

**ALLEGHENY ENERGY, INC.
AUDIT COMMITTEE CHARTER**

I. Composition of the Audit Committee

The Audit Committee of Allegheny Energy, Inc. (the “Company”) shall be comprised of at least three directors, each of whom the Board of Directors (the “Board”) has determined has no material relationship with the Company and each of whom is otherwise “independent” under the rules of the New York Stock Exchange, Inc. (the “NYSE”) and Rule 10A-3 under the Securities Exchange Act of 1934. Specifically, no member of the Audit Committee may, other than in his or her capacity as a member of the Audit Committee, the Board or any other committee of the Board, accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries, provided that, unless the rules of the NYSE provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service). The Board shall also determine that each member is “financially literate,” and that at least one member of the Audit Committee has “accounting or related financial management expertise,” as such qualifications are interpreted by the Board of Directors in its business judgment, and whether any member of the Audit Committee is an “audit committee financial expert,” as defined by the rules of the Securities and Exchange Commission (the “SEC”).

No director may serve as a member of the Audit Committee if such director serves on the audit committees of more than two other public companies unless the Board of Directors determines that such simultaneous service would not impair the ability of such director to effectively serve on the Audit Committee, and discloses this determination in the Company’s annual proxy statement.

Members shall be appointed by the Board based on nominations recommended by the Board’s Nominating and Governance Committee, and shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

The Board shall designate one member of the Audit Committee as its chairperson.

II. Purposes of the Audit Committee

The purposes of the Audit Committee are to:

1. assist Board oversight of (i) the integrity of the Company’s financial statements, (ii) the Company’s compliance with legal and regulatory requirements, (iii) the independent auditors’ qualifications and independence, and (iv) the performance of the independent auditors and the Company’s internal audit function; and
2. prepare the report required to be prepared by the Audit Committee pursuant to the rules of the SEC for inclusion in the Company’s annual proxy statement.

The function of the Audit Committee is oversight. The management of the Company is responsible for the preparation, presentation and integrity of the Company’s financial statements and for the effectiveness of internal control over financial reporting. Management and the Audit Services department are responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for planning and carrying out a proper audit of the Company’s annual financial statements, reviews of the Company’s quarterly financial statements prior to the filing of

each quarterly report on Form 10-Q, annual audits of management's assessment of the effectiveness of internal control over financial reporting (commencing in the fiscal year ending December 31, 2004) and other procedures. It is recognized that members of the Audit Committee are not full-time employees of the Company and are not, and do not represent themselves to be, performing the functions of auditors or accountants.

The independent auditors for the Company are accountable to the Board and the Audit Committee, as representatives of the stockholders. The Audit Committee is directly responsible for the appointment, compensation and oversight of the work of the independent auditors (including the resolution of disagreements between management and the independent auditors regarding financial reporting). The Audit Committee has the authority and responsibility to appoint, retain and terminate the Company's independent auditors, subject to stockholder ratification. The independent auditors shall report directly to the Audit Committee.

The independent auditors shall submit to the Audit Committee annually a formal written statement (the "Auditors' Statement") describing: the auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review or peer review of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and, to assess the auditors' independence, all relationships between the independent auditors and the Company, including each non-audit service provided to the Company and the matters set forth in Independence Standards Board Standard No. 1.

The independent auditors shall submit to the Audit Committee annually a formal written statement of the fees billed in each of the last two fiscal years for each of the following categories of services rendered by the independent auditors: (i) the audit of the Company's annual financial statements and the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q or services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements; (ii) assurance and related services not included in clause (i) that are reasonably related to the performance of the audit or review of the Company's financial statements, in the aggregate and by each service; (iii) tax compliance, tax advice and tax planning services, in the aggregate and by each service; and (iv) all other products and services rendered by the independent auditors, in the aggregate and by each service.

III. Meetings of the Audit Committee

The Audit Committee shall meet at least once every fiscal quarter and more frequently if circumstances dictate, to discuss with management the annual audited financial statements and quarterly financial statements, as applicable. The Audit Committee should meet separately at least quarterly with management, the director of the Audit Services department and the independent auditors to discuss any matters that the Audit Committee or any of these persons or firms believe should be discussed privately. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. Members of the Audit Committee may participate in a meeting of the Audit Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

IV. Duties and Powers of the Audit Committee

To carry out its purposes, the Audit Committee shall have the following duties and powers:

1. with respect to the independent auditors,
 - (i) to be directly responsible for the appointment, compensation, retention, and oversight of any registered accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attestation services for the Company, including the Company's independent auditors (subject to stockholder ratification, in the case of the independent auditors), which firm or firms shall report directly, and be accountable, to the Committee;
 - (ii) to pre-approve, or to adopt appropriate procedures to pre-approve, all audit and non-audit services to be provided by the independent auditors, and to consider whether the outside auditors' provision of non-audit services to the Company is compatible with maintaining the independence of the outside auditors;
 - (iii) to ensure that the independent auditors prepare and deliver annually an Auditors' Statement, it being understood that the independent auditors are responsible for the accuracy and completeness of this Statement, and to discuss with the independent auditors any relationships or services disclosed in this Statement that may impact the quality of audit services or the objectivity and independence of the Company's independent auditors;
 - (iv) to obtain from the independent auditors in connection with any audit a timely report relating to the Company's annual audited financial statements describing (A) all critical accounting policies and practices used, (B) all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and (C) any material written communications between the independent auditors and management, such as any "management" letter or schedule of unadjusted differences;
 - (v) to review and evaluate the qualifications, performance and independence of the lead audit partner of the independent auditors;
 - (vi) to discuss with management the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other active audit engagement team partner and consider whether there should be a regular rotation of the audit firm itself;
 - (vii) to take into account the opinions of management and the Company's internal auditors in assessing the independent auditors' qualifications, performance and independence; and
 - (viii) to instruct the independent auditors that the independent auditors are ultimately accountable to the Board and the Audit Committee, as representatives of the stockholders.
2. with respect to the Audit Services department,
 - (i) to review the appointment, compensation and replacement of the director of the Audit Services department;

- (ii) to advise the director of the Audit Services department that he or she is expected to provide to the Audit Committee summaries of and, as appropriate, the significant reports to management prepared by the Audit Services department and management's responses thereto; and
 - (iii) to review and approve the Internal Audit Plan, and the budget and staffing of the Audit Services department.
3. with respect to accounting principles and policies, financial reporting and internal control over financial reporting,
- (i) to advise management, the Audit Services department and the independent auditors that they are expected to provide to the Audit Committee a timely analysis of significant financial reporting issues and practices relating to accounting principles and policies, financial reporting and internal control over financial reporting;
 - (ii) to consider any reports or communications, and management's and/or the Audit Services department's responses thereto, submitted to the Audit Committee by the independent auditors required by or referred to in SAS 61, as codified by AU Section 380, as it may be modified or supplemented;
 - (iii) to meet with management, the independent auditors and, if appropriate, the director of the Audit Services department:
 - to discuss the scope of the annual audit;
 - to discuss the annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
 - to discuss any significant matters arising from any audit, including any audit problems or difficulties, whether raised by management, the Audit Services department or the independent auditors, relating to the Company's financial statements;
 - to discuss any difficulties the independent auditors encountered in the course of the audit, including any restrictions on their activities or access to requested information and any significant disagreements with management;
 - to discuss any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditors to the Company;
 - to review the form of opinion the independent auditors propose to render to the Board of Directors and stockholders; and
 - to discuss, as appropriate: (a) any major issues regarding accounting principles and financial statement presentations; (b) analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection

with the preparation of the financial statements; and (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company;

- (iv) to inquire of the Company's chief executive officer and chief financial officer as to the existence of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting;
- (v) to discuss guidelines and policies governing the process by which senior management of the Company and the relevant departments of the Company assess and manage the Company's exposure to risk, and to discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures;
- (vi) to obtain from the independent auditors assurance that the audit was conducted in a manner consistent with Section 10A of the Securities Exchange Act of 1934, which sets forth certain procedures to be followed in any audit of financial statements required under the Securities Exchange Act of 1934;
- (vii) to discuss with the Company's General Counsel any significant legal, compliance or regulatory matters that may have a material effect on the financial statements or the Company's business, financial statements or compliance policies, including material notices to or inquiries received from governmental agencies;
- (viii) to discuss earnings press releases;
- (ix) to discuss the types of financial information and earnings guidance provided, and the types of presentations made, to analysts and rating agencies;
- (x) to establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters; and
- (xi) to establish hiring policies for employees or former employees of the independent auditors.

4. with respect to reporting and recommendations,

- (i) to prepare any report or other disclosures, including any recommendation of the Audit Committee, required by the rules of the SEC to be included in the Company's annual proxy statement;
- (ii) to review this Charter at least annually and recommend any changes to the full Board of Directors;

- (iii) to report its activities to the full Board of Directors on a regular basis and to make such recommendations with respect to the above and other matters as the Audit Committee may deem necessary or appropriate; and
- (iv) to prepare and review with the Board an annual performance evaluation of the Audit Committee, which evaluation must compare the performance of the Audit Committee with the requirements of this charter. The performance evaluation shall also recommend to the Board any improvements to the Audit Committee's charter deemed necessary or desirable by the Audit Committee. The performance evaluation by the Audit Committee shall be conducted in such manner as the Audit Committee deems appropriate. The report to the Board may take the form of an oral report by the chairperson of the Audit Committee or any other member of the Audit Committee designated by the Audit Committee to make this report.

V. Delegation to Subcommittee

The Audit Committee may, in its discretion, delegate all or a portion of its duties and responsibilities to a subcommittee of the Audit Committee. The Audit Committee may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided that any such approvals are presented to the Audit Committee at its next scheduled meeting.

VI. Resources and Authority of the Audit Committee

The Audit Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special or independent counsel, accountants or other experts and advisors, as it deems necessary or appropriate, without seeking approval of the Board or management.

The Company shall provide for appropriate funding, as determined by the Audit Committee, in its capacity as a committee of the Board, for payment of:

1. compensation to the independent auditors and any other public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;
2. compensation of any advisers employed by the Audit Committee; and
3. ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.