

**ALLEGHENY ENERGY, INC.**  
**MANAGEMENT COMPENSATION AND DEVELOPMENT COMMITTEE CHARTER**

**Composition**

The Management Compensation and Development Committee (the "Committee") of the Board of Directors (the "Board") shall be comprised of three or more members of the Board who meet the independence requirements of the New York Stock Exchange, Inc., and who do not have any material relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of the Committee.

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

One of the members of the Committee shall be its Chairperson, either by designation by the Board or, in the absence of such designation by the Board, by the Committee itself. The Committee may, as it deems necessary and appropriate, delegate any of its duties to subcommittees comprised solely of members of the Committee. In particular, the Committee may delegate the approval of certain transactions to a subcommittee consisting solely of members of the Committee who are (i) "Non-Employee Directors" for the purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as in effect from time to time, and (ii) "outside directors" for the purposes of Section 162(m) of the Internal Revenue Code, as in effect from time to time.

**Mission**

The mission of the Committee is to discharge the Board's responsibilities relating to compensation of the Company's executives to the extent that such responsibilities are delegated to the Committee by the Board, to make recommendations to the Board with respect to executive management succession, and to provide general guidance and oversight with respect to the Company's compensation programs and policies.

**Meetings**

The Chairperson of the Committee will preside at each meeting and, in consultation with the other members of the Committee, will set the frequency and length of each meeting. The Chairperson will prepare the Committee's agenda for each meeting, in consultation with the other Committee members and appropriate members of the Board and management. The Chairperson of the Committee shall ensure that the agenda for each meeting is circulated to each Committee member in advance of the meeting. The Committee shall meet at least two times annually, with further meetings to occur when deemed necessary or desirable by the Committee or the Chairperson. The Committee shall meet at such times and upon such notice as it may determine, shall report all proceedings to the Board and shall keep regular minutes of its meetings.

**Responsibilities**

In furtherance of its mission, the Committee shall have authority and responsibility to:

- (1) establish, in consultation with senior management, the Company's general compensation philosophy and oversee the development and implementation of compensation programs;
- (2) review and approve corporate goals and objectives relevant to compensation of the Chief Executive Officer, evaluate the Chief Executive Officer's performance in light of those goals and objectives, and, either as a Committee or together with the other independent directors (as directed by the Board), determine and approve the Chief Executive Officer's compensation level based on this evaluation. In determining the long-term incentive component of Chief Executive Officer compensation, the Committee shall consider, among other factors, the Company's performance

and relative stockholder return, the value of similar incentive awards to chief executive officer at comparable companies and the awards given to the Chief Executive Officers in past years;

- (3) make recommendations to the Board with respect to compensation of the Chief Financial Officer;
- (4) approve the compensation (including salary, bonus, incentive and equity compensation), the employment agreement or any material amendments thereto, and the severance or similar agreement or termination payments with respect to any executive officer (other than the Chief Executive Officer and the Chief Financial Officer, with respect to each of whom the Board shall have sole authority) or any other non-Chief Executive Officer or non-Chief Financial Officer employee who has an employment agreement or whose annual base salary is greater than \$250,000;
- (5) make recommendations to the Board with respect to the Company's incentive compensation plans and equity-based plans, oversee the activities of the individuals and committees responsible for administering these plans, and discharge any responsibilities imposed on the Committee by any of these plans;
- (6) review, at least annually, the succession plan for certain executive officer positions, including selecting a successor to the Chief Executive Officer, both in an emergency and in the ordinary course of the business, and an assessment of the experience, performance, and skills for possible successors, and make recommendations to the Board with respect to such a plan;
- (7) oversee, in consultation with management, regulatory compliance with respect to compensation matters, including overseeing the Company's policies on structuring compensation programs to preserve tax deductibility, and, as and when required, establishing performance goals and certifying that performance goals have been attained for the purposes of Section 162(m) of the Internal Revenue Code;
- (8) prepare an annual Report of the Compensation Committee for inclusion in the Company's annual proxy statement in accordance with applicable Securities and Exchange Commission rules and regulations;
- (9) review and discuss with management the Compensation Discussion and Analysis (the "CD&A") on executive compensation required by applicable Securities and Exchange Commission rules and regulations. Based on such review and discussion, the Committee shall determine whether to recommend to the Board that the CD&A be included in the Company's annual proxy statement and/or annual report;
- (10) review and reassess the adequacy of this charter annually and recommend to the Board any changes deemed necessary or desirable by the Committee;
- (11) annually conduct and review with the Board a performance evaluation of the Committee, which evaluation shall compare the Committee's performance to the requirements of this charter; and
- (12) perform other duties or responsibilities expressly delegated to the Committee by the Board from time to time relating to the Company's compensation programs.

### **Resources and Authority**

The 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 counsel or other experts or consultants, as it deems appropriate, without seeking the approval of management. With respect to consultants retained to assist in the evaluation of the compensation of the Chief Executive Officer or other senior executives, this authority shall be vested solely in the Committee.