



## NEWS RELEASE

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### **FOR IMMEDIATE RELEASE**

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

**Greensburg, Pa., August 5, 2004** – Allegheny Energy, Inc. (NYSE: AYE) today reported a consolidated net loss of \$39.5 million, or \$0.31 per diluted share, for the second quarter of 2004 compared to a consolidated net loss of \$231.5 million, or \$1.82 per diluted share, for the second 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, “As anticipated, Allegheny reported a loss for the second quarter of 2004, primarily as the result of unplanned outages at Hatfield’s Ferry and Pleasants power stations, higher expenses to improve power plant availability and normal low seasonal demand for electricity. With these items largely behind us, we expect our core operations to return to profitability in the second half of 2004.”

To provide a better understanding of Allegheny’s core results and trends, Allegheny reported adjusted results for the second quarter and the first six months of 2004. For the second quarter of 2004, consolidated net loss includes an \$11.7 million pre-tax loss (\$6.7 million after tax) associated with the release of gas pipeline capacity in connection with exiting the Western energy markets. Excluding this item, adjusted consolidated net loss for the second quarter was \$32.8 million, or \$0.26 per diluted share. For the second quarter of 2003, consolidated net loss includes a \$169.4 million pre-tax loss (\$97.2 million after tax) associated with the termination of contracts and the exit of trading activities in Western energy markets, a \$152.2 million pre-tax loss (\$87.4 million after tax) associated with the renegotiation of the California energy supply contract and a \$32.0 million pre-tax charge (\$18.4 million after tax) for contract termination costs. Excluding these items, adjusted consolidated net loss for the second quarter of 2003 was \$28.5 million, or \$0.23 per diluted share. Adjusted net loss is a non-GAAP financial measure. A reconciliation of adjusted net loss to net loss reported in accordance with GAAP is attached to this release.

#### **Second Quarter Adjusted Consolidated Results**

Allegheny’s adjusted consolidated loss before income taxes, minority interest and the cumulative effect of accounting changes for the second quarter of 2004 was \$57.8 million, an increase of \$7.8 million from the second quarter of 2003. Major factors contributing to the results included:

- The Generation and Marketing segment's adjusted revenues, net of fuel and purchased power, decreased by \$27.9 million, due primarily to the negative impact from unplanned outages at Hatfield's Ferry Unit No. 2 and Pleasants Unit No. 1. Allegheny estimates that the negative impact from these outages was approximately \$59 million, consisting primarily of lost revenues (net of fuel cost savings) and repair and replacement costs (net of anticipated insurance proceeds). Both units returned to service late in the second quarter of 2004.
- Revenues in the Delivery and Services segment, net of fuel and purchased power, increased by \$9.2 million due primarily to increased retail electricity sales from warmer weather.
- Adjusted operations and maintenance expense decreased by \$6.3 million.
- Interest charges decreased by \$15.7 million, due primarily to lower interest rates from the March 2004 refinancing and lower average debt outstanding.
- Depreciation and taxes other than income taxes increased approximately \$8.2 million, primarily as a result of the Springdale Generating Facility being placed into service in July 2003 and increased revenue-based taxes from higher sales in the Delivery and Services segment.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the second quarter of 2004 were \$116.6 million. Adjusted EBITDA was \$128.3 million and excludes a loss associated with the release of gas pipeline capacity. 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.

### **Second Quarter Segment Results**

*Delivery and Services:* The Delivery and Services segment reported net income of \$24.2 million for the second quarter of 2004, compared to net income of \$4.3 million for the second quarter of 2003. The segment's retail electric revenues increased \$29.5 million, primarily due to an increase in usage from warmer weather as described above. Purchased energy and transmission costs increased \$17.1 million, reflecting increased power purchases due to higher demand. Retail natural gas revenues, net of deferred energy costs, decreased by \$2.6 million due to lower usage.

The segment's operation and maintenance expense decreased \$20.9 million, primarily as a result of decreases in uncollectible expense, employee benefit costs and outside services expense.

*Generation and Marketing:* The Generation and Marketing segment reported a net loss of \$64.4 million for the second quarter of 2004 compared to a net loss of \$240.2 million for the comparable period in 2003. Operating revenues increased \$293.1 million due primarily to net energy trading losses of \$303.4 million recorded in the second quarter of 2003. Generation revenues for the second quarter of 2004 were reduced as a result of unplanned outages at the Hatfield's Ferry and Pleasants power stations as described above, offset in part by increased revenues from gas-fired generating facilities.

Fuel cost and purchased power for the segment increased \$11.0 million, due to higher fuel consumption at natural gas-fired generating facilities, offset by reduced coal consumption, and an \$11.7 million loss associated with the release of gas pipeline capacity as described above. Operations and maintenance expense decreased by \$16.9 million, due primarily to \$32.0 million of contract termination costs recorded in the second quarter of 2003, as well as reduced expenses of \$6.2 million in 2004 for outside services, including legal, consulting and advisory fees. Partially offsetting this reduction in expense were \$27.2 million of higher costs for contract work and materials and supplies relating to planned power station outages. Interest expense also decreased \$16.7 million, due primarily

to the March 2004 refinancing, offset in part by the issuance of the convertible preferred securities in July 2003.

### **Six-Month Consolidated Results**

For the first six months of 2004, Allegheny reported a consolidated net loss of \$6.2 million, or \$0.05 per diluted share, as compared to the consolidated net loss of \$290.3 million, or \$2.29 per diluted share, for the first six months of 2003.

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

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

This news release and the attached table include non-GAAP financial measures as defined in the Securities and Exchange Commission's Regulation G. Where noted, we present certain financial information on an adjusted basis to exclude the effect of certain items as described herein. By presenting 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 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 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 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 tables that reconcile non-GAAP financial measures, including those 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 Friday, August 6, at 9:30 a.m. Eastern Daylight 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**

Headquartered in Greensburg, Pa., 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; results of litigation; financing*

*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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