



NEWS RELEASE

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FOR IMMEDIATE RELEASE

Allegheny Energy Reports Financial Results for Third Quarter of 2003

Hagerstown, Md., January 23, 2004 – Allegheny Energy, Inc. (NYSE: AYE) today announced financial results for the third quarter of 2003. Concurrently, Allegheny filed the related quarterly financial report on Form 10-Q with the Securities and Exchange Commission and also its Form 10-Q for the third quarter of 2002.

Third Quarter Consolidated Financial Results

For the three months ended September 30, 2003, Allegheny reported a consolidated net loss of \$51.0 million, or \$0.40 per share, compared with a consolidated net loss of \$263.0 million, or \$2.09 per share, for the same period in 2002. Net losses on energy trading in the Generation and Marketing segment, which totaled \$78.7 million (\$51.8 million, net of income taxes), were a principal factor contributing to the consolidated net loss for this period.

Paul J. Evanson, Chairman and CEO, said: “With our exit from the Western energy markets and a refocus of our trading business on asset optimization, our exposure to energy trading losses and the volatility of our financial results should be significantly reduced in the future. In addition to trading losses, we continue to experience high expenses for consulting, accounting and legal services and interest charges.

“The good news is we are now current with our financial reporting and expect to file our 2003 10-K in March as scheduled. We continue to regard 2004 as a year of transition as we concentrate on refinancing our debt and creating a high-performance culture that will improve quality and reduce costs. I am confident that we are taking the right steps for success,” Mr. Evanson concluded.

Allegheny’s consolidated net loss for the third quarter of 2003 decreased by \$212.0 million. The following items significantly contributed to the results:

- Net losses on energy trading decreased by \$243.1 million (\$160.2 million, net of income taxes) compared to the third quarter of 2002. For the third quarter of 2003, Allegheny recorded a net trading loss of approximately \$78.7 million compared to a net trading loss of \$321.8 million (\$198.9 million, net of income taxes) for the third quarter of 2002. Included in the trading losses for the third quarter of 2003 is a net loss of approximately \$101.6 million (\$66.9 million, net of income taxes) associated

with exiting the Western energy trading markets, including the sale of the California energy supply contract and associated hedges and tolling agreements.

- Workforce reduction expenses of \$104.2 million (\$64.4 million, net of income taxes), which were incurred in the third quarter of 2002. There were no such expenses in the third quarter of 2003.
- An increase in interest charges of \$46.1 million (\$30.4 million, net of income taxes) as compared to the same period in 2002, primarily due to an increase in debt outstanding, including debt associated with a refinancing in February 2003 and the issuance of convertible trust preferred securities in July 2003.

Third Quarter Results by Segment

Delivery and Services: The Delivery and Services segment reported net income of \$29.2 million for the third quarter of 2003 as compared to a net loss of \$23.2 million for the same period in 2002. The improvement is due largely to lower workforce reduction expenses, which amounted to \$52.7 million (\$32.6 million, net of income taxes) for the third quarter in 2002. There were no such expenses in the same period of 2003. Other reasons for the improved year-over-year results included a \$9.6 million gain on the sale of land in the third quarter of 2003 and an aggregate \$33.7 million write-down and impairment charge related to unregulated assets and investments in the third quarter of 2002. Regulated electric revenues decreased by \$13.6 million, or approximately 2 percent, compared to the third quarter of 2002, primarily due to cooler summer weather. Regulated gas revenues increased by \$3.2 million, or approximately 18 percent, due to an increase in residential and commercial sales. Unregulated services revenues decreased by \$152.3 million compared to the third quarter of 2002, primarily due to the sale of Alliance Energy Services on December 31, 2002, but this decrease had minimal effect on net income for the segment.

Generation and Marketing: The Generation and Marketing segment reported a net loss of \$85.1 million for the third quarter of 2003 compared to a net loss of \$240.6 million for the comparable period in 2002. The net loss for the third quarter of 2003 decreased by \$155.5 million, primarily due to the reduced energy trading losses as described above and the absence of workforce reduction expenses of \$51.5 million (\$31.9 million, net of income taxes) for the third quarter of 2002. There were no such expenses in the third quarter of 2003. Interest expense increased by \$45.8 million (\$30.2 million, net of income taxes) for the reasons described above.

Nine-Month Consolidated Financial Results

For the first nine months of 2003, Allegheny reported a consolidated net loss of \$341.3 million, or \$2.69 per share, compared to a consolidated net loss of \$350.9 million, or \$2.80 per share, for the same period in 2002. Before the cumulative effect of previously announced accounting changes, the consolidated loss was \$320.6 million, or \$2.53 per share, compared to a consolidated loss of \$220.4 million, or \$1.76 per share, for the same period in 2002.

Items contributing to the net loss for the first nine months of 2003 included:

- Net losses on energy trading were \$451.0 million (\$263.4 million, net of income taxes) for the first nine months of 2003 compared to net losses of \$210.7 million (\$128.6 million, net of income taxes) for the comparable prior-year period. The net losses for the first nine months of 2003 included approximately \$520.0 million associated with exiting the Western energy trading markets, offset in part by \$69.0 million representing the net result of settling and terminating energy trading positions in other energy markets.

- Interest charges for the first nine months of 2003 were \$350.9 million (\$204.9 million, net of income taxes) as compared to interest charges of \$229.2 million (\$139.8 million, net of income taxes) for the comparable period in 2002 for the reasons described in the third quarter results above.
- Gains of \$75.8 million (\$56.7 million, net of income taxes) recorded in the first quarter of 2003 for the reapplication of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," to certain electric generation assets in West Virginia; an impairment charge recorded in the first quarter of 2003 of \$28.5 million (\$16.6 million net of income taxes) for assets held for sale, including the Conemaugh Generating Station; and after-tax charges recorded in the first quarter of 2003 of \$20.7 million due to cumulative effect of accounting changes associated with energy trading contracts and asset retirement obligations.

A summary of nine-month results by business segment is included in the attached financial charts.

Analyst Conference Call

Allegheny will comment further on these results in an analyst conference call on Monday, January 26, at 11:00 a.m. Eastern Time. To listen to a live Internet broadcast of the call, visit www.alleghenyenergy.com. A taped replay of the call will be available after the live broadcast.

Allegheny Energy

Allegheny Energy is an integrated energy company with a portfolio of businesses, including Allegheny Energy Supply, which owns and operates electric generating facilities, and Allegheny Power, which delivers low-cost, reliable electric and natural gas service to about four million people in Pennsylvania, West Virginia, Maryland, Virginia and Ohio. More information about the Company is available at www.alleghenyenergy.com.

Forward-Looking Statements

In addition to historical information, this release contains a number of "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Words such as anticipate, expect, project, intend, plan, believe, and words and terms of similar substance used in connection with any discussion of future plans, actions, or events identify forward-looking statements. These include statements with respect to: regulation and the status of retail generation service supply competition in states served by the Delivery and Services segment; the closing of various agreements; execution of restructuring activity and liquidity enhancement plans; results of litigation; financing requirements and plans to meet those requirements; demand for energy and the cost and availability of inputs; demand for products and services; capacity purchase commitments; results of operations; capital expenditures; regulatory matters; internal controls and procedures and outstanding financial reporting obligations; and stockholder rights plans. Forward-looking statements involve estimates, expectations, and projections and, as a result, are subject to risks and uncertainties. There can be no assurance that actual results will not materially differ from expectations. Actual results have varied materially and unpredictably from past expectations. Factors that could cause actual results to differ materially include, among others, the following: execution of restructuring activity and liquidity enhancement plans; complications or other factors that render it difficult or impossible to obtain necessary lender consents or regulatory authorizations on a timely basis; general economic and business conditions; changes in access to capital markets; the continuing effects of global instability, terrorism, and war; changes in industry capacity, development, and other activities by Allegheny's competitors; changes in the weather and other natural phenomena; changes in technology; changes in the price of power and fuel for electric generation; the results of regulatory proceedings, including those related to rates; changes in the underlying inputs, including market conditions, and assumptions used to estimate the fair values of commodity contracts; changes in laws and regulations applicable to Allegheny, its markets, or its activities; environmental regulations; the loss of any significant customers and suppliers; the effect of accounting policies issued periodically by accounting standard-setting bodies; additional collateral calls; and changes in business strategy, operations, or development plans. Additional risks and uncertainties are identified and discussed in Allegheny Energy's reports and registration statements filed with the Securities and Exchange Commission.