



## NEWS RELEASE

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### FOR IMMEDIATE RELEASE

#### **Allegheny Energy Reports First Quarter 2004 Results**

**Greensburg, Pa., May 10, 2004** – Allegheny Energy, Inc. (NYSE: AYE) today reported consolidated net income of \$33.3 million, or \$0.25 per diluted share, for the first quarter of 2004 compared to a consolidated net loss of \$58.8 million, or \$0.46 per diluted share, for the first quarter of 2003. The Company also filed its quarterly report on Form 10-Q with the Securities and Exchange Commission.

Paul J. Evanson, Chairman and CEO, said, “I am pleased to report the first quarterly profit Allegheny has seen in more than two years. However, 2004 will continue to be a year of transition for the Company as indicated by the events that affected the quarter. For example, we benefited from a gain on the proceeds released from escrow from the sale of the California contracts, and we were disadvantaged by outages at two major power plants. Overall, we remain on track to transform Allegheny into a premier energy company. With the liquidity crises, trading losses and accounting challenges of the past two years substantially behind us, we are now focused on reducing debt, building a high performance organization and growing the fundamental earnings of our Company.”

In order to provide a better understanding of our core results and trends, Allegheny is also including adjusted results. Adjusted net loss for the first quarter of 2004 was \$0.3 million, or less than \$0.01 per diluted share. This adjusted amount excludes, among other things, a pre-tax gain of \$68.1 million (\$39.4 million after tax) relating to the release from escrow of the remaining proceeds from the 2003 sale of the California energy supply contract and related hedges and a \$14.1 million pre-tax write-off (\$8.2 million after tax) of 2003 refinancing costs. For the first quarter of 2003, adjusted net loss was \$41.0 million, or \$0.32 per diluted share. This adjusted amount excludes a gain related to the reapplication of Statement of Financial Accounting Standards (SFAS) No. 71 to generation assets in West Virginia and certain other items. Adjusted net loss is a non-GAAP financial measure. A reconciliation of adjusted net loss to net income (loss) reported in accordance with GAAP is attached to this release.

## **First Quarter Consolidated Results**

Allegheny's consolidated income before income taxes, minority interest and the cumulative effect of accounting changes improved by \$139.7 million for the first quarter of 2004 compared to the same period in 2003. Major factors contributing to the results included:

- Revenues increased by \$174.0 million compared to the same period in 2003. 2004 results included a gain of \$68.1 million related to the release from escrow of the remaining proceeds from the sale of the California energy supply contract and related hedges. 2003 results included net trading losses of \$102.2 million.
- Operations and maintenance expense decreased by \$100.7 million compared to the prior year. 2004 expense reflected a \$27.1 million decrease for outside services, including legal, consulting and advisory fees. Expenses for the first quarter of 2003 reflected \$56.6 million of charges for assets held for sale and impairments.
- Other income, net, decreased by \$72.2 million compared to the same period in 2003. The first quarter of 2003 included a \$75.8 million gain related to the reapplication of SFAS No. 71 to West Virginia generation assets. In the first quarter of 2004, a \$6.6 million gain was recognized for the sale of land.
- Interest charges increased by \$35.4 million compared to the same period in 2003, due primarily to the write-off of 2003 refinancing costs and an increase in average debt outstanding. Results for the first quarter of 2004 do not fully reflect the lower interest expense associated with the March 2004 refinancing.

Allegheny's operating results were negatively impacted in the first quarter of 2004 by unplanned outages at Hatfield's Ferry Unit No. 2 and Pleasants Unit No. 1. Allegheny estimates that the total impact of these outages on its pre-tax income for the first quarter of 2004 was approximately \$34.0 million, consisting primarily of lost revenues (less savings on fuel costs) and repair and replacement costs (net of anticipated insurance proceeds). Allegheny currently expects both units to return to service late in the second quarter of 2004.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the first quarter of 2004 was \$274.3 million. Adjusted EBITDA was \$202.0 million and excludes the gain from the sale of the California energy supply contract and other items. EBITDA and Adjusted EBITDA are non-GAAP financial measures. For a reconciliation of EBITDA to GAAP financial measures and details on the calculation of Adjusted EBITDA, see the reconciliation of non-GAAP financial measures attached to this release.

## **First Quarter Segment Results**

*Delivery and Services:* The Delivery and Services segment reported net income of \$39.0 million for the first quarter of 2004, compared to net income of \$48.1 million for the first quarter of 2003. The segment's retail electric revenues increased \$11.2 million, primarily due to an increase in usage. Retail natural gas revenues increased by \$29.0 million, due to increased rates charged for gas sales. The segment's unregulated revenues decreased \$10.7 million, primarily due to decreased construction revenues within its Allegheny Ventures business. The increase in revenues was more than offset by a \$30.4 million increase in deferred energy costs, net, related to the gas business.

The segment's operation and maintenance expense decreased by \$15.6 million, due, in part, to decreased outside service expense, including legal, consulting and advisory fees, and unrecoverable

damages from an ice storm that occurred in the first quarter of 2003. The decrease was partially offset by charges recorded in the first quarter of 2004, associated primarily with a write-down of inventory. 2004 results also included a \$6.6 million gain on the sale of land. In 2003, the segment reported a \$14.1 million gain from the reapplication of SFAS No. 71 as described above.

*Generation and Marketing:* The Generation and Marketing segment reported a net loss of \$2.6 million for the first quarter of 2004 compared to a net loss of \$94.9 million for the comparable period in 2003. 2004 results include a \$68.1 million gain related to the release from escrow of the remaining proceeds from the sale of the California energy supply contract and related hedges. The gain was partially offset by reduced generation revenue as a result of the unplanned outages at the Hatfield's Ferry and Pleasants generating units, as described above. 2003 results included net trading losses of \$102.2 million.

Operations and maintenance expense decreased by \$84.1 million. 2004 expenses reflected a \$22.2 million decrease in expenses for outside services, including legal, consulting and advisory fees. Expenses for the first quarter of 2003 reflected \$56.6 million of charges for assets held for sale and impairments. Interest expense for the segment increased \$32.0 million, primarily due to an increase in average long-term debt outstanding and the write-off of \$14.0 million of 2003 refinancing costs. The segment also recognized a gain in the first quarter of 2003 of \$61.7 million from the reapplication of SFAS No. 71 as described above.

### **Reconciliation of Non-GAAP Financial Measures**

This news release includes non-GAAP financial measures as defined in the Securities and Exchange Commission's Regulation G. Where noted, the release presents certain financial information on an "as adjusted" basis to exclude the effect of certain items as described herein. By presenting "as adjusted" results, management intends to provide investors with a better understanding of the core results and underlying trends from which to consider past performance and prospects for the future. We also present Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) as an additional measure of our operating performance.

Users of this financial information should consider the types of events and transactions for which adjustments have been made. Neither the "as adjusted" information nor EBITDA should be considered in isolation or viewed as substitutes for or superior to net income or other data prepared in accordance with GAAP as measures of our operating performance or liquidity. In addition, neither the "as adjusted" information nor EBITDA are necessarily comparable to similarly titled measures provided by other companies.

Pursuant to the requirements of Regulation G, we have attached a table that reconciles the non-GAAP financial measures presented in this release to the most directly comparable GAAP measures.

### **Analyst Conference Call**

Allegheny will comment further on these results in an analyst conference call on Monday, May 10, at 11:00 a.m. Eastern Time. To listen to a live Internet broadcast of the call, visit [www.alleghenyenergy.com](http://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 Allegheny Energy is available at [www.alleghenyenergy.com](http://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 Allegheny Energy's delivery business, Allegheny Power; the closing of various agreements; execution of restructuring activity and liquidity enhancement plans; results of litigation; financing and plans; 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 accounting issues; 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. 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 filed with the Securities and Exchange Commission.*

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