

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 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 regulated
transition and other charges or to recover increased transmission costs, operating and maintenance costs being higher than ant
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

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 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 need for
post additional collateral to support outstanding commodity positions, letters of credit and other financial guarantees, the continuing
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

any 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). You may also obtain these documents, free of charge, from FirstEnergy's website (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)

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

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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

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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

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Transaction Terms

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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

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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

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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

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Regulatory Timeline & Next Steps

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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

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Summary

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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