

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

THREE MONTHS ENDED SEPTEMBER 30, 2004	INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	NET (LOSS) INCOME	DILUTED (LOSS) INCOME PER SHARE
Calculation of Income (Loss) As Adjusted:			
Income (Loss) - GAAP basis	\$70.8	\$(376.8)	<u>\$(2.40)</u>
Adjustments:			
Loss from discontinued operations		427.4	
As Adjusted	\$70.8	\$50.6	\$0.37

Calculation of EBITDA As Adjusted:			
Net Loss - GAAP basis		\$(376.8)	
Interest expense and preferred dividends		91.4	
Income tax expense		26.1	
Depreciation and amortization		75.1	
EBITDA		(184.2)	
Loss from discontinued operations		427.4	
Adjusted EBITDA		\$243.2	

THREE MONTHS ENDED SEPTEMBER 30, 2003	(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	NET (LOSS) INCOME	DILUTED (LOSS) INCOME PER SHARE
Calculation of Loss As Adjusted:			
Loss - GAAP basis	\$(72.1)	\$(51.0)	<u>\$(0.40)</u>
Adjustments:			
Loss from discontinued operations		4.2	
Losses on West Book and other exited trading activities ¹	113.3	66.2	
Gain on land sale ²	(9.5)	(5.6)	
As Adjusted	\$31.7	\$13.8	\$0.11

Calculation of EBITDA As Adjusted:			
Net Loss - GAAP basis		\$(51.0)	
Interest expense and preferred dividends		116.1	
Income tax benefit		(23.7)	
Depreciation and amortization		75.9	
EBITDA		117.3	
Loss from discontinued operations		4.2	
Losses on West Book and other exited trading activities		113.3	
Gain on land sale		(9.5)	
Adjusted EBITDA		\$225.3	

FOOTNOTES:

¹ This amount is included in Operating revenues on the Consolidated Statement of Operations.

² This amount is included in Other income, net, on the Consolidated Statement of Operations.

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

NINE MONTHS ENDED SEPTEMBER 30, 2004	INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	NET (LOSS) INCOME	DILUTED (LOSS) INCOME PER SHARE
Calculation of Income (Loss) As Adjusted:			
Income (Loss) - GAAP basis	\$68.9	\$(383.0)	\$(2.97)
Adjustments¹:			
Gain on California contract escrow release ²	(68.1)	(39.2)	
Write-off of 2003 financing costs ³	14.1	8.1	
Gain on land sale, New York office space charge (net) ⁴	(4.2)	(2.4)	
Loss on release of gas pipeline capacity ⁵	11.7	6.7	
Loss from discontinued operations		431.5	
As Adjusted	\$22.4	\$21.7	\$0.17
Calculation of EBITDA As Adjusted:			
Net Loss - GAAP basis		\$(383.0)	
Interest expense and preferred dividends		304.8	
Income tax expense		25.2	
Depreciation and amortization		222.9	
EBITDA		169.9	
Gain on California contract escrow release		(68.1)	
Gain on land sale, New York office space charge (net)		(4.2)	
Loss on release of gas pipeline capacity		11.7	
Loss from discontinued operations		431.5	
Adjusted EBITDA¹		\$540.8	

NINE MONTHS ENDED SEPTEMBER 30, 2003	LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	NET LOSS	DILUTED LOSS PER SHARE
Calculation of Loss As Adjusted:			
Loss - GAAP basis	\$(534.7)	\$(341.3)	\$(2.69)
Adjustments⁶:			
Gain on SFAS 71 ⁷	(75.8)	(43.5)	
Loss on assets retired/held for sale ⁴	37.5	21.5	
Special termination and other benefits ⁸	15.7	9.0	
Impairment of New York office ⁸	4.6	2.6	
Losses on West Book and other exited trading activities ²	434.9	254.0	
Baltimore Gas & Electric contract termination costs ⁸	32.0	18.4	
Gain on land sale ⁷	(9.5)	(5.6)	
Other ^{8&9}	12.6	7.2	
Cumulative effect of accounting changes		20.7	
Loss from discontinued operations		17.3	
As Adjusted	\$(82.7)	\$(39.7)	\$(0.31)
Calculation of EBITDA As Adjusted:			
Net Loss - GAAP basis		\$(341.3)	
Interest expense and preferred dividends		310.3	
Income tax benefit		(222.3)	
Depreciation and amortization		212.7	
EBITDA		(40.6)	
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	
Losses on West Book and other exited trading activities		434.9	
Baltimore Gas & Electric contract termination costs		32.0	

Gain on land sale	(9.5)
Other ⁹	12.6
Cumulative effect of accounting changes	20.7
Loss from discontinued operations	17.3
Adjusted EBITDA⁶	\$449.4

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 These amounts are included in Operating revenues on the Consolidated Statements of Operations.

³ This amount is included in Interest expense on the Consolidated Statement of Operations.

⁴ These amounts are included in Operations and maintenance expense and Other income, net, on the Consolidated Statements of Operations.

⁵ This amount is included in Purchased power and transmission on the Consolidated Statement of Operations.

⁶ Not adjusted for estimated energy trading losses totaling \$34.9 million. These losses were primarily the result of trading activities in the Western United States energy markets, which Allegheny exited in 2003.

⁷ These amounts are included in Other income, net, on the Consolidated Statement of Operations.

⁸ These amounts are included in Operations and maintenance expense on the Consolidated Statement of Operations.

⁹ 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		
	September 30,		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Delivery and Services:			
Electricity sales (million kilowatt-hours)	11,683	11,547	1.2%
Usage per customer (kilowatt-hours):			
Residential	2,869	2,831	1.3%
Commercial	15,696	15,629	0.4%
Industrial	187,088	187,250	(0.1%)
Natural gas sales (million cubic feet)	1,558	1,799	(13.4%)
Generation and Marketing:			
Generation (million kilowatt-hours)	12,479	12,550	(0.6%)