

ALLEGHENY ENERGY, INC.
POLICY REGARDING DIRECTOR INDEPENDENCE DETERMINATIONS

The Board of Directors (the “Board”) of Allegheny Energy, Inc. (together with its consolidated subsidiaries, the “Company”) will make determinations as to which of its members are “independent” under the rules of the New York Stock Exchange, Inc. (the “NYSE”) on an annual basis at the time the Board approves director nominees for inclusion in the proxy statement issued in connection with the annual meeting of stockholders and, if a director is appointed to the Board between annual meetings, at the time of such appointment. The Board must also determine that members of the Audit Committee meet the additional requirements of the NYSE and Rule 10A-3 under the *Securities Exchange Act of 1934*, as set forth in the Audit Committee Charter.

The Board may determine a director to be independent only if the Board affirmatively determines that the director has no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company).

The Board, pursuant to the recommendation of the Nominating and Governance Committee, has established the following standards to assist it in determining independence. The “**absolute rules**” set forth below reflect the independence requirements mandated by the NYSE. If a director has a relationship that violates any of these absolute rules, then that director will not be considered independent, regardless of whether the relationship would otherwise be deemed not material by any other standard. By contrast, the “**guidelines**” set forth below establish non-exclusive “safe harbors” for certain relationships meeting specified conditions, allowing the Board to determine without further inquiry that such relationships are not material and/or would not cause a director not to be independent.

The fact that a particular relationship is not specifically addressed by any of the guidelines or exceeds the thresholds of the applicable guidelines shall not create a presumption that the director is or is not independent. The Board will determine whether, after taking into account all relevant facts and circumstances, relationships or transactions that are not specifically addressed by the guidelines or that exceed the thresholds of the applicable guidelines are, in the Board’s judgment, material, and therefore whether the affected director is independent. The Company will identify which directors are independent and disclose in its next annual proxy statement for the election of directors the basis for any Board determination that any such relationship was not material.

1. Employment/Other Compensation

Absolute Rule. A director will not be considered independent if:

- A. such director is or has been an employee of, or has an immediate family member who is or has been an executive officer of, the Company within the last three years;

- B. such director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company except as specifically set forth in the Exception below;
- C. (1) such director is a current partner or employee of the firm that is the Company's internal or external auditor; or (2) such director has an immediate family member who is a current partner of such firm; or (3) such director has an immediate family member who is a current employee of such firm and works on the Company's audit; or (4) such director or an immediate family member was, within the last three years (but is no longer), a partner or employee of such firm and personally worked on the Company's audit within that time; or
- D. such director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee.

Exception. The receipt by a director of director and committee fees, including regular benefits received by other directors, and pension or other forms of deferred compensation for prior service (provided that such compensation is not in any way contingent on continued service), from the Company shall not be deemed to be a material relationship or transaction that would cause such director not to be independent.

2. Business Relationships

Absolute Rule. A director will not be considered independent if such director is a current employee of, or an immediate family member is a current executive officer of, a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

Guidelines. A relationship arising solely from the following relationships or transactions shall not be deemed a material relationship or transaction that would cause a director not to be independent:

- A. a director's status as an executive officer, employee or equity owner of a company that has made payments to or received payments from the Company, so long as the payments made or received during any of the past three fiscal years are not in excess of the greater of \$1 million or 2% of the other entity's consolidated gross revenues for the entity's fiscal year in which the payments were made;

- B. a director's ownership of an equity or limited partnership interest in a party that engages in a transaction with the Company, so long as: (1) such director's ownership interest does not exceed 5% of the total equity or partnership interests in that other party, or (2) any payments made by or received from the Company during any of the past three fiscal years are not in excess of the greater of \$1 million or 2% of such other party's consolidated gross revenues for the fiscal year in which such payments were made; provided, however, that this exception does not apply to a director's ownership of an equity or limited partnership interest in a law firm, consulting firm or other professional organization; or
- C. a director's position as a director or advisory director (or similar position) of another for-profit corporation or organization that engages in a transaction with the Company, so long as any payments made by or received from the Company during any of the past three fiscal years are not in excess of the greater of \$1 million or 2% of such corporation's or organization's consolidated gross revenues for the fiscal year in which such payments were made.

3. Customer Relationships

Guideline. A relationship arising solely from the director's status as a customer of the Company shall not be deemed to be a material relationship or transaction that would cause a director not to be independent so long as the goods and/or services involved are provided by the Company in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons or are determined by competitive bids, or where the transaction involves the rendering of services as a common or contract carrier or public utility at rates charged or fixed in conformity with law or governmental authority.

4. Charitable Contributions

Guideline. A relationship arising solely from a director's affiliation with a charitable organization that receives contributions from the Company shall not be deemed a material relationship or transaction that would cause a director not to be independent so long as such contributions (other than employee matching contributions) for a particular fiscal year are not in excess of the greater of \$1 million or 2% of the organization's consolidated gross revenues for such fiscal year.

5. Indebtedness

Guideline. A relationship arising solely from a director's status as an executive officer, employee or equity owner of a company to which the Company and its subsidiaries were indebted at the end of the Company's last full fiscal year shall not be deemed a material relationship or transaction that would cause a director not to be independent so long as the aggregate amount of the indebtedness is not in excess of 5% of the Company's total consolidated assets.

6. Other Transactions

Guidelines. Any other relationship or transaction that is not covered by any of absolute rules or guidelines set forth above for which any of the following applies shall not be deemed to be a material relationship or transaction that would cause a director not to be independent:

- A. the amount involved does not exceed \$60,000 in any fiscal year;
- B. the relationship or transaction is between an immediate family member of the director and the Company and the above absolute rules and guidelines would permit the relationship or transaction to occur between the director and the Company; or
- C. the Board determines, after taking into account all relevant facts and circumstances, that the existence of such relationship or transaction would not impair the director's exercise of independent judgment.

Definitions

For purposes of this Policy:

“Equity owner of a company” means an individual or organization that possess the right to share in a company's profits. Equity owner of a company includes, but is not limited to, owning common or preferred stock in a corporation or other ownership or profit interest in a company (including partnership, member or trust interest therein).

“Executive officer” means an entity's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president of the entity in charge of a principal business unit, division or function, any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the entity. See Rule 16a-1(f) under the Securities Exchange Act of 1934, as amended.

“Immediate family members” of a director means the director's spouse, parents, children, siblings, mothers-in-law, fathers-in-law, sons-in-law, daughters-in-law, brothers-in-law, sisters-in-law and anyone (other than domestic employees) who shares the director's home. When applying the look-back provisions of the standards, persons who are no longer immediate family members as a result of legal separation or divorce or those who have died or become incapacitated shall not be considered.