendments, to this registration statement, and the registrant hereby also appoints each such person as its attorney-in-fact and agent with like authority to sign and file any such amendments in its name and behalf.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Pittsburgh, and Commonwealth of Pennsylvania, on February 16, 2004.

Duquesne Light Company
(Registrant)

By: /s/ Stevan R. Schott
(Signature and Title)

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed below by the following persons in the capacities indicated on February 16, 2004.

<u>Signature</u>	<u>Title</u>
<u>/s/ Morgan K. O'Brien</u> Morgan K. O'Brien	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Stevan R. Schott</u> Stevan R. Schott	Senior Vice President, Chief Financial Officer and Director (Principal Financial Officer)
<u>/s/ Susan S. Mullins</u> Susan S. Mullins	Controller (Principal Accounting Officer)
<u>/s/ Joseph G. Belechak</u> Joseph G. Belechak	Director
<u>/s/ Maureen L. Hogel</u> Maureen L. Hogel	Director
<u>/s/ James E. Wilson</u> James E. Wilson	Director

**DUQUESNE LIGHT COMPANY
REGISTRATION STATEMENT
ON FORM S-3
EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description and Method of Filing</u>	
1.1	Proposed form of Selling Agency Agreement (including form of Terms Agreement).	To be filed by amendment or subsequent Form 8-K.
1.2	Proposed form of Underwriting Agreement	To be filed by amendment or subsequent Form 8-K.
3.1	Restated Articles of Incorporation of the Company, effective June 30, 1999	Exhibit 3.1 to the Company's Form 10-Q Quarterly Report for the quarter ended June 30, 1999
3.2	By-Laws of the Company, effective October 13, 2003	Exhibit 3.1 to the Company's 10-Q Quarterly Report for the quarter ended September 30, 2003.
3.3	Form of Statement with respect to series of Preferred Stock	Filed herewith.
4.1	Indenture of Mortgage and Deed of Trust dated as of April 1, 1992, securing Duquesne Light Company's First Collateral Bonds.	Exhibit 4.3 to Registration Statement (Form S-3) No. 33-52782.
4.2	Supplemental Indentures Supplementing said Indenture of Mortgage and Deed of Trust -	
	*Supplemental Indenture No. 1.	Exhibit 4.4 to Registration Statement (Form S-3) No. 33-52782.
	*Supplemental Indenture No. 2.	Exhibit 4.4 to Registration Statement (Form S-3) No. 33-63602.
	*Supplemental Indenture No. 3.	Exhibit 4.4 to Registration Statement (Form S-3) No. 33-63602.
	*Supplemental Indenture No. 4.	Exhibit 4.4 to Registration Statement (Form S-3) No. 33-63602.
	*Supplemental Indenture No. 5.	Exhibit 4.6 to Company's Form 10-K Annual Report for the year ended December 31, 1993.

Exhibit
No.

Description and Method of Filing

*Supplemental Indenture No. 6.	Exhibit 4.6 to the Company's Form 10-K Annual Report for the year ended December 31, 1993.
*Supplemental Indenture No. 7.	Exhibit 4.6 to the Company's Form 10-K Annual Report for the year ended December 31, 1993.
*Supplemental Indenture No. 8.	Exhibit 4.6 to the Company's form 10-K Annual Report for the year ended December 31, 1994.
*Supplemental Indenture No. 9.	Exhibit 4.6 to the Company's form 10-K Annual Report for the year ended December 31, 1994.
*Supplemental Indenture No. 10.	Exhibit 4.4 to the Company's Form 10-K Annual Report for the year ended December 31, 1995.
*Supplemental Indenture No. 11.	Exhibit 4.4 to the Company's Form 10-K Annual Report for the year ended December 31, 1995.
*Supplemental Indenture No. 12.	Exhibit 4.4 to the Company's Form 10-K Annual Report for the year ended December 31, 1995.
*Supplemental Indenture No. 13.	Exhibit 4.3 to the Company's Form 10-K Annual Report for the year ended December 31, 1996.
*Supplemental Indenture No. 14.	Exhibit 4.3 to the Company's Form 10-K Annual Report for the year ended December 31, 1997.
*Supplemental Indenture No. 15.	Exhibit 4.3 to the Company's Form 10-K Annual Report for the year ended December 31, 1999.
*Supplemental Indenture No. 16.	Exhibit 4.3 to the Company's Form 10-K Annual Report for the year ended December 31, 1999.
*Supplemental Indenture No. 17.	Exhibit 4.2 to Registration Statement (Form S-3) No. 333-72408.
*Supplemental Indenture No. 18.	Exhibit 4.2 to Registration Statement (Form S-3) No. 333-72408.

<u>Exhibit No.</u>	<u>Description and Method of Filing</u>	
	*Supplemental Indenture No. 19.	Exhibit 4 to Registration Statement (Form 8-A) No. 001-00956.
4.3	Proposed form of Supplemental Indenture No. 20 establishing the series of Bonds.	Filed herewith.
4.4	Proposed form of Officer's Certificate with forms of fixed and floating rate bonds attached.	Filed herewith.
5.1	Opinion of Douglas L. Rabuzzi, Esq. as to the legality of the securities.	Filed herewith.
5.2	Opinion of Dewey Ballantine LLP as to the legality of the securities.	Filed herewith.
8.1	Opinion of Douglas L. Rabuzzi, Esq. as to certain Pennsylvania tax matters.	Filed herewith as part of Exhibit 5.1.
12.1	*Calculation of Ratio of Earnings to Fixed Charges	Exhibit 12.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 and exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
12.2	Calculation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	To be filed by amendment.
23.1 (a)	Consent of Douglas L. Rabuzzi	Filed herewith as part of Exhibit 5.1.
23.1 (b)	Consent of Dewey Ballantine LLP	Filed herewith as part of Exhibit 5.2.
23.2	Independent Auditors' Consent	Filed herewith.
25.1	Statement of Eligibility of Mortgage Trustee	Filed herewith.

* Previously filed as indicated and incorporated herein by reference.

DUQUESNE LIGHT COMPANY

Statement with respect to the \$_____ Preferred Stock
(Cumulative, \$50 Par Value, \$_____ [Involuntary] Liquidation Value)

In compliance with the requirements of Section 1522 of the Pennsylvania Business Corporation Law of 1988, as amended, DUQUESNE LIGHT COMPANY, a Pennsylvania corporation, hereby certifies under its corporate seal as follows:

(1) The name of the Company is Duquesne Light Company.

(2) At a meeting of the Board of Directors of the corporation duly called and held on _____, at which a quorum was present and acting throughout, the Board adopted the following resolutions establishing a series of Preferred Stock of the corporation designated as \$_____ Preferred Stock and determining the voting rights, preferences, limitations and special rights thereof:

RESOLVED, that pursuant to the authority expressly vested in the Board of Directors of Duquesne Light Company by the Restated Articles of the Company, this Board of Directors hereby (i) establishes a new series of Preferred Stock consisting of _____ shares and having the terms and provisions presented to this meeting, such terms and provisions being incorporated into this resolution by reference and deemed to be a part hereof and (ii) directs that such terms and provisions be attached as an exhibit to the statement required by Section 1522 of the Pennsylvania Business Corporation Law of 1988, as amended, to be filed with the Department of State of the Commonwealth of Pennsylvania with respect to the \$_____ Preferred Stock; and

RESOLVED FURTHER that the proper officers, or any of them, of the Company be, and they hereby are, authorized and empowered to execute, with such changes as any such officer may deem necessary, under the corporate seal of the Company, and cause to be filed with the Department of State of the Commonwealth of Pennsylvania a statement with respect to the \$_____ Preferred Stock in accordance with Section 1522 of the Pennsylvania Business Corporation Law of 1988, as amended; and

(3) The aggregate number of shares of the \$_____ Preferred Stock established by the resolutions set forth in (2) above is _____ shares. No additional shares of such series have been established and designated in any prior statements filed under Section 1522 of the Pennsylvania Business Corporation Law, as amended (or any corresponding provisions of prior law) or in any provisions of the Restated Articles, as amended, of the Company.

(4) The resolutions set forth in (2) above were adopted by the Board of Directors of the corporation at a meeting held on _____ 200_; and the terms and provisions of the \$_____ Preferred Stock presented to and approved at such meeting, and incorporated into such resolutions by reference, are attached hereto as Exhibit A.

IN TESTIMONY WHEREOF, the undersigned corporation has caused this Statement to be signed by a duly authorized officer thereof this _____ day of _____, 200_.

DUQUESNE LIGHT COMPANY

By _____
Name:
Title:

Filed in the Department of State on the _____ day of _____, 200_.

Secretary of the Commonwealth

DUQUESNE LIGHT COMPANY

\$_____ PREFERRED STOCK

There shall be established out of the authorized and unissued shares of Preferred Stock, of the par value of \$50 per share, of Duquesne Light Company (the "Corporation") a new series of Preferred Stock consisting of _____ shares and having the designation, voting rights, preferences, limitations and special rights set forth below:

1. Designation. This series of Preferred Stock shall be designated as the "\$_____ Preferred Stock."

2. Dividend Rate. The fixed dividend rate for the \$_____ Preferred Stock shall be \$_____ per share per annum. Dividends on the \$_____ Preferred Stock shall commence to accrue and be cumulative from the date of the initial issue of shares of such series and shall be payable (if and when declared) on the ___ days of _____, _____, _____ and _____ in each year, commencing _____, 200__.

3. Redemption.
[Optional redemption provisions, if any]

4. Sinking Fund Redemption.
[Sinking fund provisions, if any.]

5. Liquidation. The fixed [voluntary or involuntary] liquidation price for the \$_____ Preferred Stock shall be \$_____ per share together with dividends accrued or in arrears thereon.

6. Additional Voting Rights.
[Additional voting rights, if any.]

DUQUESNE LIGHT COMPANY

TO

JPMORGAN CHASE BANK

Trustee

Supplemental Indenture No. __

Dated as of _____, 200_

Supplemental to the Indenture of Mortgage
and Deed of Trust dated as of April 1, 1992

Establishing a series of Securities designated
First Mortgage Bonds, Series _

and

Amending certain provisions of said
Indenture of Mortgage and Deed of Trust

SUPPLEMENTAL INDENTURE No. ___ dated as of _____, 200_, between **DUQUESNE LIGHT COMPANY**, a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter sometimes called the "Company"), and **JPMORGAN CHASE BANK**, a New York banking corporation and successor by merger to The Chase Manhattan Bank, successor in trust to Mellon Bank, N.A., trustee (hereinafter sometimes called the "Trustee"), under the Indenture of Mortgage and Deed of Trust, dated as of April 1, 1992 (hereinafter called the "Original Indenture"), this Supplemental Indenture No. ___ being supplemental thereto. The Original Indenture and any and all indentures and instruments supplemental thereto are hereinafter sometimes collectively called the "Mortgage."

Recitals of the Company

The Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Securities (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as contemplated therein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Securities.

The Original Indenture has been recorded in the Recorders' Offices of the various counties of Pennsylvania as follows:

In Allegheny County in Mortgage Book Vol. 12068, page 8;
In Beaver County in Mortgage Book Vol. 1208, page 520;
In Greene County in Mortgage Book Vol. 100, page 174;
In Washington County in Mortgage Book Vol. 1873, page 1;
In Westmoreland County in Mortgage Book Vol. 2862, page 221;

and has also been recorded in the Office of the Clerk of County Commission of Monongahela County, West Virginia, in Deed of Trust Book Vol. 672, page 129, the Office of the Clerk of County Commission of Hancock County, West Virginia, in Deed of Trust Book Vol. 293, page 46, the Recorder's Office of Belmont County, Ohio, in Mortgage Book Vol. 586, page 273, the Recorder's Office of Columbiana County, Ohio, in Mortgage Book Vol. 318, page 289, the Recorder's Office of Jefferson County, Ohio, in Mortgage Book Vol. 65, page 675, the Recorder's Office of Lake County, Ohio, in Mortgage Book Vol. 711, page 217, and the Recorder's Office of Monroe County, Ohio, in Mortgage Book Vol. 129, page 301.

The Company has heretofore executed and delivered to the Trustee Supplemental Indentures for the purposes recited therein and for the purpose of creating series of Securities as set forth in Schedule A hereto.

The Company desires to establish a series of Securities to be designated "First Mortgage Bonds, Series _", such series of Securities to be hereinafter sometimes called "Series No. ___."

By virtue of Section 2 of Article Two of Supplemental Indenture No. 15, dated as of November 1, 1999, the Holders of the Securities of Series Nos. 10 through 22 are deemed to have consented to the amendments to the Original Indenture set forth therein, the Outstanding Securities of such series having an aggregate principal amount of \$417,985,000; by virtue of Article Two of Supplemental Indenture No. 18, dated as of April 1, 2002, the Holders of the

Securities of Series No. 23 are deemed to have consented to such amendments to the Original Indenture, the Outstanding Securities of such series having an aggregate principal amount of \$200,000,000; by virtue of Article Two of Supplemental Indenture No. 19, dated as of April 15, 2002, the Holders of the Securities of Series No. 24 are deemed to have consented to such amendments to the Original Indenture, the Outstanding Securities of such series having an aggregate principal amount of \$100,000,000; at the date of the execution and delivery of this Supplemental Indenture No. 20, the aggregate principal amount of Securities of all series Outstanding under the Indenture is \$757,985,000; and the aggregate principal amount of the Securities of Series Nos. 10 through 24 is \$717,985,000, which is more than a majority in principal amount of all Securities Outstanding. Accordingly, the Company now desires to effect the amendments to the Original Indenture set forth in Section 2 of Article Two of Supplemental Indenture No. 15 in accordance with Sections 1402 and 1403 of the Original Indenture.

The Company has duly authorized the execution and delivery of this Supplemental Indenture No. __ to establish the Securities of Series No. __ and has duly authorized the issuance of such Securities and to make the amendments to the Original Indenture referred to above; and all acts necessary to make this Supplemental Indenture No. __ a valid agreement of the Company, and to make the Securities of Series No. __ valid obligations of the Company, have been performed.

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. __ WITNESSETH, that, in consideration of the premises and of the purchase of the Securities by the Holders thereof, and in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Securities from time to time Outstanding and the performance of the covenants contained therein and in the Mortgage and to declare the terms and conditions on which such Securities are secured, the Company hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms to the Trustee, and grants to the Trustee a security interest in, the following:

Granting Clause First

All right, title and interest of the Company in and to property (other than Excepted Property), real, personal and mixed and wherever situated, in any case used or to be used in or in connection with the generation, purchase, transmission, distribution or sale by the Company of electric energy (whether or not such use is the sole use of such property), including, without limitation, (a) all lands, easements, servitudes, licenses, permits, rights of way and other rights and interests in or relating to real property or the occupancy or use of the same; (b) all plants, generators, turbines, engines, boilers, fuel handling and transportation facilities, air and water pollution control and sewage and solid waste disposal facilities and other machinery and facilities for the generation of electric energy; (c) all switchyards, lines, towers, substations, transformers and other machinery and facilities for the transmission of electric energy; (d) all lines, poles, conduits, conductors, meters, regulators and other machinery and facilities for the distribution of electric energy; (e) all buildings, offices, warehouses and other structures; and (f) all pipes, cables, insulators, ducts, tools, computers and other data processing and/or storage equipment and other equipment, apparatus and

facilities and all other property, of whatever kind and nature, ancillary to or otherwise used or to be used in conjunction with any or all of the foregoing or otherwise, directly or indirectly, in furtherance of the generation, purchase, transmission, distribution or sale by the Company of electric energy;

Granting Clause Second

Subject to the applicable exceptions permitted by Section 810, Section 1303 and Section 1305 of the Original Indenture, all property (other than Excepted Property) of the kind and nature described in Granting Clause First which may be hereafter acquired by the Company, it being the intention of the Company that all such property acquired by the Company after the date of the execution and delivery of this Supplemental Indenture No. __ shall be as fully embraced within and subjected to the Lien hereof as if such property were owned by the Company as of the date of the execution and delivery of this Supplemental Indenture No. __;

Granting Clause Fourth

All other property of whatever kind and nature subjected or intended to be subjected to the Lien of the Mortgage by any of the terms and provisions thereof;

Excepted Property

Expressly excepting and excluding, however, from the Lien and operation of the Mortgage all Excepted Property of the Company, whether now owned or hereafter acquired;

TO HAVE AND TO HOLD all such property, real, personal and mixed, unto the Trustee forever;

SUBJECT, HOWEVER, to Permitted Liens and to Liens which have been granted by the Company to other Persons prior to the date of the execution and delivery of the Original Indenture and subject also, as to any property acquired by the Company after the date of execution and delivery of the Original Indenture, to vendors' Liens, purchase money mortgages and other Liens thereon at the time of the acquisition thereof (including, but not limited to, the Lien of any Class "A" Mortgage), it being understood that with respect to any of such property which was at the date of execution and delivery of the Original Indenture or thereafter became or hereafter becomes subject to the Lien of any Class "A" Mortgage, the Lien of the Mortgage shall at all times be junior and subordinate to the Lien of such Class "A" Mortgage;

IN TRUST, NEVERTHELESS, for the equal and proportionate benefit and security of the Holders from time to time of all Outstanding Securities without any priority of any such Security over any other such Security;

PROVIDED, HOWEVER, that if, after the right, title and interest of the Trustee in and to the Mortgaged Property shall have ceased, terminated and become void in accordance with Article Nine of the Original Indenture, the principal of and premium, if any, and interest, if any,

on the Securities shall have been paid to the Holders thereof, or shall have been paid to the Company pursuant to Section 603 of the Original Indenture, then and in that case the Mortgage and the estate and rights thereby granted shall cease, terminate and be void, and the Trustee shall cancel and discharge the Mortgage and execute and deliver to the Company such instruments as the Company shall require to evidence the discharge thereof; otherwise the Mortgage shall be and remain in full force and effect; and

THE PARTIES HEREBY FURTHER COVENANT AND AGREE as follows:

ARTICLE ONE

Twenty-_____ Series of Securities

There is hereby created a series of Securities designated "First Mortgage Bonds, Series _", which series shall constitute Series No. __. The form and terms of the Securities of Series No. __ shall be established in or pursuant to an Officer's Certificate. The Securities of Series No. __ shall be initially authenticated and delivered in the aggregate principal amount of \$_____, but shall not be limited in aggregate principal amount.

ARTICLE TWO

Amendments

The Original Indenture is hereby amended as set forth in Schedule B hereto.

ARTICLE THREE

Miscellaneous Provisions

This Supplemental Indenture No. __ is a supplement to the Mortgage. As supplemented by this Supplemental Indenture No. __, the Mortgage is in all respects ratified, approved and confirmed, and the Mortgage and this Supplemental Indenture No. __ shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture No. __ to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

DUQUESNE LIGHT COMPANY

By: _____
Vice President and Treasurer

Attest:

Secretary

JPMORGAN CHASE BANK, Trustee

By: _____
Vice President

Attest:

Authorized Officer

CERTIFICATE OF PRECISE RESIDENCE

I hereby certify that the precise residence of JPMorgan Chase Bank is One Oxford Centre, Suite 1100, Pittsburgh, Allegheny County, Pennsylvania.

Authorized Signatory of JPMorgan Chase Bank

_____, 200_

Schedule A

<u>Supplemental Indenture No.</u>	<u>Dated as of</u>	<u>Securities of Series No.</u>	<u>Series Designation</u>	<u>Authorized</u>	<u>Principal Amount Issued¹</u>	<u>Outstanding¹</u>
1	April 1, 1992	1	Secured Medium-Term Notes, Series B	\$400,000,000	\$400,000,000	None
2	October 1, 1992	2	First Collateral Trust Bonds, Series C	\$400,000,000	\$400,000,000	\$40,000,000
3	December 1, 1992	3	First Collateral Trust Bonds, Pollution Control Series D	\$47,925,000	\$47,925,000	None
4	March 30, 1993	None	None	None	None	None
5	June 1, 1993	4	First Collateral Trust Bonds, Series E	\$300,000,000	\$300,000,000	None
6	June 1, 1993	5	First Collateral Trust Bonds, Pollution Control Series F	\$25,000,000	\$25,000,000	None
7	August 1, 1993	6	First Collateral Trust Bonds, Pollution Control Series G	\$20,500,000	\$20,500,000	None
8	March 21, 1994	None	None	None	None	None
9	October 1, 1994	7	First Collateral Trust Bonds, Pollution Control Series H	\$75,500,000	\$75,500,000	None
10	March 22, 1995	None	None	None	None	None
11	June 1, 1995	8	First Collateral Trust Bonds, Series I	\$923,000,000	\$923,000,000	None
12	September 1, 1995	9	First Mortgage Bonds, Series J	\$685,000,000	\$685,000,000	None
13	March 22, 1996	None	None	None	None	None
14	March 17, 1997	None	None	None	None	None
15	November 1, 1999	10	First Mortgage Bonds, Pollution Control Series K1	\$49,500,000	\$49,500,000	\$49,500,000
15	November 1, 1999	11	First Mortgage Bonds, Pollution Control Series K2	\$13,500,000	\$13,500,000	\$13,500,000
15	November 1, 1999	12	First Mortgage Bonds, Pollution Control Series K3	\$33,955,000	\$33,955,000	\$33,955,000

¹ As of December 31, 2003.

<u>Supplemental Indenture No.</u>	<u>Dated as of</u>	<u>Securities of Series No.</u>	<u>Series Designation</u>	<u>Authorized</u>	<u>Principal Amount Issued¹</u>	<u>Outstanding¹</u>
15	November 1, 1999	13	First Mortgage Bonds, Pollution Control Series L1	\$21,500,000	\$21,500,000	\$21,500,000
15	November 1, 1999	14	First Mortgage Bonds, Pollution Control Series L2	\$20,500,000	\$20,500,000	\$20,500,000
15	November 1, 1999	15	First Mortgage Bonds, Pollution Control Series L3	\$4,655,000	\$4,655,000	\$4,655,000
15	November 1, 1999	16	First Mortgage Bonds, Pollution Control Series M1	\$25,000,000	\$25,000,000	\$25,000,000
15	November 1, 1999	17	First Mortgage Bonds, Pollution Control Series M2	\$13,700,000	\$13,700,000	\$13,700,000
15	November 1, 1999	18	First Mortgage Bonds, Pollution Control Series M3	\$18,000,000	\$18,000,000	\$18,000,000
15	November 1, 1999	19	First Mortgage Bonds, Pollution Control Series M4	\$44,250,000	\$44,250,000	\$44,250,000
15	November 1, 1999	20	First Mortgage Bonds, Pollution Control Series M5	\$75,500,000	\$75,500,000	\$75,500,000
15	November 1, 1999	21	First Mortgage Bonds, Pollution Control Series N1	\$50,000,000	\$50,000,000	\$50,000,000
15	November 1, 1999	22	First Mortgage Bonds, Pollution Control Series N2	\$47,925,000	\$47,925,000	\$47,925,000
16		None	None	None	None	None
17	April 1, 2001	None	None	None	None	None
18	April 1, 2002	23	First Mortgage Bonds, Series O	\$200,000,000	\$200,000,000	\$200,000,000
19	April 15, 2002	24	First Mortgage Bonds Series P	\$100,000,000	\$100,000,000	\$100,000,000
			Totals	\$3,594,910,000	\$3,594,910,000	\$ 757,985,000

¹ As of December 31, 2003.

Amendments to Original Indenture

SECTION 1. "Stated Interest Rate".

The definition of "Stated Interest Rate" in Section 101 of the Original Indenture is hereby amended to read as follows:

"Stated Interest Rate" means a rate (whether fixed or variable) at which an obligation by its terms is stated to bear simple interest. Any calculation or other determination to be made under this Indenture by reference to the Stated Interest Rate on an obligation shall be made (a) if the Company's obligations in respect of any other indebtedness shall be evidenced or secured in whole or in part by such obligation, by reference to the lower of the Stated Interest Rate on such obligation and the Stated Interest Rate on such other indebtedness and (b) without regard to the effective interest cost to the Company of such obligation or of any such other indebtedness.

SECTION 2. "Cost".

The definition of "Cost" in Section 104 of the Original Indenture is hereby amended to read as follows:

Except as otherwise provided in Section 803, the term "Cost" with respect to Property Additions shall mean the sum of (i) any cash delivered in payment therefor or for the acquisition thereof, (ii) an amount equivalent to the fair market value in cash (as of the date of delivery) of any securities or other property delivered in payment therefor or for the acquisition thereof, (iii) the principal amount of any obligations secured by prior Lien (other than a Class A Mortgage) upon such Property Additions outstanding at the time of the acquisition thereof, (iv) the principal amount of any other obligations incurred or assumed in connection with the payment for such Property Additions or for the acquisition thereof and (v) any other amounts which, in accordance with generally accepted accounting principles, are properly charged or chargeable to the plant or other property accounts of the Company with respect to such Property Additions as part of the cost of construction or acquisition thereof, including, but not limited to, any allowance for funds used during construction or any similar or analogous amount; *provided, however, that, notwithstanding any other provision of this Indenture,*

(x) with respect to Property Additions owned by a successor corporation immediately prior to the time it shall have become such by consolidation or merger or acquired by a successor corporation in or as a result of a consolidation or merger (excluding, in any case, Property Additions owned by the Company immediately prior to such time), Cost shall mean the amount or amounts at which such Property Additions are recorded in the plant or other property accounts of such successor corporation, or the predecessor corporation

from which such Property Additions are acquired, as the case may be, immediately prior to such consolidation or merger;

(y) with respect to Property Additions which shall have been acquired (otherwise than by construction) by the Company without any consideration consisting of cash, securities or other property or the incurring or assumption of indebtedness, no determination of Cost shall be required, and, wherever in this Indenture provision is made for Cost or fair value, Cost with respect to such Property Additions shall mean an amount equal to the fair value to the Company thereof or, if greater, the aggregate amount reflected in the Company's books of account with respect thereto upon the acquisition thereof; and

(z) in no event shall the Cost of Property Additions be required to reflect any depreciation or amortization in respect of such Property Additions, or any adjustment to the amount or amounts at which such Property Additions are recorded in plant or other property accounts due to the non-recoverability of investment or otherwise.

SECTION 3. "Purchase Money Mortgage".

Section 101 of the Original Indenture is hereby amended to add a definition of the term "purchase money mortgage" as follows:

"Purchase money mortgage" means, with respect to any property being acquired or disposed of by the Company or being released from the Lien of this Indenture, a Lien on such property which

a. is taken or retained by the transferor of such property to secure all or part of the purchase price thereof;

b. is granted to one or more Persons other than the transferor which, by making advances or incurring an obligation, gives value to enable the grantor of such Lien to acquire rights in or the use of such property;

c. is granted to any other Person in connection with the release of such property from the Lien of this Indenture on the basis of the deposit with the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture of obligations secured by such Lien on such property (as well as any other property subject thereto);

d. is held by a trustee or agent for the benefit of one or more Persons described in clause (a), (b) and/or (c) above, provided that such Lien may be held, in addition, for the benefit of one or more other Persons which shall have theretofore given, or may thereafter give, value to or for the benefit or account of the grantor of such Lien for one or more other purposes; or

e. otherwise constitutes a purchase money mortgage or a purchase money security interest under applicable law;

and, without limiting the generality of the foregoing, for purposes of this Indenture, the term "purchase money mortgage" shall be deemed to include any Lien described above whether or not such Lien (x) shall permit the issuance or other incurrence of additional indebtedness secured by such Lien on such property, (y) shall permit the subjection to such Lien of additional property and the issuance or other incurrence of additional indebtedness on the basis thereof and/or (z) shall have been granted prior to the acquisition, disposition or release of such property, shall attach to or otherwise cover property other than the property being acquired, disposed of or released and/or shall secure obligations issued prior and/or subsequent to the issuance of the obligations delivered in connection with such acquisition, disposition or release.

SECTION 4. Limitations on Purchase Money Mortgages.

(a) The proviso to clause (d) in Section 803 of the Original Indenture is hereby amended to:

(1) (A) delete therefrom clause (x) and

(B) redesignate clauses (y) and (z) therein as clauses (x) and (y), respectively; and

(2) delete therefrom clause (y); and

(b) Section 803 is further amended in accordance with Section 1401 of the Original Indenture, to:

(1) add thereto a new clause (y) reading as follows:

"(y) no obligations secured by purchase money mortgage shall be used as a credit in connection with the release of property hereunder, if the aggregate credit in respect of such obligations to be used by the Company pursuant to subclause (i) and subclause (iv) of this clause (d) plus the aggregate credits used by the Company pursuant to said subclause (i) and subclause (iv) in connection with all previous releases of property from the Lien hereof on the basis of purchase money obligations theretofore delivered to and then held by the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture shall, immediately after the release then being applied for, exceed forty per centum (40%) of the sum of (A) the aggregate principal amount of Securities then Outstanding and (B) the aggregate principal amount of Class "A" Bonds then Outstanding other than Class "A" Bonds delivered to and then held by the Trustee;" and

(2) add the following paragraph immediately after the second full paragraph of such Section:

Anything herein to the contrary notwithstanding, there shall not be taken into account for purposes of the calculation contemplated in clause (y) in the proviso to clause (d) of the first paragraph of this Section any obligations secured

by purchase money mortgage with respect to which there shall have been delivered to the Trustee:

(x) an Officer's Certificate (i) if any obligations shall then be outstanding under such purchase money mortgage and/or additional obligations are permitted to be issued thereunder, either (A) stating that the terms of such purchase money mortgage, as then in effect, do not permit the issuance of obligations thereunder on the basis of property additions in a principal amount exceeding seventy per centum (70%) of the balance of the cost or fair value of such property additions to the issuer thereof (whichever shall be less) after making deductions and additions similar to those provided for in Section 104, or (B) in the event that the statements contained in clause (A) above cannot be made, stating that such issuer has irrevocably waived its right to the authentication and delivery of obligations under such purchase money mortgage (1) on any basis, in a principal amount equal to the excess of (I) the aggregate principal amount of obligations, if any, then outstanding under such purchase money mortgage which were issued on the basis of property additions or on the basis of the retirement of obligations which were issued (whether directly or indirectly when considered in light of the successive issuance and retirement of obligations) on the basis of property additions over (II) an amount equal to seventy per centum (70%) of the aggregate Dollar amount of property additions certified as the basis for the issuance of such obligations then outstanding and (2) on the basis of property additions, in a principal amount exceeding seventy per centum (70%) of the balance of the cost or fair value thereof to such issuer (whichever shall be less) after making deductions and additions similar to those provided for in Section 104 and (ii) stating either (A) that the obligations secured by such purchase money mortgage delivered to the Trustee or to the trustee or other holder of a Lien prior to the Lien of this Indenture as the basis for such release of property contain a provision for mandatory redemption upon the acceleration of the maturity of all Outstanding Securities following an Event of Default (whether or not such redemption may be rescinded upon the rescission of such acceleration) or (B) that so long as such obligations are held by the Trustee or the trustee or other holder of such a prior Lien, an Event of Default under this Indenture constitutes a matured event of default under such purchase money mortgage (*provided, however, that the waiver or cure of such Event of Default hereunder and the rescission and annulment of the consequences thereof may constitute a cure of the corresponding event of default under such purchase money mortgage and a rescission and annulment of the consequences thereof*); and

(y) an Opinion or Opinions of Counsel to the effect that (i) if any obligations shall then be outstanding under such purchase money mortgage and/or additional obligations are permitted to be issued thereunder, to the effect either (A) that the terms of such purchase money

mortgage, as then in effect, do not permit the issuance of obligations thereunder upon the basis of property additions in a principal amount exceeding seventy per centum (70%) of the balance of the cost or the fair value thereof to the issuer of such obligations (whichever shall be less) after making deductions and additions similar to those provided for in Section 104, or, if such is not the case, (B) that the waivers contemplated by clause (x)(i)(B) above have been duly made and (ii) to the effect either (A) that the obligations secured by such purchase money mortgage delivered to the Trustee or to the trustee or other holder of a Lien prior to the Lien of this Indenture as the basis for such release of property contain a provision for mandatory redemption upon an acceleration) of the maturity of all Outstanding Securities following an Event of Default (whether or not such redemption may be rescinded upon the rescission of such acceleration) or (B) that, so long as such obligations are held by the Trustee or the trustee or other holder of such a prior Lien, an Event of Default under this Indenture constitutes a *matured event of default* under such purchase money mortgage (*provided, however, that the waiver or cure of such Event of Default hereunder and the rescission and annulment of the consequences thereof may constitute a cure of the corresponding event of default under such purchase money mortgage and a rescission and annulment of the consequences thereof*).

SECTION 5. "Fair Value".

Section 101 of Original Indenture is hereby amended to add a definition of the term "fair value" as follows:

"Fair value", with respect to property, means the fair value of such property as may be determined by reference to (a) the amount which would be likely to be obtained in an arm's-length transaction with respect to such property between an informed and willing buyer and an informed and willing seller, under no compulsion, respectively, to buy or sell, (b) the amount of investment with respect to such property which, together with a reasonable return thereon, would be likely to be recovered through ordinary business operations or otherwise, (c) the Cost, accumulated depreciation and replacement cost with respect to such property and/or (d) any other relevant factors; *provided, however,* that (x) the fair value of property shall be determined without deduction for any Liens on such property prior to the Lien of this Indenture (except as otherwise provided in Section 803) and (y) the fair value to the Company of Property Additions shall not reflect any reduction relating to the fact that such Property Additions may be of less value to a Person which is not the owner or operator of the Mortgaged Property or any portion thereof than to a Person which is such owner or operator. Fair value may be determined, without physical inspection, by the use of accounting and engineering records and other data maintained by the Company or otherwise available to the Engineer certifying the same.

SECTION 6. Limitations on Requirements for Net Earnings Certificate.

(i) The proviso to clause (i) of subsection (b) of Section 404 of the Original Indenture is hereby amended to read as follows:

provided, however, that no Net Earnings Certificate shall be required to be delivered; and

(ii) The proviso to clause (ii) of subsection (b) of Section 402 of the Original Indenture is hereby amended to read as follows:

provided, however, that no Net Earnings Certificate shall be required to be delivered if there shall be delivered an Officer's Certificate to the effect that such Class "A" Bonds were authenticated and delivered under the related Class "A" Mortgage on the basis of retired Class "A" Bonds; and

RECORDING INFORMATION

Allegheny County, Pennsylvania
Office of Recorder of Deeds
Recorded
Mortgage Book Volume

Beaver County, Pennsylvania
Office of Recorder of Deeds
Recorded
Mortgage Book Volume

Greene County, Pennsylvania
Office of Recorder of Deeds
Recorded
Mortgage Book Volume

Washington County, Pennsylvania
Office of Recorder of Deeds
Recorded
Mortgage Book Volume

Westmoreland County, Pennsylvania
Office of Recorder of Deeds
Recorded
Mortgage Book Volume

Belmont County, Ohio
Office of Recorder
Received
Recorded
Mortgage Book Volume

Columbiana County, Ohio
Office of Recorder
Recorded
Official Records Volume

Jefferson County, Ohio
Office of Recorder
Received
Recorded
Official Records Volume

Lake County, Ohio
Office of Recorder
Recorded
Official Records Volume

Monroe County, Ohio
Office of Recorder
Received
Recorded
Official Records Volume

Hancock County, West Virginia
Office of Clerk of County Commission
Recorded
Deed of Trust Book

Monongahela County, West Virginia
Office of Clerk of County Commission
Recorded
Deed of Trust Book

DUQUESNE LIGHT COMPANY

OFFICER'S CERTIFICATE

(Under Section 301 of the Indenture of Mortgage and Deed of Trust,
dated as of April 1, 1992)

Establishing Series of Securities Designated

First Mortgage Bonds, Series __

_____, 200_

DUQUESNE LIGHT COMPANY

OFFICER'S CERTIFICATE

(Under Section 301 of the Indenture,
dated as of April 1, 1992)

I, William F. Fields, a Vice President and the Treasurer of DUQUESNE LIGHT COMPANY (the "Company"), in accordance with Section 301 of the Indenture of Mortgage and Deed of Trust, dated as of April 1, 1992, as amended and supplemented (the "Indenture", capitalized terms used herein and not defined herein having the meanings specified in the Indenture), of the Company to JPMorgan Chase Bank (successor by merger to The Chase Manhattan Bank, successor in trust to Mellon Bank, N.A.), trustee (the "Trustee"), do hereby establish for the series of Securities established in Supplemental Indenture No. __, dated as of ____, 200_ the terms and characteristics set forth in this Officer's Certificate, this Officer's Certificate being deemed to be a part of such Supplemental Indenture.

PART I

Set forth below in this Part I are the terms and characteristics of the aforesaid series of Securities referred to in clauses (a) through (l) in the second paragraph of Section 301 of the Indenture (the lettered clauses set forth herein corresponding to such clauses in said Section 301).

(a) the title of the Securities of such series, being Series No. __ under the Indenture, shall be "First Mortgage Bonds, Series _" (the Securities of such series, for purposes of this Officer's Certificate, being sometimes hereinafter called the "Bonds");

(b) the aggregate principal amount of Bonds which may be authenticated and delivered under the Indenture shall not be limited;

(c) interest on the Bonds shall be payable to the Person or Persons in whose names the Bonds are registered at the close of business on the Regular Record Date for such interest, except as otherwise expressly provided in the form of bond attached hereto and hereby authorized and approved;

(d) the principal of the Bonds shall be payable on _____;

(e) the Bonds shall bear interest at the rate of _____ percent (___%) per annum; interest on the Bonds shall accrue from ____, 200_ or the most recent date to which interest has been paid or duly provided for; interest on any Bonds shall be payable _____ on _____, of each year (each an "Interest Payment Date"), commencing ____, 200_; and the Regular Record Date with respect to each Interest Payment Date shall be the date 15 calendar days immediately preceding such Interest Payment Date whether or not such day is a Business Day;

(f) the corporate trust office of JPMorgan Chase Bank in New York, New York shall be the place at which (i) the principal of, premium, if any, and interest, if any, on the Bonds at Maturity shall be payable upon presentment, interest prior to Maturity to be paid as specified in the form of bond attached hereto, (ii) registration of transfer of the Bonds may be effected, (iii) exchanges of Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar and a Paying Agent for the Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates supplemental to this Officer's Certificate, any such place or the Security Registrar or such

Paying Agent; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates supplemental to this Officer's Certificate, its principal corporate office in Pittsburgh, Pennsylvania as any such place or itself as the Security Registrar;

(g) [Optional Redemption Provisions];
(h) [Mandatory Redemption Provisions];
(i) the Bonds shall be issued in denominations of \$___ and any integral multiple thereof;

(j) *inapplicable*;

(k) *inapplicable*;

(l) *inapplicable*;

(m) *inapplicable*;

(n) *inapplicable*;

(o) *inapplicable*;

(p) *inapplicable*;

(q) the Bonds are initially to be issued in global form, registered in the name of Cede & Co., as nominee for The Depository Trust Company (the "Depository"). Such Bonds shall not be transferable or exchangeable, nor shall any purported transfer be registered, except as follows:

(i) such Bonds may be transferred in whole, and appropriate registration of transfer effected, if such transfer is by such nominee to the Depository, or by the Depository to another nominee thereof, or by any nominee of the Depository to any other nominee thereof, or by the Depository or any nominee thereof to any successor securities depository or any nominee thereof; and

(ii) such Bonds may be exchanged for definitive Bonds registered in the respective names of the beneficial holders thereof, and thereafter shall be transferable without restriction, if:

(A) the Depository, or any successor securities depository, shall have notified the Company and the Trustee that it is unwilling or unable to continue to act as securities depository with respect to such Bonds and the Trustee shall not have been notified by the Company within ninety (90) days of the identity of a successor securities depository with respect to such Bonds; or

(B) the Company shall have delivered to the Trustee a Company Order to the effect that such Bonds shall be so exchangeable on and after a date specified therein;

it being understood that any such registration of transfer or exchange shall be effected in accordance with Section 305 of the Indenture;

(r) inapplicable;

(s) no service charge shall be made for the registration of transfer or exchange of the Bonds; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with such registration of transfer or exchange; and

(t) inapplicable.

PART II

Set forth below in this Part II are additional terms of the Bonds, as contemplated by clause (u) in the second paragraph of Section 301 of the Indenture.

(a) the Bonds shall have such further terms as are set forth in the form of bond attached hereto as Exhibit A.

(b) if the Company shall make any deposit of money and/or Government Obligations with respect to any Bonds, or any portion of the principal amount thereof, as contemplated by Section 901 of the Indenture, the Company shall not deliver an Officer's Certificate described in clause (z) in the first paragraph of said Section 901 unless the Company shall also deliver to the Trustee, together with such Officer's Certificate, either:

(i) an instrument wherein the Company, notwithstanding the satisfaction and discharge of its indebtedness in respect of such Bonds, shall assume the obligation (which shall be absolute and unconditional) to irrevocably deposit with the Trustee or Paying Agent such additional sums of money, if any, or additional Government Obligations (meeting the requirements of Section 901), if any, or any combination thereof, at such time or times, as shall be necessary, together with the money and/or Government Obligations theretofore so deposited, to pay when due the principal of and premium, if any, and interest due and to become due on such Bonds or portions thereof, all in accordance with and subject to the provisions of Sections 901 and 903 of the Indenture; provided, however, that such instrument may state that the obligation of the Company to make additional deposits as aforesaid shall be subject to the delivery to the Company by the Trustee of a notice asserting the deficiency accompanied by an opinion of an independent public accountant of nationally recognized standing, selected by the Trustee, showing the calculation thereof (which opinion shall be obtained at the expense of the Company); or

(ii) an Opinion of Counsel to the effect that the Holders of such Bonds, or portions of the principal amount thereof, will not recognize income, gain or loss for United States federal income tax purposes as a result of the satisfaction and discharge of the Company's indebtedness in respect thereof and will be subject to United States federal income tax on the same amounts, at the same times and in the same manner as if such satisfaction and discharge had not been effected.

(c) [Additional Covenants, if any]

IN WITNESS WHEREOF, I have executed this Officer's Certificate this ____ day of ____, 200_.

Name: William F. Fields
Title: Vice President and Treasurer

Exhibit 5.1

[Letterhead of D. Rabuzzi, Esq.]

February 17, 2004

Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219

Ladies and Gentlemen:

I am Assistant General Counsel of Duquesne Light Company (the "Company"). I have acted as counsel to the Company in connection with the Company's proposed issuance and sale from time to time of up to \$300,000,000 in aggregate amount of its Preferred Stock (the "Preferred Stock") and its First Mortgage Bonds (the "Bonds"), as contemplated by the Registration Statement on Form S-3 (the "Registration Statement") proposed to be filed by the Company with the Securities and Exchange Commission on or about the date hereof for the registration of the Preferred Stock and the Bonds under Securities Act of 1933, as amended (the "Act"), and for the qualification of the Indenture of Mortgage and Deed of Trust, dated as of April 1, 1992, to JPMorgan Chase Bank (successor by merger to The Chase Manhattan Bank, successor in trust to Mellon Bank, N.A.), as trustee (the "Mortgage Trustee"), as heretofore amended and supplemented and as to be further supplemented by one or more supplemental indentures relating to the Bonds (such Indenture, as so amended and supplemented, being hereinafter called the "Mortgage"), under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). The Bonds will be issued under the Mortgage.

I, or attorneys under my supervision, have examined the Company's Restated Articles of Incorporation and such corporate records, certificates and other documents and have reviewed such questions of law as I have considered necessary or appropriate for purposes of the opinions expressed below. Based on such examination and review, I advise you as follows:

I am of the opinion that the Company is a corporation presently subsisting under the laws of the Commonwealth of Pennsylvania, with full corporate power and authority to own its properties and conduct its business as described in the Registration

Statement, and that the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which it owns or leases substantial properties or in which the conduct of its business requires such qualification.

I am also of the opinion that when:

- (a) the Registration Statement, as it may be amended, has become effective under the Act,
- (b) the Company's Board of Directors, or a duly authorized committee thereof, has taken such action as may be necessary to establish the relative rights and preferences of the Preferred Stock of each series and authorize the Company's issuance and sale thereof on the terms set forth in or contemplated by the Registration Statement, as it may be amended, and any prospectus supplement relating to Preferred Stock,
- (c) a statement establishing such series of the Preferred Stock has been filed with the Department of State of the Commonwealth of Pennsylvania in the form and manner required by law, and
- (d) the Preferred Stock of such series has been issued and delivered for the consideration contemplated by, and otherwise in conformity with, the acts, authorizations and documents referred to above,

the Preferred Stock of each series will be legally issued, fully paid and non-assessable.

I am further of the opinion that when:

- (a) the Registration Statement, as it may be amended, has become effective under the Act and the Mortgage shall have been qualified under the Trust Indenture Act;
- (b) the Company's Board of Directors or a duly authorized Committee thereof, has taken such action as may be necessary to authorize the issuance and sale by the Company of the Bonds of such series on the terms set forth in or contemplated by the Registration Statement, as it may be amended, and any prospectus supplement relating to the Bonds of such series, and to authorize the proper officers of the Company to take such other action as may be necessary in connection with the consummation of the issuance and sale of the Bonds from time to time; and
- (c) the specific terms of each Bond of such series shall have been determined within the authorizations referred to above, and each Bond shall have been duly executed and authenticated by the Mortgage Trustee and issued, sold and delivered by the Company to the purchasers thereof against payment therefor, all as contemplated by, and in conformity with, the acts, authorizations and documents referred to above,

February 17, 2004

Page 3

the Bonds of each series will be legally issued, valid and binding obligations of the Company, subject to laws relating to or affecting the enforcement of creditors' rights, including, without limitation, bankruptcy and insolvency laws, and to general principles of equity.

I am further of the opinion that the statements contained under "PENNSYLVANIA TAXES" in the prospectus contained in the Registration Statement are accurate as of this date.

I hereby authorize and consent to the use of this opinion as Exhibit 5.1 to the Registration Statement and the references to me in the Registration Statement and in the prospectus constituting a part thereof.

In rendering their opinion, Dewey Ballantine LLP may rely upon this opinion as to all matters of Pennsylvania law addressed herein as if this opinion were addressed directly to them.

Very truly yours,

/s/ D.L. Rabuzzi

/s/ Douglas Rabuzzi