

ALLEGHENY ENERGY, INC

Form 425

February 11, 2010

February 2010

Filed by FirstEnergy Corp.

Pursuant to Rule 425 under the Securities Act of 1933  
and deemed filed pursuant to Rule 14a-12

of the Securities Exchange Act of 1934, as amended

Subject Company: Allegheny Energy, Inc.  
Commission File No: 001-00267

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Safe  
Harbor  
-

FirstEnergy

This communication includes forward-looking statements based on information currently available to management. Such statements include certain risks and uncertainties. These statements include declarations regarding management's intents, beliefs and current expectations.

statements  
typically  
contain,  
but  
are  
not  
limited  
to,  
the  
terms

anticipate,  
potential,  
expect,  
believe,  
estimate

and  
similar  
words.

Forward-

looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause a performance

or  
achievements

to  
be  
materially  
different

from  
any  
future  
results,  
performance

or  
achievements  
expressed

or  
implied  
by  
such

forward-looking statements. Forward-looking statements relating to the proposed merger include, but are not limited to, statements of the expected benefits of the proposed merger involving Allegheny and FirstEnergy, including future financial and operating results, Allegheny's plans, objectives, expectations and intentions, the expected timing of completion of the transaction, and other statements relating to the proposed merger. These statements are not historical facts.

Actual  
results  
may  
differ  
materially  
due  
to

the  
speed  
and  
nature  
of  
increased  
competition  
in  
the  
electric  
utility  
industry  
and  
legislative  
and  
regulatory  
changes affecting how generation rates will be determined following the expiration of existing rate plans in Pennsylvania, the i  
Utilities  
Commission  
of  
Ohio s  
regulatory  
process  
on  
the  
Ohio  
utility  
subsidiaries  
associated  
with  
the  
distribution  
rate  
case,  
business  
and  
regulatory  
impacts from American Transmission System, Incorporated s realignment into PJM Interconnection L.L.C., economic or wear  
affecting future sales and margins, changes in markets for energy services, changing energy and commodity market prices and  
replacement power costs being higher than anticipated or inadequately hedged, the continued ability of FirstEnergy s regulate  
transition and other charges or to recover increased transmission costs, operating and maintenance costs being higher than antio  
legislative and regulatory changes, revised environmental requirements, including possible greenhouse gas emission regulation  
impacts  
of  
the  
U.S.  
Court  
of  
Appeals  
July

11,  
2008

decision  
requiring  
revisions

to  
the  
Clean  
Air  
Interstate  
Rules

and  
the  
scope  
of  
any  
laws,  
rules

or regulations that may ultimately take their place, the uncertainty of the timing and amounts of the capital expenditures needed for these things,

implement  
FirstEnergy's

Air  
Quality  
Compliance  
Plan

(including  
that  
such  
amounts  
could  
be  
higher  
than  
anticipated

or  
that  
certain  
generating  
units  
may  
need

to  
be  
shut  
down)

or  
levels  
of  
emission

reductions  
related

to  
the

Consent  
Decree

resolving  
the

New

Source

Review

litigation or other similar potential regulatory initiatives or actions, adverse regulatory or legal decisions and outcomes (including

the  
revocation

of  
necessary

licenses

or

operating

permits

and

oversight)

by

the

Nuclear

Regulatory

Commission,

Met-Ed s

and

Penelec s

transmission

service

charge

filings

with

the

PaPUC,

the

continuing

availability

of

generating

units

and

their

ability

to

operate

at

or

near  
full  
capacity,  
the  
ability  
to  
comply  
with  
applicable  
state  
and  
federal  
reliability  
standards,  
the  
ability  
to  
accomplish  
or  
realize  
anticipated  
benefits  
from  
strategic  
goals  
(including  
employee  
workforce  
initiatives),  
the  
ability  
to  
improve  
electric  
commodity  
margins  
and  
to  
experience  
growth  
in  
the  
distribution  
business, the changing market conditions that could affect the value of assets held in FirstEnergy's nuclear decommissioning trust  
and other trust funds, and cause it to make additional contributions sooner, or in an amount that is larger than currently anticipated,  
access the public securities and other capital and credit markets in accordance with FirstEnergy's financing plan and the cost of capital,  
changes  
in  
general  
economic



conditions  
affecting  
the  
company,  
the  
state  
of  
the  
capital  
and  
credit  
markets  
affecting  
the  
company,  
interest  
rates  
and  
any actions taken by credit rating agencies that could negatively affect FirstEnergy's access to financing or its costs or increase the amount of additional collateral to support outstanding commodity positions, letters of credit and other financial guarantees, the continued operation of the national  
and  
regional  
economy  
and  
its  
impact  
on  
the  
company's  
major  
industrial  
and  
commercial  
customers,  
issues  
concerning  
the  
soundness  
of  
financial  
institutions  
and  
counterparties  
with  
which  
FirstEnergy  
does  
business,  
and

the  
risks  
and  
other  
factors  
discussed  
from  
time  
to  
time  
in  
its  
SEC filings, and other similar factors.

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Safe  
Harbor

-  
FirstEnergy  
(Continued)

With respect to the proposed merger, actual results may differ materially due to the risks and uncertainties relating to the ability

requisite Allegheny and FirstEnergy stockholder approvals; the risk that FirstEnergy or Allegheny may be unable to obtain governmental and regulatory approvals required for the merger, or required governmental and regulatory approvals may delay the merger or result in conditions that could reduce the anticipated benefits from the merger or cause the parties to abandon the merger; the risk that the closing of the merger may not be satisfied; the timing to consummate the proposed merger; the risk that the businesses will not be successfully integrated; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; increased management time on merger-related issues; and the risk that the credit ratings of the combined company or its subsidiaries may be lower than what the companies expect.

The foregoing review of factors should not be construed as exhaustive. New factors emerge from time to time, and it is not possible for management

to  
predict  
all  
such  
factors,  
nor  
assess  
the  
impact  
of  
any  
such  
factor  
on  
FirstEnergy's  
business  
or  
the  
extent  
to  
which  
any  
factor,  
or

combination of factors, may cause results to differ materially from those contained in any forward-looking statements. FirstEnergy disclaims any current intention to update any forward-looking statements contained herein as a result of new information, future events or otherwise.

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Safe  
Harbor  
-  
Allegheny

In addition to historical information, this presentation may contain a number of "forward-looking statements" as defined in the  
Litigation

Reform  
Act  
of  
1995.  
Words  
such  
as  
anticipate,  
expect,  
project,  
intend,  
plan,  
believe,  
and  
words  
and  
terms  
of  
similar  
substance  
used  
in

connection with any discussion of future plans, actions, or events identify forward-looking statements. Forward-looking statements proposed merger include, but are not limited to, statements about the benefits of the proposed merger involving Allegheny and future financial and operating results, Allegheny's and FirstEnergy's plans, objectives, expectations and intentions, the expected of the transaction, and other statements relating to the merger that are not historical facts. Additional forward-looking statements limited to, statements with respect to rate regulation and the status of retail generation service supply competition in states served distribution business, Allegheny Power; financing plans; demand for energy and the cost and availability of raw materials, including last-resort and power supply contracts; results of litigation; results of operations; internal controls and procedures; capital expenditure condition of plants and equipment; capacity purchase commitments; and regulatory matters.

Forward-looking statements involve estimates, expectations and projections and, as a result, are subject to risks and uncertainties. No assurance that actual results will not materially differ from expectations. Important factors could cause actual results to differ from those indicated by such forward-looking statements. With respect to the proposed merger, these factors include risks and uncertainties

to  
obtain  
the  
requisite  
Allegheny  
and  
FirstEnergy  
stockholder  
approvals;  
the  
risk  
that  
FirstEnergy  
or  
Allegheny  
may  
be

unable  
to  
obtain  
governmental  
and regulatory approvals required for the merger, or required governmental and regulatory approvals may delay the merger or  
of conditions that could reduce the anticipated benefits from the merger or cause the parties to abandon the merger; the risk tha  
of  
the  
merger  
may  
not  
be  
satisfied;  
the  
length  
of  
time  
necessary  
to  
consummate  
the  
proposed  
merger;  
the  
risk  
that  
the  
businesses  
will  
not  
be  
integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or  
realize  
than  
expected;  
disruption  
from  
the  
transaction  
making  
it  
more  
difficult  
to  
maintain  
relationships  
with  
customers,  
employees  
or

suppliers;

the

diversion of management time on merger-related issues; the effect of future regulatory or legislative actions on the companies; credit ratings of the combined company or its subsidiaries may be different from what the companies expect. With respect to statements, factors that could cause actual results to differ materially include, among others, plant performance and unplanned the price of power and fuel for electric generation; general economic and business conditions; changes in access to capital mar rating agencies; complications or other factors that render it difficult or impossible to obtain necessary lender consents or regul a timely basis; environmental regulations; the results of regulatory proceedings, including proceedings related to rates; changes development and other activities by Allegheny s competitors; changes in the weather and other natural phenomena; changes in

behavior

and

their

resulting

effects

on

existing

and

future

load

requirements;

changes

in

the

underlying

inputs

and

assumptions,

including

market

conditions

used

to

estimate

the

fair

values

of

commodity

contracts;

changes

in

laws

and

regulations

applicable

to

Allegheny,

its

markets

or



its  
activities;  
the  
loss  
of  
any  
significant  
customers  
or  
suppliers;  
dependence  
on  
other  
electric  
transmission  
and  
gas  
transportation  
systems  
and  
their  
constraints  
or  
availability;  
inflationary  
and  
interest  
rate  
trends  
changes  
in  
market  
rules,  
including  
changes  
to  
PJM  
participant  
rules  
and  
tariffs;  
the  
effect of accounting pronouncements issued periodically by accounting standard-setting bodies and accounting issues facing o  
the  
continuing  
effects  
of  
global  
instability,  
terrorism

and  
war.  
Additional  
risks  
and  
uncertainties  
are  
identified  
and  
discussed  
in  
Allegheny's  
reports

filed with the SEC. These forward-looking statements speak only as of the date of this document. Allegheny undertakes no obligation to update or revise these forward-looking statements to reflect events or circumstances after the date of this presentation.

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Additional Information and Where to Find It

In connection with the proposed merger, FirstEnergy will file with the SEC a Registration Statement on Form S-4 that will include a joint proxy statement of FirstEnergy and Allegheny that also constitutes a prospectus of FirstEnergy. FirstEnergy and Allegheny will mail the joint proxy statement/prospectus to their respective shareholders. **FirstEnergy and Allegheny** urge investors and shareholders to read the joint proxy statement/prospectus regarding the proposed merger when it becomes available, as well as other documents filed with

the SEC, because they will contain important information.

You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC's website ([www.sec.gov](http://www.sec.gov)). You may also obtain these documents, free of charge, from FirstEnergy's website ([www.firstenergycorp.com](http://www.firstenergycorp.com))

under

the

tab

Investors

and

then

under

the

heading

Financial

Information

and

then

under

the item SEC Filings.

You may also obtain these documents, free of charge, from Allegheny's website ([www.alleghenyenergy.com](http://www.alleghenyenergy.com))

under

the

tab

Investors

and

then

under

the

heading

SEC

Filings.

FirstEnergy,

Allegheny

and

their

respective

directors,

executive

officers

and

certain

other

members

of

management

and

employees may be soliciting proxies from FirstEnergy and Allegheny shareholders in favor of the merger and related matters. **Information regarding the persons who may, under the rules of the SEC, be deemed participants in the**

solicitation of FirstEnergy and Allegheny shareholders in connection with the proposed merger will be set forth in the joint proxy statement/prospectus when it is filed with the SEC. You can find information about FirstEnergy's executive officers and directors in its definitive proxy statement filed with the SEC on April 1, 2009. You can find information about Allegheny's executive officers and directors in its definitive proxy statement filed with the SEC on March 20, 2009. Additional information about FirstEnergy's executive officers and directors and Allegheny's executive officers and directors can be found in the above-referenced Registration Statement on Form S-4 when it becomes available.

You can obtain free copies of these documents from FirstEnergy and Allegheny using the contact information above.

Participants In The Merger Solicitation

6  
Agenda  
Combination Rationale  
Transaction Terms  
Combined Company Profile  
Financial Highlights  
Regulatory Timeline & Next Steps

Summary

7  
Combination Rationale



8  
FirstEnergy Combination Rationale  
Consistent  
with  
our  
strategy  
to

build  
a  
balanced,  
integrated  
and  
diversified  
portfolio  
of  
assets

Adjacent geographic footprint complements existing businesses and our retail sales strategy

Generation anchored by efficient nuclear and supercritical fossil baseload assets  
Transaction creates a significant presence in region and sector

6.1MM customers ~35% increase in customer base

24 GW of combined generation capacity (21 GW in competitive markets) ~70% increase in  
generating capacity  
Transaction provides numerous opportunities to create value

Increased scale, scope and diversification improves operating performance and geographic reach

More cost-effective fuel procurement options and O&M savings

Improved risk profile through existing and planned FERC regulated transmission investments  
Attractive shareholder return potential

Diversified avenues for growth between regulated and generation businesses

Solid balance sheet with strong operating cash flows  
Anticipate transaction to be accretive to earnings in the first year following the close

9  
Allegheny Combination Rationale  
Substantial upfront value to shareholders

32% premium  
to  
Allegheny's

current  
price  
(as  
of  
February  
10  
th  
closing  
price)

FirstEnergy's current dividend would represent a 145% increase for Allegheny shareholders, supported by combined company's strong balance sheet and cash flows  
Larger, more diversified platform of generation and utility assets with additional value drivers

Diversified generation fleet with significant non-carbon emitting capacity reduces exposure to changing environmental requirements

Enhanced retail marketing capability

Greater utility scale and regulatory diversification

Expanded transmission platform with major projects underway

More cost-effective fuel procurement options, O&M savings and other synergies  
Maintains leverage to recovery in economy and power prices

10  
Transaction Terms

11

Key Transaction Terms

Consideration:

100% stock

Offer Price:

0.667 shares of FirstEnergy per Allegheny share

Premium:

32%  
based  
on  
February  
10  
th  
closing  
prices  
and  
22%  
to  
the  
average  
stock price of Allegheny over the last 60 days  
Pro Forma  
73% FirstEnergy shareholders  
Ownership:  
27% Allegheny shareholders  
Governance:  
Tony Alexander to be President and CEO  
Paul Evanson to be Executive Vice Chairman  
Two Allegheny Board members added to FirstEnergy Board  
Timing:  
Expected to close within 12-14 months  
Approvals:  
Shareholders, Federal, State





13  
An Integrated, Regional Platform  
1. 12/31/2009 data, except where noted  
2. Excludes American Transmission Systems Incorporated (ATSI) and Allegheny Energy Transmission, LLC  
3. 2009 estimate  
Revenue:  
Regulated Utilities

Electric Customers:

Regulated States:

Rate Base:

Total Generation:

Competitive Generation:

Service Territory:

Employees:

\$16.4Bn

10

2

6.1MM

7 States

\$10.8Bn

2,3

24 GW

21 GW

67,000 sq miles

~17,750

Combined

Statistics

1

FirstEnergy Service Territory

Allegheny Service Territory

FirstEnergy Plants

Allegheny Plants

14  
Diverse Competitive  
Generation Portfolio  
Combined  
Competitive  
Capacity  
1

19%  
42%  
20%  
7%  
12%  
Combined Competitive Production  
2  
Nuclear  
Gas / Oil  
28%  
52%  
18%  
Supercritical  
Coal  
Nuclear  
Gas / Oil  
<1%  
Hydro/Wind  
~2%  
Total Combined Capacity:  
21 GW  
Total Combined Production:  
117 TWh  
1. Capacity as of year-end 2009  
2. Production as of year-end 2008  
Hydro/Wind  
Subcritical  
Coal  
Supercritical  
Coal  
Subcritical  
Coal

15  
Highly Efficient Coal-Fired Fleet  
4,945  
(32%)  
224,600  
(72%)  
Pre-1965

Typically Unscrubbed

Heat Rates ~11,000 Btu/kWh

Higher Cost ~\$30-35/MWh

Subcritical

Units

Supercritical

Units

15,332 MW

312,000 MW

10,387

(68%)

87,400

(28%)

Post-1965

Typically Scrubbed

Heat Rates ~9,800 Btu/kWh

Lower Cost ~\$20-25/MWh

Combined

Companies (MW)

U.S. Total

(MW)

Supercritical units are newer, more efficient and more environmentally-friendly

1. Total coal-fired capacity (regulated and competitive), as of 12/31/2009

1

16

Combined Fleet is Well Positioned for  
Changing Environmental Regulation

1.

Regulated and competitive capacity as of 12/31/2009

2. Includes nuclear, wind and hydro

3.

Includes Sammis Units 6 and 7 AQC project being completed in 2010

4.  
Sammis  
Units  
1

5,  
Ft.  
Martin,  
Hatfield,  
and  
Mitchell  
Total Capacity  
17%  
26%  
9%  
19%  
29%  
Non-Emitting  
SO  
2  
/ NO  
x  
Controls  
SO  
2  
Controls  
Natural Gas  
Unscrubbed  
3  
24.1  
Total Fleet  
4.5  
Unscrubbed  
2.2  
Natural Gas  
4.1  
SO  
2  
Controls  
7.1  
SO  
2  
/ NOx Controls  
6.2  
Non-Emitting  
GW s by Category  
4  
2  
1



17  
Regulated Utilities  
10 Regulated  
Utilities  
Across  
Seven  
States

1

6.1MM customers in OH, PA, MD, WV, NJ, VA and NY

194,000 miles of distribution and nearly 20,000 miles of transmission lines

67,000 square miles

1. Excludes American Transmission Systems Incorporated (ATSI) and Allegheny Energy Transmission, LLC

2. 12/31/2009 data

6,079,900

Total

383,600

Monongahela Power

483,400

Potomac Edison

714,900

West Penn Power

1,095,000

Jersey Central Power & Light

551,000

Met-Ed

160,000

Penn Power

590,000

Penelec

754,000

The Illuminating Company

1,038,000

Ohio Edison

310,000

Toledo Edison

Customers

2

18

Additional Transmission Expansion  
500 kV transmission line extending  
149 miles from western PA through  
WV and into VA

ROE: 12.7%

Equity: 50%

Cost: \$850MM

Status:

Approved in all states

Construction progressing

On track for in-service date in 2011

765 kV transmission line extending

275 miles from WV to MD

ROE: 14.3%

Equity: 50%

Cost: \$1.2Bn

Status:

PJM determined PATH may not be

needed by 2014

Updated timeline expected in

June 2010

19  
Financial Highlights

20  
(28)  
(28)  
(35)  
(95)  
(165)  
530

480  
450  
350  
180  
(250)  
(100)  
50  
200  
350  
500  
650  
Year 1  
Year 2  
Year 3  
Year 4  
Year 5  
Estimated Annual Synergies  
Overview of Transaction Synergies  
\$MM  
Synergies By Category  
10%  
19%  
50%  
21%  
Corporate  
Generation and Fuel  
Information Services  
Utility  
Gross Pre-Tax Synergies  
Costs to Achieve

21

Pro Forma Earnings Impact

Anticipate transaction to be accretive to earnings in the first year following the close, including purchase accounting adjustments

Purchase accounting adjustments expected to be modest

Estimated asset and liability step-ups reduce earnings by approximately



\$7MM in year 1 and \$30MM in year 2

22  
Solid Balance Sheet  
51%  
55%  
51%  
55%  
Debt / Capital

3.0x

3.5x

3.0x

3.5x

Debt / EBITDA

4.3x

4.7x

3.7x

4.3x

Funds from Operations

Interest Coverage

20%

23%

18%

21%

Funds from Operations /

Total Debt

Year 2

Year 1

Pro Forma Key Ratios

Combined company metrics support stable investment grade ratings

23

Summary Expected Financial Highlights

Synergies realized across wide range of business segments but primarily derived from competitive operations

Anticipate transaction to be accretive to earnings in the first year following the close

Solid balance sheet and strong operating cash flow generation

Credit metrics consistent with a stable investment grade rating

24  
Regulatory Timeline & Next Steps

25

Regulatory Timeline & Next Steps

Forming a transition team and transition steering committee

Comprised of key FirstEnergy and Allegheny management and senior executives

Begin filings for regulatory approvals and shareholder vote

Companies expect to complete the transaction within 12-14 months



26  
Summary

27

Summary

Combination creates a leading regional energy provider

Complementary portfolio of generating assets strengthens the combined company's operational performance

Scale and scope of combined distribution and transmission assets create new opportunities

Meaningful synergy opportunities, primarily in the competitive operations

Expected strong financial position to support growth and to provide shareholders with attractive total return potential

Experienced management with a proven ability to integrate companies and to create long-term shareholder value





30  
2009 Fourth Quarter & Full-Year GAAP to  
Non-GAAP Reconciliation  
3.77  
0.77  
Basic Earnings Per Share (Non-GAAP)  
0.42

0.42

Power Contract Mark-To-Markets Adjustment

(0.52)

Non-Core Asset Sales/Impairments

(0.53)

(0.49)

Income Tax Issue Resolution

0.31

0.01

Debt Redemption Premiums

0.14

Organizational Restructuring/Incremental Strike Costs

0.09

0.05

Trust Securities Impairment

0.55

Regulatory Charges

3.31

0.78

Basic Earnings Per Share (GAAP) Excluding Special Items

Full Year 2009

Fourth Quarter 2009

(\$ Per Share)

2010 Non-GAAP Earnings Guidance of \$3.50 to \$3.70 per share affirmed