

Allegheny Energy Supply Company LLC ("AE Supply"), a registered holding company and public utility company subsidiary of Allegheny (collectively, "Applicants"), 10435 Downsville Pike, Hagerstown, Maryland 21740, have filed a post-effective amendment ("Amendment") to a previous application-declaration under sections 6(a), 7, 9, and 12 of the Act and rules 46, 52 and 54 under the Act.

Applicants seek a continuation through December 31, 2004 of the relief granted by previous order described below from the Commission's requirement that they maintain a common equity ratio of at least 30 percent. Applicants also seek a continuation through December 31, 2004, of certain revised financing conditions authorized in earlier financing orders described below. In addition, Applicants seek continuation of authority for AE Supply to pay dividends out of capital and unearned surplus through December 31, 2004 and authority to make certain changes to Allegheny's debt financing.

By order dated December 31, 2001 (Holding Co. Act Release No. 27486) ("Original Financing Order"), Applicants received authorization to engage in a broad range of financing transactions through December 31, 2005. This order was supplemented by the following orders: Holding Co. Act Release No. 27521 (April 17, 2002) ("April Order"), Holding Co. Act Release No. 27579 (October 17, 2002) ("Supplemental Order", and together with the Original Financing Order and the April Order, "Financing Order"), Holding Co. Act Release No. 27652 (Feb. 21, 2003) ("Capitalization Order"), and Holding Co. Act Release No. 27701 (July 23, 2003) ("Trust Preferred Securities Order"). The Financing Order grants, among other things, the following authorizations to Allegheny and its subsidiaries:

1. Allegheny to issue up to \$1 billion in equity securities at any time outstanding;

2. Allegheny and/or AE Supply,¹ in the aggregate, to issue and sell to non-associated third parties up to \$4 billion in short-term debt at any time outstanding and up to \$4 billion in unsecured long-term debt at any time outstanding, provided that total debt and equity authority under (1) and (2) shall not exceed \$4 billion at any time outstanding;²

3. Allegheny and/or its subsidiaries to enter into guarantees, obtain letters of credit, extend credit, enter into guarantee-type expense agreements or otherwise provide credit support with respect to the obligations of an associate company (collectively, "Guarantees"), in the aggregate amount not to exceed \$3 billion any time outstanding;

4. Allegheny to exceed the Rule 53 aggregate investment limitation and to utilize a portion of the proceeds of the equity issuances, short-term debt, long-term debt and Guarantees in any combination to increase its "aggregate investment" (as defined in rule 53(a)) up to \$2 billion in exempt wholesale generators ("EWGs") and foreign utility companies ("FUCOs") under the Act;

5. Allegheny and certain other subsidiaries³ to form one or more direct or indirect special purpose financing subsidiaries that will, among other things, issue debt and/or equity securities and loan the proceeds to Allegheny, AE Supply, and the Other Subsidiaries; and

6. Allegheny, AE Supply and the subsidiaries of Allegheny (other than the operating companies),⁴ whether now existing or created later or acquired, to engage in intra-system financings up to \$4 billion.⁵

The Financing Order established a number of financing parameters that are conditions to the financing transactions authorized in that order and that are applicable through December 31, 2003. These include a requirement that Allegheny maintain, on a consolidated basis, common equity of 30 percent of total capitalization and that AE Supply

Order, the Capitalization Order, and the Trust Preferred Securities Order. Allegheny currently has \$564 million of unsecured debt outstanding and AE Supply currently has \$1.927 billion of secured debt and \$131 million of unsecured debt outstanding (assuming all AE Supply letters of credit were converted into debt). Allegheny has not issued any equity securities to date under the authorization of the Financing Order.

³ The direct and indirect subsidiaries of Allegheny, other than the operating companies as defined below and AE Supply, are referred to as the "Other Subsidiaries."

⁴ Allegheny has three regulated electric public utility companies, West Penn Power Company ("West Penn"), Monongahela Power Company ("Monongahela Power") (Monongahela Power also has a regulated natural gas utility division as a result of its purchase of West Virginia Power), The Potomac Edison Company ("Potomac Edison"), and a regulated public utility natural gas company, Mountaineer Gas Company, which is a wholly-owned subsidiary of Monongahela Power (all collectively doing business as Allegheny Power and collectively, "Operating Companies").

⁵ The Financing Order also authorized companies in the Allegheny system to enter into, perform, purchase and sell financial instruments intended to manage the volatility of interest rates and currency exchange rates, and the Other Subsidiaries to pay dividends out of capital and unearned surplus.

individually maintain common equity of 30 percent of total capitalization. In the Capitalization Order, the Commission modified the financing parameters as follows ("Revised Financing Conditions"):

1. 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;

2. 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 Rate ("LIBOR")⁶ 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

3. 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) five 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 similar companies of reasonably comparable credit quality;

4. 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

5. 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.

Applicants committed in their application seeking the Capitalization Order that at any time Allegheny's ratio of common equity to total capitalization

¹ AE Supply is the principal electric generating company for the Allegheny system.

² The Original Financing Order reserves jurisdiction over the issuance of secured long-term debt under the \$4 billion cap. Under the Financing

⁶ 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.