

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended	
	March 31,	
	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 889,720	\$ 715,691
Operating expenses:		
Fuel consumed in electric generation	161,955	158,772
Purchased power and transmission	81,118	86,268
Cost of utility gas sold	90,503	95,959
Deferred energy costs, net	16,731	(13,659)
Operations and maintenance	211,784	312,501
Depreciation and amortization	83,291	77,611
Taxes other than income taxes	<u>59,513</u>	<u>60,627</u>
Total operating expenses	<u>704,895</u>	<u>778,079</u>
Operating income (loss)	184,825	(62,388)
Other income, net	8,074	80,260
Interest expense and preferred dividends:		
Interest expense	130,929	95,565
Preferred dividend requirements of subsidiaries	<u>1,259</u>	<u>1,259</u>
Total interest expense and preferred dividends	<u>132,188</u>	<u>96,824</u>
Income (loss) before income taxes, minority interest and cumulative effect of accounting changes	60,711	(78,952)
Income tax expense (benefit)	25,574	(38,018)
Minority interest in net income (loss) of subsidiaries	<u>1,859</u>	<u>(2,890)</u>
Income (loss) before cumulative effect of accounting changes	33,278	(38,044)
Cumulative effect of accounting changes, net of taxes of \$12,974	<u>---</u>	<u>(20,765)</u>
Net income (loss)	<u>\$ 33,278</u>	<u>\$ (58,809)</u>
Basic income (loss) per common share:		
Income (loss) before cumulative effect of accounting changes	\$ 0.26	\$ (0.30)
Cumulative effect of accounting changes, net	<u>---</u>	<u>(0.16)</u>
Net income (loss) per common share	<u>\$ 0.26</u>	<u>\$ (0.46)</u>
Diluted income (loss) per common share:		
Income (loss) before cumulative effect of accounting changes	\$ 0.25	\$ (0.30)
Cumulative effect of accounting changes, net	<u>---</u>	<u>(0.16)</u>
Net income (loss) per common share	<u>\$ 0.25</u>	<u>\$ (0.46)</u>

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities:		
Net income (loss)	\$ 33,278	\$ (58,809)
Cumulative effect of accounting changes, net	---	<u>20,765</u>
Income (loss) before cumulative effect of accounting changes	<u>33,278</u>	<u>(38,044)</u>
Adjustments for noncash (credits) and charges:		
Reapplication of SFAS No. 71	---	(75,823)
Depreciation and amortization	83,291	77,611
(Gain) loss on asset sales and assets held for sale, net	(11,600)	31,837
Minority interest	1,859	(2,890)
Deferred investment credit and income taxes, net	13,491	(33,661)
Unrealized losses on commodity contracts, net	11,139	64,673
Other, net	30,424	(13,305)
Changes in certain assets and liabilities:		
Accounts receivable, net	(89,330)	(18,398)
Materials and supplies	48,396	1,611
Taxes receivable/accrued, net	(15,781)	156,113
Prepaid taxes	(28,561)	(32,295)
Accounts payable	(5,859)	(19,039)
Interest accrued	24,252	23,612
Commodity contract termination costs	(259)	(47,652)
Other, net	<u>21,657</u>	<u>4,050</u>
Net cash from operating activities	<u>116,397</u>	<u>78,400</u>
Cash Flows Used in Investing Activities:		
Construction expenditures	(53,773)	(66,615)
Acquisition of electric generating facility	---	(318,435)
Proceeds from sale of businesses and assets	11,589	333
Decrease (increase) in restricted funds	17,357	(135,531)
Other investments	<u>(3,116)</u>	<u>9,448</u>
Net cash used in investing activities	<u>(27,943)</u>	<u>(510,800)</u>
Cash Flows (Used in) From Financing Activities:		
Net repayments of short-term debt	---	(1,121,966)
Issuance of long-term debt	1,481,592	1,931,506
Retirement of long-term debt	<u>(1,709,650)</u>	<u>(229,975)</u>
Net cash (used in) from financing activities	<u>(228,058)</u>	<u>579,565</u>
Net (decrease) increase in cash and cash equivalents	(139,604)	147,165
Cash and cash equivalents at beginning of period	<u>528,612</u>	<u>204,231</u>
Cash and cash equivalents at end of period	<u>\$ 389,008</u>	<u>\$ 351,396</u>

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)
(unaudited)

	March 31, <u>2004</u>	December 31, <u>2003</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 389,008	\$ 528,612
Accounts receivable:		
Customer	279,746	203,801
Unbilled utility revenues	134,993	172,891
Wholesale and other	145,957	97,432
Allowance for uncollectible accounts	(25,933)	(29,329)
Materials and supplies	107,898	109,651
Fuel, including stored gas	52,860	98,097
Deferred income taxes	79,714	44,610
Prepaid taxes	74,966	46,405
Commodity contracts	34,163	24,390
Restricted funds	29,333	120,873
Regulatory assets	50,175	68,665
Other	<u>30,810</u>	<u>31,186</u>
Total current assets	1,383,690	1,517,284
Property, Plant, and Equipment:		
Generation	6,639,222	6,597,195
Transmission	1,010,026	1,010,062
Distribution	3,573,250	3,549,813
Other	534,150	525,092
Accumulated depreciation	<u>(4,467,005)</u>	<u>(4,377,917)</u>
Subtotal	7,289,643	7,304,245
Construction work in progress	<u>169,795</u>	<u>149,232</u>
Total property, plant, and equipment	7,459,438	7,453,477
Investments and Other Assets:		
Goodwill	367,287	367,287
Investments in unconsolidated affiliates	32,679	51,479
Intangible assets	40,085	41,710
Other	<u>52,561</u>	<u>45,007</u>
Total investments and other assets	492,612	505,483
Deferred Charges:		
Regulatory assets	572,759	577,691
Other	<u>114,074</u>	<u>117,961</u>
Total deferred charges	686,833	695,652
Total Assets	<u>\$ 10,022,573</u>	<u>\$ 10,171,896</u>

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
(in thousands)
(unaudited)

	March 31, <u>2004</u>	December 31, <u>2003</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 53,610	\$ 53,610
Long-term debt due within one year	176,782	544,843
Accounts payable	274,689	281,514
Accrued taxes	82,446	98,227
Commodity contracts	51,546	41,486
Regulatory liabilities	1,672	2,229
Other	<u>243,947</u>	<u>259,034</u>
Total current liabilities	884,692	1,280,943
Long-term Debt	5,288,979	5,127,437
Deferred Credits and Other Liabilities:		
Commodity contracts	70,915	61,125
Investment tax credit	88,247	89,826
Deferred income taxes	910,985	860,323
Obligations under capital leases	30,430	32,483
Regulatory liabilities	438,896	436,118
Adverse power purchase commitments	213,923	218,105
Other	<u>442,668</u>	<u>462,220</u>
Total deferred credits and other liabilities	2,196,064	2,160,200
Minority Interest	27,395	13,457
Preferred Stock of Subsidiary	74,000	74,000
Stockholders' Equity:		
Common stock	158,761	158,761
Other paid-in capital	1,447,830	1,447,830
Retained earnings	36,188	2,910
Treasury stock	(1,438)	(1,438)
Accumulated other comprehensive loss	<u>(89,898)</u>	<u>(92,204)</u>
Total stockholders' equity	1,551,443	1,515,859
Total Liabilities and Stockholders' Equity	<u>\$ 10,022,573</u>	<u>\$ 10,171,896</u>

**ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
BUSINESS SEGMENTS**

<i>(In millions)</i>	Unaudited Three Months Ended March 31,	
	<u>2004</u>	<u>2003</u>
Total operating revenues:		
Delivery and Services	\$ 870.1	\$ 850.9
Generation and Marketing	432.8	280.8
Eliminations	<u>(413.2)</u>	<u>(416.0)</u>
Total	<u>\$ 889.7</u>	<u>\$ 715.7</u>
Operating income (loss):		
Delivery and Services	\$ 96.1	\$ 94.0
Generation and Marketing	93.7	(137.0)
Eliminations	<u>(5.0)</u>	<u>(19.4)</u>
Total	<u>\$ 184.8</u>	<u>\$ (62.4)</u>
Consolidated income (loss) before cumulative effect of accounting changes:		
Delivery and Services	\$ 39.0	\$ 49.4
Generation and Marketing	(2.6)	(75.4)
Eliminations	<u>(3.1)</u>	<u>(12.0)</u>
Total	<u>\$ 33.3</u>	<u>\$ (38.0)</u>
Cumulative effect of accounting changes, net:		
Delivery and Services	\$ ---	\$ (1.3)
Generation and Marketing	---	(19.5)
Total	<u>\$ ---</u>	<u>\$ (20.8)</u>
Consolidated net income (loss):		
Delivery and Services	\$ 39.0	\$ 48.1
Generation and Marketing	(2.6)	(94.9)
Eliminations	<u>(3.1)</u>	<u>(12.0)</u>
Total	<u>\$ 33.3</u>	<u>\$ (58.8)</u>

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(in millions, except per share data)
(unaudited)

THREE MONTHS ENDED MARCH 31, 2004	INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	NET INCOME (LOSS)	DILUTED EARNINGS PER SHARE
GAAP basis	\$60.7	\$33.3	\$0.25
Adjustments¹:			
Gain on California contract escrow release	(68.1)	(39.4)	
Write-off of 2003 financing costs	14.1	8.2	
Gain on land sale, New York office space charge (net)	(4.2)	(2.4)	
As Adjusted	\$2.5	(\$0.3)	\$ ---

GAAP basis	\$33.3
Interest expense and preferred dividends	132.2
Income tax expense	25.5
Depreciation and amortization	83.3
EBITDA	274.3
Gain on California contract escrow release	(68.1)
Gain on land sale, New York office space charge (net)	(4.2)
Adjusted EBITDA¹	\$202.0

THREE MONTHS ENDED MARCH 31, 2003	LOSS BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	NET LOSS	DILUTED LOSS PER SHARE
GAAP basis	(\$79.0)	(\$58.8)	(\$0.46)
Adjustments²:			
Gain on SFAS 71	(75.8)	(39.3)	
Loss on assets retired/held for sale	37.5	19.4	
Special termination and other benefits	15.7	8.1	
Impairment of New York office	4.6	2.4	
Other ³	12.6	6.5	
Cumulative effect of accounting changes		20.7	
As Adjusted	(\$84.4)	(\$41.0)	(\$0.32)

GAAP basis	(\$58.8)
Interest expense and preferred dividends	96.8
Income tax benefit	(38.0)
Depreciation and amortization	77.6
EBITDA	77.6
Gain on SFAS 71	(75.8)
Loss on assets retired/held for sale	37.5
Special termination and other benefits	15.7
Impairment of New York office	4.6
Other ³	12.6
Cumulative effect of accounting changes	20.7
Adjusted EBITDA²	\$92.9

FOOTNOTES:

¹ Not adjusted for \$9.2 million of charges related to Allegheny Ventures for write-downs of inventory and discontinued product (\$4.3 million), equity interests (\$2.3 million) and adjustments in revenue recognition for a percentage of completion contract (\$2.6 million).

² Not adjusted for estimated energy trading losses totaling \$102.2 million. These losses were primarily the result of trading activities in the Western United States energy markets, which Allegheny exited in 2003.

³ Charges related to the St. Joseph's generating plant lease (\$2.0 million), additional Enron litigation reserves (\$7.0 million) and additional costs attributable to asset sales (\$3.6 million).

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
OPERATING STATISTICS

	<u>Unaudited</u>		
	Three Months Ended		
	March 31,		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Delivery and Services:			
Electricity sales (million kilowatt-hours)	12,387	12,314	0.6%
Natural gas sales (million cubic feet)	14,291	15,562	(8.2%)
Usage per customer (kilowatt-hours):			
Residential	3,582	3,548	1.0%
Commercial	14,734	14,764	(0.2%)
Industrial	185,727	180,794	2.7%
Generation and Marketing:			
Generation (million kilowatt-hours)	12,232	13,234	(7.6%)