

("AE Supply"), a registered holding company and public utility subsidiary of Allegheny, 10435 Downsville Pike, Hagerstown, Maryland 21740, have filed a post effective amendment ("Application") to a previous application-declaration under sections 6(a), 7 and 12(c) of the Act and rules 45, 46, and 54 under the Act.

Allegheny and AE Supply (collectively, "Applicants") request that the Commission release jurisdiction it reserved in a previous order dated February 21, 2003 (Holding Co. Act Release No. 27652) ("Capitalization Order") over the authority of AE Supply to issue guarantees. In addition, Applicants request authority for AE Supply's subsidiaries, Allegheny Trading Finance Company ("ATF") and Allegheny Energy Supply Development Services LLC ("AESDS"), to dividend to AE Supply out of capital up to the full amount of the proceeds of certain asset sales. Applicants state that all of the authority requested in this Application is necessary to implement elements of Applicants' plan for returning to financial health and compliance with Commission standards for registered holding company capital structures.

The Capitalization Order granted for a period through December 31, 2003 ("Modified Authorization Period") modifications to certain authorizations the Commission granted to the Applicants by order dated December 31, 2001 (Holding Co. Act Release No. 27486 ("Original Financing Order")), as supplemented by orders dated April 17, 2002 (Holding Co. Act Release No. 27521) ("April Order") and October 17, 2002 (Holding Co. Act Release No. 27579) ("Supplemental Order") and together with the Original Financing Order and the April Order, "Financing Order").

In the Original Financing Order, the Commission authorized, among other things:

(i) Allegheny and/or its subsidiaries, including AE Supply, to enter into guarantees ("Allegheny Guarantees") with respect to the obligations of its subsidiaries in an aggregate principal amount not to exceed \$3 billion ("Aggregate Guarantee Limitation"), based on the amount at risk outstanding at any one time, exclusive of (a) any guarantees or credit support arrangements authorized by the Commission in separate proceedings and (b) any guarantees exempt under rule 45(b); and

(ii) Applicants' subsidiaries, other than their operating companies,¹

("Other Subsidiaries") to enter into guarantees from time to time, with respect to the obligations of any of the Other Subsidiaries, as may be appropriate, to enable AE Supply and/or the Other Subsidiaries to carry on their respective businesses in an aggregate principal amount, together with the Allegheny Guarantees, not to exceed the Aggregate Guarantee Limitation, based on the amount at risk outstanding at any one time.

In the Capitalization Order, the Commission modified the financing parameters that are conditions to the financing transactions authorized in the Financing Order, as follows ("Revised Financing Conditions"):

(i) The common equity of Allegheny, on a consolidated basis, will not fall below 28 percent of its total capitalization; and the common equity of AE Supply, on a consolidated basis, will not fall below 20 percent of its total capitalization ("Common Equity Conditions");

(ii) The effective cost of capital on any security issued by Allegheny or AE Supply will not exceed competitive market rates available at the time of issuance for securities having the same or reasonably similar terms and conditions issued by similar companies of reasonably comparable credit quality; provided that in no event will (a) the interest rate on any debt securities issued under a bank credit facility exceed the greater of (i) 900 basis points over the comparable term London Interbank Offered Rate² or (ii) the sum of 9 percent plus the prime rate as announced by a nationally recognized money center bank, and (b) the interest rate on any debt securities issued to any other financial investor exceed the sum of 12 percent plus the prime rate as announced by a nationally recognized money center bank; and

(iii) The underwriting fees, commissions and other similar remuneration paid in connection with the non-competitive issuance of any security issued by Allegheny or AE Supply will not exceed the greater of (a) 5 percent of the principal or total amount of the securities being issued or (b) issuances expenses that are paid at the time in respect of the issuance of securities having the same or reasonably similar terms and conditions issued by

Potomac Edison Company ("Potomac Edison") and Mountaineer Gas Company, a subsidiary of Monongahela, are referred to in this Application as the "Operating Companies").

² It should be noted, however, that the interest rate applicable after the occurrence of a default may be increased by an additional increment, typically 200 basis points.

similar companies of reasonably comparable credit quality;

(iv) The respective financing transactions will not be subject to the requirement to maintain either unsecured long-term debt or any commercial paper that may be issued at investment grade level; and

(v) The Applicants may issue short-term and/or long-term debt under circumstances when the debt, upon issuance, is either unrated or is rated below investment grade.

In addition, the Capitalization Order reserved jurisdiction over (a) the financing authorizations at a time that the common equity ratio levels of Allegheny and AE Supply were below 28 percent and 20 percent, respectively, and (b) the issuance of debt securities at an interest rate in excess of the modified interest rates. By order dated July 23, 2003 (Holding Co. Act Release No. 27701) ("July 23 Order"), the Commission released jurisdiction over the issuance by Allegheny of up to \$325 million of convertible trust preferred securities through a newly organized Capital Corp (as defined in the Original Financing Order), with the proceeds to be provided to Allegheny in exchange for its subordinated debentures, with warrants.

As of December 31, 2002, Allegheny's common equity on a consolidated basis was below the 28 percent common equity ratio required by the Capitalization Order. In addition, AE Supply's common equity ratio may be below 20 percent. Applicants, therefore, seek in this Application a release of jurisdiction over guarantee authority that AE Supply requires in order to complete specific transactions described below. Completion of these transactions constitutes a part of the plan developed by the Applicants for resolution of their current financial difficulties, as described in their application submitted to the Commission on July 17, 2003, as amended on July 23, 2003, seeking authorization to issue the securities in the July 23 Order ("Trust Preferred Securities Application"). The dividend authority for ATF and AESDS requested in this Application also is necessary to implement this plan fully.

I. Background Information

The Applicants state that they continue to make significant progress toward the resolution of their financial difficulties. On July 25, 2003, Allegheny completed its private placement of \$300 million of convertible trust preferred securities, as authorized by the July 23 Order. On July 28, 2003, AE Supply announced that its subsidiary ATF had entered into an agreement to sell its

¹ West Penn Power Company ("West Penn"), Monongahela Power Company ("Monongahela"),