

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Operating revenues	\$723,279	\$603,163	\$2,067,624	\$1,515,630
Operating expenses:				
Fuel consumed in electric generation.....	163,136	160,635	465,940	451,735
Purchased power and transmission	85,926	81,941	246,816	249,526
Deferred energy costs, net.....	(1,688)	(1,554)	435	763
Operations and maintenance	190,213	210,203	623,855	773,829
Depreciation and amortization.....	75,057	75,887	222,894	212,704
Taxes other than income taxes	51,552	47,099	149,665	147,904
Total operating expenses	564,196	574,211	1,709,605	1,836,461
Operating income (loss)	159,083	28,952	358,019	(320,831)
Other income, net	3,115	15,093	15,598	96,454
Interest expense and preferred dividends:				
Interest expense.....	90,112	114,875	300,978	306,542
Preferred dividend requirements of subsidiary	1,259	1,259	3,778	3,778
Total interest expense and preferred dividends	91,371	116,134	304,756	310,320
Income (loss) from continuing operations before income taxes and minority interest	70,827	(72,089)	68,861	(534,697)
Income tax expense (benefit) from continuing operations	26,126	(23,711)	25,196	(222,298)
Minority interest in net loss of subsidiaries	(5,943)	(1,537)	(4,804)	(9,122)
Income (loss) from continuing operations	50,644	(46,841)	48,469	(303,277)
Loss from discontinued operations, net of tax	(427,487)	(4,156)	(431,489)	(17,283)
Loss before cumulative effect of accounting changes	(376,843)	(50,997)	(383,020)	(320,560)
Cumulative effect of accounting changes, net of taxes of \$12,974 ...	--	--	--	(20,765)
Net loss	\$(376,843)	\$(50,997)	\$(383,020)	\$(341,325)
Basic income (loss) per common share:				
Income (loss) from continuing operations.....	\$0.40	\$(0.37)	\$0.38	\$(2.39)
Loss from discontinued operations, net.....	(3.36)	(0.03)	(3.40)	(0.14)
Cumulative effect of accounting changes, net.....	--	--	--	(0.16)
Net loss per common share	\$(2.96)	\$(0.40)	\$(3.02)	\$(2.69)
Diluted income (loss) per common share:				
Income (loss) from continuing operations.....	\$0.37	\$(0.37)	\$0.38	\$(2.39)
Loss from discontinued operations, net.....	(2.77)	(0.03)	(3.35)	(0.14)
Cumulative effect of accounting changes, net.....	--	--	--	(0.16)
Net loss per common share	\$(2.40)	\$(0.40)	\$(2.97)	\$(2.69)

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

	Nine Months Ended September 30,	
	2004	2003
Cash Flows From Operating Activities:		
Net loss	\$(383,020)	\$(341,325)
Adjustments for discontinued operations and noncash charges and (credits):		
Loss from discontinued operations, net	431,489	--
Cumulative effect of accounting changes, net	--	20,765
Reapplication of SFAS No. 71	--	(75,824)
Depreciation and amortization	222,894	243,124
(Gain) loss on asset sales and disposals	(12,262)	21,334
Minority interest	(4,804)	(9,122)
Deferred investment credit and income taxes, net	21,525	(159,600)
Unrealized losses on commodity contracts, net	10,735	483,811
Other, net	69,337	(9,274)
Changes in certain assets and liabilities:		
Accounts receivable, net	34,315	159,304
Materials and supplies	9,622	(38,163)
Taxes receivable/accrued, net	(16,886)	181,433
Prepaid taxes	(12,132)	(16,252)
Collateral deposits	(60,655)	(59,238)
Accounts payable	(20,605)	(40,025)
Interest accrued	28,939	22,447
Purchased options	(1,583)	10,053
Commodity contract termination costs	(259)	(47,706)
Other, net	15,183	(24,195)
Net cash from operating activities	<u>331,833</u>	<u>321,547</u>
Cash Flows Used In Investing Activities:		
Capital expenditures	(199,238)	(205,604)
Acquisition of electric generating facility	--	(318,435)
Proceeds from sale of businesses and assets	14,070	55,894
Decrease (increase) in restricted funds	8,305	(34,175)
Other investments	2,123	9,150
Net cash used in investing activities	<u>(174,740)</u>	<u>(493,170)</u>
Cash Flows (Used in) From Financing Activities:		
Net repayments of short-term debt	(53,610)	(1,131,966)
Issuance of long-term debt	1,594,921	2,317,257
Retirement of long-term debt	(1,994,315)	(417,797)
Net cash (used in) from financing activities	<u>(453,004)</u>	<u>767,494</u>
Net (decrease) increase in cash and cash equivalents	(295,911)	595,871
Cash and cash equivalents at beginning of period	528,612	204,231
Cash and cash equivalents at end of period	<u>\$232,701</u>	<u>\$800,102</u>
Supplemental cash flow information:		
Cash paid for interest	<u>\$244,813</u>	<u>\$264,899</u>

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

	September 30, 2004	December 31, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$232,701	\$528,612
Accounts receivable:		
Customer	168,594	203,801
Unbilled utility revenues	120,506	172,891
Wholesale and other	47,296	46,257
Allowance for uncollectible accounts	(20,564)	(29,329)
Materials and supplies	102,209	109,651
Fuel, including stored gas	44,626	98,097
Deferred income taxes	42,634	44,610
Prepaid taxes	54,129	46,405
Assets held for sale	128,778	--
Collateral deposits	111,830	51,175
Commodity contracts	21,828	24,390
Restricted funds	36,722	120,873
Regulatory assets	36,697	68,665
Other	20,099	31,186
Total current assets	1,148,085	1,517,284
Property, Plant and Equipment:		
Generation	5,617,289	6,597,195
Transmission	1,006,984	1,010,062
Distribution	3,326,694	3,549,813
Other	463,454	525,092
Accumulated depreciation	(4,280,753)	(4,377,917)
Subtotal	6,133,668	7,304,245
Construction work in progress	174,992	149,232
Total property, plant and equipment	6,308,660	7,453,477
Investments and Other Assets:		
Assets held for sale	508,353	--
Goodwill	367,287	367,287
Investments in unconsolidated affiliates	30,562	51,479
Intangible assets	34,604	41,710
Other	45,634	45,007
Total investments and other assets	986,440	505,483
Deferred Charges:		
Commodity contracts	4,829	5,536
Regulatory assets	569,039	577,691
Other	63,548	112,425
Total deferred charges	637,416	695,652
Total Assets	\$9,080,601	\$10,171,896

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

	September 30, 2004	December 31, 2003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$--	\$53,610
Long-term debt due within one year	388,496	544,843
Accounts payable	234,233	281,514
Accrued taxes	72,624	98,227
Commodity contracts	53,450	41,486
Regulatory liabilities	557	2,229
Liabilities associated with assets held for sale	17,122	--
Other	237,931	259,034
Total current liabilities	1,004,413	1,280,943
Long-term Debt	4,823,501	5,127,437
Deferred Credits and Other Liabilities:		
Commodity contracts	59,446	61,125
Investment tax credit	85,091	89,826
Deferred income taxes	616,106	860,323
Obligations under capital leases	26,295	32,483
Regulatory liabilities	446,735	436,118
Adverse power purchase commitments	205,560	218,105
Liabilities associated with assets held for sale	104,864	--
Other	477,834	462,220
Total deferred credits and other liabilities	2,021,931	2,160,200
Minority Interest	20,732	13,457
Preferred Stock of Subsidiary	74,000	74,000
Common Stockholders' Equity:		
Common stock	159,079	158,761
Other paid-in capital	1,453,665	1,447,830
Retained (deficit) earnings	(380,111)	2,910
Treasury stock	(1,438)	(1,438)
Accumulated other comprehensive loss	(95,171)	(92,204)
Total common stockholders' equity	1,136,024	1,515,859
Total Liabilities and Stockholders' Equity	\$9,080,601	\$10,171,896

ALLEGHENY ENERGY, INC. AND SUBSIDIARIES
RESULTS BY BUSINESS SEGMENT
(unaudited)

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Total operating revenues:				
Delivery and Services.....	\$689.3	\$668.6	\$2,069.2	\$2,027.3
Generation and Marketing	410.7	291.5	1,157.3	600.8
Eliminations	(376.7)	(356.9)	(1,158.9)	(1,112.5)
Total	\$723.3	\$603.2	\$2,067.6	\$1,515.6
Operating income (loss):				
Delivery and Services.....	\$72.5	\$65.9	\$215.5	\$179.2
Generation and Marketing	79.7	(44.9)	139.5	(495.7)
Eliminations	6.9	8.0	3.0	(4.3)
Total	\$159.1	\$29.0	\$358.0	\$(320.8)
Interest expense:				
Delivery and Services.....	\$30.6	\$32.1	\$94.5	\$91.5
Generation and Marketing	59.6	82.8	206.5	215.0
Eliminations	(0.1)	--	--	--
Total	\$90.1	\$114.9	\$301.0	\$306.5
Income (loss) from continuing operations:				
Delivery and Services.....	\$30.2	\$30.9	\$83.5	\$74.9
Generation and Marketing	16.2	(82.6)	(36.8)	(375.4)
Eliminations	4.3	4.9	1.8	(2.7)
Total	\$50.7	\$(46.8)	\$48.5	\$(303.2)
(Loss) income from discontinued operations, net:				
Delivery and Services.....	\$(25.2)	\$(1.7)	\$(15.3)	\$7.9
Generation and Marketing	(402.3)	(2.5)	(416.2)	(25.2)
Eliminations	--	--	--	--
Total	\$(427.5)	\$(4.2)	\$(431.5)	\$(17.3)
Cumulative effect of accounting changes, net:				
Delivery and Services.....	\$--	\$--	\$--	\$(1.2)
Generation and Marketing	--	--	--	(19.6)
Eliminations	--	--	--	--
Total	\$--	\$--	\$--	\$(20.8)
Net income (loss):				
Delivery and Services.....	\$5.0	\$29.2	\$68.2	\$81.6
Generation and Marketing	(386.1)	(85.1)	(453.0)	(420.2)
Eliminations	4.3	4.9	1.8	(2.7)
Total	\$(376.8)	\$(51.0)	\$(383.0)	\$(341.3)