



NEWS RELEASE

800 Cabin Hill Drive, Greensburg, PA 15601-1689

Media contact:

Allen Stagers
Manager, Corporate Communications
Phone: (724) 830-5433
Media Hotline: (888) 233-3583
E-mail: astagge@alleghenyenergy.com

Investor contact:

Max Kuniansky
Executive Director, Investor Relations
and Corporate Communications
Phone: (724) 838-6895
E-mail: mkunian@alleghenyenergy.com

FOR IMMEDIATE RELEASE

Allegheny Power Proposes Transition Plan for Residential Rates in Maryland

GREENSBURG, Pa., December 29, 2006 – Allegheny Power, the electric delivery subsidiary of Allegheny Energy, Inc. (NYSE: AYE), today proposed a rate stabilization and transition plan for its Maryland residential customers, in accordance with a bill passed by the Maryland legislature earlier this year.

Allegheny Power's plan will gradually transition its residential customers from capped generation rates to market-based generation rates, while at the same time preserving for customers the benefit of previous rate caps. The key provisions of the proposed plan are:

- Beginning March 31, 2007, residential customers would pay a non-bypassable distribution surcharge. The application of the surcharge would result in an overall rate increase of approximately 15 percent for Allegheny's residential customers;
- On January 1, 2008, the distribution surcharge would increase residential rates an additional 15 percent;
- With the expiration of the residential generation rate caps and the move to market-based generation pricing on January 1, 2009, the surcharge would convert to a credit on customers' bills. Funds collected through the surcharge during 2007 and 2008, plus interest, would be returned to customers as a credit on their electric bills, thereby reducing the effect of the rate cap expiration; and
- The credit would continue, with adjustments, to maintain rate stability until December 31, 2010.

Amounts collected by Allegheny through the surcharge would not impact the company's net income.

"We appreciate the opportunity to develop a plan for avoiding a dramatic spike in customer bills when rate caps expire," said David E. Flitman, President of Allegheny Power. "We held a series of meetings and open houses in our Maryland service territory to solicit input from customers. The feedback we received, particularly from advocates representing low- and fixed-income customers, was valuable in developing the transition plan. Moving forward, we believe the plan will ease the impact of higher market prices for power, which are driven largely by increased fuel costs."

Rate caps have kept residential customers' electric bills artificially low for the past six years, during which time Allegheny Power's residential electric rates increased just one percent. At the same time, the cost of fuels used to generate electricity increased dramatically. Since the beginning of 2001, coal and natural gas prices increased 43 percent and 71 percent, respectively. Absent rate caps, customers' bills would have changed periodically to reflect the true cost of providing electric service.

Allegheny Power's proposed transition plan is subject to final approval by the Maryland Public Service Commission. Allegheny has requested that the PSC approve the plan to be effective beginning March 31, 2007.

Allegheny Energy

Headquartered in Greensburg, Pa., Allegheny Energy is an investor-owned utility consisting of two major businesses. Allegheny Energy Supply owns and operates electric generating facilities, and Allegheny Power delivers low-cost, reliable electric service to customers in Pennsylvania, West Virginia, Maryland, and Virginia. For more information, visit our Web site at 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: rate regulation and the status of retail generation service supply competition in states served by Allegheny Energy's distribution business, Allegheny Power; financing plans; demand for energy and the cost and availability of raw materials, including coal; provider-of-last-resort and power supply contracts; results of litigation; results of operations; internal controls and procedures; capital expenditures; status and condition of plants and equipment; capacity purchase commitments; regulatory matters; and accounting issues. 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. Actual results have varied materially and unpredictably from past expectations. Factors that could cause actual results to differ materially include, among others, the following: plant performance and unplanned outages; changes in the price of power and fuel for electric generation; general economic and business conditions; changes in access to capital markets; complications or other factors that render it difficult or impossible to obtain necessary lender consents or regulatory authorizations on a timely basis; environmental regulations; the results of regulatory proceedings, including proceedings related to rates; changes in industry capacity, development and other activities by Allegheny Energy's competitors; changes in the weather and other natural phenomena; changes in customer switching behavior and their resulting effects on existing and future load requirements; changes in the underlying inputs and assumptions, including market conditions used to estimate the fair values of commodity contracts; changes in laws and regulations applicable to Allegheny Energy, its markets or its activities; the loss of any significant customers or suppliers; dependence on other electric transmission and gas transportation systems and their constraints or availability; changes in PJM, including changes to participant rules and tariffs; the effect of accounting policies issued periodically by accounting standard-setting bodies; and the continuing effects of global instability, terrorism and war. Additional risks and uncertainties are identified and discussed in Allegheny Energy's reports filed with the Securities and Exchange Commission.

-###-