



## NEWS RELEASE

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### **FOR IMMEDIATE RELEASE**

## **Allegheny Energy Sues Merrill Lynch For Fraud And Breach Of Contract Related to the Acquisition of Merrill Lynch's Global Energy Markets Group in 2001**

### ***Seeks Damages and to Rescind Transaction***

**Hagerstown, Md., September 25, 2002** – Allegheny Energy, Inc. (NYSE: AYE) and Allegheny Energy Supply Company, LLC, announced today that they have filed a lawsuit against Merrill Lynch & Co., Inc. (NYSE: MER) and Merrill Lynch Capital Services, Inc., for fraudulent inducement and breach of contract, among other claims, related to the 2001 sale of Merrill Lynch's Global Energy Markets (GEM) group to Allegheny Energy.

The complaint, filed in the New York State Supreme Court, alleges that:

- Merrill Lynch made false and misleading representations concerning, among other things, GEM's internal controls and infrastructure, its historical revenues, trading volume and growth rate, and the qualifications of some of the personnel at GEM. These false and misleading representations were made with the intent of inducing Allegheny to purchase GEM for more than \$490 million, thus providing Merrill Lynch with significant profits in connection with the sale of the GEM business.
- According to published reports, Merrill Lynch engaged in a series of "wash" or "round trip" energy trades with Enron and these trades, which are currently the focus of both criminal and regulatory investigations, artificially inflated revenues, trading volumes, and growth rates. These Merrill Lynch/Enron trades were misrepresented and/or concealed from Allegheny Energy and allowed Merrill Lynch to fob off its energy trading business to Allegheny Energy for far more than it was worth.

- Merrill Lynch misrepresented and/or concealed certain concerns about Daniel Gordon's qualifications, including without limitation, his true age and violations of Merrill Lynch's own internal policies. Mr. Gordon, who was head of GEM for Merrill Lynch, was identified as a key employee in the agreement.

Allegheny Energy has terminated Mr. Gordon's employment after discovering that, among other things, without disclosure, he had caused Allegheny Energy to enter into contracts with other entities controlled by him, or in which he had an interest. These transactions were in violation of Allegheny Energy's own internal conflicts-of-interest policies.

Allegheny Energy's counsel, Stanley S. Arkin of Arkin Kaplan & Cohen, said, "The transaction between Merrill Lynch and Allegheny Energy was tainted by what took place between Merrill Lynch and Enron, a relationship that is now the reported focus of criminal and civil authorities. We will get to the truth of how this relationship affected the business that Allegheny bought. Using its Enron trades, Merrill Lynch painted a false portrait of its energy trading business and its ongoing prospects, and has saddled Allegheny Energy with tarnished goods. Merrill Lynch's own complaint is nothing more than an attempt to divert focus from the real issues."

### **Damages Sought**

Allegheny Energy is seeking damages, to include:

- Compensatory damages for Merrill Lynch's fraudulent inducement in an amount to be determined at trial, but believed to be in excess of \$490 million plus the value of two percent of the equity of Allegheny Energy Supply;
- Punitive damages for Merrill Lynch's fraudulent inducement in an amount not less than \$100 million;
- Alternatively, compensatory damages for Merrill Lynch's breach of contract in the amount of \$375 million, apparently the maximum allowable under the contract;
- Pre- and post-judgment interest, attorney's fees, costs, and disbursements in connection with this action; and
- Other and further relief that the Court deems necessary and proper.

Allegheny is also asking the Court to rescind the purchase agreement between Merrill Lynch and Allegheny Energy, in effect reversing the transaction and returning to the situation that existed immediately prior to entering into their purchase agreement.

## About Allegheny Energy

With headquarters in Hagerstown, Md., Allegheny Energy is an integrated *Fortune* 500 energy company with a balanced portfolio of businesses, including Allegheny Energy Supply, which owns and operates electric generating facilities and supplies energy and energy-related commodities in selected domestic retail and wholesale markets; Allegheny Power, which delivers low-cost, reliable electric and natural gas service to about three million people in Maryland, Ohio, Pennsylvania, Virginia, and West Virginia; and a business segment offering fiber-optic and data services, energy procurement and management, and energy services. More information about the Company is available at [www.alleghenyenergy.com](http://www.alleghenyenergy.com).

*Certain statements contained herein constitute forward-looking statements with respect to Allegheny Energy, Inc. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of Allegheny Energy to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors may affect Allegheny Energy's operations, markets, products, services, prices, capital expenditures, development activities, and future plans. Such factors include, among others, the following: changes in general, economic, and business conditions; changes in the price of electricity and natural gas; changes in industry capacity; changes in technology; changes in financial and capital market conditions; changes in political and social conditions, deregulation activities and the movement toward competition in the states served by our operations; the effect of regulatory and legislative decisions; regulatory approvals and conditions; the loss of any significant customers; litigation; and changes in business strategy or business plans.*