

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

THREE MONTHS ENDED JUNE 30, 2004	LOSS BEFORE INCOME TAXES AND MINORITY INTEREST	NET LOSS	DILUTED LOSS PER SHARE
GAAP basis	\$(69.5)	\$(39.5)	\$(0.31)
Adjustments:			
Loss on release of gas pipeline capacity ¹	11.7	6.7	
As Adjusted	\$(57.8)	\$(32.8)	\$(0.26)

GAAP basis	\$(39.5)
Interest expense and preferred dividends	100.2
Income tax benefit	(29.3)
Depreciation and amortization	85.2
EBITDA	116.6
Loss on release of gas pipeline capacity	11.7
Adjusted EBITDA	\$128.3

THREE MONTHS ENDED JUNE 30, 2003	LOSS BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	NET LOSS	DILUTED LOSS PER SHARE
GAAP basis	\$(403.6)	\$(231.5)	\$(1.82)
Adjustments²:			
Unrealized loss on renegotiation of CDWR contract ³	152.2	87.4	
Unrealized losses on West Book trading activities ³	169.4	97.2	
Baltimore Gas & Electric contract termination costs ⁴	32.0	18.4	
As Adjusted	\$(50.0)	\$(28.5)	\$(0.23)

GAAP basis	\$(231.5)
Interest expense and preferred dividends	115.9
Income tax benefit	(167.4)
Depreciation and amortization	79.5
EBITDA	(203.5)
Unrealized loss on renegotiation of CDWR contract	152.2
Unrealized losses on West Book trading activities	169.4
Baltimore Gas & Electric contract termination costs	32.0
Adjusted EBITDA²	\$150.1

FOOTNOTES:

¹ This amount is included in Purchased power and transmission on the Consolidated Statement of Operations.

² Not adjusted for estimated net energy trading gains of \$18.2 million, consisting of realized gains of \$19.7 million and unrealized losses of \$1.5 million.

³ These amounts are included in Operating revenues on the Consolidated Statement of Operations.

⁴ This amount is included in Operations and maintenance expense on the Consolidated Statement of Operations.

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GENERATION AND MARKETING SEGMENT ADJUSTED OPERATING REVENUES, NET OF FUEL AND PURCHASED POWER COSTS	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	CHANGE
GAAP basis:			
Operating revenues	\$326.4	\$33.3	\$293.1
Fuel consumed in electric generation	140.9	134.0	(6.9)
Purchased power and transmission	23.4	19.2	(4.2)
Operating revenues, fuel and purchased power costs	162.1	(119.9)	282.0
Adjustments¹:			
Loss on release of gas pipeline capacity ²	11.7		11.7
Unrealized loss on renegotiation of CDWR contract ³		152.2	(152.2)
Unrealized losses on West Book trading activities ³		169.4	(169.4)
As Adjusted	\$173.8	\$201.7	\$(27.9)

ALLEGHENY ENERGY, INC., CONSOLIDATED OPERATIONS AND MAINTENANCE EXPENSE	THREE MONTHS ENDED JUNE 30, 2004	THREE MONTHS ENDED JUNE 30, 2003	CHANGE
GAAP basis:			
Operations and maintenance expense	\$245.6	\$283.9	\$38.3
Adjustments:			
Baltimore Gas & Electric contract termination costs ⁴		(32.0)	(32.0)
As Adjusted	\$245.6	\$251.9	\$6.3

FOOTNOTES:

¹ Not adjusted for estimated net energy trading gains of \$18.2 million, consisting of realized gains of \$19.7 million and unrealized losses of \$1.5 million.

² This amount is included in Purchased power and transmission on the Consolidated Statement of Operations.

³ These amounts are included in Operating revenues on the Consolidated Statement of Operations.

⁴ This amount is included in Operations and maintenance expense on the Consolidated Statement of Operations.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
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SIX MONTHS ENDED JUNE 30, 2004	LOSS BEFORE INCOME TAXES AND MINORITY INTEREST	NET LOSS	DILUTED LOSS PER SHARE
GAAP basis	\$(8.8)	\$(6.2)	\$(0.05)
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	
As Adjusted	\$(55.3)	\$(33.0)	\$(0.26)

GAAP basis	\$(6.2)
Interest expense and preferred dividends	232.4
Income tax benefit	(3.7)
Depreciation and amortization	168.5
EBITDA	391.0
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
Adjusted EBITDA¹	\$330.4

SIX MONTHS ENDED JUNE 30, 2003	LOSS BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	NET LOSS	DILUTED LOSS PER SHARE
GAAP basis	\$(482.5)	\$(290.3)	\$(2.29)
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	
Unrealized loss on renegotiation of CDWR contract ²	152.2	87.4	
Unrealized losses on West Book trading activities ²	169.4	97.2	
Baltimore Gas & Electric contract termination costs ⁸	32.0	18.4	
Other ^{8 & 9}	12.6	7.2	
Cumulative effect of accounting changes		20.7	
As Adjusted	\$(134.3)	\$(69.8)	\$(0.55)

GAAP basis	\$(290.3)
Interest expense and preferred dividends	212.8
Income tax benefit	(205.4)
Depreciation and amortization	157.1
EBITDA	(125.8)
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
Unrealized loss on renegotiation of CDWR contract	152.2
Unrealized losses on West Book trading activities	169.4
Baltimore Gas & Electric contract termination costs	32.0
Other ⁹	12.6
Cumulative effect of accounting changes	20.7
Adjusted EBITDA⁶	\$243.1

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 \$84.0 million. These losses were primarily the result of trading activities in the Western United States energy markets, which Allegheny exited in 2003.

⁷ This amount is 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		
	June 30,		
	<u>2004</u>	<u>2003</u>	<u>Change</u>
Delivery and Services:			
Electricity sales (million kilowatt-hours)	11,300	10,940	3.3%
Usage per customer (kilowatt-hours):			
Residential	2,614	2,484	5.2%
Commercial	14,751	13,839	6.6%
Industrial	192,836	189,194	1.9%
Natural gas sales (million cubic feet)	3,229	3,591	(10.1%)
Generation and Marketing:			
Generation (million kilowatt-hours)	10,218	10,909	(6.3%)