



NEWS RELEASE

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FOR IMMEDIATE RELEASE

Allegheny Energy Supply Takes Steps to Defend Against Attacks by California *Company files monetary damage claims with state Claims Board*

Hagerstown, Md., February 26, 2003 - Allegheny Energy Supply, a subsidiary of Allegheny Energy (NYSE: AYE), has filed claims with the Board of Control of the State of California for monetary damages inflicted on Allegheny by the state's bad-faith actions to abrogate a large supply contract for electricity.

"The filing was one step in what will be a vigorous effort to assure that California is held accountable for the serious damage it has caused Allegheny by acting in bad faith," said Michael P. Morrell, President, Allegheny Energy Supply. "We are responsible to our employees, to our shareholders, and to our customers, and we cannot simply watch as they are subjected to an unfair assault by the State of California and its advisors."

State law requires the filing before initiating contract- or tort-based legal claims against the state or its agencies. Such claims have not yet been filed in court, but the Company took the action to preserve its legal rights going forward, said Morrell.

According to Morrell, today's filing is a result of ongoing efforts by several California energy agencies, coordinated by the Governor's office, to abrogate a contract between the California Department of Water Resources (CDWR) and Allegheny Energy Supply. In the filing, Allegheny Energy Supply and its subsidiary, Allegheny Trading Finance Company, point to multiple wrongful acts on the part of California agencies and their advisors that have damaged the Company.

“California is not above the law and is not exempt from paying for the harm it wrongfully causes,” said Morrell. “Its bad-faith actions appear to be designed to create financial instability at the Company, a condition California then planned to use to walk away from a valid contract.”

Morrell explained that the state has undertaken an orchestrated campaign to escape its contractual obligations since energy prices declined in California in late 2001. California has taken repeated steps to prolong the uncertainty surrounding the Allegheny-California contract by first filing a complaint against Allegheny Energy Supply with the Federal Energy Regulatory Commission (FERC) and, more recently, filing a lawsuit in Sacramento Superior Court. The uncertainty surrounding the contract has had significant negative financial consequences for Allegheny.

“We have made numerous offers to negotiate in good faith with California, but our efforts have been met only with additional demands,” said Morrell. “We are expecting a decision from the FERC on this matter in the near future; however, it appears that California is not content to rely on the FERC’s judgment in this matter.

“Our Company negotiated a fair contract with California, and we have conducted ourselves honorably in living up to it,” said Morrell. “We have met and will continue to meet all of our obligations under the contract.”

With headquarters in Hagerstown, Md., Allegheny Energy is an integrated 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 offering fiber-optic and data services. More information about the Company is available at www.alleghenyenergy.com.