

SECURITIES AND EXCHANGE COMMISSION

FORM S-3/A

Registration statement for specified transactions by certain issuers [amend]

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WEST PENN FUNDING LLC

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GREENSBURG PA 15601

Business Address
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GREENSBURG PA 15601

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 10, 1999

REGISTRATION NO. 333-79619

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

WEST PENN FUNDING LLC
(EXACT NAME AS SPECIFIED IN REGISTRANT'S CERTIFICATE OF FORMATION)

<TABLE>

<S>	DELAWARE	<C>	25-1843349
	(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)		(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

</TABLE>

WEST PENN FUNDING LLC
800 CABIN HILL DRIVE
GREENSBURG, PA 15601-1689
(724) 837-3000

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

REGIS F. BINDER

800 CABIN HILL DRIVE
GREENSBURG, PA 15601-1689
(724) 837-3000

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

<TABLE>

<S>	<C>	<C>
GREGORY M. SHAW, ESQ. CRAVATH, SWAINE & MOORE WORLDWIDE PLAZA 825 EIGHTH AVENUE NEW YORK, NY 10019 (212) 474-1000	THOMAS K. HENDERSON, ESQ. ALLEGHENY ENERGY, INC. 10435 DOWNSVILLE PIKE HAGERSTOWN, MD 21740-1766 (301) 790-3400	GEOFFREY K. HURLEY, ESQ. LATHAM & WATKINS 885 THIRD AVENUE NEW YORK, NY 10022 (212) 906-1200

</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: From time to time after this Registration Statement becomes effective as determined by market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. []

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE

<TABLE>
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TITLE OF SECURITIES BEING REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE PER UNIT*	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE*	AMOUNT OF REGISTRATION FEE
<S> Transition Bonds.....	<C> \$1,000,000	<C> 100%	<C> \$1,000,000	<C> \$278**

</TABLE>

* Estimated solely for the purposes of calculating the registration fee.

** Calculated pursuant to Rule 457(o) of the Securities Act. Fee of \$278 paid in connection with original Registration Statement filed on May 28, 1999.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED SEPTEMBER 10, 1999

PROSPECTUS SUPPLEMENT
(To Prospectus dated [], 1999)

West Penn Funding LLC
Issuer

West Penn Power Company
Originator and Servicer

Series 1999-A
\$[] Transition Bonds

THE ISSUER WILL ISSUE:

<TABLE>
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	CLASS A-1		CLASS A-2		CLASS A-3		CLASS A-4	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Principal Amount.....	\$		\$		\$		\$	
Price.....	\$		\$		\$		\$	
Underwriter's Commission...	\$	(%)	\$	(%)	\$	(%)	\$	(%)
Proceeds to the Issuer.....	\$	(%)	\$	(%)	\$	(%)	\$	(%)
Bond Rate.....		%		%		%		%
Interest Paid.....								

Optional Redemption*.....				
First Payment Date.....	March 25, 2000	March 25, 2000	March 25, 2000	March 25, 2000
Expected Final Payment Date.....				
Termination Date.....				

* All Series 1999-A Bonds are subject to optional redemption in whole once the outstanding principal balance of the Series 1999-A Bonds has been reduced to less than or equal to 5% of the initial principal balance.

THESE SECURITIES ARE HIGHLY STRUCTURED. BEFORE YOU PURCHASE THESE SECURITIES,
YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 18
IN THE ACCOMPANYING PROSPECTUS.

- These securities are obligations of West Penn Funding LLC only.

- The issuer is a special purpose entity that has no property other than the following collateral, which is the sole source of payment for these securities:
 - intangible transition property, which is the right, created by Pennsylvania's Competition Act, to collect intangible transition charges in amounts designed to be sufficient to repay the transition bonds, to pay other expenses specified in the indenture and to fund the trust accounts;
 - collections of intangible transition charges;
 - the issuer's rights under the transfer agreement, the sale agreement and the servicing agreement; and
 - trust accounts held by the bond trustee.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

MORGAN STANLEY DEAN WITTER

GOLDMAN, SACHS & CO.

PNC CAPITAL MARKETS, INC.

BANC OF AMERICA SECURITIES LLC

PRYOR, McCLENDON, COUNTS & CO., INC.

The date of this Prospectus Supplement is [], 1999.

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WHERE TO FIND INFORMATION IN THESE DOCUMENTS

We provide information to you about the transition bonds in two separate documents that progressively provide more detail:

- (a) the accompanying prospectus, which provides general information, some of which may not apply to your series of transition bonds; and
- (b) this prospectus supplement, which describes the specific terms of your series of transition bonds.

This prospectus supplement and the accompanying prospectus together contain complete information about the offering of your series of transition bonds. You are urged to read both documents. In particular, you should read the information under the heading "Risk Factors," beginning on Page 18 of the accompanying prospectus.

This supplement begins with several sections describing these securities:

- Summary of Terms provides important amounts, dates and other terms of your series;
- The Series 1999-A Bonds describes the key structural features of your series; and
- Description of Intangible Transition Property describes the intangible transition charges that provide the source for payment of your series and refers you to the sections in the accompanying prospectus where you can find further information about the intangible transition charges and other collateral for the transition bonds.

As you read through these sections, cross-references will direct you to more information in the accompanying prospectus. You can also directly reference key topics by looking at the table of contents in this prospectus supplement and the accompanying prospectus.

This prospectus supplement and the accompanying prospectus may be used by the underwriters in connection with offers and sales related to market-making transactions in your series of transition bonds. The underwriters may act as

principal or agent in those transactions. Those sales will be made at prices related to prevailing market prices at the time of sale.

YOU SHOULD RELY ONLY ON THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. THE ISSUER HAS NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT.

TO UNDERSTAND THE STRUCTURE AND PAYMENT TERMS OF THESE SECURITIES, YOU MUST CAREFULLY READ THE ACCOMPANYING PROSPECTUS AND THIS PROSPECTUS SUPPLEMENT IN THEIR ENTIRETY.

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SUMMARY OF TERMS

The following section is only a summary of selected information and does not provide you with all the information you will need to make your investment decision. There is more detailed information in this prospectus supplement and in the accompanying prospectus. To understand all of the terms of the offering of the transition bonds, carefully read this entire document and the accompanying prospectus.

SECURITIES OFFERED

SERIES 1999-A TRANSITION BONDS
\$[]

<TABLE>
<CAPTION>

<S>	<C>
ISSUER:	WEST PENN FUNDING LLC
ORIGINATOR AND SERVICER:	WEST PENN POWER COMPANY
SELLER:	WEST PENN FUNDING CORPORATION
BOND TRUSTEE:	BANKERS TRUST COMPANY
PRICING DATE:	[], 1999
SERIES ISSUANCE DATE:	[], 1999
CLEARANCE AND SETTLEMENT:	DTC/CEDEL/EUROCLEAR

<TABLE>
<CAPTION>

	INITIAL CLASS PRINCIPAL BALANCE	BOND RATE	% OF TOTAL SERIES PRINCIPAL
	-----	-----	-----
<S>	<C>	<C>	<C>
Class A-1			
Class A-2			
Class A-3			
Class A-4			

Servicing Fee: On each payment date, the issuer will pay the servicer the quarterly servicing fee with respect to all series of transition bonds, solely to the extent that the issuer has funds available to pay this fee. So long as West Penn acts as servicer, this quarterly fee will be \$[]. If a successor servicer is appointed, the quarterly servicing fee will be based on an amount approved by the Pennsylvania Public Utility Commission, but not in excess of a per annum rate equal to 1.5% of the outstanding principal balance of the transition bonds. The servicer will be entitled to retain as additional compensation net investment income it receives on the intangible transition charges it collects pending remittance to the bond trustee, as well as any late fees paid by customers to the servicer which are associated with the intangible transition charges.

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Anticipated Ratings: S&P/Fitch IBCA AAA
 Moody's Aaa

Credit Enhancement: Intangible transition charge adjustments; overcollateralization, funded over the life of the Series 1999-A Bonds and expected to reach []% of the initial principal balance of each series of transition bonds; capital of the issuer, funded upon the issuance of each series and expected to be []% of the initial principal balance of each series of transition bonds.

Payment Dates: March 25, June 25, September 25 and December 26 of each year or, if not a business day, the next business day.

First Payment Date: March 25, 2000.

<TABLE>
 <CAPTION>

	CLASS A-1	CLASS A-2	CLASS A-3	CLASS A-4
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Expected Final Payment Date:*				
Termination Date:				

</TABLE>

Optional Redemption:**

*The expected final payment date is the date upon which the issuer expects to make the final payment on your Series 1999-A Bond. However, the final payment on your Series 1999-A Bond may be made after that date. Your Series 1999-A Bond will not be in default unless it is not paid in full by its termination date set forth above.

**All Series 1999-A Bonds are subject to optional redemption in whole once the outstanding principal balance of the Series 1999-A Bonds has been reduced to less than or equal to 5% of the initial principal balance.

Record Date: Close of business on the day prior to any payment date.

<TABLE>
 <CAPTION>

	CLASS A-1	CLASS A-2	CLASS A-3	CLASS A-4
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
CUSIP Numbers:				

</TABLE>

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INTRODUCTION

The Pennsylvania Electricity Generation Customer Choice and Competition Act was enacted in 1996 and provides for the restructuring of the electric industry in Pennsylvania, including retail competition for generation beginning in 1999. Prior to enactment of the Pennsylvania Competition Act, electric utilities, such as West Penn Power Company, invested in various generation-related assets, such as electric generating facilities and power purchase contracts with third-party generators of electricity, to help fulfill their duties to serve the public as regulated utilities. The electric utilities recovered these investments by charging their customers the regulated rates approved by the Pennsylvania Public Utility Commission.

One of the expected effects of the deregulation of electricity generation is that rates will be determined by market forces. These market rates may not be high enough to allow the utilities to recover their investments in generation-related assets. Accordingly, the utilities may incur a loss in value of their generation-related assets as a result of the transition from a

regulated environment to competition for electric generation services.

The Competition Act provides for utilities to recover the anticipated loss in value of their generation-related assets, known as stranded costs, by including a new type of charge in their customers' bills. These new charges are known as competitive transition charges. Utilities are authorized to securitize the right to recover all or a portion of these charges through the issuance of transition bonds, such as the securities described in this prospectus supplement. This right is known as intangible transition property. Once intangible transition property is securitized, the utility's right to recover its stranded costs through the competitive transition charges is replaced by the intangible transition property holder's right to recover the costs associated with the issuance, credit enhancing and servicing of the transition bonds through intangible transition charges included in customers' electric bills. Intangible transition charges will reduce the amount of competitive transition charges.

Intangible transition property was created by the Pennsylvania Competition Act and a qualified rate order issued by the Pennsylvania Public Utility Commission to West Penn on November 19, 1998, as supplemented by a supplemental qualified rate order issued by the Pennsylvania Public Utility Commission to West Penn on August 12, 1999. Intangible transition property represents the irrevocable right to collect intangible transition charges from customers to recover:

- the aggregate principal amount of transition bonds; and
- an amount sufficient to provide for any credit enhancement to fund any reserves, and to pay interest, premiums, if any, costs of defeasance, servicing fees and other fees, costs and charges relating to transition bonds.

Intangible transition charges are nonbypassable. Customers cannot avoid paying them even if they purchase electricity from a supplier other than West Penn Power Company.

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On the series issuance date, West Penn Power Company will contribute intangible transition property to West Penn Funding Corporation, which will then sell the intangible transition property to West Penn Funding LLC, which will then pledge all its property, including the intangible transition property, to the bond trustee as the collateral for the transition bonds. West Penn Funding LLC's other property that makes up the collateral for these securities is described in this Summary under the subcaption "The Collateral."

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For more information on the Pennsylvania Competition Act, intangible transition property and intangible transition charges, you should review the material under the captions entitled "Risk Factors," "The Pennsylvania Competition Act," "West Penn's Restructuring Plan" and "The QRO and the Intangible Transition Charges" in the accompanying prospectus.

The following is a summary of other specific matters related to these securities:

THE COLLATERAL

The Series 1999-A Bonds will be secured by the collateral, primarily consisting of:

- all the issuer's right, title and interest in and to the intangible transition property transferred by West Penn Funding Corporation to the issuer pursuant to the intangible transition property sale agreement;
- collections of intangible transition charges that are remitted to the issuer pursuant to the servicing agreement between the issuer and the servicer;
- the issuer's rights, except for certain provisions for indemnification of West Penn Funding Corporation and the issuer, under the intangible transition property transfer agreement between West Penn and West Penn Funding Corporation;

- the issuer's rights, except for certain provisions for indemnification of the issuer, under the sale agreement;
- the issuer's rights, except for certain provisions for indemnification of the issuer, under the servicing agreement; and
- specified bank accounts of the issuer and all amounts or investment property in these accounts, other than cash amounts payable to West Penn Funding Corporation or the servicer described in the accompanying prospectus.

For a more detailed description of the collateral for the transition bonds, you should review the material under the captions "The QRO and the Intangible Transition Charges" and "The Indenture--Security" in the accompanying prospectus. For a summary of the terms of the transfer agreement, see "The Transfer Agreement" in the accompanying prospectus. For a summary of the terms of the sale agreement, see "The Sale Agreement" in the accompanying prospectus. For a summary of the terms of the servicing agreement, see "The Servicing Agreement" in the accompanying prospectus.

INTEREST

Holders of each class of this series are expected to receive interest at the bond rate for that class as set forth on the cover of this prospectus supplement.

Interest on the Series 1999-A Bonds will be calculated on the basis of a 360-day year of four 90-day periods. With respect to the first payment date, interest will accrue from the issuance date.

You should also review the material under the caption "The Series 1999-A Bonds--Interest" in this prospectus supplement.

PRINCIPAL

On each payment date, to the extent of available funds, the bond trustee will make principal payments in accordance with the expected amortization schedule

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set forth under the caption "The Series 1999-A Bonds--Principal" in this prospectus supplement. The actual amount of principal paid on any payment date on your Series 1999-A Bond may be less than the amount set forth in the expected amortization schedule for that payment date.

Other than in the event of a redemption or acceleration upon an event of default, in no event will the principal paid to any class on any payment date be greater than the amount necessary to reduce the principal balance of that class to the amount specified in the expected amortization schedule for that class and that payment date.

CREDIT ENHANCEMENT

Overcollateralization. Overcollateralization is the pledge by the issuer of collateral, in this case intangible transition property, in excess of what is expected to be needed to cover the repayment of your Series 1999-A Bond. The overcollateralization for these securities will be funded over the life of the Series 1999-A Bonds and is expected to reach []% of the initial principal balance of each series of transition bonds.

Additional Credit Enhancement. In addition, capital of the issuer (expected to be []% of the initial principal balance of each series of transition bonds) is available to make payments on any series of transition bonds as described in the accompanying prospectus. In addition, intangible transition charges will be subject to periodic review and adjustment, as described below under "ITC Adjustment Process."

You should also review the material under the captions "The Transition Bonds--Credit Enhancement" and "The Indenture--Allocations and Payment" in the accompanying prospectus.

OPTIONAL REDEMPTION

The Series 1999-A Bonds may be redeemed in whole once the outstanding principal balance of the Series 1999-A Bonds has been reduced to less than or equal to 5% of the initial principal balance.

You should also review the material under the caption "The Series 1999-A Bonds--Optional Redemption" in this prospectus supplement.

ITC ADJUSTMENT PROCESS

West Penn, as servicer of the intangible transition property on behalf of the issuer, will make adjustments to the intangible transition charges it bills to customers, upon approval by the Pennsylvania Public Utility Commission, if West Penn:

- (1) collects insufficient intangible transition charges, or
- (2) collects excess amounts of intangible transition charges,

in order:

- (1) to make timely payments on the Series 1999-A Bonds,
- (2) to pay fees, costs and charges associated with the transition bonds, and
- (3) to fund any of the subaccounts to its required level.

The following table summarizes the adjustment frequency of the intangible tran-

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sition charges with respect to the Series 1999-A Bonds:

<TABLE>
<CAPTION>

	Adjustment Date -----
<S>	<C>
Annual Adjustments...	1/1/00-1/1/07
Quarterly Adjustments.....	1/1/08 and 4/1/08
Monthly Adjustments.....	7/1/08-12/1/08

</TABLE>

If the last class of the Series 1999-A Bonds is not paid at its termination date, the intangible transition charges will continue to be charged but not for electricity delivered after December 31, 2008. In that case, the final adjustment date will be December 1, 2008.

For a more detailed description of the intangible transition charge adjustment process, you should review the material under the caption "Description of Intangible Transition Property--Adjustments to the Intangible Transition Charges" and the material under the caption "The QRO and the Intangible Transition Charges--The Intangible Transition Charges--The ITC Adjustment Process" in the accompanying prospectus.

TAX STATUS

West Penn has received a ruling from the Internal Revenue Service that the transition bonds will be classified as obligations of West Penn Funding

Corporation. Based on the ruling, for U.S. federal income tax purposes, the transition bonds will be treated as debt of West Penn Funding Corporation secured by a pledge of the collateral.

The issuer will be treated as a division of West Penn Funding Corporation and will not be treated as a separate taxable entity.

Transition bondholders who are not United States taxpayers generally will not be subject to United States federal income or withholding taxes on interest received on the transition bonds.

For information regarding the application of U.S. federal income tax laws, you should see the section captioned "United States Taxation" in the accompanying prospectus.

In addition, in the opinion of Ballard Spahr Andrews & Ingersoll, LLP, special Pennsylvania tax counsel to the issuer and West Penn, interest from the transition bonds received by a person who is not otherwise subject to corporate or personal income tax in Pennsylvania will not be subject to these taxes. Transition bonds held by deceased Pennsylvania residents may be subject to inheritance and estate taxes. Neither residents nor nonresidents of Pennsylvania will be subject at the present time to an intangible personal property tax with respect to the transition bonds. See "Material Commonwealth of Pennsylvania Tax Matters" in the accompanying prospectus.

ERISA CONSIDERATIONS

Employee benefit plans are permitted to purchase transition bonds.

You should also review the material under the caption "ERISA Considerations" in the accompanying prospectus.

SERVICER'S AND ISSUER'S MAILING ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICE:

The mailing address of West Penn is West Penn Power Company, 800 Cabin Hill Drive, Greensburg, PA 15601, and its telephone number is (724) 837-3000. The mailing address of the issuer is West Penn Funding LLC, 800 Cabin Hill Drive, Room [], Greensburg, PA 15601, and its telephone number is (724) 837-[].

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RISK FACTORS

For a discussion of the material risks associated with an investment in the Series 1999-A Bonds, you should review the discussion under "Risk Factors," which begins on page 18 of the accompanying prospectus.

THE SERIES 1999-A BONDS

GENERAL

The Series 1999-A Bonds will be issued under and secured pursuant to a base indenture dated as of [], 1999 between the issuer and Bankers Trust Company, as bond trustee, as supplemented by the Series 1999-A supplemental indenture to that base indenture (as so supplemented, the "INDENTURE").

Capitalized terms used but not defined in this prospectus supplement are defined in the glossary of defined terms, located on page of this prospectus supplement or in the glossary of defined terms, located on page of the accompanying prospectus.

The Series 1999-A Bonds will be issued on the series issuance date in denominations of \$1,000 and integral multiples thereof and will be comprised of the classes listed above under "Summary of Terms--Securities Offered."

Interest and principal relating to the Series 1999-A Bonds will be paid through The Depository Trust Company ("DTC") or, if the Series 1999-A Bonds are no longer in book-entry form, will be payable at the offices of Bankers Trust Company at []. Generally, payment will be made by check mailed

first-class, postage prepaid to a holder's address as it appears on the transition bond register on each record date. For Series 1999-A Bonds registered on a record date in the name of the nominee of Cede & Co., payments will be made by wire transfer in immediately available funds to the account designated by that nominee, except as described below. The final installment of principal and premium, if any, payable with respect to any Series 1999-A Bond will be payable, after prior notice to the holder, only upon presentation and surrender of the Series 1999-A Bond at a place specified in that notice.

DISTRIBUTIONS FROM THE COLLECTION ACCOUNT

Amounts distributed from the Collection Account as described in "The Indenture--Allocations and Payments" in the accompanying prospectus will be applied among the classes of the Series 1999-A Bonds on each payment date as follows:

(1) with respect to interest, to each class on a pro rata basis based on the amount of interest payable to that class and

(2) with respect to principal, to each class as described under "--Principal" in this section.

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INTEREST

Interest on each class of the Series 1999-A Bonds will accrue from the Series Issuance Date at the respective bond rates indicated in the section at the beginning of this prospectus supplement entitled "Summary--Securities Offered." The interest will be payable on each payment date, commencing March 25, 2000, to the persons in whose names the Series 1999-A Bonds of each class are registered at the close of business on the record date therefor.

Interest on the Series 1999-A Bonds will be calculated on the basis of a 360-day year of four 90-day periods.

The "INTEREST ACCRUAL PERIOD" for any payment date shall be the period from and including the preceding payment date -- or, in the case of the first payment date, from and including the series issuance date -- to and excluding that payment date.

The record date for any payment date shall be the close of business on the day prior to that payment date.

PRINCIPAL

On each payment date, the bond trustee shall, as of the related record date and subject to the availability of funds, make principal payments on each class of transition bonds in accordance with the Expected Amortization Schedule.

To the extent that more than one class of Series 1999-A Bonds is to receive payments of principal in accordance with the Expected Amortization Schedule on any payment date, the applicable funds will be allocated in a sequential manner, to the extent funds are available, as follows:

(1) To the holders of the Series 1999-A Bonds, Class A-1, until this class is retired in full;

(2) To the holders of the Series 1999-A Bonds, Class A-2, until this class is retired in full;

(3) To the holders of the Series 1999-A Bonds, Class A-3, until this class is retired in full; and

(4) To the holders of the Series 1999-A Bonds, Class A-4, until this class is retired in full.

The principal payment on any class on a payment date will not be greater than the amount necessary to reduce the Class Principal Balance of that class to the amount specified in the Expected Amortization Schedule for that class and payment date unless an acceleration of payments following an event of default or a redemption occurs.

"CLASS PRINCIPAL BALANCE" means the initial principal balance of a class, reduced by principal distributed to that class in accordance with the terms of the Indenture.

The entire unpaid principal amount for any class of the Series 1999-A Bonds will be due and payable on the applicable class termination date.

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In the event of an acceleration of payments following a default on the Series 1999-A Bonds, principal payments on each class of Series 1999-A Bonds will be made on a pro rata basis based on the respective outstanding principal balance for each class as of the prior payment date.

The following Expected Amortization Schedule sets forth the scheduled outstanding Class Principal Balance for each class of the Series 1999-A Bonds at each payment date, after giving effect to the payments made on that date, from the series issuance date to the expected final payment date for that class.

TABLE 1

EXPECTED AMORTIZATION SCHEDULE

OUTSTANDING CLASS PRINCIPAL BALANCES

<TABLE>
<CAPTION>
PAYMENT DATE CLASS A-1 CLASS A-2 CLASS A-3 CLASS A-4 SERIES 1999-A

<S> <C> <C> <C> <C> <C>
Series Issuance Date.....
</TABLE>

For various reasons, the actual Class Principal Balance of any class of the Series 1999-A Bonds may not be reduced by the amounts indicated in the foregoing table on any payment date. Accordingly, the actual reductions in Class Principal Balances may be delayed from those indicated in the table. See "Risk Factors" in the accompanying prospectus for various factors which may, individually or in the aggregate, affect the rates of reduction of the Class Principal Balances of any class of the Series 1999-A Bonds.

OPTIONAL REDEMPTION

The Series 1999-A Bonds may be redeemed in whole on any payment date commencing with the payment date on which the outstanding principal balance of the Series 1999-A Bonds (after giving effect to payments that would otherwise be made on that date) has been reduced to less than or equal to 5% of the initial principal balance of the Series 1999-A Bonds. Notice of redemption will be given by the issuer to the bond trustee and Standard & Poor's Rating Group, Moody's Investors Service Inc. and Fitch IBCA, Inc. (each, a "RATING AGENCY").

OVERCOLLATERALIZATION

The amount of overcollateralization (the "OVERCOLLATERALIZATION AMOUNT") for each series of transition bonds is intended to be funded over the expected life of that series and is expected to be []% of the initial principal amount for each series of transition bonds. The intangible transition charges will be calculated at, and periodically adjusted to, a level that is designed to collect the Overcollateralization Amount ratably over the expected life of all series of transition bonds. Amounts of intangible transition charges collected in any period as a result of Overcollateralization Amounts will be available for

all series of transition bonds on a pro rata basis without any preference. The "CALCULATED OVERCOLLATERALIZATION LEVEL" for each payment date related to the Series 1999-A Bonds, as of the date of this prospectus supplement, is set forth below. These balances may change from time to time with the issuance of each new series and the redemption or refunding of a class or series. If amounts payable in the General Subaccount and the Reserve Subaccount are not sufficient on any payment date to make scheduled payments to the holders of the Series 1999-A Bonds, meet credit enhancement funding requirements and pay expenses of the issuer, the bond trustee, the independent directors of the issuer, the administrative agent, the servicer and other specified fees and expenses, the bond trustee will draw on amounts in the Overcollateralization Subaccount.

For a more detailed description of overcollateralization, see the material under the captions "The Transition Bonds--Credit Enhancement" and "The Indenture--Allocations and Payments" in the accompanying prospectus.

TABLE 2

CALCULATED OVERCOLLATERALIZATION LEVEL

<TABLE> <CAPTION>	REQUIRED OVERCOLLATERALIZATION LEVEL
PAYMENT DATE	
-----	-----
<S>	<C>

</TABLE>

OTHER CREDIT ENHANCEMENT

Reserve Subaccount. Collections of intangible transition charges ("ITC COLLECTIONS") available on any payment date above that amount necessary to pay the

(1) amounts payable for expenses of the bond trustee, the independent directors of the issuer, the administrative agent and the servicer and other fees and expenses,

(2) amounts distributable to the transition bondholders for principal and interest on that payment date,

(3) amounts required to replenish the Capital Subaccount,

(4) amounts required to replenish the Overcollateralization Subaccount and

(5) net investment earnings on amounts in the Capital Subaccount released to the issuer

will be allocated to the Reserve Subaccount.

On each payment date, the bond trustee will draw on amounts in the Reserve Subaccount, if any, to the extent amounts available in the General Subaccount are insufficient to make scheduled payments to the transition bondholders, meet credit enhancement funding requirements and pay expenses of the issuer, the bond trustee, the

independent directors of the issuer, the administrative agent, the servicer and other specified fees and expenses. See "The Indenture--Allocations and Payments" in the accompanying prospectus.

Capital Subaccount. Upon the issuance of the Series 1999-A Bonds, West Penn Funding Corporation will deposit the Required Capital Amount of \$[] million in the Capital Subaccount. On each payment date, the bond trustee will draw on amounts in the Capital Subaccount, if any, to the extent amounts available in the General Subaccount, the Reserve Subaccount and the Overcollateralization Subaccount are insufficient to make scheduled payments to the transition bondholders, meet credit enhancement funding requirements and pay expenses of the issuer, the bond trustee, the independent directors of the issuer, the administrative agent and the servicer and other specified fees and expenses.

REPORTS TO HOLDERS OF SERIES 1999-A BONDS

On or prior to each payment date, the bond trustee will prepare and provide statements to the holders of record of the Series 1999-A Bonds. These statements will be available to the beneficial owners of the Series 1999-A Bonds upon request to the bond trustee or the servicer. The financial information provided will not be examined or reported upon by any independent public accountant and no independent public accountant will give an opinion on this financial information.

For a more detailed description of the statements provided to the holders of record of the Series 1999-A Bonds, you should review the material under the caption "The Indenture--Reports to Transition Bondholders" in the accompanying prospectus.

DESCRIPTION OF INTANGIBLE TRANSITION PROPERTY

THE INTANGIBLE TRANSITION CHARGES

West Penn's customers belong to one of three customer categories (each, a "CUSTOMER CATEGORY"). These categories are: residential, commercial and industrial, including street lighting. Each Customer Category is further divided into rate schedules (each, a "RATE SCHEDULE"). The Qualified Transition Expenses authorized in the QRO issued by the PUC to West Penn are to be recovered from customers in each of West Penn's separate Rate Schedules. All series and classes of transition bonds will be secured by the collateral. The intangible transition charges initially will be calculated by determining the total amount of intangible transition charges required to be billed to each Customer Category, based on current estimates of sales growth, in order to generate ITC Collections sufficient to ensure timely recovery of Qualified Transition Expenses in accordance with the Expected Amortization Schedule. The amount determined for each Customer Category will then be allocated to each Rate Schedule within that Customer Category based on the allocation of stranded cost recovery borne by each Rate Schedule through current electric rates approved by the PUC. The intangible transition charges will reduce competitive transition charges, as periodically adjusted, and will appear as a separate line item on each customer's bill. See "The QRO and the Intangible Transition

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Charges--The Intangible Transition Charges--The ITC Adjustment Process" in the accompanying prospectus.

Initially, the intangible transition charges, including gross receipts tax, billed will average approximately \$[] per month for residential customers, approximately \$[] per month for commercial customers and approximately \$[] per month for industrial customers. The average monthly bill, including gross receipts tax, for each Customer Category of West Penn customers during 1998 was \$[], \$[] and \$[], respectively. The following projected average intangible transition charges will be imposed on customers in each Customer Category, and the Rate Schedules within each Customer Category, beginning with the series issuance date for the Series 1999-A Bonds. The rates in Table 3 below do not include gross receipts tax.

TABLE 3

PROJECTED AVERAGE INTANGIBLE TRANSITION CHARGES

FOR THE PERIOD THROUGH [], 1999

RESIDENTIAL CUSTOMERS

<TABLE> <CAPTION>	AVERAGE ITC RATE in cents per kWh
RATE SCHEDULE -----	-----
<S> Schedule 10.....	<C>

COMMERCIAL CUSTOMERS

<TABLE> <CAPTION>	AVERAGE ITC RATE in cents per kWh
RATE SCHEDULE -----	-----
<S> Schedule 20.....	<C>
Schedule 22.....	
Schedule 23.....	
Schedule 24.....	

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INDUSTRIAL CUSTOMERS

<TABLE> <CAPTION>	AVERAGE ITC RATE in cents per kWh
RATE SCHEDULE -----	-----
<S> Schedule 30.....	<C>
Schedule 40.....	
Schedule 41.....	
Schedule 44.....	
Schedule 46.....	
Schedule 51.....	
Schedule 52.....	
Schedule 53.....	
Schedule 54.....	
Schedule 55.....	
Schedule 56.....	
Schedule 57.....	
Schedule 58.....	
Schedule 71.....	
Schedule 86.....	

RATE SCHEDULE DESCRIPTIONS:

Rate Schedules are created by the PUC and are subject to change. These changes will be reflected in any Adjustment Request filed with the PUC by the servicer. The current Rate Schedules, as indicated above, have remained unchanged for [] years. These Rate Schedules are:

Residential Rate Schedules:

Schedule 10 -- The only residential service schedule, available to all residential customers in West Penn's service area.

Commercial Rate Schedules:

Schedule 20 -- For small-to-medium commercial and small industrial customers.

Schedule 22 -- For churches, schools, non-profit colleges and universities. Closed to new customers as of August 30, 1979.

Schedule 23 -- For athletic field lighting for schools, communities, civic organizations, and other public institutions. Closed to new customers as of August 28, 1985.

Schedule 24 -- For fairs, carnivals, and other similar temporary enterprises.

Industrial Rate Schedules:

Schedule 30 -- For customers with demands in excess of 100 kilowatts, generally large commercial and medium-sized industrial customers.

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Schedule 40 -- For customers with demands in excess of 2000 kilowatts and service voltages in excess of 25 kilovolts, generally large industrial customers.

Schedule 41 -- For customers with demands in excess of 2000 kilowatts and service voltages in excess of 25 kilovolts, generally large industrial customers. Closed to new customers as of December 31, 1998.

Schedule 44 -- For customers with interruptible demands in excess of 5000 kilovolt-amperes and service voltages in excess of 25 kilovolts, generally large industrial customers able to withstand interruptions in service. Closed to new customers as of December 31, 1998.

Schedule 46 -- For customers with demands in excess of 30,000 kilovolt-amperes and service voltages in excess of 25 kilovolts, generally very large industrial customers. Closed to new customers as of December 31, 1998.

Schedules 51-56 -- For various types of street and outdoor lighting. Closed to new customers as of June 6, 1997.

Schedules 57-58 -- For outdoor lighting of various types.

Schedule 71 -- For municipal street and highway lighting. Closed to new customers as of August 26, 1978.

Schedule 86 -- For alternative generation.

ADJUSTMENTS TO THE INTANGIBLE TRANSITION CHARGES

The actual ITC Collections are intended to be neither more nor less than the amount necessary to pay the principal of the transition bonds of each series in accordance with the Expected Amortization Schedule, to pay interest on each series and to fund the related expenses and reserves. In order to enhance the likelihood that the appropriate amount of intangible transition charges will be collected, the Servicing Agreement requires the servicer to seek, and the Pennsylvania Competition Act and the QRO require the PUC to approve, annual adjustments to the intangible transition charges on January 1 of each year. These adjustments will be based on actual ITC Collections and updated assumptions by the Servicer as to projected future usage of electricity by customers, expected delinquencies and write-offs and future expenses relating to the Series 1999-A Bonds. In addition, the QRO provides that, commencing twelve months prior to the expected final payment date for the last series or class of transition bonds, adjustments may be made quarterly or monthly. The final Adjustment Date for the Series 1999-A Bonds will be December 1, 2008. See "The Servicing Agreement--Servicing Procedures--ITC Adjustment Process" in the prospectus.

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DESCRIPTION OF WEST PENN'S BUSINESS

For a discussion of West Penn Funding Corporation and the servicer, you

should review the material under the captions "West Penn Power Company", "West Penn Funding Corporation" and "The Servicer" in the accompanying prospectus.

SERVICING

SERVICING FEE

On each payment date, the issuer will pay the servicer the quarterly servicing fee (the "Servicing Fee") with respect to all series of transition bonds. So long as West Penn acts as servicer, the Servicing Fee will be \$[]. If a successor servicer is appointed, the Servicing Fee will be based on an amount approved by the PUC, but not in excess of a per annum rate equal to 1.5% of the outstanding principal balance of the transition bonds. The Servicing Fee, together with any portion of the Servicing Fee that remains unpaid from prior payment dates, will be paid solely to the extent funds are available therefor as described under "The Indenture--Allocations and Payments" in the accompanying prospectus. The Servicing Fee will be paid prior to the distribution of any amounts in respect of interest on and principal of the Series 1999-A Bonds. The servicer will be entitled to retain as additional compensation net investment income on intangible transition charges received by the servicer prior to remittance to the Collection Account and the portion of late fees, if any, paid by customers relating to the intangible transition charges.

SERVICER ADVANCES

The servicer will not make any advances of interest or principal on the Series 1999-A Bonds.

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UNDERWRITING THE SERIES 1999-A BONDS

Subject to the terms and conditions set forth in the underwriting agreement (the "UNDERWRITING AGREEMENT") among West Penn, West Penn Funding Corporation, the issuer and the underwriters named below (the "UNDERWRITERS"), for whom Morgan Stanley Dean Witter is acting as the representative, the issuer has agreed to sell to the Underwriters, and the Underwriters have severally agreed to purchase, the principal amounts of the Series 1999-A Bonds set forth opposite each Underwriter's name below:

<TABLE> <CAPTION> NAME	CLASS A-1	CLASS A-2	CLASS A-3	CLASS A-4
----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Morgan Stanley & Co. Incorporated.....	\$	\$	\$	\$
Goldman, Sachs & Co.				
Banc of America Securities LLC.....				
PNC Capital Markets, Inc.				
Pryor, McClendon, Counts & Co., Inc.				
</TABLE>				

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and to pay for all of the Series 1999-A Bonds offered hereby, if any are taken.

The Underwriters' Sales Price for the Series 1999-A Bonds. The Underwriters propose to offer the Series 1999-A Bonds in part directly to retail purchasers at the initial public offering prices set forth on the cover page of this prospectus supplement, and in part to some securities dealers at a price less a concession not in excess of [] percent of the principal amount of the Series 1999-A Class A-1 Bonds, [] percent of the principal amount of the Series 1999-A Class A-2 Bonds, [] percent of the principal amount of the Series 1999-A Class A-3 Bonds and []% of the principal amount of the Series 1999-A Class A-4 Bonds. The Underwriters may allow and the dealers may reallow a concession to some brokers and dealers not in excess of [] percent of the principal amount of the Series 1999-A Class A-1 Bonds, [] percent of the principal amount of the Series 1999-A Class A-2 Bonds, [] percent of the principal amount of the Series 1999-A Class A-3 Bonds and []% of the principal amount of the Series 1999-A Class A-4 Bonds. After the Series 1999-A Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriters.

No Assurance as to Resale Price or Resale Liquidity for the Series 1999-A Bonds. The Series 1999-A Bonds are a new issue of securities with no established

trading market. The Series 1999-A Bonds will not be listed on any securities exchange. The issuer has been advised by the Underwriters that they intend to make a market in the Series 1999-A Bonds but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series 1999-A Bonds.

Various Types of Underwriter Transactions Which May Affect the Price of the Series 1999-A Bonds. The Underwriters may engage in over-allotment transactions, stabilizing transactions, syndicate covering transactions and penalty bids with respect to the Series 1999-A Bonds in accordance with Regulation M under the Securities Exchange Act of 1934. Over-allotment transactions involve syndicate sales in excess of

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the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the Series 1999-A Bonds so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of the Series 1999-A Bonds in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the Underwriters to reclaim a selling concession from a syndicate member when the Series 1999-A Bonds originally sold by the syndicate member are purchased in a syndicate covering transaction. These over-allotment transactions, stabilizing transactions, syndicate covering transactions and penalty bids may cause the prices of the Series 1999-A Bonds to be higher than they would otherwise be in the absence of these transactions. None of West Penn, West Penn Funding Corporation, the issuer or the bond trustee or any of the Underwriters represent that the Underwriters will engage in any of these transactions or that these transactions, once commenced, will not be discontinued without notice at any time.

In the ordinary course of business, each Underwriter and its affiliates have engaged and may engage in investment banking and/or commercial banking transactions with the issuer and its affiliates, including West Penn. In addition, each Underwriter may from time to time take positions in the transition bonds.

The issuer, West Penn and West Penn Funding Corporation have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act.

Under the terms of the Underwriting Agreement, the issuer and West Penn have agreed to reimburse the Underwriters for some expenses.

RATINGS

It is a condition of any Underwriter's obligation to purchase that the Series 1999-A Bonds be rated "AAA" by Standard & Poor's Rating Group, "AAA" by Fitch IBCA, Inc. and "Aaa" by Moody's Investors Service Inc., which, in each case, is in one of the four highest rating categories of that Rating Agency.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning Rating Agency. No person is obligated to maintain the rating on any of the Series 1999-A Bonds, and, accordingly, there can be no assurance that the ratings assigned to any class of the Series 1999-A Bonds upon initial issuance will not be revised or withdrawn by a Rating Agency at any time thereafter. If a rating of any class of the Series 1999-A Bonds is revised or withdrawn, the liquidity of that class of the Series 1999-A Bonds may be adversely affected. In general, ratings address credit risk and do not represent any assessment of any particular rate of principal payments on the Series 1999-A Bonds other than payment in full of each class of the Series 1999-A Bonds by the applicable class termination date.

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GLOSSARY OF DEFINED TERMS

Set forth below is a glossary of defined terms used in this prospectus supplement.

"ADJUSTMENT REQUEST" means each request filed by the servicer with the PUC for adjustments to the intangible transition charges charged to each Rate Schedule within any Customer Category based on actual ITC Collections and updated assumptions by the servicer as to the projected future sales from which intangible transition charges are allocated, expected delinquencies and write-offs and future payments and expenses relating to the intangible

transition property and the transition bonds.

"CAPITAL SUBACCOUNT" means a subaccount of the Collection Account in which the amount of capital required to be held by the issuer for a series of transition bonds will be deposited by West Penn Funding Corporation on the date of issuance of that series.

"COLLECTION ACCOUNT" means the single collection account for all series of transition bonds established by the issuer and held by the bond trustee under the indenture.

"EXPECTED AMORTIZATION SCHEDULE" means the amortization schedule for the principal balance of the Series 1999-A Bonds set forth in Table 1 of this prospectus supplement.

"GENERAL SUBACCOUNT" means a subaccount of the Collection Account into which funds received from ITC Collections will initially be allocated.

"OVERCOLLATERALIZATION SUBACCOUNT" means a subaccount of the Collection Account into which the Overcollateralization Amount will be deposited over the expected life of a series of transition bonds.

"PUC" means the Pennsylvania Public Utility Commission or any successor thereto.

"QRO" means the qualified rate order issued by the PUC to West Penn on November 19, 1998, as supplemented by a supplemental qualified rate order issued by the PUC to West Penn on August 12, 1999.

"QUALIFIED TRANSITION EXPENSES", as set forth in the QRO, means, collectively, the aggregate principal amount of the transition bonds and an amount sufficient to provide for any credit enhancement to fund any reserves, and to pay interest, premiums, if any, costs of defeasance, servicing fees and other fees, costs and charges relating to transition bonds.

"REQUIRED CAPITAL AMOUNT" means the amount of capital required to be deposited by the issuer into the Capital Subaccount upon the issuance of a series of transition bonds, which represents a capital contribution from West Penn Funding Corporation.

"RESERVE SUBACCOUNT" means a subaccount of the Collection Account into which will be deposited the excess, if any, of ITC Collections over amounts then scheduled to be paid or due on a series of transition bonds, plus related expenses, plus amounts needed to make required deposits to the Overcollateralization Subaccount and the Capital Subaccount, plus net investment earnings on amounts in the Capital Subaccount released to the issuer.

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PROSPECTUS

West Penn Funding LLC
Issuer

West Penn Power Company
Originator and Servicer

Up to \$[] of Transition Bonds Issuable in Series

THE ISSUER

- MAY PERIODICALLY ISSUE TRANSITION BONDS IN ONE OR MORE SERIES WITH ONE OR MORE CLASSES;
- WILL OWN:
 - INTANGIBLE TRANSITION PROPERTY, WHICH IS THE RIGHT, CREATED BY PENNSYLVANIA'S COMPETITION ACT, TO COLLECT INTANGIBLE TRANSITION CHARGES IN AMOUNTS DESIGNED TO BE SUFFICIENT TO REPAY THE TRANSITION BONDS, TO PAY OTHER EXPENSES SPECIFIED IN THE INDENTURE AND TO FUND THE TRUST ACCOUNTS;
 - COLLECTIONS OF INTANGIBLE TRANSITION CHARGES;
 - ITS RIGHTS UNDER THE TRANSFER AGREEMENT, THE SALE AGREEMENT AND THE

-- TRUST ACCOUNTS HELD BY THE BOND TRUSTEE; AND

-- IF SO STATED IN THE APPLICABLE PROSPECTUS SUPPLEMENT, OTHER CREDIT ENHANCEMENT.

THE TRANSITION BONDS

-- WILL BE PAYABLE ONLY FROM ASSETS OF THE ISSUER;

-- WILL BE SUPPORTED BY TRUST ACCOUNTS HELD BY THE TRUSTEE FOR THE TRANSITION BONDS, AND, IF SO STATED IN THE APPLICABLE PROSPECTUS SUPPLEMENT, OTHER CREDIT ENHANCEMENT; AND

-- WILL BE ISSUED IN SERIES, EACH OF WHICH THE ISSUER MAY ISSUE WITHOUT THE CONSENT OF EXISTING TRANSITION BONDHOLDERS.

CONSIDER CAREFULLY THE RISK FACTORS BEGINNING ON PAGE 18 OF THIS PROSPECTUS.

This prospectus may be used to offer and sell a series of transition bonds only if accompanied by the prospectus supplement for that series.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this Prospectus is , 1999.

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PROSPECTUS SUMMARY

This summary contains a brief description of the transition bonds that applies to all series of transition bonds issued under this prospectus. Information that relates to a specific series of transition bonds can be found in the prospectus supplement related to that series. You will find a detailed description of the terms of the offering of transition bonds following this summary. CONSIDER CAREFULLY THE RISK FACTORS BEGINNING ON PAGE 18 OF THIS PROSPECTUS.

Transaction Overview:

The Pennsylvania Electricity Generation Customer Choice and Competition Act was enacted in 1996 and provides for the restructuring of the electric industry in Pennsylvania, including retail competition for generation beginning in 1999. Prior to enactment of the Pennsylvania Competition Act, electric utilities, such as West Penn Power Company, invested in various generation-related assets, such as electric generating facilities and power purchase contracts with third-party generators of electricity, to help fulfill their duties to serve the public as regulated utilities. The electric utilities recovered these investments by charging their customers the regulated rates approved by the Pennsylvania Public Utility Commission.

One of the expected effects of the deregulation of electricity generation is that rates will be determined by market forces. These market rates may not be high enough to allow the utilities to recover their investments in generation-related assets. Accordingly, the utilities may incur a loss in value of these generation-related assets as a result of the transition from a regulated environment to competition for electric generation services.

The Pennsylvania Competition Act provides for utilities to recover the anticipated loss in value of their generation-related assets, known as stranded costs, by including a new type of charge in their customers' bills. These new charges are known as competitive transition charges. Utilities are authorized to securitize the right to recover all or a portion of these charges through the issuance of transition bonds, such as the securities described in this prospectus and the related prospectus supplement. This right is known as intangible transition property. Once intangible transition property is securitized, the utility's right to recover its stranded costs through the competitive

transition charges is replaced by the intangible transition property holder's right to recover the costs associated with the issuance, credit enhancing and servicing of the

transition bonds through intangible transition charges included in customers' electric bills. Intangible transition charges will reduce the amount of competitive transition charges.

Intangible transition property was created by the Pennsylvania Competition Act and a qualified rate order issued by the Pennsylvania Public Utility Commission to West Penn Power Company on November 19, 1998, as supplemented by a supplemental qualified rate order issued by the Pennsylvania Public Utility Commission to West Penn on August 12, 1999. Intangible transition property represents the irrevocable right to collect intangible transition charges from customers to recover:

- the aggregate principal amount of transition bonds; and
- an amount sufficient to provide for any credit enhancement to fund any reserves, and to pay interest, premiums, if any, costs of defeasance, servicing fees and other fees, costs and charges relating to transition bonds.

Intangible transition charges are nonbypassable. Customers cannot avoid paying them even if they purchase electricity from a supplier other than West Penn Power Company.

On the issue date for each series, West Penn Power Company will contribute intangible transition property to West Penn Funding Corporation pursuant to a transfer agreement in exchange for all of the outstanding capital stock of West Penn Funding Corporation. West Penn Funding Corporation will then sell that transferred intangible transition property to West Penn Funding LLC pursuant to a sale agreement. West Penn Funding LLC will then pledge this property, along with its rights under the transfer agreement, the sale agreement, the servicing agreement, the collection account and related rights, to the bond trustee as the collateral for the transition bonds pursuant to an indenture.

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For a diagram depicting the parties to this transaction, refer to page 16 of this prospectus.

For more information on the Pennsylvania Competition Act, intangible transition property and intangible transition charges, you should review the material under the captions entitled "Risk Factors," "The Pennsylvania Competition Act," "West Penn's Restructuring Plan" and "The QRO and the Intangible Transition Charges" in this prospectus.

Issuer:

West Penn Funding LLC, a Delaware limited liability company and, at the time the transition bonds are issued, a wholly owned subsidiary of West Penn Funding Corporation.

The issuer was formed on May 26, 1999, for the purpose of purchasing and owning the transferred intangible transition property, issuing transition bonds from time to time and pledging its interest in the collateral to the

bond trustee under the indenture to secure the transition bonds. The issuer is a special purpose entity whose only assets are expected to be the collateral and whose only revenues are expected to be collections of the intangible transition charges. The collateral is the sole source of payment for the transition bonds. See "The Issuer" in this prospectus.

Issuer's Address: 800 Cabin Hill Drive, Room [],
Greensburg, PA 15601

Issuer's Telephone Number: (724) 837-[]

Seller of the Transferred
Intangible Transition
Property: West Penn Funding Corporation, a Delaware
corporation.

West Penn Funding Corporation was incorporated on [], 1999. West Penn Funding Corporation is wholly owned by West Penn Power Company, which will contribute the transferred intangible transition property to West Penn Funding Corporation in exchange for the outstanding capital stock of West Penn Funding Corporation pursuant to the transfer agreement. West Penn Funding Corporation will sell intangible transition property from time to time to the issuer under the terms of the sale agreement. See also "Risk Factors--Bankruptcy; Creditors' Rights--Bank-

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ruptcy of West Penn or West Penn Funding Corporation--True Sale or Financing" in this prospectus.

Seller's Address: []

Seller's Telephone Number: []

Bond Trustee: Bankers Trust Company

The corporate trust office of the bond trustee is located at [] and its telephone number is [].

Originator and Servicer of the
Transferred Intangible
Transition Property: West Penn Power Company.

West Penn Power Company is referred to as West Penn throughout this prospectus.

The intangible transition property was created under the West Penn qualified rate order, as supplemented, with respect to its stranded costs and initially will belong to West Penn before being transferred to the seller pursuant to the transfer agreement.

Pursuant to the servicing agreement between West Penn, as "servicer", and the issuer, the servicer will service the transferred intangible transition property.

Incorporated in Pennsylvania in 1916, West Penn is engaged as a public utility in the

transmission, distribution and sale of electricity to residential, commercial, industrial and governmental customers within all or part of 24 counties in Pennsylvania. West Penn's generation facilities have in the past served those same customers. In the future, those generation facilities, which will continue to serve those customers and others in the competitive generation market, may be transferred to an affiliated or non-affiliated entity. See "West Penn Power Company" in this prospectus.

West Penn, as servicer of the transferred intangible transition property, will collect the intangible transition charges from customers within its service territory on behalf of the issuer for a fee specified in the prospectus supplement. Due to provisions of the Pennsylvania Competition Act and the settlement of restructuring issues, West Penn customers have the opportunity to choose from several billing source options as of

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September 1, 2000. One of these options is consolidated billing from third parties providing billing and/or metering services, including electric generation suppliers. Any of these third parties that provides consolidated billing is required to pay the servicer amounts billed by the third party on behalf of the servicer, including the intangible transition charges, regardless of the third party's ability to collect those amounts from its customers. In that event, the third party effectively replaces the customer as the obligor with respect to those intangible transition charges. The servicer will have no right to collect those intangible transition charges from the customers, except following payment defaults by a third party biller and the expiration of the applicable grace period. See "The QRO and the Intangible Transition Charges--Competitive Billing" and "Risk Factors--It May Be More Difficult to Collect Intangible Transition Charges Due to Billing by Third Parties" in this prospectus.

The Assets of the Issuer:

The issuer will own:

- the intangible transition property transferred to the issuer (see "The Sale Agreement--Sale and Assignment of Intangible Transition Property" in this prospectus);
- collections of intangible transition charges;
- its rights under the transfer agreement, the sale agreement and the servicing agreement;
- trust accounts held by the bond trustee; and
- other credit enhancement acquired or held to ensure payment of the transition bonds as specified in the related

The intangible transition property is described in more detail under "The Transfer Agreement--Contribution of Intangible Transition Property" and "The Sale Agreement--Sale and Assignment of Intangible Transition Property" in this prospectus. The trust accounts are described in more detail under "The Indenture--Collection Account" in this prospectus.

Customers:

West Penn's customers belong to one of three customer categories. These categories are: residential, commercial and industrial, including street lighting.

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Each customer category is further divided into rate schedules. These rate schedules total 21. The customer categories and rate schedules are described in greater detail in "The Servicer of the Intangible Transition Property--West Penn's Customers" in this prospectus.

Payment Sources:

On each payment date specified in the related prospectus supplement, the bond trustee will pay amounts owed on all outstanding series of transition bonds from:

- amounts collected by the servicer--or any third party electric generation suppliers or other third party providing billing and/or metering services--for the issuer with respect to intangible transition charges during the prior quarter; and
- amounts available for withdrawal from trust accounts held by the bond trustee, including specified investment earnings on amounts in the trust accounts, or paid pursuant to contracts, such as the transfer agreement, the sale agreement, the bills of sale or the servicing agreement, pledged to secure one or more series of transition bonds. All accounts referred to in this prospectus will be held by the bond trustee in trust, and are described in greater detail under "The Indenture--The Collection Account for the Transition Bonds" in this prospectus.

State Pledge:

The Commonwealth of Pennsylvania has pledged in the Pennsylvania Competition Act that it will not limit, alter, impair or reduce the value of intangible transition property or the intangible transition charges which were approved by an order of the Pennsylvania Public Utility Commission until the transition bonds are fully repaid or discharged. However, the Commonwealth of Pennsylvania may limit or alter the value of intangible transition charges or intangible transition property if adequate compensation is made for the full protection of the beneficial owners of the transition bonds. The Pennsylvania Competition Act does not define adequate compensation. Thus, the amount of this compensation may not be sufficient to pay the full amount of outstanding principal of and

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interest on the transition bonds or compensate

transition bondholders for any reinvestment risk.

Priority of Distributions:

On each payment date specified in the related prospectus supplement, the bond trustee will pay or allocate remittances by the servicer of collections of intangible transition charges and investment earnings on amounts in the collection account, to the extent funds are available in the collection account, in the following order of priority:

- (1) payment of the bond trustee's fee, expenses and indemnities, if any;
 - (2) payment of fees to the independent directors of the issuer, which will be fixed in an amount to be agreed upon by the issuer and the independent directors;
 - (3) payment of the servicing fee to the servicer in the amount specified in the related prospectus supplement;
 - (4) payment of the administration fees payable under the administration agreements between the issuer, West Penn Funding Corporation and Allegheny Power Service Corporation, an affiliate of West Penn;
 - (5) so long as no event of default has occurred and is continuing or would be caused by that payment, payment of current operating expenses of the issuer--up to an aggregate of \$100,000 for each payment date for all series;
 - (6) payment of the interest then due on the transition bonds;
 - (7) payment of any principal then payable on the transition bonds:
 - (a) as a result of acceleration triggered by an event of default,
 - (b) on a series termination date or class termination date, as applicable, or
 - (c) on a redemption date;
 - (8) payment of the principal then scheduled to be paid on the transition bonds in accordance with the expected amortization schedule;
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- (9) payment of any remaining unpaid operating expenses then owed by the issuer;

- (10) allocation of any shortfalls in the capital subaccount, which account is described in detail under "--Accounts" in this prospectus summary and "The Indenture--"Collection Account" in this prospectus;
- (11) allocation of any required amount to the overcollateralization subaccount, which account is described in detail under "--Accounts" in this prospectus summary and "The Indenture"--"Collection Account" in this prospectus;
- (12) so long as no event of default has occurred and is continuing, payment of net investment earnings on amounts in the capital subaccount will be released to the issuer;
- (13) allocation of the remainder, if any, to the reserve subaccount, which account is described in detail under "--Accounts" in this prospectus summary and "The Indenture--"Collection Account" in this prospectus; and
- (14) following repayment of all outstanding series of transition bonds, the balance, if any, will be released to the issuer free from the lien of the indenture.

If, on any payment date, available collections of intangible transition charges, together with available amounts in the subaccounts, are not sufficient to make the payments contemplated by clauses (6) or (7) above with respect to a series of transition bonds, then the payments shall be made pro rata based on the respective outstanding principal amounts of transition bonds, unless, in the case of a series comprised of two or more classes, the related prospectus supplement specifies otherwise. All payments to transition bondholders of a class pursuant to clause (6) or (7) above shall be made pro rata based on the respective outstanding principal amounts of transition bonds of that class held by those transition bondholders.

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For a diagram depicting how the intangible transition charges and investment earnings will be allocated, refer to page 17 in this prospectus.

Credit Enhancement:

Credit enhancement for the transition bonds will be as follows:

- The servicer of the intangible transition property on behalf of the issuer will make periodic adjustments to the intangible transition charges it bills to customers, once the Pennsylvania Public Utility Commission approves these adjustments. West Penn

will make these adjustments if it determines that intangible transition charges are either greater or lesser than the amount necessary to make timely payments on the transition bonds, to fund subaccounts to required levels and to pay applicable fees and expenses. The servicer can make these changes, with the approval of the Pennsylvania Public Utility Commission, once a year. In addition, after the period beginning on the date which is 12 months before the expected final payment date for the last class or series of transition bonds, the servicer can make these adjustments as frequently as monthly. See "The PUC Order and the Intangible Transition Charges--The PUC Order" in this prospectus.

- The amounts in the overcollateralization subaccount, the capital subaccount and the reserve subaccount will also provide credit enhancement for the transition bonds.
- Additional credit enhancement for any series may include surety bonds, letters of credit, maturity guarantees, a financial guaranty insurance policy, credit or liquidity facility, repurchase obligation, third party payment or cash deposit, all as specified in the related prospectus supplement. The credit enhancement for the transition bonds is intended to protect you against losses or delays in scheduled payments on your transition bonds.

Accounts:

The bond trustee will hold the following trust accounts:

- Collection Account--Under the indenture, the issuer will establish a single collection account for all series of transition bonds which will be held by
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the bond trustee. The collection account will be divided into subaccounts which will allocate the funds deposited in the collection account to specific uses.

- General Subaccount--Funds received from collections of the intangible transition charges will initially be allocated to the general subaccount of the collection account.
- Overcollateralization Subaccount--Each prospectus supplement will set a funding level for the overcollateralization subaccount that takes into account the issuance of any additional series of transition bonds. The overcollateralization amount to be funded by each series of transition bonds will be equal to the percentage of the principal amount of that series stated in the related prospectus supplement. That amount is intended to be funded over the expected term of the transition bonds through the imposition of intangible transition charges.

-- Capital Subaccount--The amount of capital required to be held by the issuer for a series of transition bonds, which will be the amount specified in the related prospectus supplement, will be deposited into the capital subaccount by West Penn Funding Corporation on the date of issuance of that series.

-- Reserve Subaccount--If the issuer collects intangible transition charges in excess of

- (1) amounts then scheduled to be paid or due on a series of transition bonds;
- (2) related expenses;
- (3) amounts needed to make required deposits to the overcollateralization subaccount and the capital subaccount; and
- (4) net investment earnings on amounts in the capital subaccount released to the issuer,

the excess will be held in the reserve subaccount.

-- Other Accounts--If funds are remitted to the bond trustee in connection with a legal defeasance or covenant defeasance under the indenture, a defeasance subaccount will be established.

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Each of the overcollateralization subaccount, the capital subaccount and the reserve subaccount will be available to make payments on a series of transition bonds on each payment date as described in "The Indenture--Allocations and Payments" in this prospectus.

Interest and Principal:

Interest will accrue on the principal balance of transition bonds of a series or class at the applicable rate of interest specified in or determined in the manner specified in the applicable prospectus supplement.

On any payment date with respect to any series, unless principal is payable:

- (a) as a result of acceleration triggered by an event of default,
- (b) on a series termination date or class termination date, as applicable, or
- (c) on a redemption date,

the issuer will make principal payments on that series only until the outstanding principal balance thereof has been reduced to the amount specified for that payment date in the expected amortization schedule set forth in the prospectus supplement for that series, and only

to the extent funds are available therefor as described in this prospectus. Principal of such series or class of transition bonds may be paid later than reflected in the expected amortization schedule therefor.

See "Risk Factors--The Transition Bonds--Weighted Average Life on Payments of Transition Bonds May be Affected by Rate of Intangible Transition Charge Collections or Optional Redemption" and "Certain Weighted Average Life and Yield Considerations" in this prospectus.

The entire unpaid principal amount of the transition bonds will be due and payable if an event of default under the indenture occurs and is continuing and the bond trustee or the holders of a majority in principal amount of the transition bonds of all series then outstanding have declared the transition bonds to be immediately due and payable. See "The Indenture--

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Events of Default; Rights Upon Event of Default" in this prospectus.

Optional Redemption:

A prospectus supplement may provide for redemption of a series of transition bonds at the option of the issuer.

Payment and Record Dates:

The payment dates and record dates for each series of transition bonds will be listed in the corresponding prospectus supplement.

Expected Final Payment Dates,
Series Termination Dates and
Class Termination Dates:

The expected final payment date for each series or class of transition bonds will be the date when all interest and principal of that series or class is expected to be paid in full. The series termination date for a series or, if applicable, the class termination date for a class of transition bonds will be on or after the expected final payment date. Failure to pay the entire outstanding amount of any class or series by the expected final payment date will not result in a default with respect to that class or series until the series termination date or class termination date for the class or series. The expected final payment date and the series termination date or class termination date of each series and class of transition bonds will be specified in the corresponding prospectus supplement.

Risk Factors:

Prospective investors should consider, among other things, the risks associated with an investment in the transition bonds. These risks may cause transition bondholders to suffer a loss of their investment in transition bonds or may adversely affect the timing of payments to transition bondholders.

For a detailed discussion of the material risks associated with an investment in transition bonds, prospective investors should review the discussion under "Risk Factors" which begins on page 18 of this prospectus.

The Transition Bonds; Issuance
of New Series:

The issuer may issue transition bonds in one or more series, each comprised of one or more classes. Each series of transition bonds will be issued under the indenture. See "The

Any series of transition bonds may include one or more classes which differ, among other things, as to the bond rate and amortization of principal. The terms of all transition bonds of the same series will be identical, unless that series is comprised of more than one class, in which case the terms of all transition bonds of the same class will be identical. The particular terms of the transition bonds of any series and, if applicable, classes thereof, will be described in the related prospectus supplement.

The terms of that series and any classes thereof will not be subject to prior review by, or consent of, the transition bondholders of any previously issued series. A new series may be issued pursuant to the indenture only upon satisfaction of the conditions described in this prospectus under "The Indenture--Issuance in Series or Classes." See "Risk Factors--The Transition Bonds--Issuance of Additional Series May Adversely Affect Outstanding Transition Bonds" and "The Transition Bonds" in this prospectus.

Denominations:

Each class of transition bonds will initially be issued in the minimum denominations set forth in the related prospectus supplement.

Form of the Transition Bonds:

Each series and class of transition bonds will initially be issued either only in book-entry form through The Depository Trust Company or in another form as specified in the applicable prospectus supplement. See "The Transition Bonds--Book-Entry Registration" in this prospectus.

Tax Status:

West Penn has received a ruling from the Internal Revenue Service that the transition bonds will be classified as obligations of West Penn Funding Corporation. Based on the ruling, for U.S. federal income tax purposes, the transition bonds will be treated as debt of West Penn Funding Corporation secured by a pledge of the collateral.

The issuer will be treated as a division of West Penn Funding Corporation and will not be treated as a separate taxable entity.

Transition bondholders who are not United States taxpayers generally will not be subject to United

States federal income or withholding taxes on interest received on the transition bonds.

See "United States Taxation" in this prospectus.

In addition, in the opinion of Ballard Spahr Andrews & Ingersoll, LLP, special Pennsylvania tax counsel to the issuer and West Penn, interest from the transition bonds received by a person who is not otherwise subject to corporate or personal income tax in Pennsylvania will not be subject to these taxes. Transition bonds held by deceased Pennsylvania residents may be subject to inheritance and estate taxes. Neither residents nor nonresidents of Pennsylvania will be subject at the present time to an intangible personal property tax with respect to the

transition bonds. See "Material Commonwealth of Pennsylvania Tax Matters" in this prospectus.

ERISA Considerations:

Employee benefit plans are permitted to purchase transition bonds. A fiduciary of any employee benefit plan or other plan or arrangement that is subject to the Employee Retirement Income Security Act of 1974, as amended, or Section 4975 of the Internal Revenue Code of 1986, as amended, should carefully review with its legal advisers whether the purchase or holding of the transition bonds of any class or series could give rise to a transaction prohibited or not otherwise permissible under ERISA or the Code. See "ERISA Considerations" in this prospectus.

Ratings:

It is a condition of any underwriter's obligation to purchase each series or class of transition bonds that, at the time of issuance, that series or class receive the rating indicated in the related prospectus supplement, which will be in one of the four highest categories, from one or more rating agencies which have rated the transition bonds specified in that prospectus supplement.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. No person is obligated to maintain any rating on any transition bond and, accordingly, there can be no assurance that the ratings assigned to any series or class of transition bonds upon initial issuance thereof will not be revised or withdrawn by a rating agency at any time thereafter.

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If a rating of any series or class of transition bonds is revised downward or withdrawn, the liquidity and the price of that series or class of transition bonds may be adversely affected. In general, the ratings address credit risk and do not represent any assessment of any particular rate of principal payments on the transition bonds other than the payment in full of each series or class of transition bonds by the applicable series termination date or class termination date.

See "Risk Factors--The Transition Bonds--Weighted Average Life of Payments on Transition Bonds May be Affected by Rate of Intangible Transition Charge Collections or Optional Redemption" and "Ratings" in this prospectus.

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PARTIES TO THE TRANSACTION

[Diagram of Parties to the Transaction]

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[Diagram of Allocations and Distributions]

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RISK FACTORS

You should consider the following risk factors in deciding to purchase transition bonds:

LEGAL, LEGISLATIVE OR REGULATORY ACTIONS COULD ADVERSELY AFFECT TRANSITION
BONDHOLDERS

LEGAL CHALLENGES COULD
ADVERSELY AFFECT TRANSITION
BONDHOLDERS

Intangible transition property and its adequacy to pay principal of and interest on the transition bonds depends on the Pennsylvania Competition Act and the West Penn qualified rate order, as supplemented. If the Pennsylvania Competition Act or the West Penn qualified rate order, as supplemented, were challenged in a lawsuit and a court decided it was invalid or unenforceable, West Penn would have breached a representation in the transfer agreement. In that case, West Penn would have to indemnify the issuer and the bond trustee for the losses resulting from that breach. See "The Transfer Agreement--Representations and Warranties of West Penn" in this prospectus.

Also, West Penn may not be able to meet its indemnity obligations. As a result, if the Pennsylvania Competition Act or the West Penn qualified rate order, as supplemented, was overturned, transition bondholders could suffer a loss of their investment. Also, the time and expense of enforcing rights against West Penn could result in a loss to transition bondholders or delay expected payments on the transition bonds.

CHANGES IN LAW MAY RESULT IN
LOSSES TO TRANSITION
BONDHOLDERS

West Penn will not breach a representation for a change in law by legislative enactment or constitutional amendment, including an enactment or amendment that breaches the Commonwealth of Pennsylvania's pledge not to limit, alter or impair intangible transition property or intangible transition charges. Examples of a change in law are a repeal of the Pennsylvania Competition Act, an amendment to it voiding the existence of intangible transition property or the adoption of a federal statute prohibiting the recovery of stranded costs.

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Under the Pennsylvania Competition Act, the Commonwealth of Pennsylvania may limit or alter the value of intangible transition property or intangible transition charges if "adequate compensation is made by law" for the protection of the intangible transition charges and of transition bondholders. It is unclear if "adequate compensation . . . by law" would be sufficient to pay the full amount of the outstanding principal of and interest on the transition bonds or would compensate transition bondholders for any reinvestment risk.

Under the United States and Pennsylvania Constitutions, the Commonwealth of Pennsylvania could not repeal or amend the Pennsylvania Competition Act--by way of legislative process--or take any action that violates its pledge and agreement described in the first paragraph of this subheading without paying just compensation to the transition bondholders if doing so would:

-- constitute a permanent "taking" of the

property interest of transition bondholders in the intangible transition property; and

- deprive the transition bondholders of their reasonable expectations arising from their investments in the transition bonds.

However, even if a court awarded just compensation, it may not be enough to pay the full amount of principal of and interest on the transition bonds or compensate transition bondholders for any reinvestment risk.

Also, if there were a change in law described in the first paragraph of this subheading, there might be costly and time-consuming litigation. There is no judicial precedent directly on point, and the security for the transition bondholders is a new type of asset. As a result, the outcome of any of this litigation cannot be predicted with certainty.

FEDERAL LEGISLATION MAY RESULT
IN LOSSES TO TRANSITION
BONDHOLDERS

Congress or a federal agency may pass a law or adopt a rule or regulation prohibiting or limiting the collection of intangible transition charges. Congress considered in 1997 at least one bill prohibiting the recovery of stranded costs, but the bill was not

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enacted. The issuer cannot predict if any future bills that prohibit the recovery of stranded costs will become law or, if they become law, what their final form or effect will be. If the Pennsylvania Competition Act or the West Penn qualified rate order, as supplemented, was preempted by federal law, a court may decide that it is not a "taking" for which the government would have to pay the estimated market value of the transferred intangible transition property. Even if any federal preemption were considered a "taking," for which the government had to pay this value, that compensation may not be enough to pay the full amount of principal of and interest on the transition bonds. In that case, transition bondholders could suffer a loss of their investment. Also, in this case, West Penn would not be required to indemnify the issuer or the bond trustee. See "--Changes in Law May Result in Losses to Transition Bondholders" above.

THE PENNSYLVANIA PUBLIC
UTILITY
COMMISSION MAY TAKE ACTIONS
THAT ADVERSELY AFFECT
TRANSITION
BONDHOLDERS

The Pennsylvania Public Utility Commission will continue to regulate some aspects of the electric industry in Pennsylvania and it may take actions that adversely affect transition bondholders. For example, it will

- regulate all aspects of the business of electric distribution companies;
- set financial and other requirements for electric generation suppliers and other third parties; and
- set customer billing guidelines and collection, metering and disclosure requirements for electric generation suppliers and other third parties.

Also, subject to the Commonwealth of

Pennsylvania's pledge not to limit or alter the value of intangible transition charges or intangible transition property unless adequate compensation is made for the full protection of the transition bondholders, the Pennsylvania Public Utility Commission could revise or rescind any of its regulations. West Penn cannot predict whether the Pennsylvania Public Utility Commission will make new regulations or the timing or content of any new Pennsylvania Public Utility Commission regulations.

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West Penn agrees to take legal or administrative actions, including bringing lawsuits, as may be reasonably necessary to block or overturn:

- any government attempt to repeal or change the Pennsylvania Competition Act, the West Penn qualified rate order, as supplemented, or the intangible transition property in a way that is materially adverse to the holders of transition bonds, or
- lawsuits by third parties which, if successful, would result in a breach of West Penn's representations concerning the intangible transition property, the West Penn qualified rate order, as supplemented, or the Pennsylvania Competition Act.

West Penn, however, may not be able to take those actions and any action West Penn is able to take may not be successful.

Future Pennsylvania Public Utility Commission regulations may affect the rating of the transition bonds or their price. Those actions may also affect the rate of collections of intangible transition charges and, as a result, the amortization of transition bonds and their weighted average lives. As a result, transition bondholders could suffer a loss of their investment.

LITIGATION AND OTHER EVENTS IN
OTHER JURISDICTIONS COULD
ADVERSELY AFFECT TRANSITION
BONDHOLDERS

A court decision based on the U.S. Constitution or other federal law overturning a state statute like the Pennsylvania Competition Act adopted by another state could give rise to a challenge to the Pennsylvania Competition Act. That decision would not automatically invalidate the Pennsylvania Competition Act. It could, however, set a legal precedent for a successful challenge to the Pennsylvania Competition Act that could adversely affect transition bondholders. As a result, the market value of the transition bonds could be reduced.

Also, legal actions in other states challenging stranded cost recovery or securitization of stranded cost recovery could adversely affect the market for transition bonds. Legal challenges brought in jurisdictions other than Pennsylvania based on state laws other than Pennsylvania would not, however, directly affect the

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Pennsylvania Competition Act or the interests of the transition bondholders. These actions, however, could increase awareness of the

political and other risks associated with these types of securities and limit the liquidity of the transition bonds and impair their value.

NATURE OF INTANGIBLE TRANSITION PROPERTY

LACK OF CONTINUED OPERATION OF EXISTING GENERATION FACILITIES MAY RESULT IN LOSSES TO TRANSITION BONDHOLDERS

Under the Pennsylvania Competition Act, recovery of stranded costs associated with existing generating facilities depends on continued operation of these facilities. There is an exception if that operation is uneconomic because of the transition to a competitive market. Although the parts of the West Penn qualified rate order, as supplemented, providing for collection of intangible transition charges are stated to be irrevocable, the collection of intangible transition charges could be challenged if some generating facilities of West Penn ceased to operate at reasonable levels. If the challenge were successful, the issuer may not have funds to make payments on the transition bonds. As a result, transition bondholders could suffer a loss of their investment. Also, in this case, West Penn would not be required to indemnify the issuer or the bond trustee.

FAILURE TO MAKE ADEQUATE ADJUSTMENTS TO THE INTANGIBLE TRANSITION CHARGES MAY RESULT IN LOSSES TO TRANSITION BONDHOLDERS

The actual rate of collections of intangible transition charges may vary from projections used to set the intangible transition charges due to a number of factors. These include variations in electricity usage by customers from projected electricity usage and delinquencies and write-offs. The servicer must seek an adjustment to the intangible transition charges from the Pennsylvania Public Utility Commission on each calculation date to reflect shortfalls in or excesses of collections of intangible transition charges for prior periods, including shortfalls or excesses resulting from inaccurate servicer forecasts. The adjustments are intended to take into account any projected trends in customers or usage impacting billed revenue from which intangible transition charges are allocated to prevent shortfalls or excesses of collections of intangible transition charges in future periods.

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If those forecasts or projected trends are not accurate, adjustments to the intangible transition charges may not result in the issuer receiving funds sufficient to pay interest on the transition bonds when due and principal of the transition bonds in accordance with the expected amortization schedule.

The Pennsylvania Competition Act and the West Penn qualified rate order, as supplemented, require the Pennsylvania Public Utility Commission to approve annual adjustment requests within 90 days of the applicable date on which the servicer calculates the required adjustment and files that adjustment request with the Public Utility Commission. Also, the West Penn qualified rate order, as supplemented, provides that, during the period commencing 12 months prior to the last scheduled payment date for the payment of principal on the last class of each series of transition bonds, monthly or quarterly

adjustments will become effective on the first day of the next calendar month or the first day of the next quarterly period, respectively. If the Pennsylvania Public Utility Commission fails to approve these adjustments on a timely basis or there is any litigation challenging the approval of these adjustments or methodology in calculating these adjustments, the price and liquidity of the transition bonds could be adversely affected.

Any of these factors could affect the sufficiency of amounts available to pay the principal of the transition bonds or the dates of the payment of the principal of the transition bonds. As a result, transition bondholders could suffer a loss of their investment or the weighted average lives of the transition bonds could be adversely affected.

LIMITED TIME PERIOD FOR
IMPOSITION OR ADJUSTMENT OF
INTANGIBLE TRANSITION CHARGES
MAY RESULT IN LOSSES TO
TRANSITION BONDHOLDERS

The intangible transition charges associated with the issuance of transition bonds may not be imposed for service periods after December 31, 2008. Also, after the final adjustment date specified for each series, the intangible transition charges may no longer be adjusted for that series. After that date, any shortfalls in collections of intangible transition charges available to make payments on the series are expected to be covered through amounts, if any, on deposit in the

reserve subaccount, the overcollateralization subaccount and the capital subaccount. If those amounts are not enough to cover the shortfalls, the transition bonds may not be paid in full by the applicable expected final payment date or class or series termination date, and transition bondholders would suffer a loss of their investments.

LACK OF HISTORICAL INFORMATION
ABOUT, AND INEXPERIENCE
ADMINISTERING, INTANGIBLE
TRANSITION PROPERTY MAY RESULT
IN LOSSES TO TRANSITION
BONDHOLDERS

The servicer does not have historical information for intangible transition property, although it does have customer and energy usage records. Those usage records, however, do not reflect customers' payment patterns or energy usage in a competitive market. They also do not reflect consolidated billing by electric generation suppliers or other third parties. As a result, these records may not be useful in predicting payments of intangible transition charges.

The servicer does not have any experience administering this type of asset.

In the event of a foreclosure, there is likely to be a limited market, if any, for the transferred intangible transition property. Therefore, foreclosure may not be a realistic or practical remedy. See "--Bankruptcy; Creditors' Rights" below.

These factors may result in delays or shortfalls in scheduled payments on the transition bonds.

ADJUSTMENTS TO INTANGIBLE
TRANSITION CHARGES BY RATE
SCHEDULE MAY RESULT IN

The customers who will be responsible for paying intangible transition charges are divided into 21 rate schedules. These rate schedules are grouped among three customer categories. Intangible transition charges will be assessed by rate schedule within each customer class. Adjustments to the intangible transition charges will also be made to each rate schedule within each customer category. A shortfall in collection in one rate schedule must be made up by adjustments to that rate schedule as well as the other rate schedules within that customer category. However, shortfalls in a customer category may not be corrected by making adjustments to rate schedules in any other customer category. Some rate schedules in a particular category have a significantly smaller number of customers than other rate schedules in that customer category. If customers in a rate schedule fail to pay intangible transition charges, the servicer may

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have to substantially increase the intangible transition charges for the remaining customers in that rate schedule and the other rate schedules in that customer category. The servicer may also have to take this action if consumers representing a significant percentage of a rate schedule cease to be customers. These increases could lead to further failures by the remaining customers in that customer category to pay intangible transition charges, thereby increasing the risk of a shortfall in funds to pay the transition bonds.

ONE CUSTOMER CATEGORY CANNOT COMPENSATE FOR THE FAILURE TO COLLECT INTANGIBLE TRANSITION CHARGES FROM ANOTHER CATEGORY

The Pennsylvania Competition Act and the qualified rate order, as supplemented, do not permit costs to be shifted among customer categories. As a result, a shortfall in collections of intangible transition charges in one customer category cannot be made up by adjustments of intangible transition charges in the other customer categories. See "The Pennsylvania Competition Act" in the prospectus.

THE AMOUNT OF GENERATION CHARGES INCLUDING INTANGIBLE TRANSITION CHARGES MAY NOT EXCEED A STATUTORY CAP

The Pennsylvania Competition Act and the qualified rate order, as supplemented, set a cap on generation charges including intangible transition charges through December 31, 2008. This generation rate cap applies to each rate schedule within each customer category separately. If there is a severe or persistent shortfall in collections of intangible transition charges in any rate schedule, the rate cap applicable to that rate schedule may prevent the servicer from adjusting intangible transition charges for that rate schedule in excess of the rate cap. If this occurs, the servicer would have to adjust intangible transition charges for the remaining rate schedules within that customer category. These adjustments may result in the assessment of intangible transition charges on the remaining rate schedules at a level that is limited by their rate caps. This could reduce the amount or the rate of collections of intangible transition charges, which may result in a loss

to transition bondholders or delay expected payments on the transition bonds. See "The Pennsylvania Competition Act--The Pennsylvania Competition Act's General Effect on the Electric Utility Industry in Pennsylvania" in this prospectus.

The qualified rate order, as supplemented, gives West Penn the right to request relief from the generation

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rate cap if the combined total of the charges subject to that cap exceeds the generation rate cap. However, there is no assurance that the Pennsylvania Public Utility Commission would grant this request, or that the Pennsylvania Public Utility Commission would grant the request in a timely manner. West Penn also may adjust the shopping credit to comply with the generation rate cap, if necessary.

SERVICING

WEST PENN CEASING TO ACT AS SERVICER MAY RESULT IN LOSSES TO TRANSITION BONDHOLDERS

The servicer will be responsible for calculating adjustments to the intangible transition charges, submitting adjustment requests to the Pennsylvania Public Utility Commission and billing and collecting the intangible transition charges. If West Penn ceased servicing intangible transition property, it may be hard to obtain a successor servicer. Also, a transfer of servicing functions will require cooperation by the Pennsylvania Public Utility Commission. A successor servicer may have difficulties in collecting intangible transition charges and determining appropriate adjustments to intangible transition charges. Also, under current law, a successor servicer may not be able to shut off service to a customer that fails to pay intangible transition charges.

If West Penn were replaced as servicer, any of those factors and others could delay the timing of payments on the intangible transition property. As a result, transition bondholders could incur a loss of their investment. See "The Servicing Agreement" in this prospectus.

INACCURATE PROJECTIONS BY SERVICER MAY RESULT IN LOSSES TO TRANSITION BONDHOLDERS

If the servicer incorrectly forecasts the billed revenue from which intangible transition charges are allocated and the delinquency and write-off experience relating to intangible transition charges, the timely receipt of collections of intangible transition charges could be adversely affected. A variety of risks and uncertainties could cause actual results to differ materially from those projected. They include, among others, changes in political, social and economic conditions, weather, unexpected demographic trends, catastrophes, regulatory initiatives, compliance with governmental regulations and litigation. All of those events and

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circumstances are beyond the control of the

servicer. Adjustments to the intangible transition charges are required to be made under the Pennsylvania Competition Act if actual results differ from projections. However, until the adjustments are made, payments on the transition bonds could be delayed, and the market value of the transition bonds could be reduced. There can be no assurance that, when made, adjustments will be sufficient.

DELAYS IN PAYMENTS ON
TRANSITION BONDS MAY BE
CAUSED BY CHANGES IN PAYMENT
TERMS

The servicer is permitted to alter the terms of billing and collection arrangements and modify amounts due from customers. The servicer cannot change the amount of a customer's individual intangible transition charges, but it can take actions that it believes will increase collections from a customer. These actions might include, for example, agreeing to an extended payment schedule or agreeing to write-off the remaining portion of an outstanding bill. The servicer can also write-off outstanding bills that it deems uncollectible in accordance with its usual billing and collection practices. Additionally, West Penn or a successor to West Penn as servicer may change its billing and collection practices, or the Pennsylvania Public Utility Commission may require changes to these practices. These changes could delay or reduce collections of intangible transition charges and, as a result, adversely affect the payment of interest on the transition bonds on a timely basis or the payment of principal of the transition bonds in accordance with the expected schedule. See "The Servicer--Customers and Operating Revenues," "--Billing Process" and "--Limited Information on Customers' Creditworthiness" in this prospectus.

WEST PENN'S LIMITED
INFORMATION ON CUSTOMERS'
CREDITWORTHINESS MAY RESULT IN
INCREASED DELINQUENCIES AND
WRITE-OFFS

The servicer's ability to collect intangible transition charges will depend in part on the creditworthiness of its customers. Under Pennsylvania law, West Penn generally must provide service to new customers in its service area. Credit investigations of new customers by West Penn have been limited. If the servicer incorrectly determines the creditworthiness of a large number of its customers, there may be significant increases in delinquencies and write-offs. This could result in delays in payments to transition bondholders. See "--It May Be More Difficult to Collect Intangi-

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ble Transition Charges Due To Billing by Third Parties" below.

IT MAY BE MORE DIFFICULT TO
COLLECT INTANGIBLE TRANSITION
CHARGES DUE TO BILLING BY
THIRD PARTIES

Under the Pennsylvania Competition Act, after September 1, 2000, intangible transition charges may be collected by third parties providing billing and/or metering services, including electric generation suppliers. Any third party that provides consolidated billing must pay the servicer amounts billed by the servicer to the third party, including the intangible transition charges. Third party billing parties are required to make these payments even if the third party fails to

collect those amounts from customers.

Billing by third parties as described in the paragraph above could adversely affect the timely payment of interest on the transition bonds or the payment of principal of the transition bonds in accordance with the expected amortization schedule because:

- any third party that collects intangible transition charges may not use the same customer credit standards as the servicer;
- problems may arise from new and untested systems or any lack of experience on the part of third parties with customer billing and collections;
- the servicer may not be able to reduce credit risks relating to third parties in the same manner in, or to the same extent to which, it reduces those risks relating to its customers;
- the servicer generally will not have the right to pursue customers of a third party which provides consolidated billing who defaults in the payment of intangible transition charges; and
- to the extent that customers choose consolidated billing by electric generation suppliers or other third parties, the issuer may be relying on a small number of electric generation suppliers and other third parties rather than a large number of individual customers, to pay collections of intangible transition charges. As a result, a default in the payment of intangible transition charges by a single third party that provides billing service to a large number of customers may adversely affect

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the timing of payments on the transition bonds or could result in a loss of their investment.

Neither West Penn nor the servicer will pay any shortfalls resulting from the failure of any third party to forward collections of intangible transition charges to the servicer. The adjustment mechanism for the intangible transition charges, as well as the amounts on deposit in the capital subaccount, the overcollateralization subaccount and the reserve subaccount are intended to address delays in the timing of collections and payments. However, delays in payments to transition bondholders might occur as a result of delays in obtaining adjustments, limitations on rate adjustments or any lack of funds in the reserve subaccount, the overcollateralization subaccount and the capital subaccount after the final adjustment date.

CUSTOMERS WITHIN WEST PENN'S
SERVICE AREA MAY STOP OR
DELAY MAKING INTANGIBLE
TRANSITION CHARGE PAYMENTS

Customers within West Penn's service area may stop or delay paying intangible transition charges because:

- they may be confused by the assessment of a charge they have not seen before or because of changes in billing and

payment arrangements, including billing by third parties;

- they may misdirect their payments as they may owe amounts to several different parties which may include both West Penn and an electric generation supplier or other third party;
- if a large number of customers self-generate, move out of West Penn's service territory, significantly reduce their electricity consumption or cease consuming electricity altogether, the intangible transition charges, as periodically adjusted, required to be paid by remaining customers may become burdensome. Greater delinquencies and write-offs or petitions to the Pennsylvania Public Utility Commission to reduce intangible transition charges might result; and
- the servicer may not be able to collect intangible transition charges from customers who partially self-generate because the servicer may not know which consumers are self-generating and will not be able to exercise full shut-off rights against a self-generator.

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Any of these factors could result in delays or shortfalls in scheduled payments on the transition bonds.

THE COMMINGLING OF
COLLECTIONS OF INTANGIBLE
TRANSITION CHARGES WITH
SERVICER'S OTHER FUNDS MAY
RESULT IN PAYMENT DELAYS

Until collections of intangible transition charges are deposited with the bond trustee, the servicer will not segregate them from its general funds. If the servicer does not or cannot remit the full amount of the collections of intangible transition charges there may be delays or reductions in payments to transition bondholders. The adjustments to the intangible transition charges and amounts, if any, on deposit in the reserve subaccount, the overcollateralization subaccount and the capital subaccount are designed to reduce this risk. However, there may be delays in payments to transition bondholders if there are delays in implementation of the adjustment mechanism or a lack of funds in the reserve subaccount, the overcollateralization subaccount and the capital subaccount after the final adjustment date.

POTENTIAL COMPUTER PROGRAM
PROBLEMS BEGINNING IN THE
YEAR 2000 MAY RESULT IN
PAYMENT DELAYS ON TRANSITION
BONDS

There could be delays in principal and interest payments on the transition bonds if West Penn, as servicer, or the bond trustee experiences problems in its computer programs, or those of vendors on whom they rely, relating to the Year 2000. Many existing computer programs use only two digits to identify a year. These programs could fail or produce erroneous results during the transition from the Year 1999 to the Year 2000 and afterwards.

West Penn has evaluated the impact of preparing its systems for the Year 2000. It has identified areas of potential impact and is implementing conversion efforts. On March 30, 1999, West Penn reported to the Pennsylvania

Public Utility Commission that, except for a few items, its critical electricity production and delivery systems were Year 2000 ready pending final confirmation system testing of its power stations in April and May. West Penn has determined that as of June 30, 1999, all of its critical components and systems related to safety and the production and distribution of electricity and nearly all of its important business systems, including accounting and billing, are Year 2000 ready. West Penn anticipates that the remediation and testing work on the remaining

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business and non-critical systems will be completed by September 30, 1999. West Penn has defined Year 2000 ready to mean that a determination has been made by testing or other means that a component or system will be able to perform its critical functions, or that contingency plans are in place to overcome any inability to do so. See "The Servicer--Year 2000 Compliance" in this prospectus.

If West Penn, or a third party on whom West Penn relies for collection of intangible transition charges, does not have a computer system that is Year 2000 compliant by January 1, 2000, West Penn's ability to service the intangible transition property may be materially and adversely affected.

If the bond trustee does not have a computer system that is Year 2000 compliant by January 1, 2000, the bond trustee's ability to make distributions on the transition bonds may be materially and adversely affected.

The Year 2000 issue could also affect usage if there are problems with the generation or distribution of electricity.

There is no way to predict the impact of the Year 2000 issue. However, if there are significant interruptions of service to customers or significant business interruptions in general caused by Year 2000 issues, there could be significant delays in collections of intangible transition charges. In that case, payments to transition bondholders could be delayed.

BANKRUPTCY; CREDITORS' RIGHTS

BANKRUPTCY OF WEST PENN OR
WEST PENN FUNDING
CORPORATION MAY RESULT IN
LOSSES TO TRANSITION
BONDHOLDERS

GENERAL. The bankruptcy of West Penn or West Penn Funding Corporation could have several adverse consequences for transition bondholders, the most important of which are briefly described below.

TRANSFER OF INTANGIBLE TRANSITION PROPERTY MAY BE RECHARACTERIZED AS A FINANCING RATHER THAN A TRUE SALE. The Pennsylvania Competition Act provides that a transfer of intangible transition property by an electric utility to an assignee that is expressly stated to be a sale or other absolute transfer in a transaction approved in a qualified rate order, will be treated as a

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sale, rather than a pledge or other financing,

of the intangible transition property. West Penn will represent in the transfer agreement that:

- the transfer of the transferred intangible transition property to West Penn Funding Corporation is a capital contribution; and
- the transfer of the transferred intangible transition property by West Penn Funding Corporation to the issuer is a sale.

West Penn and West Penn Funding Corporation will also represent that they will take the appropriate actions under the Pennsylvania Competition Act, including filing an intangible transition property notice, to perfect these transfers.

However, if West Penn became a debtor in a bankruptcy case, the bankruptcy trustee, West Penn or another party could take the position that the transfer of the transferred intangible transition property to West Penn Funding Corporation was a financing transaction and not a capital contribution. Similarly, if West Penn Funding Corporation became a debtor in a bankruptcy case, the bankruptcy trustee, West Penn Funding Corporation or another party could take the position that the sale of the transferred intangible transition property to the issuer was a financing transaction and not a "true sale". If a court agreed with either of these positions, delays or reductions in payments on the transition bonds could result. Regardless of a court's final decision on the character of the transactions, the mere fact of a West Penn or West Penn Funding Corporation bankruptcy could result in delays in payments on the transition bonds. A bankruptcy also could have an adverse effect on the secondary market for the transition bonds, including the liquidity and market value of the transition bonds.

To reduce the impact of the possible recharacterization of a sale or other absolute transfer of intangible transition property as a financing transaction, the Pennsylvania Competition Act and related regulations provide that if an intangible transition property notice is filed and the transfer is later held to be a financing transaction, that notice will be deemed to constitute a

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filing with respect to a security interest. The Pennsylvania Competition Act also provides that any such filing in respect of transition bonds takes precedence over any other filings.

As a result of these filings, West Penn Funding Corporation would be a secured creditor of West Penn and the issuer would be a secured creditor of West Penn Funding Corporation, entitled to recover against the collateral. If, however, intangible transition property notices are not filed for any reason, West Penn Funding Corporation or the issuer fails to otherwise perfect its interest in the transferred intangible transition property and the transfer is thereafter deemed not to constitute a true sale or other absolute transfer, West Penn Funding Corporation would be an unsecured creditor of West Penn or the issuer would be an unsecured creditor of West Penn Funding Corporation.

COURT MAY ORDER CONSOLIDATION OF THE ISSUER, WEST PENN FUNDING CORPORATION AND WEST PENN. If West Penn or West Penn Funding Corporation became a debtor in a bankruptcy case, the bankruptcy trustee, West Penn or West Penn Funding Corporation or another party may attempt to substantively consolidate the assets of the issuer and West Penn or West Penn Funding Corporation. West Penn, West Penn Funding Corporation and the issuer have taken steps to attempt to reduce this risk. However, if a court ordered that the assets and liabilities of the issuer be consolidated with those of West Penn or West Penn Funding Corporation, delays or reductions in payments on the transition bonds would result.

COURT MAY MAKE LOW ESTIMATION OF CONTINGENT CLAIMS; ENFORCEABILITY OF REMEDY PROVISIONS MAY BE CHALLENGED. If West Penn became a debtor in a bankruptcy case, claims, including indemnity claims, by the issuer against West Penn under the transfer agreement and the related documents would be unsecured claims and could be discharged. Also, the bankruptcy trustee, West Penn or another party may request that the bankruptcy court estimate any contingent claims, including for West Penn's indemnity obligation, of the issuer against West Penn and take

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the position that the claims should be estimated at zero or at a low amount because the contingency giving rise to the claims is unlikely to occur.

If West Penn became a debtor in a bankruptcy case and West Penn were obligated under the transfer agreement to indemnify the issuer and the bond trustee, the bankruptcy trustee, West Penn or another party might challenge the enforceability of the indemnity provisions. If a court decided that the indemnity provisions were unenforceable, the issuer should have a claim against West Penn for actual damages based on breach of contract principles. The amount of those actual damages would be subject to estimation and/or calculation by the court.

As a result of any of the above-described actions or claims, transition bondholders could suffer delays in payment, reduction in the investment value of their transition bonds or a loss of their investment.

INTANGIBLE TRANSITION PROPERTY MAY NOT BE HELD TO BE CURRENT PROPERTY, RESULTING IN UNSECURED DEBT. The Pennsylvania Competition Act provides that the transferred intangible transition property constitutes a current property right on and after the date that the West Penn qualified rate order, as supplemented, became effective. West Penn has also made a representation to that effect. However, if West Penn became a debtor in a bankruptcy case, the bankruptcy trustee, West Penn or another party could argue that, because the payments based on the transferred intangible transition property are indirectly usage-based charges, the transferred intangible transition property comes into existence only as customers use electricity.

If a court adopted this position, a security interest in favor of the transition bondholders may not attach to intangible transition charges in respect of electricity used after the beginning of a bankruptcy case for West Penn. If a court took this position and also

determined that the transferred intangible transition property has not been sold or transferred absolutely to West Penn Funding Corporation or the issuer, the issuer would be an unsecured creditor of West Penn Funding Corporation and West Penn Funding Corporation would be an unsecured creditor of West Penn

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and delays or reductions in payments on the transition bonds could result.

Also, a court could rule that any intangible transition charges relating to electricity consumed after the commencement of West Penn's bankruptcy cannot be transferred to the issuer or the bond trustee. This could result in delays or reductions of payments of the transition bonds.

Payments based on the intangible transition charges are indirectly usage-based charges. Therefore, if West Penn became a debtor in a bankruptcy case, the bankruptcy trustee, West Penn or another party could argue that the issuer should pay a portion of the costs of West Penn associated with generating, transmitting or distributing the electricity use of which gave rise to the collections of intangible transition charges related to the transition bonds. If a court adopted this position, there could be delays or reductions in payments to the transition bondholders.

Whether or not West Penn is the debtor in a bankruptcy case, if a court decided that the transferred intangible transition property comes into existence only as customers use electricity, a tax or government lien or other nonconsensual lien on property of West Penn arising before the transferred intangible transition property came into existence could have priority over the issuer's interest in the transferred intangible transition property. This could result in a reduction of amounts paid to the transition bondholders. Adjustments to the intangible transition charges may be available to reduce this risk, although delays in implementation or challenges to those adjustments may cause a delay in receipt of payments.

AUTOMATIC STAY MAY PREVENT OR DELAY ENFORCEMENT OF RIGHTS BY BOND TRUSTEE. If there is an event of default under the indenture, the Pennsylvania Competition Act permits the Pennsylvania Public Utility Commission to order the segregation and payment of all intangible transition charges to transition bondholders. The Pennsylvania Competition Act provides that the order will be effective notwithstanding bankruptcy or other insolvency proceedings with respect to

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the utility or its assignee. The Pennsylvania Public Utility Commission, however, may not issue this order because of the automatic stay provisions of the Bankruptcy Code. Also, a bankruptcy court may not lift the stay to permit this action by the Pennsylvania Public Utility Commission. In that event, the bond trustee may under the indenture seek an order from the bankruptcy court lifting the automatic stay with respect to the Pennsylvania Public Utility Commission action and an order requiring segregation of the revenues arising

from the transferred intangible transition property. However, a court may not grant either order.

BANKRUPTCY OF SERVICER MAY
RESULT IN LOSSES TO TRANSITION
BONDHOLDERS

The servicer can commingle collections of intangible transition charges with its own funds until they are deposited with the bond trustee. The Pennsylvania Competition Act provides that the priority of a lien created under the Pennsylvania Competition Act is not adversely affected by the commingling of funds arising with respect to intangible transition property with funds of the electric utility. However, in the event of a bankruptcy of the servicer, the bankruptcy trustee, the servicer or another party might argue that collections of intangible transition charges held by the servicer were property of the servicer included in its bankruptcy estate. If a court adopted this position, there may be delays in payments due on the transition bonds.

If the servicer became a debtor in a bankruptcy case, the automatic stay may prevent the issuer from effecting a transfer of servicing, even though the servicing agreement provides that the bond trustee appoint, or petition the Pennsylvania Public Utility Commission or a court to appoint, a successor servicer.

THE TRANSITION BONDS

ABSENCE OF SECONDARY MARKET
FOR TRANSITION BONDS COULD
LIMIT ABILITY TO RESELL
TRANSITION BONDS

The underwriters for the transition bonds may assist in resales of the transition bonds but they are not required to do so. A secondary market for the transition bonds may not develop. If a secondary market for the transition bonds does develop, it may not continue or it may not be sufficiently liquid to

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allow holders to resell any of the transition bonds. See "Plan of Distribution for the Transition Bonds" in this prospectus.

LIMITED SOURCES OF PAYMENTS
FOR THE TRANSITION BONDS MAY
RESULT IN LOSSES TO TRANSITION
BONDHOLDERS

The transition bonds are obligations of the issuer, a special purpose entity, only. The transition bonds will not represent an interest in or obligation of West Penn, West Penn Funding Corporation, the bond trustee or any entity other than the issuer. The issuer has no property other than the collateral. The collateral is the sole source of payment on the transition bonds. None of the transition bonds will be guaranteed or insured by West Penn, West Penn Funding Corporation, the bond trustee or any affiliates of those entities, other than the issuer, or any other entity.

ISSUANCE OF ADDITIONAL SERIES
MAY ADVERSELY AFFECT
OUTSTANDING TRANSITION BONDS

The issuer may from time to time issue new series of transition bonds without the prior review by or consent of the transition bondholders of any previously issued series. A new series of transition bonds may not be issued if it would result in the credit ratings on any outstanding series of transition bonds being reduced or withdrawn, but the issuance of any other series of transition bonds might have an impact on the timing or amount of payments

received by transition bondholders. See "The Transition Bonds" and "The Indenture--Issuance in Series or Classes" in this prospectus.

In addition, various matters relating to the transition bonds require a vote of all transition bondholders of all series, even though there may be differences in the interests or positions among those series or classes of those series. This could result in voting outcomes adverse to the interests of one or more series or classes of transition bonds.

SECURITIES RATINGS ARE LIMITED
AND DO NOT ASSESS TIMING OF
PRINCIPAL PAYMENTS

The transition bonds will be rated by one or more established rating agencies. The ratings merely analyze the probability that the issuer will repay the total principal amount of the transition bonds at final maturity--the series or class termination date, as applicable--and will make timely interest payments. The ratings do not assess the speed at which the Issuer will repay the principal of the transition bonds. As a result, any series or class of transition bonds

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might be paid later than scheduled, resulting in a weighted average life of those transition bonds which is longer than expected. A security rating is not a recommendation to buy, sell or hold securities. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency if, in its judgment, circumstances so warrant.

TRANSITION BONDHOLDERS MAY
RECEIVE PRINCIPAL PAYMENTS
LATER THAN EXPECTED

The actual dates on which principal is paid on each class of transition bonds might be affected by, among other things, the amount and timing of receipt of collections of intangible transition charges. Since the amount of intangible transition charges collected from each customer will depend upon the customer's usage of electricity, the aggregate amount and timing of collections of intangible transition charges--and the resulting amount and timing of principal payments on the transition bonds--will depend, in part, on actual usage of electricity and the rate of delinquencies and write-offs. See "--Servicing--Inaccurate Projections by Servicer May Result in Losses on Transition Bonds" above.

Although the intangible transition charges will be adjusted from time to time based in part on the actual rate of collections of intangible transition charges during prior billing periods, the servicer may not be able to forecast accurately actual customer energy usage and the rate of delinquencies and write-offs or implement adjustments to the intangible transition charges. If collections of intangible transition charges are received at a slower rate than expected, payments on the transition bonds may be made later than expected, resulting in a longer weighted average life. Because principal will generally be paid at a rate not to exceed that reflected in the expected amortization schedule, the transition bonds are not expected to be retired earlier than scheduled other than in the event of a redemption or acceleration.

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TRANSITION BONDHOLDERS MAY
HAVE TO REINVEST THE PRINCIPAL
OF THEIR INVESTMENT AT A LOWER
RATE OF RETURN BECAUSE OF
OPTIONAL REDEMPTION OF THE
TRANSITION BONDS

If so provided in a prospectus supplement, there may be optional redemptions of the transition bonds. Future market conditions may require transition bondholders to reinvest the proceeds of a redemption at a rate lower than the rate received on the transition bonds. The issuer cannot predict whether it will redeem any series of transition bonds. See "Certain Weighted Average Life and Yield Considerations" and "The Transition Bonds--Credit Enhancement" in this prospectus.

WEST PENN'S OBLIGATION TO
INDEMNIFY THE ISSUER FOR A
BREACH OF A REPRESENTATION OR
WARRANTY MAY NOT BE
SUFFICIENT TO PROTECT YOUR
INVESTMENT

The obligations of West Penn under the transfer agreement to West Penn Funding Corporation have been assigned by West Penn Funding Corporation to the issuer pursuant to the sale agreement. If West Penn breaches a representation or warranty in the transfer agreement, West Penn is obligated to indemnify the issuer and the bond trustee for any liabilities, obligations, claims, actions, suits or payments resulting from that breach, as well as any reasonable costs and expenses incurred. In addition, West Penn is obligated to indemnify the issuer and the bond trustee for principal and interest on the transition bonds not paid when due in accordance with their terms as a result of a breach of a representation or warranty. West Penn will not be obligated to repurchase the intangible transition property in the event of a breach of any of its representations and warranties regarding the intangible transition property, and neither the bond trustee nor the transition bondholders will have the right to accelerate payments on the transition bonds as a result of the breach. West Penn is also obligated to indemnify the issuer and the bond trustee for the amount of any deposits to the issuer required to have been made which are not made when so required as a result of a breach of a representation or warranty. However, the amount of any indemnification paid by West Penn may not be sufficient for you to recover your transition bond investment. If West Penn becomes obligated to indemnify transition bondholders, the ratings on the transition bonds will likely be downgraded since transition bondholders will be unsecured creditors of West Penn with respect to any of these indemnification amounts. See "The Transfer Agreement--Representations and Warranties of West Penn" in this prospectus.

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GLOSSARY OF DEFINED TERMS

You can find a glossary of defined terms used in this prospectus beginning on page 150 in this prospectus.

AVAILABLE INFORMATION

The issuer has filed with the Securities and Exchange Commission (the "SEC") a registration statement (as amended, the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the transition bonds. This prospectus, which forms a part of the Registration

Statement, and any prospectus supplement describe the material terms of some of the documents filed as exhibits to the Registration Statement; however, this prospectus and any prospectus supplement do not contain all of the information contained in the Registration Statement and its exhibits. Any statements contained in this prospectus or any prospectus supplement concerning the provisions of any document filed as an exhibit to the Registration Statement or otherwise filed with the SEC are not necessarily complete, and in each instance reference is made to the copy of the document so filed. For further information, reference is made to the Registration Statement and the exhibits to the Registration Statement, which are available for inspection without charge at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, and at its regional offices located as follows: Chicago Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; and New York Regional Office, 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of the Registration Statement and exhibits thereto may be obtained at the above locations at prescribed rates. Information filed with the SEC can also be inspected at the SEC site on the World Wide Web at <http://www.sec.gov>.

The issuer will file with the SEC the periodic reports as are required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules, regulations or orders of the SEC under the Exchange Act. The issuer may discontinue filing periodic reports under the Exchange Act at the beginning of the fiscal year following the issuance of the transition bonds of any series if there are fewer than 300 holders of the transition bonds.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

All reports and other documents filed by the issuer pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus and prior to the termination of the offering of the transition bonds will be deemed to be incorporated by reference into this prospectus and to be a part hereof. Any statement contained in this prospectus, in a prospectus supplement or in a document incorporated or deemed to be incorporated by reference in this prospectus will be deemed to be modified or superseded for purposes of this prospectus and any prospectus supplement to the extent that a statement contained in this prospectus, in a prospectus supplement or in any separately filed document which also is or is deemed to be incorporated by

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reference in this prospectus modifies or supersedes that statement. Any of these statements so modified or superseded will not be deemed, except as so modified or superseded, to constitute part of this prospectus or any prospectus supplement.

The issuer will provide without charge to each person to whom a copy of this prospectus is delivered, on the written or oral request of any such person, a copy of any or all of the documents incorporated herein by reference, except the exhibits to such documents--unless those exhibits are specifically incorporated by reference in such documents. Written requests for those copies should be directed to the issuer, c/o West Penn Funding LLC, 800 Cabin Hill Drive, Room [], Greensburg, PA 15601. Telephone requests for those copies should be directed to the issuer at (724) 837-[].

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WEST PENN POWER COMPANY

Incorporated in Pennsylvania in 1916, West Penn is a public utility corporation engaged in the transmission, distribution and sale of electricity to approximately 665,000 customers throughout a 10,000 square mile service territory covering all or portions of 24 counties in southwestern and central Pennsylvania. West Penn's generation facilities have in the past served those same customers. In the future, those generation facilities, which will continue to serve those customers and others in the competitive generation market, may be transferred to an affiliated or non-affiliated entity. See "The Servicer" in this prospectus.

The electric and gas utility industries in Pennsylvania are both undergoing fundamental restructuring. See "The Pennsylvania Competition Act" in this prospectus. In addition, in 1996, the Federal Energy Regulatory Commission issued Order No. 888 providing for competition in wholesale generation by requiring that all public utilities file non-discriminatory, open-access

transmission tariffs.

None of Allegheny Energy, Inc., West Penn or West Penn Funding Corporation is currently involved in any legal proceedings that could have a material impact on the issuer, the collateral, the transition bonds or the transition bondholders. For a detailed description of the prior litigation relating to the approval of West Penn's restructuring plan, see "West Penn's Restructuring Plan--Prior Litigation."

Allegheny Energy, Inc., the parent of West Penn, and DQE, Inc. (the parent of Duquesne Light Company in Pittsburgh) have entered into an agreement under which DQE, Inc. would merge into Allegheny Energy in a stock for stock transaction. However, the proposed merger, which has been conditionally approved by the Pennsylvania Public Utility Commission (the "PUC"), is currently the subject of litigation in the United States District Court for the Western District of Pennsylvania. As described in "West Penn's Restructuring Plan--Provisions of the Settlement--Authorization to Securitize up to \$670 million", the outcome of the DQE merger litigation will not affect the amount of West Penn's intangible transition charges ("Intangible Transition Charges") and is not expected to have any impact on the payment of principal of, and interest on, the transition bonds.

West Penn will enter into the Servicing Agreement with the issuer under which West Penn, as agent for the issuer, will manage, service and administer, and make collections in respect of, the Transferred Intangible Transition Property. See "The Servicing Agreement" in this prospectus. Allegheny Power Service Corporation, an affiliate of West Penn, will enter into an administration agreement with the issuer and with West Penn Funding Corporation to provide specified administrative services (in this capacity, Allegheny Power Service Corporation is referred to as the "Administrative Agent" in this prospectus). See "The Issuer" and "West Penn Funding Corporation" in this prospectus.

West Penn files periodic reports with the SEC as required by the Exchange Act. Reports filed with the SEC are available for inspection without charge at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C.

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20549, and its regional offices located as follows: Chicago Regional Office, Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; and New York Regional Office, 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of periodic reports and exhibits to those reports may be obtained at the above locations at prescribed rates. Information filed with the SEC can also be inspected at the SEC site on the World Wide Web at <http://www.sec.gov>.

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THE PENNSYLVANIA COMPETITION ACT

THE PENNSYLVANIA COMPETITION ACT'S GENERAL EFFECT ON THE ELECTRIC UTILITY INDUSTRY IN PENNSYLVANIA

The Pennsylvania Electricity Generation Customer Choice and Competition Act (the "Pennsylvania Competition Act") was enacted in December 1996 and provides for the restructuring of the electric utility industry in Pennsylvania. The Pennsylvania Competition Act requires the unbundling of electric services into separate generation, transmission and distribution services with open retail competition for generation services. Generation services may be provided by electric generation suppliers licensed by the PUC. Under the Pennsylvania Competition Act, electric generation suppliers are subject to certain limited financial and disclosure requirements but are otherwise unregulated by the PUC. Electric distribution and transmission services will remain regulated.

The Pennsylvania Competition Act requires utilities to submit restructuring plans, including their stranded costs which will result from retail competition for generation services. Stranded costs include regulatory assets and long-term purchase power commitments for which full recovery is allowed and other costs, including investment in generating plants, retirement costs and reorganization costs, for which an opportunity for recovery is allowed in an amount determined by the PUC as just and reasonable. Under the Pennsylvania Competition Act, utilities are subject to a generation rate cap through December 31, 2005 which provides that total charges to customers cannot exceed rates in place at December 31, 1996, subject to certain exceptions. The Pennsylvania Competition Act also caps transmission and distribution rates from December 31, 1996 through

June 30, 2001, subject to specified exceptions. Under the Pennsylvania Competition Act, each regulated electric utility was required to implement a retail access pilot program for customers representing 5% of the peak load of each customer class for the period from November 1, 1997 through December 31, 1998.

RECOVERY OF STRANDED COSTS

As a mechanism for utilities, including West Penn, to recover their allowed stranded costs, the Pennsylvania Competition Act provides for the imposition and collection of nonbypassable charges on customers' bills called "competitive transition charges." Competitive transition charges are assessed to and collected from all retail customers who have been assigned stranded cost responsibility and access the utilities' transmission and distribution systems and may be collected over a maximum period of nine years, except as that period may be extended by the PUC for good cause shown. As the competitive transition charges are based on access to the utility's transmission and distribution system, they will be assessed regardless of whether that customer purchases electricity from the utility or an independent electric generation supplier. The Pennsylvania Competition Act provides, however, that the utility's right to collect competitive transition charges is contingent on the continued operation at reasonable availability levels of the assets for which the stranded costs were awarded, except where continued operation is no longer cost efficient because of the transition to a competitive

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market. See "Risk Factors--Legal, Legislative or Regulatory Actions Could Adversely Affect Transition Bondholders--Legal Challenges Could Adversely Affect Transition Bondholders" and "Risk Factors--Nature of Intangible Transition Property--Lack of Continued Operation of Existing Generation Facilities May Result in Losses to Transition Bondholders" in this prospectus.

SECURITIZATION OF STRANDED COSTS

The Pennsylvania Competition Act authorizes the PUC to issue qualified rate orders approving the issuance of transition bonds to facilitate the recovery or financing of qualified transition expenses of an electric utility or its assignee. Transition bonds may be issued by a utility, a finance subsidiary of a utility or a third-party assignee of a utility. Under the Pennsylvania Competition Act, proceeds of transition bonds are required to be used principally to reduce qualified transition expenses, including stranded costs, and the related capitalization costs of the utility. The transition bonds are secured by intangible transition property and payable from the intangible transition charges and may have a maximum maturity of ten years. Intangible transition charges can be imposed only when and to the extent that transition bonds are issued.

The Pennsylvania Competition Act contains a number of provisions designed to facilitate the securitization of stranded costs.

Irrevocability of Intangible Transition Property. Under the Pennsylvania Competition Act, intangible transition property is created by the issuance by the PUC of a qualified rate order and the declaration by the PUC that the relevant paragraphs of a qualified rate order are irrevocable. The PUC is granted the power under the Pennsylvania Competition Act to specify that all or a portion of that qualified rate order will be irrevocable. The Pennsylvania Competition Act provides that to the extent that the PUC declares all or a portion of a qualified rate order irrevocable, the PUC may not, by any subsequent action, reduce, postpone, impair or terminate either the order or the intangible transition charge authorized in that order. In addition, under the Pennsylvania Competition Act, the Commonwealth of Pennsylvania (the "Commonwealth") pledges and agrees with the holders of the transition bonds, and with any assignee or finance party, not to limit or alter or in any way impair or reduce the value of intangible transition property or the intangible transition charges until the related transition bonds are fully discharged. The Pennsylvania Competition Act provides, however, that nothing precludes the Commonwealth from limiting or altering intangible transition property or the qualified rate order, provided that adequate compensation is made by law for the full protection of the intangible transition charges collected pursuant to the qualified rate order and of the holders of the transition bonds and any assignee or finance party. See "Risk Factors--Legal, Legislative or Regulatory Actions Could Adversely Affect Transition Bondholders" in this prospectus.

Adjustments of the Intangible Transition Charges. The Pennsylvania Competition Act requires the PUC to provide in all qualified rate orders a procedure for expeditiously approving periodic adjustments to the intangible transition charges. The Pennsylvania Competition Act requires that these adjustments be made on at least an annual basis on

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each anniversary of the issuance of the qualified rate order or at additional intervals as specified in that order. The PUC must approve these annual adjustments within 90 days of each request for adjustment.

Nonbypassability. The Pennsylvania Competition Act provides that the competitive transition charges and the intangible transition charges will be imposed on customers accessing the utility's transmission and distribution system even if those customers elect to purchase electricity from another supplier or if the customer chooses to operate self-generation equipment in tandem with accessing the utility's transmission and distribution system. The Pennsylvania Competition Act further provides that to the extent that the utility, or any assignee of intangible transition property, assigns, sells, transfers or pledges any interest in intangible transition property, the PUC authorizes the utility to contract with that assignee for the utility:

- (1) to continue to operate the system to provide electric services to the utility's customers,
- (2) to impose and collect the applicable intangible transition charges for the benefit and account of the assignee,
- (3) to make periodic adjustments of the intangible transition charges, and
- (4) to account for and remit the applicable intangible transition charges to or for the account of the assignee free of any charge, deduction or surcharge of any kind.

In addition, to the extent specified in the qualified rate order, the obligations of the utility under any of these contracts:

- (1) will be binding upon the utility, its successors and assigns, and
- (2) will be required by the PUC to be undertaken and performed by the utility and any other entity which provides electric service to a person that is a customer of the utility located within the utility's retail electric service territory, as a condition to providing service to that customer or the municipal entity providing those services in place of the utility.

Creation of a Statutory Lien on Intangible Transition Property. The Pennsylvania Competition Act provides that a valid and enforceable security interest in intangible transition property automatically attaches from the time the related transition bonds are issued and is enforceable against all third parties, including judicial lien creditors, if:

- (1) value is given by purchasers of the transition bonds and
- (2) a filing is made with the PUC to perfect the security interest within 10 days from issuance of the transition bonds.

The Pennsylvania Competition Act also provides that security interests in the intangible transition property are created and perfected only by means of a separate filing with the PUC in accordance with the provisions of the Pennsylvania Competition Act. Upon perfection, the statutorily created lien attaches both to intangible transition property and to all revenues and proceeds of intangible transition property, whether or

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not accrued. The Pennsylvania Competition Act provides that this filing will take precedence over any other filing and will be enforceable against the assignee and all third parties, including judicial lien creditors, subject only to rights of any third parties holding security interests in intangible transition property previously perfected in accordance with the Pennsylvania Competition Act. The Pennsylvania Competition Act provides that priority of security interests in intangible transition property will not be defeated or adversely affected by:

- (1) commingling of revenues with other funds of the utility or
- (2) changes to the qualified rate order or the intangible transition

charges.

Characterization of Transfer of Transferred Intangible Transition Property as True Sale. The Pennsylvania Competition Act provides that a transfer by the utility or an assignee of intangible transition property will be treated as a true sale of the transferor's right, title and interest and not as a pledge or other financing, other than for federal and state income and franchise tax purposes, if:

- (1) the parties expressly state in governing documents that a transfer is to be a sale or other absolute transfer and
- (2) the transaction is approved in a qualified rate order.

See "Risk Factors--Bankruptcy; Creditors' Rights" in this prospectus.

JURISDICTION OVER DISPUTES; STANDING

Actions against customers for nonpayment of the intangible transition charges may only be brought by the utility, its successor or any other entity providing electric service to the customers. In addition, the Pennsylvania Competition Act grants to the PUC exclusive jurisdiction over all disputes arising out of the obligations to impose and collect the intangible transition charges by a utility, its successor or any other entity which provides electric service to a customer.

POSSIBLE FEDERAL PREEMPTION OF THE PENNSYLVANIA COMPETITION ACT

At least one bill was introduced in the 105th Congress, First Session, prohibiting the recovery of stranded costs such as West Penn's stranded costs ("Stranded Costs") described in this prospectus, which could negate the existence of West Penn's intangible transition property ("Intangible Transition Property"). That bill, H.R. 1230 (The Consumers Electric Power Act of 1997, "H.R. 1230"), was introduced on April 8, 1997 but died at the end of that Congressional session after having been referred to the House Commerce Committee and the Subcommittee on Energy and Power. No prediction can be made as to whether any future bills that prohibit the recovery of stranded costs will become law or, if they become law, what their final form or effect will be. There is no assurance that the courts would consider this preemption a "taking." Moreover, even if a preemption of the Pennsylvania Competition Act or the QRO by the federal government were considered a "taking," for which the government had to pay the estimated market value of the Transferred Intangible Transition Property at the time of the taking, there is no assurance that this compensation would be sufficient to pay the full amount of

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principal of and interest on the transition bonds, and transition bondholders could suffer a loss of their investment. See "Risk Factors--Legal, Legislative or Regulatory Actions Could Adversely Affect Transition Bondholders--Federal Legislation May Result in Losses to Transition Bondholders" in this Prospectus and "--Possible Commonwealth Amendment or Repeal of the Pennsylvania Competition Act" below.

POSSIBLE COMMONWEALTH AMENDMENT OR REPEAL OF THE PENNSYLVANIA COMPETITION ACT

Under the Pennsylvania Competition Act, the Commonwealth has pledged to and agreed with transition bondholders that it will not limit or alter or in any way impair or reduce the value of intangible transition property or intangible transition charges approved by a qualified rate order, until the transition bonds and interest thereon are fully paid and discharged. The Pennsylvania Competition Act also provides, however, that subject to the requirements of law, nothing contained in the Pennsylvania Competition Act precludes this limitation or alteration by the Commonwealth if "adequate compensation is made by law" for the full protection of the intangible transition charges collected pursuant to a qualified rate order and of transition bondholders. It is unclear what "adequate compensation . . . by law" would be afforded to transition bondholders by the Commonwealth if it attempts to limit or alter Intangible Transition Property or Intangible Transition Charges. Accordingly, no assurance can be given that this provision would fully compensate transition bondholders for their investment and would not adversely affect the price of the transition bonds or the timing of payments with respect to the transition bonds. See "Risk Factors--Legal, Legislative or Regulatory Actions Could Adversely Affect Transition Bondholders--Changes in Law May Result in Losses to Transition Bondholders" in this prospectus.

In the opinion of Cravath, Swaine & Moore, counsel to West Penn, under the Contract Clause of the United States Constitution, the Commonwealth could not repeal or amend the Pennsylvania Competition Act--by way of legislative process--or take any other action that substantially impairs the rights of the transition bondholders, unless that action is a reasonable exercise of the

Commonwealth's sovereign powers and of a character appropriate to the public purpose justifying that action. To date, no cases addressing these issues in the context of transition bonds have been decided. There have been cases in which courts have applied the Contract Clause of the United States Constitution and parallel state constitutional provisions to strike down legislation, reducing or eliminating taxes or public charges which supported bonds issued by public instrumentalities, or otherwise reducing or eliminating the security for those bonds. Based upon such case law, in the opinion of Cravath, Swaine & Moore, it would appear unlikely that the Commonwealth could reduce, modify, alter or take any other action with respect to intangible transition property which would substantially impair the rights of transition bondholders, unless the action is reasonable and appropriate to further a legitimate public purpose.

Moreover, under the Taking Clause of the United States Constitution, the Commonwealth could not repeal or amend the Pennsylvania Competition Act--by way of legislative process--or take any action that violates its pledge and agreement described in the first paragraph of this subheading without paying just compensation to the

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transition bondholders if doing so would constitute a permanent appropriation of the property interest of transition bondholders in the intangible transition property and deprive the transition bondholders of their reasonable expectations arising from their investments in the transition bonds. There is no assurance, however, that, even if a court were to award such just compensation, it would be sufficient to pay the full amount of principal of and interest on the transition bonds.

In addition, there can be no assurance that a repeal of or amendment to the Pennsylvania Competition Act will not be sought or adopted or that any action by the Commonwealth may not occur, any of which might constitute a violation of the Commonwealth's pledge and agreement with the transition bondholders. If this occurs, costly and time-consuming litigation might ensue. That litigation might adversely affect the price and liquidity of the transition bonds and the dates of payments of principal thereof and, accordingly, the weighted average lives thereof. Moreover, given the lack of judicial precedent directly on point, and the novelty of the security for the transition bondholders, the outcome of that litigation cannot be predicted with certainty, and accordingly, transition bondholders could incur a loss of their investment.

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WEST PENN'S RESTRUCTURING PLAN

THE HISTORY OF WEST PENN'S RESTRUCTURING PLAN

In accordance with the provisions of the Pennsylvania Competition Act, in August 1997, West Penn filed with the PUC a comprehensive restructuring plan (the "Restructuring Plan") detailing its proposal to implement full customer choice of electric generation suppliers. West Penn's Restructuring Plan identified \$1.2 billion of recoverable retail electric generation-related stranded costs.

On May 29, 1998, the PUC adopted an Opinion and Order which modified West Penn's proposed Restructuring Plan (the "PUC Restructuring Order"). The PUC Restructuring Order authorized West Penn to recover stranded costs of \$593 million (or \$524.2 million in the event of a merger of DQE, Inc. into Allegheny Energy). In response to West Penn's petition on June 12, 1998 requesting reconsideration of the PUC Restructuring Order, the PUC entered an order that increased the amount of stranded costs recoverable by West Penn by \$522,000 (the "PUC Reconsideration Order"). In response in part to the PUC Restructuring Order and the PUC Reconsideration Order, West Penn and other parties filed appeals to the Commonwealth Court of Pennsylvania and a civil complaint action in the U.S. District Court for the Western District of Pennsylvania. In addition, West Penn filed an original jurisdiction action for declaratory judgment with the Commonwealth Court of Pennsylvania on September 2, 1998.

On November 3, 1998, West Penn and certain of the parties who appealed West Penn's Restructuring Plan filed a Joint Petition for Full Settlement of West Penn's Restructuring Plan and Related Court Proceedings (the "Joint Petition"). On November 4, 1998, the Joint Petition was tentatively approved by the PUC. On November 19, 1998, the PUC issued the Final Order, including the initial Qualified Rate Order, approving the Joint Petition. The remaining appeals to the Restructuring Plan were withdrawn. On August 12, 1999, the PUC issued an order approving West Penn's petition for issuance of a supplemental qualified rate

order (the "Supplemental Order"). On September 16, 1999, the Supplemental Order became non-appealable. The settlement effected by the Joint Petition, as supplemented by the settlement entered into in connection with the Supplemental Order, is referred to in this Prospectus as the "Settlement."

PROVISIONS OF THE SETTLEMENT

Recovery of Stranded Costs. The Settlement authorizes West Penn to recover \$670 million of Stranded Costs (\$630 million in the event that the merger with DQE, Inc. is consummated), together with a return of 11.0% thereon. For good cause shown, the PUC authorized the recovery of Stranded Costs over a 10-year transition period beginning January 1, 1999 and ending December 31, 2008. Recovery of Stranded Costs and the allowed return are to be through competitive transition charges (with respect to West Penn, the "Competitive Transition Charges") designed to recover the Stranded

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Costs. The Competitive Transition Charges have been established assuming a specified annual growth in sales and will be reconciled annually to actual sales.

The following table shows the estimated average levels of West Penn's Competitive Transition Charges for the years 1999 through 2008, based on the annual sales growth assumed in the Settlement.

TABLE 1
ANNUAL STRANDED COST
AMORTIZATION AND RETURN

<TABLE>
<CAPTION>

YEAR	ANNUAL SALES	CTC WITH GRT (2)	CTC REVENUE WITH GRT	REVENUES EXCLUDING GROSS RECEIPTS TAX (3)		
				TOTAL	RETURN @11.0%	AMORTIZATION
	MWH (1)	cents/kWh	\$ (000)	\$ (000)	\$ (000)	\$ (000)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1999.....	20,740,356	0.62	128,547	122,891	71,259	51,632
2000.....	21,157,130	0.60	126,890	121,307	65,362	55,945
2001.....	21,490,380	0.56	120,367	115,071	59,212	55,859
2002.....	21,860,286	0.54	118,054	112,860	52,859	60,001
2003.....	22,146,130	0.53	117,381	112,216	45,942	66,274
2004.....	22,693,011	0.48	108,930	104,137	38,694	65,443
2005.....	23,102,818	0.45	103,950	99,376	31,366	68,010
2006.....	23,405,954	0.44	102,470	97,961	23,563	74,399
2007.....	23,697,105	0.43	101,374	96,914	15,000	81,914
2008.....	23,934,076	0.43	101,959	97,473	5,481	91,992
Total.....			1,129,923	1,080,206	408,736	671,470

</TABLE>

(1) Subject to reconciliation of actual sales and collections.

(2) Figures result in the recovery of \$670 million of Stranded Costs plus the allowed return on those costs at projected usage levels in the period during which the Competitive Transition Charges will be collected in accordance with the terms of the Settlement. The Competitive Transition Charges are subject to adjustment.

(3) The utilities gross receipts tax is imposed on public utilities (including electric utilities) organized under the laws of, or doing business in, the Commonwealth and is currently levied at the rate of 4.4% on each dollar of the utility's gross receipts arising from certain sales of energy.

Authorization to Securitize up to \$670 Million. As part of its approval of the Settlement, the PUC issued the QRO allowing West Penn to securitize up to \$670 million of Stranded Cost recovery through the issuance of transition bonds. If the merger with DQE, Inc. is consummated, West Penn will not thereafter issue transition bonds of an aggregate principal amount in excess of \$630 million. If West Penn has already at that time issued transition bonds in excess of \$630 million in accordance with the QRO, the costs of servicing the entire amount of those transition bonds, including interest, principal and all other related fees, costs, credit enhancements and charges will nevertheless constitute Qualified Transition Expenses which thereafter will be recovered through Intangible Transition Charges. However, at the next Adjustment Date, West Penn will establish a credit adjustment to customers' bills to account for the

between \$630 million and the actual principal amount of the transition bonds outstanding, including a reduction for all associated costs, fees and expenses attributable to the transition bonds issued in excess of \$630 million. This credit adjustment will not affect the amount of Intangible Transition Charges and is not expected to have any impact on the payment of principal of, and interest on, the transition bonds.

The Intangible Transition Charges associated with the issuance of transition bonds may not be imposed for service periods after December 31, 2008. Seventy-five percent of the annual net savings resulting from West Penn's securitization of stranded costs will be returned to retail customers through a reduction to the Competitive Transition Charges. In addition, West Penn's Competitive Transition Charges will be reduced by the amount of the Intangible Transition Charges. See "The QRO and the Intangible Transition Charges" in this prospectus.

Unbundling of Rates and Rate Reductions and Rate Caps. The Settlement requires West Penn to unbundle its retail electric rates on January 1, 1999 into the following components:

- (1) distribution and transmission charges,
- (2) Competitive Transition Charges and, if applicable, Intangible Transition Charges and
- (3) a shopping credit for generation.

The sum of the Competitive Transition Charges and the shopping credit equals the maximum amount West Penn can charge customers who do not or cannot choose to purchase electricity from alternate electric generation suppliers (referred to as serving as the "provider of last resort").

The Settlement required West Penn to reduce rates by 2.5% effective January 1, 1999, and that 2.5% rate decrease will continue in effect through December 31, 1999. The Settlement also extends the rate caps on generation rates at higher levels than required by the Pennsylvania Competition Act, until December 31, 2008 and extends rate caps on transmission and distribution rates until December 31, 2005. West Penn's unbundled rates, rate reductions and rate caps are reflected in the schedule of system-wide average rates included in the Settlement and are shown in Table 2 below.

TABLE 2

SCHEDULE OF SYSTEM-WIDE AVERAGE RATES (PER KILOWATT-HOUR ("kWh")) (1)

<TABLE>
<CAPTION>

EFFECTIVE DATE	TRANSMISSION (2)	DISTRIBUTION	T&D		SHOPPING CREDIT	GENERATION RATE CAP
			RATE CAP (3)	CTC (4)		
	(a)	(b)	(c) = (a) + (b)	(d)	(e)	(f) = (d) + (e)
	\$kWh	\$kWh	\$kWh	\$kWh	\$kWh	\$kWh
<S>	<C>	<C>	<C>	<C>	<C>	<C>
January 1, 1999.....	\$0.0041	\$0.0118	\$0.0159	\$0.0062	\$0.0316	\$0.0378
January 1, 2000.....	0.0041	0.0132	0.0173	0.0060	0.0318	0.0378
January 1, 2001.....	0.0041	0.0132	0.0173	0.0056	0.0322	0.0378
January 1, 2002.....	0.0041	0.0132	0.0173	0.0054	0.0324	0.0378
January 1, 2003.....	0.0041	0.0132	0.0173	0.0053	0.0325	0.0378
January 1, 2004.....	0.0041	0.0132	0.0173	0.0048	0.0330	0.0378
January 1, 2005.....	0.0041 (5)	0.0132 (5)	0.0173 (5)	0.0045	0.0333	0.0378
January 1, 2006.....	(3)	(3)	N/A	0.0044	0.0362	0.0406
January 1, 2007.....	(3)	(3)	N/A	0.0043	0.0363	0.0406
January 1, 2008.....	(3)	(3)	N/A	0.0043	0.0391	0.0434

</TABLE>

(1) All prices reflect average retail billing for all Rate Schedules (including

gross receipts tax). The average prices as presented in this table reflect the profile of service contained in West Penn's proof of revenue set forth in the Restructuring Plan.

- (2) The transmission prices listed are for unbundled rates only. The PUC does not regulate the rates for transmission service.
- (3) The T&D (Transmission & Distribution) Rate Cap under Section 2804(4) of the Pennsylvania Competition Act will be extended until December 31, 2005.
- (4) Figures result in the recovery of \$670 million of Stranded Costs plus the allowed return on those costs at projected usage levels in the period during which the Competitive Transition Charges will be collected in accordance with the terms of the Settlement. The Competitive Transition Charges are subject to adjustment. Intangible Transition Charges will be deducted from the Competitive Transition Charges.
- (5) Effective until December 31, 2005.

The Pennsylvania Competition Act authorizes electric distribution companies to recover changes in their state tax liability resulting from the introduction of competition in the electric market through adjustments in the rates charged to customers, which in certain circumstances set forth in the regulations adopted by the PUC may result in rates exceeding the applicable rate cap. West Penn may apply for this recovery of state tax liability changes in accordance with the procedures outlined in the PUC's regulations if West Penn in fact experiences adverse consequences to its state tax liability as contemplated in the Pennsylvania Competition Act.

Competitive Metering and Billing. As provided in the Settlement, on September 1, 2000, West Penn will unbundle its retail electric rates for metering, meter reading, and billing and collection services to provide credits for those customers that have elected to have alternate suppliers perform these services. Effective September 1, 1999, PUC licensed entities, including electric generation suppliers, may act as agents to provide a single bill and provide associated billing and collection services to retail customers located in West Penn's retail electric service territory. In accordance with the Settlement, this date was extended to September 1, 2000 for West Penn. The PUC-licensed entities, including electric generation suppliers, may also finance, install, own, maintain, calibrate and remotely read advanced meters for service to retail customers

located in West Penn's service territory. An electric generation supplier or other third party that bills on behalf of West Penn must comply with all applicable billing and disclosure requirements absent waiver by the PUC, including the unbundling of transmission and distribution rates. Only West Penn can physically disconnect or reconnect a customer's distribution service. Physical termination of the service may only be permitted for failure to pay for transmission and distribution service or provider of last resort service. See also "The QRO and the Intangible Transition Charges--The Intangible Transition Charges" in this prospectus.

Customer Choice. Under the Settlement, customer choice of electric generation suppliers is being phased in between January 1, 1999 and January 2, 2000 with one-third of each Rate Schedule entitled to choose their electric generation supplier by January 1, 1999, an additional one-third by January 2, 1999 and the remaining one-third by January 2, 2000.

PROVIDER OF LAST RESORT

Under the Restructuring Plan, West Penn will act as a provider of last resort for all retail electric customers in its retail electric service territory who do not choose or cannot choose to purchase power from alternative suppliers through December 31, 2010, subject to certain terms, conditions and qualifications. On January 1, 2001, 20% of all of West Penn's residential customers, determined by random selection, including low-income and inability-to-pay customers, and without regard to whether those customers are obtaining generation service from an electric generation supplier, will be assigned to a provider of last resort other than West Penn if there is a qualifying bid (the service provided by this supplier, "Competitive Default Service"). This alternative supplier (the "Competitive Default Supplier") will be selected on the basis of an energy and capacity market price bidding process approved, established and maintained by the PUC among electric generation suppliers who meet specified qualifications. The right to provide Competitive Default Service will be rebid annually, unless an alternative bidding term is approved by the PUC. If, 30 days prior to the annual bid, the number of residential customers served by Competitive Default Service has fallen below

17%, a further random selection of customers will be assigned to Competitive Default Service to restore the number of customers to the 20% level. The further random selection will be made from the customers not already assigned to Competitive Default Service and customers served by electric generation suppliers other than West Penn.

In February, 1999, certain utilities, customer advocates and electric generation suppliers convened to develop proposed regulations on Competitive Default Service. On Friday, February 26, the Chairman of the group forwarded a suggested procedure for choosing a Competitive Default Supplier to the PUC. Under those suggested procedures, entities that desire to act as a Competitive Default Supplier have until April 1, 2000 to submit both their qualifications to act as a Competitive Default Supplier and their bid for providing this service. Competitive Default Service will begin on January 1, 2001 for 20% of West Penn's residential customers. The suggested procedures would require an electric generation supplier to provide, among other things, proof that it has received the requisite licenses from the state and federal governments, proof that it meets certain

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creditworthiness standards and assurances that it can acquire additional bonding as necessary. The supplier of Competitive Default Service will be required to provide billing, including its payment of Intangible Transition Charges and other revenues, to West Penn on the terms and conditions set forth in West Penn's tariff for those entities who currently provide competitive billing services to customers.

The suggested procedures will not become final until the PUC adopts them. The PUC may choose to reject or modify the suggested procedures. The PUC has no time deadline for rendering its decision on this issue. The PUC may allow a public comment period before reaching a final resolution of these issues.

Other Provisions. The Settlement also provides for flexible generation service pricing for residential customers served by Competitive Default Service, authorization of West Penn to transfer its generation assets to a separate subsidiary, inclusion under the capped transmission and distribution rates of .01 cent per kilowatt-hour for a sustainable energy and economic development fund and expansion of West Penn's program for low-income customers.

PRIOR LITIGATION

Prior litigation occurred with respect to the constitutionality of the Pennsylvania Competition Act in another restructuring case. Indianapolis Power & Light Company ("IP&L") appealed the first qualified rate order granted to PECO Energy Company ("PECO Energy") by the PUC in May, 1997, filing an action in the Commonwealth Court challenging the Pennsylvania Competition Act, alleging that the Pennsylvania Competition Act's provision allowing PECO Energy to recover stranded costs discriminates against interstate commerce in violation of the Commerce Clause of the United States Constitution. In an opinion dated May 7, 1998, the Commonwealth Court of Pennsylvania dismissed IP&L's action, holding, as a matter of law, that the Pennsylvania Competition Act does not violate the Commerce Clause. Following that dismissal, IP&L petitioned the Pennsylvania Supreme Court for allowance of appeal. In the petition, IP&L claimed that the payment of stranded costs to PECO Energy discriminates against interstate commerce by favoring in-state electricity producers over out-of-state electricity producers. On September 29, 1998, the Pennsylvania Supreme Court denied IP&L's petition for allowance of appeal. On December 28, 1998, IP&L filed a petition for a writ of certiorari with the United States Supreme Court to appeal the Commonwealth Court's decision on the claim described in this paragraph. On March 8, 1999, the United States Supreme Court denied the petition.

Two additional actions, one filed by the Utility Workers Union of America and one filed by a group of plaintiffs including State Senator Vincent J. Fumo alleged that the adoption of the Pennsylvania Competition Act violated certain provisions of the Pennsylvania Constitution governing legislative procedure. The PUC filed preliminary objections seeking dismissal of these actions at the pleading stage, on the ground that enactment of the Pennsylvania Competition Act did not violate these Pennsylvania constitutional provisions as a matter of law. The Commonwealth Court of Pennsylvania upheld the PUC's preliminary objections and dismissed both actions with prejudice. The

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appeal period has expired without appeals being filed and the dismissal of these actions is final and non-appealable.

On June 26, 1998, West Penn filed a complaint in the United States District Court for the Western District of Pennsylvania seeking injunctive and monetary

relief on the grounds that the PUC's implementation of the Pennsylvania Competition Act through its PUC Restructuring Order entered on May 29, 1998, was contrary to and preempted by federal statutory law, including the Federal Power Act and the Public Utility Regulatory Policies Act of 1978, and effected a taking of West Penn's property without just compensation, impaired the obligation of West Penn's regulatory compact, deprived West Penn of property without due process of law, and deprived West Penn of these and other rights secured by the Civil Rights Act, 42 U.S.C. sec.1983, and the Constitution of the United States.

On September 2, 1998, West Penn also filed a Petition for Review in the Commonwealth Court of Pennsylvania, invoking that Court's original jurisdiction, to enjoin the implementation of the Pennsylvania Competition Act by the PUC as violative of law and as a deprivation of West Penn's constitutional rights.

On June 26, 1998, West Penn filed a Petition for Review in the Commonwealth Court of Pennsylvania appealing the Commission Order entered May 29, 1998, as violative of law and contrary to the Constitution.

Numerous petitions for reconsideration, cross-appeals and interventions were filed in the aforesaid West Penn proceedings, and numerous appeals were taken by parties in their own right.

All the aforesaid proceedings resulting from West Penn's restructuring were withdrawn with prejudice by the parties pursuant to the terms of the Joint Petition and the settlement entered into in connection with the Supplemental Order. The appeal period of the PUC's Final Order of November 19, 1998, as supplemented by the Supplemental Order, approving the Settlement has lapsed without appeal or request for reconsideration. However, there can be no assurance that other parties will not bring lawsuits related to the Settlement.

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THE QRO AND THE INTANGIBLE TRANSITION CHARGES

THE QRO

As part of its approval of the Settlement, the PUC issued a qualified rate order to West Penn on November 19, 1998 which was supplemented by a supplemental qualified rate order issued by the PUC to West Penn on August 12, 1999 (collectively, the "QRO"). In the QRO, the PUC determined that West Penn's recovery of Stranded Costs as set forth in the Settlement is just and reasonable and in the public interest and that securitization of up to \$670 million of Stranded Costs as set forth in the Settlement is just and reasonable and in the public interest.

Authorization of Issuance of Transition Bonds. In the QRO, the PUC authorized the issuance of transition bonds in an aggregate principal amount not to exceed \$670 million. If the merger with DQE, Inc. is consummated, West Penn will not thereafter issue transition bonds of an aggregate principal amount in excess of \$630 million. If West Penn has already at that time issued transition bonds in excess of \$630 million in accordance with the QRO, the costs of servicing the entire amount of those transition bonds, including interest, principal and all other related fees, costs, credit enhancements and charges will nevertheless constitute Qualified Transition Expenses which thereafter will be recovered through Intangible Transition Charges. However, at the next Adjustment Date, West Penn will establish a credit adjustment to customers' bills to account for the difference between \$630 million and the actual principal amount of the transition bonds outstanding, including a reduction for all associated costs, fees and expenses attributable to the transition bonds issued in excess of \$630 million. This credit adjustment will not affect the amount of Intangible Transition Charges and is not expected to have any impact on the payment of principal of, and interest on, the transition bonds.

West Penn, or any assignee of West Penn to whom Intangible Transition Property is sold, may issue and sell, in reliance on the QRO, one or more series of transition bonds, each series in one or more classes, secured by Intangible Transition Property, provided that the final maturity of any series of transition bonds may not be later than ten years from the date of issuance and in no event after September 25, 2009. West Penn, or its assignee, is also authorized to refinance transition bonds in a face amount not to exceed the unamortized principal thereof.

The QRO provides that West Penn retains the sole discretion whether to issue or cause the issuance of transition bonds. Within 120 days after each

issuance of transition bonds, West Penn is required to file with the PUC a description of the financing structure of the transition bonds, including the principal amount, the price at which each series or class of transition bonds was sold, payment schedules, interest rate and other financing costs and the final plans for West Penn's use of the proceeds of that offering. Notwithstanding that filing, the final structure of each issuance of transition bonds is not subject to change or revision by the PUC after the date of that issuance.

Authorization to Impose Intangible Transition Charges. Pursuant to the QRO, the PUC determined that it was just and reasonable and in the public interest for West Penn

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to recover from its customers, through Intangible Transition Charges, \$670 million of Stranded Costs. Under the QRO, the PUC authorized West Penn to impose on and collect from customers, either directly or through bills rendered by electric generation suppliers, Intangible Transition Charges in an amount sufficient to recover Qualified Transition Expenses. In accordance with the Pennsylvania Competition Act, the PUC found that good cause had been shown to extend the payment period for assessing new Intangible Transition Charges for service rendered up to December 31, 2008.

In accordance with the Settlement, the rate reductions included as part of the Settlement anticipated the benefits of securitization, and no rate adjustment will be made upon issuance of any transition bonds. After January 1, 1999, Competitive Transition Charges will be reduced by the sum of the amount of Intangible transition charges associated with the issuance of Transition Bonds and 75% of the annual net savings resulting from West Penn's securitization of Stranded Costs.

In the QRO, the PUC approves the allocation and methodology for imposing Competitive Transition Charges and Intangible Transition Charges on customers. The QRO also authorizes West Penn to make annual adjustments to Intangible Transition Charges if collections of these Intangible Transition Charges fall below or exceed the amount necessary to ensure the receipt by the transition bond trustee of revenues sufficient to fully recover the Qualified Transition Expenses in accordance with, among other things, the applicable Expected Amortization Schedule, except that those adjustments after the period commencing 12 months prior to the last scheduled payment date for the payment of principal on the last class of each series of transition bonds may be quarterly or monthly if necessary to ensure full recovery of Intangible Transition Charges. The QRO states that the revenues received by the transition bond trustee through Intangible Transition Charges shall be determined to be sufficient for the foregoing purpose if, and only if, the collections of Intangible Transition Charges ("ITC Collections") so received are sufficient to amortize the transition bonds, fund any reserves and to pay premiums, if any, on those transition bonds, after payment of accrued interest, redemption premiums, if any, related credit enhancement, servicing fees and other related costs and expenses, in accordance with the terms thereof.

Authorization to Sell Intangible Transition Property. Under the QRO, the PUC concluded that it is in the public interest, and authorized West Penn and any assignee of West Penn, to assign, sell, transfer or pledge Intangible Transition Property in an amount sufficient to recover all of West Penn's Qualified Transition Expenses. The PUC directed West Penn to use the proceeds from the sale of Intangible Transition Property to reduce Stranded Costs and related capitalization.

The QRO provides that, to the extent that West Penn, or any assignee, assigns, sells, transfers, or pledges any interest in Intangible Transition Property created by the QRO, the PUC authorizes West Penn to contract, for a specified fee, with that assignee for West Penn to continue to operate the system to provide electric services to West Penn's customers, to impose and collect the applicable Intangible Transition Charges for the benefit and account of the assignee, to make periodic adjustments of Intangible Transition Charges contemplated under the QRO and to account for and remit the

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applicable Intangible Transition Charges to or for the account of the assignee free of any charge, deduction or surcharge of any kind, other than the specified contractual fee referred to above. The QRO also authorizes West Penn to contract with the issuers of transition bonds and an alternative party, which may be a trustee, that the alternative party will replace West Penn under its contract with those issuers and perform the obligations of West Penn contemplated in the QRO. The obligations of West Penn:

(1) shall be binding upon West Penn, its successors and assigns and

(2) shall be required by the PUC to be undertaken and performed only by West Penn and any other entity which provides transmission and distribution services to a person who was a customer of West Penn located within West Penn's certificated territory on January 1, 1997, or who became a customer of electric services within such territory after January 1, 1997, and is still located within that territory.

Irrevocability of QRO. The QRO declares that the paragraphs in the QRO concerning the recovery of \$670 million of West Penn's Stranded Costs through the issuance of transition bonds, the imposition of Intangible Transition Charges on Customers in an amount sufficient to recover Qualified Transition Expenses, the methodology and allocation and timing of adjustments to the Intangible Transition Charges and the sale of Intangible Transition Property, among other things, are irrevocable for purposes of the Pennsylvania Competition Act, and the PUC accordingly agrees that it will not, directly or indirectly, by any subsequent action, reduce, postpone, impair or terminate the QRO or the Intangible Transition Charges. In the QRO, the PUC further declared that the right, title and interest of West Penn and any assignee in the QRO and the Intangible Transition Charges, the rates and other charges authorized by the QRO, and all revenues, collections, claims, payments, money or proceeds of or arising from the same constitute Intangible Transition Property.

THE INTANGIBLE TRANSITION CHARGES

Calculation of the Intangible Transition Charges. The Qualified Transition Expenses authorized in the QRO are to be recovered from customers in each of West Penn's separate Rate Schedules. The Intangible Transition Charges initially will be calculated by determining the total amount of Intangible Transition Charges required to be billed to each Customer Category, based on current estimates of sales growth, in order to generate ITC Collections sufficient to ensure timely recovery of Qualified Transition Expenses in accordance with the Expected Amortization Schedule. The amount determined for each Customer Category will then be allocated to each Rate Schedule within that Customer Category based on the allocation of Stranded Cost recovery borne by each Rate Schedule through current electric rates approved by the PUC.

The Intangible Transition Charges will reduce Competitive Transition Charges, as periodically adjusted, and will appear as a separate line item on each Customer's bill. If the Competitive Transition Charges have been reduced to zero, West Penn may adjust

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the shopping credit, rather than the Intangible Transition Charges approved by the QRO, to bring the charges into compliance with the applicable rate cap.

ITC Collections will vary with changes in usage, number of customers, rate of delinquencies and write-offs or other factors. Variations in ITC Collections will be addressed by recalculating the Intangible Transition Charges on each Calculation Date. See "The ITC Adjustment Process" below.

Initial Billing and Termination of ITC Collections. Intangible Transition Charges for each series of transition bonds will be assessed on all customer bills rendered on or after the effective date of the rates for Intangible Transition Charges associated with the relevant series issuance date. For instance, if a particular series issuance date is January 1 and the rates for Intangible Transition Charges are effective January 1, bills rendered on or after January 1 will be assessed Intangible Transition Charges with respect to that series. Upon each adjustment of Intangible Transition Charges or issuance of additional series of transition bonds, the adjusted Intangible Transition Charges will be assessed in the same manner. The imposition of Intangible Transition Charges as a result of the issuance of transition bonds will result in a reduction in any Competitive Transition Charges then in effect in an amount equal to the sum of such Intangible Transition Charges and 75% of the annual net savings resulting from West Penn's securitization of Stranded Costs, so that the total amount billed to customers generally will decrease from that which would have been billed if there had been no securitization.

The servicer, or electric generation supplier or other third-party biller, will continue to bill the Intangible Transition Charges until the series termination date or class termination date, if applicable, with respect to each series or class, as applicable, but in no event will new intangible transition

charges be imposed for service periods later than December 31, 2008. Upon the series termination date or class termination date, as applicable, relating to the series or class, as applicable, of transition bonds having the latest series termination date or class termination date, as applicable, the servicer will cease assessing the Intangible Transition Charges. However, the servicer, or electric generation supplier or other third-party biller, will continue to collect the Intangible Transition Charges previously billed to customers. To the extent that ITC Collections exceed the amount necessary to amortize fully all transition bonds and pay interest on the transition bonds and applicable fees and expenses and to fund the Overcollateralization Subaccount and Capital Subaccount, those ITC Collections will be retained by the issuer.

The ITC Adjustment Process. In order to enhance the likelihood that the actual ITC Collections are neither more nor less than the amount necessary, among other things, to amortize the transition bonds of each series in accordance with the Expected Amortization Schedule therefor, to replenish the Capital Subaccount up to the Required Capital Amount and to fund the Overcollateralization Subaccount to the Calculated Overcollateralization Level, the Servicing Agreement requires the servicer to seek, and the Pennsylvania Competition Act and the QRO require the PUC to approve, adjustments to the Intangible Transition Charges based on actual ITC Collections and

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updated assumptions by the servicer as to projected future sales from which Intangible Transition Charges are allocated, expected delinquencies and write-offs, and future expenses relating to Intangible Transition Property and the transition bonds. Adjustments will be made to the Intangible Transition Charges imposed upon customers to reflect shortfalls in or excesses of ITC Collections for the period since the last adjustment, including amounts of shortfalls or excesses resulting from inaccurate forecasts by the servicer. For example, if actual electricity consumption is less than the servicer forecasted because of an unusually mild summer, and this resulted in an ITC Collection shortfall, the servicer would be required to seek an adjustment from the PUC to the Intangible Transition Charges imposed thereafter to compensate for that shortfall as described in this section and in "The Servicing Agreement--Servicing Procedures--ITC Adjustment Process" in this prospectus.

In addition, the adjustments will take into account any projected trends in customers or billed revenues from which intangible transition charges are allocated in order to prevent shortfalls or excesses of ITC Collections from arising in future periods so that if, for example, usage is declining at an accelerating pace, that trend will be taken into account in the calculation of the current adjustment. The QRO provides for annual adjustments, except that adjustments after the period commencing 12 months prior to the last scheduled payment date for the payment of principal on the last class of each series of transition bonds may be made quarterly or monthly. If at the time of issuance of a series, the servicer determines that those additional adjustments are required, the dates for those adjustments will be specified in the prospectus supplement for that series. These adjustments will cease with respect to a series on the final Adjustment Date specified in the related prospectus supplement for that series.

The Schedule for Making Adjustments to Intangible Transition Charges. The servicer is required to file an Adjustment Request with the PUC on October 1 of each year and on any other Calculation Date, requesting modifications to the Intangible Transition Charges. These Adjustment Requests are designed to result in:

- (1) the outstanding principal balance of each series or class equaling the amount provided for in the Expected Amortization Schedule for that series or class,
- (2) the amount on deposit in the Overcollateralization Subaccount equaling the Calculated Overcollateralization Level,
- (3) the amount in the Capital Subaccount equaling the Required Capital Amount, and

(4) the amount in the Reserve Subaccount equaling zero.

These Adjustment Requests are designed to achieve each of the above goals by the payment date immediately preceding the next Adjustment Date or with respect to the period in which monthly rate adjustments are utilized, generally the 25th day of the calendar month immediately preceding the next monthly Adjustment Date, as applicable, taking into account any amounts on deposit in the Reserve Subaccount. The Pennsylvania Competition Act and the QRO require the PUC to approve the annual adjustments within 90 days of the Adjustment Request. The Adjustment Dates on which

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adjustments to the Intangible Transition Charges are to be made will be set forth in the prospectus supplement for the related series.

In order to obtain approval of each annual adjustment as expeditiously as possible, on October 1 of each year West Penn, as servicer, will file with the PUC a schedule of actual ITC Collections for the nine months ended August 31, together with an estimate of ITC Collections for the three months ending on the immediately following November 30, and the estimated Intangible Transition Charges for the following year. On December 15, West Penn will file a schedule of actual ITC Collections as of November 30, replacing the estimates submitted on October 1, and the actual Intangible Transition Charges for the following year. Interim adjustments beginning twelve months before the expected final payment date of the last series or class of the transition bonds will not reflect updated assumptions of projected future usage of electricity by customers, expected delinquencies and write-offs and future expenses relating to Intangible Transition Property and the transition bonds. Beginning twelve months before the expected final payment date of the last series or class of the transition bonds, the PUC will permit each adjustment request to become effective within 15 days after filing. The adjustment process will continue until the earlier of the final payment of all series of transition bonds and December 31, 2008.

COMPETITIVE BILLING

The Restructuring Plan and subsequent orders of the PUC give customers who purchase electric generation from electric generation suppliers or purchase billing and metering services from other third parties the opportunity to choose from several billing source options as of September 1, 2000: consolidated billing from the utility, consolidated billing from the electric generation supplier or third party biller or separate billing from the utility and from the electric generation supplier or third party biller providing billing services. Any electric generation supplier or third party biller that provides consolidated billing is required to pay the utility amounts billed by the utility to the electric generation supplier or third party biller, including the Intangible Transition Charges, regardless of the electric generation supplier's or third party biller's ability to collect those amounts from its customers. In that event, the electric generation supplier or third party biller will replace the customer as the obligor with respect to those Intangible Transition Charges, and the servicer, on behalf of the issuer, will generally have no right to collect those Intangible Transition Charges from the customer. The servicer will have the right to bill and collect Intangible Transition Charges and other amounts payable to the servicer directly from all of the electric generation supplier's or third party biller's consolidated billing customers following certain payment defaults by an electric generation supplier or third party biller and the expiration of the applicable grace period and can disconnect electric service to those customers. See "Risk Factors--Servicing--It May Be More Difficult to Collect Intangible Transition Charges Due to Billing By Third Parties" in this prospectus.

The Restructuring Plan sets forth, and future orders of the PUC will set forth, guidelines governing metering, billing and other activities by electric generation suppliers and third party billers. The PUC has determined that if an electric generation supplier or

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third party biller provides consolidated billing, the electric generation supplier or third party biller must first establish its creditworthiness by either:

- (1) demonstrating that it has an investment grade rating for its own long-term debt or
- (2) depositing with the PUC a letter of credit or other mechanism sufficient to cover 30 days of its expected collections from Intangible Transition Charges.

While the Restructuring Plan and PUC orders provide that an electric generation supplier or third party biller that bills customers must comply with all billing, financial and disclosure requirements applicable to electric generation suppliers or third party billers, the PUC may waive any of those requirements at any time in the future. See also "Risk Factors--Servicing--It May Be More Difficult to Collect Intangible Transition Charges Due to Billing By Third Parties" in this prospectus.

Termination Fees. The Restructuring Plan requires West Penn to allow certain customers to pay Competitive Transition Charges, and perhaps Intangible Transition Charges, in a lump sum, based on a calculation that takes into account each of those customer's last 12 months of demand and West Penn's weighted average cost of capital. Electric sales revenue attributable to customers who will be eligible to exercise this option was []% of total sales revenue for the 1998 fiscal year. Only one customer has elected to exercise this option to date, but that prepayment will not have any effect on West Penn's Intangible Transition Charges.

The recovery of both Competitive Transition Charges and Intangible Transition Charges from industrial and commercial customers that significantly reduce their purchases of electricity generation from West Penn through the installation of onsite generation equipment will be governed by special rules set forth in the Restructuring Plan. These special arrangements were designed so that customers who operate generation equipment in parallel with West Penn's transmission and distribution system pay their fully allocated share of Stranded Costs through Competitive Transition Charges and Intangible Transition Charges. For each self-generating customer, the servicer will determine annually, after the end of each calendar year in which Competitive Transition Charges or Intangible Transition Charges are assessed, whether that customer purchased at least 10% fewer kilowatt-hours of electricity through the transmission and distribution system than the customer purchased in the applicable base year. For customers who began self-generation on or after January 1, 1997, the base year is the immediately preceding calendar year. For all others, the base year is 1996.

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If the ratio between:

- (1) the amount of usage difference caused by the onsite generation and
- (2) the base year usage is 10% or more,

the servicer will bill the customer separately in an amount equal to the difference between:

- (x) the total Competitive Transition Charges and Intangible Transition Charges that the customer would have paid using usage and demand data for the base year, as adjusted for any portion not related to self-generation, and
- (y) the total Competitive Transition Charges and Intangible Transition Charges that the customer did pay in the preceding calendar year.

There are other special rules for customers whose peak load during 1996 was at least 4 megawatts and who can prove that they were actively self-generating as of December 31, 1996 or earlier. West Penn does not expect the number of customers who self-generate or the kilowatt-hours produced by self-generation to be significant. The calculation of the Intangible Transition Charges and any adjusted Intangible Transition Charges will reflect actual self-generation at the time of that calculation and the servicer's projection with respect to future self-generation.

THE SERVICER
WEST PENN POWER COMPANY

RETAIL ELECTRIC SERVICE TERRITORY

West Penn serves approximately 665,000 customers in an area of approximately 10,000 square miles in 24 counties of southwestern and central Pennsylvania. The service area is primarily rural and suburban, and its economy is significantly industrial-based.

In order better to address the competitive environment for generation of electricity, West Penn is in the process of establishing a separate subsidiary to own its electric generation assets. Separation of the generation function from transmission, distribution, and corporate services will allow for more flexibility in West Penn's operations.

CUSTOMERS AND OPERATING REVENUES

West Penn's customer base is divided into three general customer categories (each, a "Customer Category"): residential, commercial and industrial. Individual rate schedules (each, a "Rate Schedule") are created by the PUC and are subject to change. Those changes will be reflected in any Adjustment Request filed with the PUC by the Servicer. The Rate Schedules in each Customer Category are:

Residential Rate Schedules:

Schedule 10 -- The only residential service schedule, available to all residential customers in West Penn's service area.

Commercial Rate Schedules:

Schedule 20 -- For small-to-medium commercial and small industrial customers.

Schedule 22 -- For churches, schools, non-profit colleges and universities. Closed to new customers as of August 30, 1979.

Schedule 23 -- For athletic field lighting for schools, communities, civic organizations, and other public institutions. Closed to new customers as of August 28, 1985.

Schedule 24 -- For fairs, carnivals, and other similar temporary enterprises.

Industrial Rate Schedules:

Schedule 30 -- For customers with demands in excess of 100 kilowatts, generally large commercial and medium-sized industrial customers.

Schedule 40 -- For customers with demands in excess of 2000 kilowatts and service voltages in excess of 25 kilovolts, generally large industrial customers.

Schedule 41 -- For customers with demands in excess of 2000 kilowatts and service voltages in excess of 25 kilovolts, generally large industrial customers. Closed to new customers as of December 31, 1998

Schedule 44 -- For customers with interruptible demands in excess of 5000 kilovolt-amperes and service voltages in excess of 25 kilovolts,

generally large industrial customers able to withstand interruptions in service. Closed to new customers as of December 31, 1998.

Schedule 46 -- For customers with demands in excess of 30,000 kilovolt-amperes and service voltages in excess of 25 kilovolts, generally very large industrial customers. Closed to new customers as of December 31, 1998.

Schedules 51-56 -- For various types of street and outdoor lighting. Closed to new customers as of June 6, 1997.

Schedules 57-58 -- For outdoor lighting of various types.

Schedule 71 -- For municipal street and highway lighting. Closed to new customers as of August 26, 1978.

Schedule 86 -- For alternative generation.

Schedule 90 -- For sale of surge suppression devices.

Total Customers. The following tables show, for the last five years, the number of retail electric customers and the percentage of all retail electric customers by Rate Schedule (Table 3), retail electric usage by Rate Schedule (Table 4), and retail electric revenues by Rate Schedule (Table 5). For the pro forma Intangible Transition Charges assessed to individual Rate Schedules as of any series issuance date and any adjustment thereto, in each case giving effect to the issuance of transition bonds on that date, see the related prospectus supplement. There can be no assurance that total customers, the composition of total customers by Customer Category and Rate Schedule or usage levels or revenues for each Customer Category and Rate Schedule will remain at or near the levels reflected in the following tables.

Rate Adjustment Among Rate Schedules Within the Three Customer Categories. In general, each Customer Category is responsible for a fixed percentage of the Intangible Transition Charges. The PUC has approved this allocation of Intangible Transition Charges among Customer Categories. The Intangible Transition Charges will be determined for each Rate Schedule within the three Customer Categories. The Intangible Transition Charges will be adjusted by Rate Schedule within each Customer Category, but not among Customer Categories. The Pennsylvania Competition Act prohibits allocating Intangible Transition Charges to Customer Categories in a manner that results in the interclass or intraclass shifting of costs. In prior decisions, the PUC has concluded that performing rate adjustments by Customer Categories does not constitute interclass or intraclass shifting of costs.

Rate Schedules and Customer Categories. The Rate Schedules in the commercial and industrial Customer Categories do not necessarily consist solely of commercial Customers or industrial Customers, as the case may be. Instead, a Rate Schedule placed in the commercial Customer Category indicates that this Rate Schedule consists primarily of commercial Customers. Similarly, a Rate Schedule placed in the industrial Customer Category indicates that this Rate Schedule consists primarily of industrial Customers. Therefore, statistics provided in this prospectus for the commercial Customer Category may include statistics for some industrial Customers, and statistics provided in

this prospectus for the industrial Customer Category may include statistics for some commercial Customers. In contrast, statistics in this prospectus relating to commercial Customers relate solely to commercial Customers, and statistics in this prospectus relating to industrial Customers relate solely to industrial Customers.

TABLE 3
RETAIL ELECTRIC CUSTOMERS

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED									
	12/31/94		12/31/95		12/31/96		12/31/97		12/31/98	
	AVERAGE NUMBER OF CUSTOMERS	% OF TOTAL	AVERAGE NUMBER OF CUSTOMERS	% OF TOTAL	AVERAGE NUMBER OF CUSTOMERS	% OF TOTAL	AVERAGE NUMBER OF CUSTOMERS	% OF TOTAL	AVERAGE NUMBER OF CUSTOMERS	% OF TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
RESIDENTIAL Schedule 10	564,940	86.98%	569,897	86.83%	571,928	86.89%	575,526	86.61%	579,194	86.54%

Sub-Total	564,940	86.98%	569,897	86.83%	571,928	86.89%	575,526	86.61%	579,194	86.54%
COMMERCIAL										
Schedule 20	72,148	11.11%	73,837	11.25%	75,214	11.40%	76,485	11.51%	78,024	11.66%
Schedule 22	1,961	0.30%	1,858	0.28%	1,748	0.26%	1,724	0.26%	1,608	0.24%
Schedule 23	47	0.01%	44	0.01%	40	0.01%	38	0.01%	38	0.01%
Schedule 24	3	0.00%	5	0.00%	4	0.00%	5	0.00%	7	0.00%
Sub-Total	74,159	11.42%	75,744	11.54%	77,006	11.67%	78,252	11.78%	79,677	11.90%
INDUSTRIAL										
Schedule 30	2,278	0.35%	2,256	0.34%	2,247	0.34%	2,291	0.34%	2,322	0.35%
Schedule 40	83	0.01%	88	0.01%	91	0.01%	97	0.01%	99	0.01%
Schedule 41	3	0.00%	2	0.00%	2	0.00%	2	0.00%	1	0.00%
Schedule 44	2	0.00%	2	0.00%	1	0.00%	1	0.00%	1	0.00%
Schedule 46	2	0.00%	2	0.00%	2	0.00%	2	0.00%	2	0.00%
Schedule 86	4	0.00%	4	0.00%	4	0.00%	4	0.00%	4	0.00%
Street Lighting	8,049	1.24%	8,354	1.27%	8,444	1.28%	8,343	1.26%	8,017	1.20%
Sub-Total	10,421	1.60%	10,708	1.63%	10,791	1.64%	10,740	1.62%	10,446	1.56%
Total	649,520	100.00%	656,349	100.00%	659,725	100.00%	664,518	100.00%	669,317	100.00%

<CAPTION>

FOR THE
SIX MONTHS
ENDED

6/30/99

AVERAGE
NUMBER OF
CUSTOMERS

% OF
TOTAL

<S>	<C>	<C>
RESIDENTIAL		
Schedule 10	584,964	86.41%
Sub-Total	584,964	86.41%
COMMERCIAL		
Schedule 20	80,025	11.82%
Schedule 22	1,596	0.24%
Schedule 23	34	0.01%
Schedule 24	7	0.00%
Sub-Total	81,662	12.06%
INDUSTRIAL		
Schedule 30	2,369	0.35%
Schedule 40	113	0.02%
Schedule 41	2	0.00%
Schedule 44	1	0.00%
Schedule 46	2	0.00%
Schedule 86	4	0.00%
Street Lighting	7,882	1.16%
Sub-Total	10,373	1.53%
Total	676,999	100.00%

</TABLE>

TABLE 4

ACTUAL RETAIL ELECTRIC USAGE (PER MEGAWATT-HOUR "MWh")

<TABLE>

<CAPTION>

FOR THE YEAR ENDED

	12/31/94		12/31/95		12/31/96		12/31/97		12/31/98	
	MWH	% OF TOTAL	MWH	% OF TOTAL	MWH	% OF TOTAL	MWH	% OF TOTAL	MWH	% OF TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
RESIDENTIAL										
Schedule 10	5,748,127	34.44%	5,767,542	33.48%	5,948,711	33.68%	5,766,850	32.61%	5,809,350	32.50%
Sub-Total	5,748,127	34.44%	5,767,542	33.48%	5,948,711	33.68%	5,766,850	32.61%	5,809,350	32.50%

COMMERCIAL										
Schedule 20	2,018,381	12.09%	2,090,358	12.13%	2,153,748	12.19%	2,168,078	12.26%	2,216,039	12.40%
Schedule 22	98,538	0.59%	89,102	0.52%	81,534	0.46%	64,818	0.37%	52,501	0.29%
Schedule 23	511	0.00%	474	0.00%	470	0.00%	477	0.00%	499	0.00%
Schedule 24	33	0.00%	23	0.00%	22	0.00%	21	0.00%	27	0.00%
Sub-Total	2,117,463	12.69%	2,179,957	12.65%	2,235,774	12.66%	2,233,394	12.63%	2,269,066	12.70%

<CAPTION>

FOR THE
SIX MONTHS
ENDED

6/30/99

	MWH	% OF TOTAL
<S>	<C>	<C>
RESIDENTIAL		
Schedule 10	3,055,975	33.56%
Sub-Total	3,055,975	33.56%
COMMERCIAL		
Schedule 20	1,138,248	12.50%
Schedule 22	32,693	0.36%
Schedule 23	150	0.00%
Schedule 24	3	0.00%
Sub-Total	1,171,094	12.86%

</TABLE>

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<TABLE>
<CAPTION>

FOR THE YEAR ENDED

	12/31/94		12/31/95		12/31/96		12/31/97		12/31/98	
	MWH	% OF TOTAL	MWH	% OF TOTAL	MWH	% OF TOTAL	MWH	% OF TOTAL	MWH	% OF TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INDUSTRIAL										
Schedule 30	3,857,797	23.12%	3,927,383	22.80%	3,971,239	22.48%	4,047,248	22.89%	4,071,011	22.78%
Schedule 40	3,077,059	18.44%	3,355,885	19.48%	3,540,235	20.04%	3,978,829	22.50%	3,820,137	21.37%
Schedule 41	106,216	0.64%	46,904	0.27%	46,300	0.26%	46,786	0.26%	19,068	0.11%
Schedule 44	118,103	0.71%	117,590	0.68%	72,775	0.41%	69,027	0.39%	78,958	0.44%
Schedule 46	1,583,201	9.49%	1,751,510	10.17%	1,766,040	10.00%	1,460,804	8.26%	1,723,975	9.65%
Schedule 86	9	0.00%	31	0.00%	182	0.00%	3	0.00%	15	0.00%
Street Lighting	80,639	0.48%	80,951	0.47%	81,182	0.46%	81,181	0.46%	81,271	0.45%
Sub-Total	8,823,024	52.87%	9,280,264	53.87%	9,477,953	53.66%	9,683,878	54.76%	9,794,435	54.80%
Total	16,888,614	100.00%	17,227,763	100.00%	17,662,438	100.00%	17,684,122	100.00%	17,872,851	100.00%

<CAPTION>

FOR THE
SIX MONTHS
ENDED

6/30/99

	MWH	% OF TOTAL
<S>	<C>	<C>
INDUSTRIAL		
Schedule 30	2,039,918	22.40%
Schedule 40	1,837,720	20.18%
Schedule 41	26,080	0.29%
Schedule 44	34,908	0.38%
Schedule 46	899,018	9.87%
Schedule 86	33	0.00%
Street		

Lighting	40,730	0.45%
Sub-Total	4,878,407	53.58%
Total	9,105,476	100.00%
	=====	=====

</TABLE>

TABLE 5

RETAIL ELECTRIC REVENUES (DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED									
	12/31/94		12/31/95		12/31/96		12/31/97		12/31/98	
	\$ (000S)	% OF TOTAL	\$ (000S)	% OF TOTAL	\$ (000S)	% OF TOTAL	\$ (000S)	% OF TOTAL	\$ (000S)	% OF TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
RESIDENTIAL										
Schedule 10	\$376,023	41.12%	\$395,209	40.56%	\$403,243	40.92%	\$389,460	40.13%	\$381,918	40.26%
Sub-Total	376,023	41.12%	395,209	40.56%	403,243	40.92%	389,460	40.13%	381,918	40.26%
COMMERCIAL										
Schedule 20	\$130,657	14.29%	\$140,314	14.40%	\$143,273	14.54%	\$143,473	14.78%	\$140,749	14.84%
Schedule 22	6,597	0.72%	6,518	0.67%	5,969	0.61%	4,810	0.50%	3,539	0.37%
Schedule 23	75	0.01%	76	0.01%	72	0.01%	71	0.01%	65	0.01%
Schedule 24	4	0.00%	4	0.00%	3	0.00%	3	0.00%	4	0.00%
Sub-Total	137,333	15.02%	146,912	15.08%	149,317	15.15%	148,357	15.29%	144,357	15.22%
INDUSTRIAL										
Schedule 30	\$194,859	21.31%	\$206,145	21.16%	205,646	20.87%	\$208,172	21.45%	\$203,325	21.43%
Schedule 40	121,857	13.32%	136,249	13.98%	140,287	14.23%	152,368	15.70%	142,684	15.04%
Schedule 41	4,713	0.52%	2,142	0.22%	2,204	0.22%	2,090	0.22%	756	0.08%
Schedule 44	4,305	0.47%	4,296	0.44%	2,582	0.26%	1,944	0.20%	2,207	0.23%
Schedule 46	64,478	7.05%	71,817	7.37%	70,653	7.17%	56,485	5.82%	61,748	6.51%
Schedule 86	33	0.00%	37	0.00%	42	0.00%	39	0.00%	38	0.00%
Street Lighting	10,944	1.20%	11,494	1.18%	11,537	1.17%	11,554	1.19%	11,620	1.22%
Sub-Total	401,189	43.87%	432,180	44.36%	432,951	43.93%	432,652	44.58%	422,378	44.52%
Total	\$914,545	100.00%	\$974,301	100.00%	\$985,511	100.00%	\$970,469	100.00%	\$948,653	100.00%
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

<CAPTION>

	FOR THE SIX MONTHS ENDED	
	6/30/99	
	\$ (000S)	% OF TOTAL
<S>	<C>	<C>
RESIDENTIAL		
Schedule 10	\$198,715	43.70%
Sub-Total	198,715	43.70%
COMMERCIAL		
Schedule 20	\$ 70,785	15.57%
Schedule 22	2,067	0.45%
Schedule 23	14	0.00%
Schedule 24	1	0.00%
Sub-Total	72,867	16.03%
INDUSTRIAL		
Schedule 30	\$ 88,991	19.57%
Schedule 40	58,905	12.96%
Schedule 41	573	0.13%
Schedule 44	976	0.21%
Schedule 46	28,019	6.16%
Schedule 86	21	0.00%
Street Lighting	5,622	1.24%
Sub-Total	183,107	40.27%
Total	\$454,689	100.00%

</TABLE>

CONCENTRATIONS. For the six-month period ended June 30, 1999, the largest ten residential customers represented less than 1% of West Penn's total retail electric revenues. For the six-month period ended June 30, 1999, the largest commercial customer and the largest ten commercial customers represented approximately 6.15% and 6.85%, respectively, of West Penn's retail electric revenues from commercial customers. For the six-month period ended June 30, 1999, the largest industrial customer and the largest ten industrial customers represented approximately 9.17% and 29.31%, respec-

tively, of West Penn's retail electric revenues from industrial customers. For the six-month period ended June 30, 1999, the largest ten residential customers represented less than 1% of West Penn's total retail electric sales. For the six-month period ended June 30, 1999, the largest commercial customer and the largest ten commercial customers represented approximately 8.94% and 9.66%, respectively, of West Penn's retail electric sales from commercial customers. For the six-month period ended June 30, 1999, the largest industrial customer and the largest ten industrial customers represented approximately 10.73% and 33.08%, respectively, of West Penn's retail electric sales from industrial customers. There can be no assurance that current customers will remain customers or that the levels of customer concentration in the future will be similar to those set forth above. See "Risk Factors--Servicing--Inaccurate Projections by Servicer May Result in Losses to Transition Bondholders" in this prospectus.

Delinquency and Write-Off Experience. The following tables set forth the delinquency and write-off experience with respect to payments to West Penn by Customer Category for each of the periods indicated below. There can be no assurance that the future delinquency and write-off experience for West Penn or for the Intangible Transition Charges will be similar to the historical experience set forth below:

TABLE 6

DELINQUENCIES AS A PERCENTAGE OF BILLED RETAIL ELECTRIC REVENUES

<TABLE>

<CAPTION>

	FOR THE YEAR ENDED					FOR THE
	12/31/94	12/31/95	12/31/96	12/31/97	12/31/98	SIX MONTHS ENDED 6/30/99
<S>	<C>	<C>	<C>	<C>	<C>	<C>
RESIDENTIAL						
30-59 days.....	1.33%	1.23%	1.29%	1.23%	1.23%	1.07%
60-89 days.....	0.54	0.49	0.58	0.42	0.42	0.35%
90-119 days.....	0.17	0.15	0.26	0.15	0.15	0.14%
120+ days.....	0.10	0.10	0.26	0.17	0.16	0.26%
COMMERCIAL						
30-59 days.....	0.21%	0.26%	0.38%	0.33%	0.41%	0.40%
60-89 days.....	0.04	0.04	0.11	0.07	0.05	0.07%
90-119 days.....	0.01	0.02	0.04	0.03	0.03	0.03%
120+ days.....	0.03	0.02	0.06	0.07	0.04	0.07%
INDUSTRIAL						
30-59 days.....	0.07%	0.14%	0.19%	0.09%	0.14%	0.19%
60-89 days.....	0.02	0.08	0.03	0.04	0.02	0.02%
90-119 days.....	0.01	0.01	0.01	0.04	0.02	0.01%
120+ days.....	0.02	0.01	0.01	0.01	0.00	0.01%

</TABLE>

For purposes of calculating the numbers in Table 6 for the six-month period ended June 30, 1999, the billed revenues for that six-month period were doubled.

TABLE 7

NET WRITE-OFFS AS A PERCENTAGE OF BILLED RETAIL ELECTRIC REVENUES

<S>	FOR THE YEAR ENDED					FOR THE SIX
	12/31/94	12/31/95	12/31/96	12/31/97	12/31/98	MONTHS ENDED 6/30/99
RESIDENTIAL.....	0.84%	0.92%	1.36%	1.57%	1.37%	0.69%
COMMERCIAL.....	0.07	0.06	0.09	0.21	0.19	0.14
INDUSTRIAL.....	0.05	0.05	0.28	0.18	0.12	0.09
TOTAL.....	0.38	0.41	0.68	0.74	0.64	0.36

Unless West Penn is unable to complete all of its follow-up procedures in a timely manner, unpaid residential account balances are charged-off 141 days after the initial bill is mailed. Unless West Penn is unable to complete all of its follow-up procedures in a timely manner, unpaid commercial and industrial account balances are charged-off 101 days after the initial bill is mailed. If West Penn is delayed in completing its follow-up procedures, the 141-day and 101-day charge-off periods may increase by a few days. For a description of West Penn's collection and write-off policy, see "--Limited Information on Customers' Creditworthiness--Collection Process for Residential Customers", "--Limited Information on Customers' Creditworthiness--Collection Process for Commercial and Industrial Customers" and "--Limited Information on Customers' Creditworthiness-- Collection Process for Governmental Customers" in this prospectus.

During the last five years, an increased number of bankruptcy filings have resulted in an increase in delinquencies and net write-offs in the residential and industrial Customer Categories. In addition, all Customer Categories were affected by Allegheny Energy's internal reorganization that occurred in 1996. As part of that reorganization, credit and collection responsibilities, which had been performed by field locations, were transferred to a centralized customer call center. In the later part of 1996 and most of 1997, Allegheny Energy focused primarily on answering customer calls on a timely basis with other functions including credit and collection being a secondary concern. Beginning in 1998, Allegheny Energy once again began to emphasize credit and collection practices, which contributed to a 14% reduction in losses in 1998.

West Penn does not expect the delinquency or write-off experience with respect to ITC Collections to differ substantially from the experience that it will have with its other receivables.

FORECASTING CUSTOMERS AND USAGE

Accurate projections of the number of customers, usage and retail electric revenue are important in setting and maintaining the Intangible Transition Charges or any adjusted Intangible Transition Charges at levels sufficient to recover interest on and principal of the transition bonds in accordance with the Expected Amortization Schedule, to fund the Calculated Overcollateralization Level, to maintain the Required Capital Amount and to pay the bond trustee's fee, the administrative agent's fee, the

Servicing Fee and the other expenses and costs included in Qualified Transition Expenses. See "The QRO and the Intangible Transition Charges--The Intangible Transition Charges" and "Risk Factors--Servicing--Inaccurate projections by Servicer May Result in Losses to Transition Bondholders" in this prospectus.

West Penn's customer and energy forecasts are a subset of the Allegheny Power forecasts and are produced by employees of Allegheny Power Service Corporation ("APSC") using econometrics and end-use models based on demographic data, historical sales and customer data, and projections of economic and employment variables for West Penn's service territory produced by Data

Resources Inc. ("DRI"). DRI is an independent, nationally-known economic forecasting firm. West Penn's service area forecasts are derived from DRI's macroeconomic models of the U.S. economy. A set of disaggregated customer and energy sales models use the national and service area economic forecasts and end-use data as inputs to produce the detailed customer and sales forecasts. Although the external economic projections form the foundation of the forecast, judgment, assumptions and specific information about certain customer segments provided by APSC employees also play important roles in the final forecast. West Penn's forecasts of customers and energy sales are reviewed and approved internally by senior management executives.

Residential customer sales are forecasted using a combination of end-use and econometric models. Separate forecasts of customers and average use per customer are combined to produce the forecast of residential customer sales. The customer forecasts are based primarily on service area demographics and population forecasts. Average use per customer forecasts are based on electricity price, weather and saturations of electric space heating and major household appliances and their corresponding levels of energy use. The model for total residential customers is driven by population and persons per household in the service area. Historical and forecast values of the population series are obtained through DRI's Regional Information Service. Persons per household are derived from Residential Appliance Saturation Surveys, and are forecasted as a function of national persons per household, also obtained from DRI. The number of residential electric heat customers is typically modeled as a function of real income per customer, total residential customers and the price of electricity relative to the competing fuel. The models for average use per customer are driven by use per appliance, number of appliances, temperature and price of electricity. Regional personal income is the primary driver in the appliance models. Some appliance models are constrained so that the number of appliances will not exceed a pre-determined percentage of total residential customers. The constraints are established in cooperation with field contacts. The residential customer sales forecast is the product of the forecast of the average use per customer and the number of customers.

Service area employment, temperature and price of electricity drive the models for commercial customer sales. Non-manufacturing employment is used as the employment driver.

Industrial customer sales are forecasted by major two-digit Standard Industrial Classification (SIC) codes. The primary specification for the industrial models assumes

that the sale of electricity is a function of electricity price, employment and industrial production by SIC. Primary SICs modeled are Mining; Cement, Clay and Stone; Chemicals; Glass; Steel; Fabricated Metals; and Other Manufacturing.

Actual sales can deviate from forecasted sales for many reasons, including, but not limited to, weather variations, changes in the general economic climate and levels of business activity, customer's use of more energy efficient appliances and technologies, and changes in laws and regulations which affect energy use.

The temperature-sensitive nature of the residential, commercial and wholesale loads in the West Penn service territory causes deviations from normal weather to be potentially the largest contributor to load variances in the near-term. As the number of electrically-heated and air conditioned buildings in the service area increases, the sensitivity of demand to temperature also increases. All West Penn forecasts are intended to represent loads most likely to occur, given normal temperatures. Therefore, variances from the forecast due to temperature deviations from normal are to be expected, but should offset over time and have no effect on average growth.

Variations between actual and projected customers and energy sales are shown in Table 8 and Table 9. Weather variation played a significant role in the forecast variances experienced in 1997 and 1998, particularly for the residential and commercial Customer Categories. The forecast variance for the industrial Customer Category in 1998 was due in large part to an unanticipated decline in steel load and one large customer which began to self-generate. There can be no assurance that the future variance between actual and projected customers and sales in the aggregate, or by Customer Category, will be similar to the historical experience set forth in the tables.

TABLE 8

VARIANCE FROM YEAR-AHEAD FORECAST: NUMBER OF CUSTOMERS
FOR THE YEAR ENDED DECEMBER 31

<TABLE>
<CAPTION>

	1994	1995	1996	1997	1998
<S>	<C>	<C>	<C>	<C>	<C>
RESIDENTIAL					
Forecasted.....	570,494	576,399	581,899	584,460	586,512
Actual.....	571,682	576,372	578,465	581,943	585,316
Variance.....	0.2%	0.0%	-0.6%	-0.4%	-0.2%
COMMERCIAL					
Forecasted.....	65,562	68,067	69,232	70,263	71,350
Actual.....	65,896	67,720	68,764	69,941	71,158
Variance.....	0.5%	-0.5%	-0.7%	-0.5%	-0.3%
INDUSTRIAL					
Forecasted.....	11,280	11,538	11,870	12,144	12,351
Actual.....	11,398	11,666	11,940	12,076	12,307
Variance.....	1.0%	1.1%	0.6%	-0.6%	-0.4%
STREETLIGHTING					
Forecasted.....	520	553	550	566	563
Actual.....	547	557	558	561	539
Variance.....	5.2%	0.7%	1.5%	-0.9%	-4.3%

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TABLE 9

VARIANCE FROM YEAR-AHEAD FORECAST: ENERGY SALES (GWH)
FOR THE YEAR ENDED DECEMBER 31

<S>	1994	1995	1996	1997	1998
<C>	<C>	<C>	<C>	<C>	<C>
RESIDENTIAL					
Forecasted.....	5,697	5,826	5,844	5,974	6,127
Actual.....	5,763	5,781	5,963	5,781	5,823
Variance.....	1.2%	-0.8%	2.0%	-3.2%	-5.0%
COMMERCIAL					
Forecasted.....	3,640	3,741	3,856	3,986	4,080
Actual.....	3,632	3,769	3,854	3,872	3,993
Variance.....	-0.2%	0.7%	-0.1%	-2.9%	-2.1%
INDUSTRIAL					
Forecasted.....	7,604	7,659	8,204	8,256	8,608
Actual.....	7,442	7,834	8,006	8,191	8,226
Variance.....	-2.1%	2.3%	-2.4%	-0.8%	-4.4%
STREETLIGHTING					
Forecasted.....	53	51	52	52	52
Actual.....	52	52	52	52	52
Variance.....	-1.9%	2.0%	0.0%	0.0%	0.0%

BILLING PROCESS

West Penn operates on a continuous billing cycle, with an approximately equal number of bills being distributed each business day. For the year ended December 31, 1998, West Penn mailed out an average of approximately 33,000 bills daily. West Penn bills the majority of its customers monthly. Accounts with potential billing errors are held by the computer system for review. This review examines accounts that have abnormally high or low bills, potential meter-reading errors, safety problems as identified by the meter-reading staff and possible meter malfunctions. Subject to statutory and legal requirements, West Penn may change its billing policies and procedures from time to time. It is expected that any of these changes would be designed to enhance West Penn's ability to make timely recovery of amounts billed to customers.

LIMITED INFORMATION ON CUSTOMERS' CREDITWORTHINESS

Under the Servicing Agreement, any changes instituted by West Penn will apply to the servicing of Intangible Transition Property so long as West Penn is the servicer.

Under Pennsylvania law, West Penn is obligated to provide service to new customers in the residential Customer Category. West Penn initiated a Customer Verification Process in May 1999. The primary purpose of this process is to verify the social security number of new customers. If the customer is unwilling to provide, or if West Penn is unable to verify, the provided social security number, the customer will be required to complete a notarized service application to obtain electric service. West Penn is currently reviewing options that can be taken at the earliest stages to reduce the costs associated with delinquent accounts. West Penn relies on the information provided by

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the customer and its customer information system audits to indicate whether the customer has been previously served by West Penn.

PAYMENT PLANS

As part of its obligation to provide universal service, West Penn will continue the reduced payment program (the Low Income Payment and Usage Reduction Program (LIPURP)) provided to certain low income customers who are currently served under or otherwise qualify for Rate Schedule 10. Customers must be referred to this program or request admittance and must demonstrate annual household gross income below 150% of the federal poverty guidelines. Customers in LIPURP will be placed on a payment plan based on a percentage of income or annualized average payment. An additional \$5.00 per month payment will be required toward the pre-program arrearages. A LIPURP debt reduction incentive will be awarded to those customers that reach yearly recertification and have less than three late payments during their program year. If the customer meets these criteria, 20% of their accounts receivable balance will be applied to any existing pre-program arrearage. West Penn has established the following funding levels through the year 2002: \$1,750,000 for 1999; \$3,130,000 for 2000; \$4,510,000 for 2001; and \$5,880,000 for 2002. After 2002, West Penn expects the annual costs of LIPURP to be \$5.88 million. As of March 31, 1999, there were approximately 300 customers enrolled in the LIPURP. By 2002, West Penn estimates that approximately 3% of its customers will be enrolled in LIPURP. Pursuant to the provisions of the Pennsylvania Competition Act, the PUC has adopted regulations which establish reporting requirements for universal service programs, such as LIPURP, that are applicable to all electric distribution companies, including West Penn.

As of March 31, 1999, approximately 31,000 of West Penn's customers have entered into payment plans with West Penn, including those customers enrolled in LIPURP. The total amount of billings under these payment plans is approximately \$14 million. Under these payment plans, West Penn customers agree to pay delinquent bills over a period of time negotiated between West Penn and each customer. Once a payment plan is entered into, the amount covered under that plan is no longer considered delinquent unless that customer subsequently fails to make any payment required to be paid on the date specified under that customer's payment plan.

Customer Assistance and Referral Evaluation Service Program Guidelines and Procedures (CARES) is a special plan for West Penn customers who are experiencing some type of special hardship with the ability to rectify the situation. This program is for short-term problems only. Customers are not in the CARES program for more than two years. For customers enrolled in CARES, West Penn will:

- (1) provide a West Penn advocate for special payment-troubled customers confronted with severe hardships;
- (2) provide information and guidance regarding energy usage;
- (3) provide supportive budget counseling including a review of the customer's income and expenses and a formulation of a workable budget; and

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- (4) provide feedback to West Penn on the needs and circumstances of low-income customers.

Less than 1% of West Penn customers are enrolled in the CARES Program.

In 1998, approximately 78% of total bill payments were received by West Penn via the U.S. Mail. During the same period, approximately 14% of total payments were paid in person at approximately 200 payment agencies (which are located in unaffiliated businesses or organizations, such as supermarkets and

convenience stores) throughout the retail electric service territory. Other payment methods include credit card payments and direct debits of customer accounts through local banks, which accounted for approximately 8% of bill payments collected in 1998.

COLLECTION PROCESS FOR RESIDENTIAL CUSTOMERS

Customer bills are due approximately 20 days after mailing. If the customer does not pay the bill by the due date, the customer will not be considered for termination until the next bill is rendered, which is approximately 30 days from the last mailing date. West Penn's collection process is based on delinquent balance and an internal credit score, which is derived from the customer's credit history with West Penn. Each delinquent customer is scored for approximate risk based on outstanding balance, payment habits, and previous termination history. The score has been used since late 1996 to segment customers into three specific collection strategies. The lowest risk customers are sent a friendly reminder letter with no collection activity, since most customers in this category usually pay late and pay the associated finance charges. The next segment of customers are moved into a proactive collection program which is a reminder letter and a collection call strategy designed to remind the customer of the delinquency. Customers in the third segment are moved into an aggressive service termination process that is initiated by mailing a ten-day termination notice. If no payment is made within four business days of the termination date, a 72-hour personal contact is attempted by telephone. If the initial phone attempt is unsuccessful, a second attempt is made on the next business day after 6 p.m. If two telephone attempts are not completed, a 72-hour notice will be given at the property. If sufficient payment has not been received by the termination date, the account is sent for service termination by a designated West Penn employee. If the designated employee makes contact with a responsible adult, the service is terminated. If the designated employee does not make contact, a 48-hour deferred notice is left. Two days later, the service is terminated with or without contact if sufficient payment has not been made. However, termination is not permitted if the customer has filed a medical certificate, a dispute or a complaint.

Power is not customarily disconnected if the delinquent customer is subject to a PUC mandated winter moratorium (the "Winter Moratorium"), which requires special approval from the PUC prior to the disconnection of electricity of certain customers in the residential Customer Category from December 1 through March 31 of each year. Currently, these accounts are managed during the Winter Moratorium through a combination of letters, proactive phone contacts and negotiated payment plans.

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Delinquencies which accumulate during the Winter Moratorium continue to contribute to the credit scoring, which can lead to termination after the Winter Moratorium.

Collection efforts continue after service is terminated. A field service representative is again sent to collect payment and to check the status of the situation. A final bill and two reminders are sent before the account is charged-off. Once an account is charged-off, West Penn mails a charge-off notification to the customer. If West Penn is able to complete all of its follow-up procedures in a timely manner, unpaid residential account balances are charged-off 141 days after the initial bill is mailed and then referred to a collection agency at 169 days after the initial bill is mailed. Once written off, the uncollected account is monitored for four years and may be collected at any point during that time.

If a customer declares bankruptcy, a review is conducted to assess whether the account is current. The accounts of bankrupt customers having delinquencies are finalized, and efforts are initiated to submit claims in the bankruptcy of these customers. Deposits are required for delinquent bankrupt customers for which West Penn is required to continue services. These deposits are maintained until the bankruptcy claimed is finalized and payment history is deemed satisfactory.

COLLECTION PROCESS FOR COMMERCIAL AND INDUSTRIAL CUSTOMERS

Customer bills are due approximately 15 days after mailing. If the customer does not pay the bill by the due date, collection action generally begins on the 19th day with a ten-day service termination notice delivered by mail. West Penn's collection process is based on delinquent balance and an internal credit score, which is derived from the customer's credit history with West Penn. In addition, the collection process of selective large commercial and industrial

customers is based on providing special handling of accounts and attention to detail because of the importance of each customer as a source of revenue. The delinquency of individual customers may result from differing circumstances, and it is the operational policy of West Penn in serving these accounts to have a firm understanding of individual customers so that the collection strategy can be matched to the particular account, while ensuring that regulations are followed and collection actions are performed legally. Each delinquent customer is scored for approximate risk based on outstanding balance, payment habits, and previous termination history. The score has been used since late 1996 to segment customers into three specific collection strategies. The lowest risk customers are sent a friendly reminder letter with no collection activity, since most customers in this category usually pay late and pay the associated finance charges. The next segment of customers are moved into a proactive collection program which is a reminder letter and a collection call strategy designed to remind the customer of the delinquency. Customers in the third segment are moved into an aggressive service termination process that is initiated by mailing a ten-day termination notice. If no payment is made within four business days of the termination date, a 72-hour personal contact is attempted by telephone. If the initial phone attempt is unsuccessful, a second attempt is made on the next business day after 6 p.m. If two telephone attempts are completed, a 72-hour notice will be given at the property. If sufficient payment has not been received by the termination date, the account is sent for

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service termination by a designated West Penn employee. Service is terminated with or without field contact if sufficient payment has not been made. However, termination is not permitted if the customer has filed a medical certificate, a dispute or a complaint.

Collection efforts continue after service is terminated. Ten days following the termination of service, a field service representative is again sent to collect payment and to check the status of the situation. Assuming no collection is made, a final bill and two reminders are sent before the account is charged-off. Once an account is charged-off, West Penn mails a charge-off notification to the customer. If West Penn is able to complete all of its follow-up procedures in a timely manner, unpaid commercial and industrial account balances are charged-off 101 days after the initial bill is mailed and then referred to a collection agency at 128 days after the initial bill is mailed. Once written off, the uncollected account is monitored for four years and may be collected at any point during that time.

If a customer declares bankruptcy, a review is conducted to assess whether the account is current. The accounts of bankrupt customers having delinquencies are finalized, and efforts are initiated to submit claims in the bankruptcy of these customers. Deposits are required for delinquent bankrupt customers for which West Penn is required to continue services. These deposits are maintained until the bankruptcy claimed is finalized and payment history is deemed satisfactory.

COLLECTION PROCESS FOR GOVERNMENTAL CUSTOMERS

Federal, state or local government customers or accounts are billed according to the same standards as commercial and industrial accounts with the exception that the due date for governmental accounts is 30 days. Service termination is generally not used as a means of collection for governmental accounts. Telephone contact is made before any reminder or service termination notices are mailed.

RECONNECTION POLICY

For residential customers, service restoration generally requires either payment of the full overdue balance or a payment agreement if the customer has not previously defaulted on two payment agreements, a \$30 reconnection fee during business hours-\$45 after business hours and \$90 on weekends-and a security deposit equal to two months of the average bill. A security deposit is not required for low-income customers.

For non-residential customers, service restoration generally requires payment of the full overdue balance, a reconnection fee and a security deposit equal to the highest two consecutive month bills over the past 12-month period. Payment arrangements are generally not available for non-residential customers.

APPLICATION OF CUSTOMER PAYMENTS

The Pennsylvania Competition Act provides that the PUC require the unbundling of electric utility services, tariffs and customer bills to separate the charges for generation, transmission and distribution for billing cycles beginning in January, 1999. In the event that a customer makes a partial payment toward an outstanding balance, the payment

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will be applied first to Intangible Transition Charges, when implemented, then to the Competitive Transition Charges, then to transmission and distribution charges and finally to electric generation charges.

West Penn offers two billing options to choice customers. A customer may elect to receive a single bill from West Penn which would include charges incurred from the electric supplier and West Penn or the customer may elect dual billing. With dual billing, the customer will receive one bill from the electric generation supplier for electric generation and one bill from West Penn for Intangible Transition Charges, Competitive Transition Charges and transmission and distribution charges. Pursuant to the Settlement, a third option, a single bill from the electric generation supplier containing West Penn's charges will be implemented on or after September 1, 2000.

West Penn's electric tariff approved by the PUC in the Restructuring Plan provides that when West Penn is providing dual billing and a customer remits a partial payment to West Penn, the payment will be applied as follows:

- (1) To the outstanding balance before direct access to electric generation from electric generation suppliers or the installment amount for a payment agreement on this balance;
- (2) To the balance due for state tax charges;
- (3) To the balance due or the installment amount for a payment agreement for Intangible Transition Charges, when implemented;
- (4) To the balance due or the installment amount for a payment agreement for Competitive Transition Charges;
- (5) To the balance due or the installment amount for a payment agreement for fixed and variable utility distribution service charges;
- (6) To the current state tax charges;
- (7) To the current Intangible Transition Charges, when implemented;
- (8) To the current Competitive Transition Charges;
- (9) To the current fixed and variable utility distribution service charges;
- (10) To the balance due for prior charges for energy and capacity (if West Penn is the provider of last resort);
- (11) To the current charges for energy and capacity charges (if West Penn is the provider of last resort); and
- (12) To the non-basic service charges.

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If the customer elects the single bill option and remits a partial payment, the payment is applied as follows using the allocation among the charges as detailed under the dual bill option:

- (1) West Penn's past due bills for basic service charges;
- (2) West Penn's current bills for basic service charges;
- (3) Suppliers' past due bills for basic service charges;
- (4) Suppliers' current bills for basic service charges;

- (5) West Penn's past due bills for non-basic service charges;
- (6) West Penn's current bills for non-basic service charges;
- (7) Suppliers' past due bills for non-basic service charges; and
- (8) Suppliers' current bills for non-basic service charges.

ELECTRIC GENERATION SUPPLIERS AND OTHER THIRD-PARTY BILLERS

The servicer, on behalf of the issuer, will pursue any electric generation supplier or other third party providing billing and/or metering services that fails to remit the applicable Intangible Transition Charges in a manner similar to that by which the servicer will pursue any failure by a customer to remit Intangible Transition Charges. The servicer will have the right to bill and collect Intangible Transition Charges and other amounts payable to the issuer or the servicer directly from all customers electing consolidated billing from an electric generation supplier or other third party providing billing and/or metering services as follows: if the servicer does not receive payment for undisputed charges within 25 calendar days for customers in the residential Customer Category or 20 calendar days for customers in the commercial and industrial Customer Categories after the charges are communicated to the electric generation supplier or other third party providing billing and/or metering services, then the servicer may provide notice of breach to the electric generation supplier or other third party providing billing and/or metering services at any time thereafter, at the servicer's discretion. Upon notice of a breach, the electric generation supplier or other third party providing billing and/or metering services will have 20 calendar days to cure that breach. If the electric generation supplier or other third party providing billing and/or metering services has not cured that breach within 20 calendar days, the servicer may terminate consolidated billing by the electric generation supplier or other third party providing billing and/or metering services and take over billing functions for the customer. In no event will these procedures result in a customer being sent two bills covering the same service. Neither West Penn nor the servicer will pay any shortfalls resulting from the failure of any electric generation suppliers or other third parties providing billing and/or metering services to forward ITC Collections to the servicer. See "Risk Factors--Servicing--It May Be More Difficult to Collect Intangible Transition Charges Due to Billing By Third Parties" in this prospectus.

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YEAR 2000 COMPLIANCE

West Penn is faced with the task of addressing the Year 2000 issue. The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year and other programming techniques which constrain date calculations or assign special meanings to certain dates. Any of West Penn's computer systems that have date-sensitive software or microprocessors may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations of West Penn, in its capacity as servicer, or of any successor servicer, electric generation suppliers or other third parties, including, among other things, a temporary inability to deliver electricity, measure usage, read meters, process transactions, send bills or operate electric generation stations. In addition, the Year 2000 issue could affect the ability of customers to receive bills sent by West Penn or make payments on those bills. West Penn has not investigated and has no intention of investigating the Year 2000 issue as it relates to any customer's ability to receive bills sent by West Penn or make payments on bills. See "Risk Factors--Servicing--Potential Computer Program Problems Beginning In The Year 2000 May Result in Payment Delays on Transition Bonds" in this prospectus.

To minimize problems related to the Year 2000 issue, West Penn is proceeding with a comprehensive effort to continue operations without significant problems in 2000 and beyond. An Executive Task Force is coordinating the efforts of 24 separate Year 2000 teams, representing all business and support units in West Penn.

In May 1998, the North American Electric Reliability Council (NERC), of which West Penn is a member, accepted a request from the United States Department of Energy to coordinate the industry's Year 2000 efforts. The electric utility industry and West Penn have segmented the Year 2000 problem into the following components:

- Computer hardware and software;
- Embedded chips in various equipment; and

-- Vendors and other organizations on which West Penn relies for critical materials and services.

The industry's and West Penn's efforts for each of these three components include assessment of the problem areas and remediation, testing and contingency plans for critical functions for which remediation and testing are not possible or which do not provide reasonable assurance. Contingency plans include alternate methods of certain operations to help avoid electric service or business interruptions, and the review and update of restoration of service plans to mitigate the severity and length of interruptions in the unlikely event that any should occur.

The NERC has established a goal of having the industry achieve a state of Year 2000 readiness for critical systems by June 30, 1999, and, to monitor progress, requires each utility to prepare and submit a monthly report showing progress and dated plans. By order dated July 9, 1998, the PUC initiated a proceeding requiring each utility that cannot meet a Year 2000 readiness date of March 31, 1999, for mission critical systems to file contingency plans by that date. On March 30, 1999, West Penn reported to the PUC that, except for a few items, its critical electricity production and delivery systems

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were Year 2000 ready pending final confirmation system testing of its power stations in April and May. West Penn has determined that as of June 30, 1999, all of its critical components and systems related to safety and the production and distribution of electricity and nearly all of its important business systems, including accounting and billing, are Year 2000 ready. West Penn anticipates that the remediation and testing work on the remaining business and non-critical systems will be completed by September 30, 1999. West Penn has defined Year 2000 ready to mean that a determination has been made by testing or other means that a component or system will be able to perform its critical functions, or that contingency plans are in place to overcome any inability to do so.

Integrated electric utilities are uniquely reliant on each other to avoid, in a worst case situation, cascading failure of the entire electrical system. West Penn is working with the Edison Electric Institute, the Electric Power Research Institute, the NERC and the East Central Area Reliability Agreement Group to capitalize on industry-wide experiences and to participate in industry-wide testing and contingency planning. The NERC, on January 11, 1999, issued a press release stating, based on the individual NERC reports it had received from 98% of the electrical industry, that "although there is clearly much more work to be done, we have found that North America's electric power supply and delivery systems are well on their way to being Y2K ready."

As part of the ongoing NERC program, West Penn participated in an industry-wide Year 2000 drill on April 9, 1999, and will participate in more extensive industry-wide drill planned for September 9, 1999. During the April test, West Penn was able to maintain adequate communications under a simulated failure of selected systems, and obtained valuable information for improvement of its plans. NERC has reported that the industry-wide tests produced similar results. On December 31, 1999, West Penn will have extra staff in critical areas of the system to implement these and other contingency plans if they are required.

It is West Penn's opinion that the "most reasonably likely worst case scenario" is that there could be isolated problems at various West Penn facilities or at the facilities of neighboring utilities that may have somehow escaped discovery in the identification, remediation and testing process, and that these problems may cause isolated disruptions of service. All utilities, including West Penn, have experience in the implementation of existing emergency plans and are currently expanding their emergency plans to include contingency plans to respond quickly to any of these events. West Penn intends to review and update these plans to minimize any Year 2000 problems.

West Penn is aware of the importance of electricity to its customers and is using its best efforts to avoid any serious Year 2000 problems. Despite the Company's best efforts, including working with internal resources, external vendors and industry associations, West Penn cannot guarantee that it will be able to conduct all of its operations without Year 2000 interruptions. Any Year 2000 problems could have a material adverse impact on the operations and financial condition of West Penn and on the collection of Intangible Transition Charges. The costs associated with the potential impact are speculative and not presently quantifiable.

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WEST PENN FUNDING CORPORATION

West Penn Funding Corporation, a corporation organized under the laws of the State of Delaware, was formed on [], 1999. Pursuant to the Transfer Agreement, West Penn will contribute the Transferred Intangible Transition Property to West Penn Funding Corporation in exchange for [] shares of the outstanding capital stock of West Penn Funding Corporation, representing 100% of the outstanding capital stock of West Penn Funding Corporation. Accordingly, West Penn Funding Corporation will be a wholly owned subsidiary of West Penn. West Penn Funding Corporation is a recently formed corporation and, as of the date of this prospectus, has not carried on any business activities and has no operating history.

West Penn Funding Corporation has been created for the purpose of owning the issuer, entering into the LLC Agreement and the Transfer Agreement, selling the Transferred Intangible Transition Property to the issuer pursuant to the Sale Agreement, receiving funds from the issuer from the sale of the Transferred Intangible Transition Property pursuant to the Sale Agreement, making loans to affiliates--including making loans, on an arms-length basis, of the net proceeds from the transition bonds to West Penn or its affiliates in exchange for interest-bearing notes--engaging in investing activities and performing activities that are necessary, suitable or convenient to accomplish these purposes. Following the sale of the Transferred Intangible Transition Property to the issuer, West Penn Funding Corporation will have no ownership or other interest in the Transferred Intangible Transition Property and will have no right to collect any Intangible Transition Charges.

The Administrative Agent, an affiliate of West Penn, will provide corporate administrative services, such as providing notices and preparing financial reports, for West Penn Funding Corporation pursuant to an administrative agreement between West Penn Funding Corporation and the Administrative Agent (the "Seller Administration Agreement"). West Penn Funding Corporation will reimburse the Administrative Agent for the cost of services provided computed in accordance with the applicable provisions of the Public Utility Holding Company Act of 1935.

The following is a list of the principal officers and directors of West Penn Funding Corporation. All of these officers have served in the capacities set forth below since [], 1999, unless otherwise indicated, and all directors have served in such capacity since [], 1999. The officers and directors will devote that time as is necessary to the affairs of West Penn Funding Corporation. West Penn Funding Corporation will have sufficient officers, directors and employees to carry on its business.

<TABLE>
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NAME	AGE	TITLE
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[Brief bio]

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No compensation has been paid by West Penn Funding Corporation to any officer or director of West Penn Funding Corporation since West Penn Funding Corporation was formed. The officers and directors of West Penn Funding Corporation will not be compensated by West Penn Funding Corporation for their services on behalf of West Penn Funding Corporation. Each officer serves at the discretion of West Penn Funding Corporation's board of directors. West Penn Funding Corporation's organizational documents limit, to the extent permitted by Delaware law, the personal liability of each officer and director of West Penn Funding Corporation to West Penn Funding Corporation for monetary damages resulting from breaches of that officer's or director's duty of care. West Penn Funding Corporation's organizational documents provide that officers and directors of West Penn Funding Corporation shall be indemnified against liabilities incurred in connection with their services on behalf of West Penn Funding Corporation, including liabilities under applicable securities laws.

West Penn Funding Corporation has no intent to file, and West Penn has advised West Penn Funding Corporation that it has no intent to cause the filing of, a voluntary petition for relief under the Bankruptcy Code with respect to West Penn Funding Corporation so long as West Penn Funding Corporation is solvent and does not reasonably foresee becoming insolvent.

The principal place of business of West Penn Funding Corporation is c/o [], [] and its telephone number is [].

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THE ISSUER

West Penn Funding LLC, a special purpose, single member limited liability company organized under the laws of the State of Delaware, was formed on May 26, 1999 pursuant to a limited liability company agreement (as amended and restated, the "LLC Agreement"). As of the issuance date of the transition bonds, West Penn Funding Corporation is the sole member of the issuer. The assets of the issuer will consist of the Transferred Intangible Transition Property, the other collateral and any money distributed to the issuer from the Collection Account in accordance with the indenture. The issuer is a recently formed special purpose limited liability company and, as of the date of this prospectus, has not carried on any business activities and has no operating history. Audited financial statements of the issuer are included as an integral part of this prospectus.

The issuer has been created for the purpose of purchasing and owning the Transferred Intangible Transition Property, issuing transition bonds from time to time, pledging its interest in the Transferred Intangible Transition Property and other collateral to the bond trustee under the indenture in order to secure the transition bonds and performing activities that are necessary, suitable or convenient to accomplish these purposes, including but not limited to activities relating to any necessary hedge or swap transaction or credit enhancement.

The issuer will enter into the Servicing Agreement with West Penn under which West Penn, as agent for the issuer, will manage, service and administer, and make collections in respect of, the Transferred Intangible Transition Property. See "The Servicing Agreement" in this prospectus.

In addition, Allegheny Power Service Corporation, an affiliate of West Penn, will provide corporate administrative services, such as providing notices and preparing financial reports, for the issuer pursuant to an administration agreement between the issuer and the Administrative Agent (the "Issuer Administration Agreement", and together with the Seller Administration Agreement, the "Administration Agreements"). The issuer will reimburse the Administrative Agent for the cost of services provided computed in accordance with the applicable provisions of the Public Utility Holding Company Act of 1935.

The LLC Agreement requires that the issuer have at least two independent directors. These independent directors must be natural persons who, for the five-year period prior to his or her appointment as an independent director has not been and during the continuation of his or her service as independent director is not:

- (1) an employee, director, stockholder, partner or officer of the issuer or any of its affiliates--other than his or her service as independent director;
- (2) a customer or supplier of the issuer or any of its affiliates; or
- (3) any member of the immediate family of a person described in (1) or (2) above.

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The following is a list of the principal officers and directors of the issuer. All of these officers have served in the capacities set forth below since [], 1999, unless otherwise indicated, and all directors have served in such capacity since [], 1999. The officers and directors will devote that time as is necessary to the affairs of the issuer. The issuer will have sufficient officers, directors and employees to carry on its business.

<TABLE>
<CAPTION>

NAME	AGE	TITLE
<S>	<C>	<C>
[]	[]	[]
[]	[]	[]
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[Brief bio]

[Brief bio]

[Brief bio]

No compensation has been paid by the issuer to any officer or director of the issuer since the issuer was formed. The officers and directors of the issuer, other than the independent directors, will not be compensated by the issuer for their services on behalf of the issuer. The aggregate initial compensation for the two independent directors will be \$1,200 per year. Each officer serves at the discretion of the issuer's board of directors. West Penn is an affiliate of the issuer. The issuer's organizational documents limit the personal liability of each officer and director of the issuer to the issuer for monetary damages incurred by reason of any act or omission of the officers and directors, except for damages incurred by reason of an officer's or director's gross negligence or willful misconduct. The issuer's organizational documents provide that officers and directors of the issuer shall be indemnified against liabilities incurred in connection with their services on behalf of the issuer, unless the liabilities were incurred by reason of an officer's or director's gross negligence or willful misconduct.

The issuer has no intent to file, and West Penn Funding Corporation has advised the issuer that it has no intent to cause the filing of, a voluntary petition for relief under the Bankruptcy Code with respect to the issuer so long as the issuer is solvent and does not reasonably foresee becoming insolvent.

The LLC Agreement requires the issuer to take all reasonable steps to continue its identity as a separate legal entity and to make it apparent to third persons that it is an entity with assets and liabilities distinct from those of West Penn, West Penn Funding Corporation, other affiliates of West Penn or any other person, and that, except for financial reporting purposes--to the extent required by generally accepted accounting principles--and for state and federal income and franchise tax purposes, it is not a division of West Penn Funding Corporation or any of its affiliated entities or any other person.

The principal place of business of the issuer is c/o West Penn Funding LLC, 800 Cabin Hill Drive, Room [], Greensburg, PA 15601, and its telephone number is (724) 837-[].

USE OF PROCEEDS

The issuer will use the proceeds of the issuance of the transition bonds to pay certain expenses of issuance and to purchase the Transferred Intangible Transition Property from West Penn Funding Corporation. West Penn Funding Corporation proposes using the proceeds it receives from the sale of the Transferred Intangible Transition Property for general corporate purposes and may from time to time loan, in an arms-length transaction, those net proceeds to West Penn or its affiliates in exchange for interest-bearing notes. West Penn or that affiliate would use the proceeds of any such loans principally to reduce Stranded Costs and related capitalization and to reduce some of its existing indebtedness.

THE TRANSITION BONDS

The transition bonds will be issued under and secured by a base indenture between the issuer and the bond trustee substantially in the form filed as an exhibit to the Registration Statement of which this prospectus forms a part. The terms of each series of transition bonds will be provided in a separate supplement to the base indenture. A form of this supplement is filed as an exhibit to the Registration Statement of which this prospectus forms a part. The following summary describes all material terms and provisions of the transition bonds. The particular terms of the transition bonds of any series offered by any prospectus supplement will be described in that prospectus supplement. Please see the form of indenture and transition bonds and the related prospectus

supplement for a complete description of all terms and provisions of the transition bonds, portions of which are summarized in this section.

GENERAL TERMS OF THE TRANSITION BONDS

The transition bonds may be issued in one or more series, each comprised of one or more classes. The terms of all transition bonds of the same series will be identical in all respects, unless that series is comprised of more than one class, in which case the terms of all transition bonds of the same class will be identical in all respects.

The supplemental indenture will specify the following terms of the related series of transition bonds and, if applicable, the classes thereof:

- (1) the designation of the series and, if applicable, the classes thereof;
- (2) the aggregate principal amount of the transition bonds of the series and, if applicable, each class thereof;
- (3) the bond rate of the series and, if applicable, each class thereof or the formula, if any, used to calculate the applicable bond rate or bond rates;
- (4) the payment dates for the series;
- (5) the expected final payment date of the series and, if applicable, each class thereof;

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- (6) the series termination date for the series and, if applicable, the class termination dates for each class thereof;
- (7) the issuance date for the series;
- (8) the place or places for payments with respect to the series;
- (9) the authorized initial denominations for the series;
- (10) the provisions, if any, for redemption of the series by the issuer;
- (11) the Expected Amortization Schedule for the series;
- (12) the overcollateralization amount (the "Overcollateralization Amount") with respect to the series and the amount anticipated to be on deposit in the Overcollateralization Subaccount for all series of transition bonds as of each payment date (the "Calculated Overcollateralization Level") for each payment date;
- (13) the amount of capital required to be deposited by the issuer (the "Required Capital Amount") into the Capital Subaccount upon the issuance of each series of transition bonds, which represents a capital contribution from West Penn Funding Corporation;
- (14) the Calculation Dates and Adjustment Dates for the series;
- (15) the terms of any credit enhancement applicable to the series or class;
- (16) the terms of any hedge or swap transaction applicable to the series or class; and
- (17) any other terms of the series or class that are not inconsistent with the provisions of the indenture.

The applicable prospectus supplement will set forth the procedure for the manner of the issuance of the transition bonds of each series. Generally, each series of transition bonds will initially be represented by one or more transition bonds registered in the name of Cede & Co., as the nominee of DTC. The transition bonds will be available for purchase in initial denominations specified in the applicable prospectus supplement--which denominations will be not less than \$1,000. Unless and until definitive transition bonds are issued under the limited circumstances described in this prospectus, no transition bondholder will be entitled to receive a physical bond representing a transition bond. All references in this prospectus to actions by transition bondholders will refer to actions taken by DTC upon instructions from the Participants and

all references in this prospectus to payments, notices, reports and statements to transition bondholders will refer to payments, notices, reports and statements to DTC or Cede & Co., as the registered holder of each series of transition bonds, for distribution to transition bondholders in accordance with DTC's procedures with respect thereto. See "--Book-Entry Registration" and "--Definitive Transition Bonds" below.

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INTEREST AND PRINCIPAL

Interest will accrue on the principal balance of transition bonds of a series or class at the bond rate specified in or determined in the manner specified in the applicable prospectus supplement and will be payable to the transition bondholders of that series or class on each payment date, commencing on the payment date specified in the related prospectus supplement.

On any payment date with respect to any series, the issuer will make principal payments on such series only until the outstanding principal balance thereof has been reduced to the principal balance specified for such payment date in the Expected Amortization Schedule for such series on such payment date and only to the extent funds are available therefor as described in this prospectus. Accordingly, principal of such series or class of transition bonds may be paid later than reflected in the Expected Amortization Schedule therefor. See "Risk Factors--Nature of Intangible Transition Property," "--The Transition Bonds--Uncertain Weighted Average Life" and "Certain Weighted Average Life and Yield Considerations" in this prospectus.

The failure to make a scheduled payment of principal on the transition bonds, other than upon redemption or on the series termination date or, if applicable, class termination date, does not constitute an Event of Default under the indenture. The entire unpaid principal amount of the transition bonds will be due and payable if an Event of Default under the indenture occurs and is continuing and the bond trustee or the holders of a majority in principal amount of the transition bonds of all series then outstanding have declared the transition bonds to be immediately due and payable. See "The Indenture--Events of Default; Rights Upon Event of Default" and "Certain Weighted Average Life and Yield Considerations" in this prospectus.

FLOATING RATE TRANSITION BONDS

In connection with the issuance of a class or classes of floating rate transition bonds, the issuer may arrange for one or more hedge or swap transactions. If the issuer enters into or arranges for any hedge or swap transaction, the applicable prospectus supplement will include a description of:

- (1) the material terms of that transaction;
- (2) the identity of the counterparty or counterparties;
- (3) any payments under that hedge or swap transaction to be made by or to the issuer or the bond trustee, as assignee of the issuer;
- (4) deposits in and withdrawals from any subaccount of the Collection Account with respect to that class or classes of floating rate transition bonds and that transaction;
- (5) the formula for calculating the floating rate of interest of that class or classes prior to termination of that transaction; and
- (6) the rights of transition bondholders with respect to the termination of or specified other events related to that transaction.

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REDEMPTION

Redemption provisions, if any, for any series will be specified in the related prospectus supplement, including the premiums, if any, payable upon redemption. The redemption price in any event will not be less than the principal balance thereof, plus interest at the applicable bond rate accrued to the redemption date. Unless the context requires otherwise, all references in this prospectus to principal of the transition bonds of a series being redeemed includes any resulting premium that might be payable on those transition bonds, as described in the applicable prospectus supplement.

Notice of redemption of any series of transition bonds will be given by the bond trustee to each registered holder of a transition bond to be redeemed by first-class mail, postage prepaid, mailed not less than five days nor more than

45 days prior to the date of redemption or in such other manner or at such other time as may be specified in the related prospectus supplement. Notice of optional redemption may be conditioned upon the deposit of moneys with the bond trustee before the redemption date and that notice shall be of no effect unless those moneys are so deposited.

All transition bonds called for redemption will cease to bear interest on the specified redemption date, provided funds for their redemption are on deposit with the bond trustee at that time, and shall no longer be considered "outstanding" under the Indenture. The transition bondholders of those transition bonds will have no further rights with respect thereto, except to receive payment of the redemption price thereof and unpaid interest accrued to the date fixed for redemption, from the bond trustee.

CREDIT ENHANCEMENT

Credit enhancement with respect to the transition bonds of all series will be provided by adjustments to the Intangible Transition Charges and amounts on deposit in the Reserve Subaccount, the Overcollateralization Subaccount and the Capital Subaccount. In addition, for any series of transition bonds or one or more classes thereof, additional credit enhancement may be provided with respect thereto. The amounts and types of credit enhancement, and the provider of credit enhancement, if any, with respect to each series of transition bonds or one or more classes thereof will be described in the applicable prospectus supplement. Credit enhancement may be in the form of an additional reserve account, additional overcollateralization, a financial guaranty insurance policy, letter of credit, credit or liquidity facility, maturity guaranty, repurchase obligation, third-party payment or cash deposit, or any combination of the foregoing, as may be set forth in the applicable prospectus supplement. If specified in the applicable prospectus supplement, credit enhancement for a series of transition bonds may cover one or more other series of transition bonds.

If any additional credit enhancement is provided with respect to a series offered hereby, the applicable prospectus supplement will include a description of:

- (1) the amount payable under that credit enhancement;
- (2) any conditions to payment thereunder not otherwise described in this prospectus;

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(3) the conditions, if any, under which the amount payable under that credit enhancement may be reduced and under which that credit enhancement may be terminated or replaced; and

(4) any material provisions of any applicable agreement relating to that credit enhancement.

Additionally, in certain cases, the applicable prospectus supplement may describe certain information with respect to the provider of any third-party credit enhancement, including:

- (1) a brief description of its principal business activities;
- (2) its principal place of business, place of incorporation and the jurisdiction under which it is chartered or licensed to do business;
- (3) if applicable, the identity of regulatory agencies which exercise primary jurisdiction over the conduct of its business; and
- (4) its total assets and stockholders' equity or policyholders' surplus, if applicable, as of a date specified in the applicable prospectus supplement.

BOOK-ENTRY REGISTRATION

All classes of transition bonds will be book-entry transition bonds, which are initially represented by one or more bonds registered in the name of Cede & Co. ("Cede"), as nominee of The Depository Trust Company ("DTC"), or another securities depository and are available only in the form of book-entries ("Book-Entry Transition Bonds"); provided, however, the applicable prospectus supplement relating to a series of transition bonds may provide that the transition bonds of such series or a class thereof will be issued as definitive transition bonds. Transition bondholders may also hold transition bonds of a class through Cedel Bank, societe anonyme ("CEDEL") or the Euroclear System ("Euroclear") (in Europe), if they are participants in such systems or

indirectly through organizations that are participants in such systems ("Participants").

Cede, as nominee for DTC, will hold the global bond or bonds representing the transition bonds. CEDEL and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in CEDEL's and Euroclear's names on the books of their respective depositories which in turn will hold those positions in customers' securities accounts in the depositories' names on the books of DTC. Citibank, N.A. will act as depository for CEDEL and Morgan Guaranty Trust Company of New York will act as depository for Euroclear (in these capacities, the "Depositories").

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic book-entries, thereby eliminating the need for physical movement of bonds. Participants include securities brokers and dealers,

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banks, trust companies and clearing corporations, and may include certain other organizations, including the Underwriters. Indirect access to the DTC system also is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly.

Transfers between Participants will occur in accordance with DTC rules. Transfers between CEDEL Participants and Euroclear Participants will occur in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through CEDEL or Euroclear Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its Depository. Cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its Depository to take action to effect final settlement on its behalf by delivering or receiving transition bonds in DTC, and making or receiving payments in accordance with normal procedures for same-day funds settlement applicable to DTC. CEDEL Participants and Euroclear Participants may not deliver instructions directly to the Depositories.

Because of time-zone differences, credits of securities received in CEDEL or Euroclear as a result of a transaction with a Participant will be made during subsequent settlement processing and dated the Business Day following the DTC settlement date. These credits or any transactions in such Transition Bonds settled during that processing will be reported to the relevant Euroclear or CEDEL Participant on that business day. Cash received in CEDEL or Euroclear as a result of sales of transition bonds by or through a CEDEL Participant or a Euroclear Participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant CEDEL or Euroclear cash account only as of the business day following settlement in DTC.

Transition bondholders that are not direct or indirect Participants but desire to purchase, sell or otherwise transfer ownership of, or other interests in, transition bonds may do so only through direct or indirect Participants. In addition, transition bondholders will receive all payments of principal and interest on the transition bonds, through the Participants who in turn will receive them from DTC. Under a book-entry format, transition bondholders will receive payments after the related payment date, because, while payments are required to be forwarded to Cede, as nominee for DTC, on each of those dates, DTC will forward such payments to its Participants, which thereafter will be required to forward them to indirect Participants or holders of beneficial interests in the transition bonds. The issuer and the bond trustee, and any paying agent, transfer agent or registrar may treat the registered holder in whose name any transition bond is registered--expected to be Cede--as the absolute owner thereof, whether or not such transition bond is overdue and notwithstanding any notice of ownership or writing

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thereon or any notice to the contrary, for the purpose of making payments and for all other purposes.

Unless and until definitive transition bonds are issued, it is anticipated that the only "holder" of transition bonds of any series will be Cede, as nominee of DTC. Transition bondholders will only be permitted to exercise their rights as transition bondholders indirectly through Participants and DTC. All references herein to actions by transition bondholders thus refer to actions taken by DTC upon instructions from its Participants, and all references herein to payments, notices, reports and statements to transition bondholders refer to payments, notices, reports and statements to Cede, as the registered holder of the transition bonds, for payments to the beneficial owners of the transition bonds in accordance with DTC procedures.

While any Book-Entry Transition Bonds of a series are outstanding, except under the circumstances described below, under the rules, regulations and procedures creating and affecting DTC and its operations (the "Rules"), DTC is required to make book-entry transfers among Participants on whose behalf it acts with respect to the Book-Entry Transition Bonds and is required to receive and transmit payments of principal of, and interest on, the Book-Entry Transition Bonds. Participants with whom transition bondholders have accounts with respect to Book-Entry Transition Bonds are similarly required to make book-entry transfers and receive and transmit such payments on behalf of their respective transition bondholders. Accordingly, although transition bondholders will not possess physical bonds, the Rules provide a mechanism by which transition bondholders will receive payments and will be able to transfer their interests.

Because DTC can only act on behalf of Participants, who in turn act on behalf of indirect Participants and certain banks, the ability of holders of beneficial interests in the transition bonds to pledge transition bonds to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of those transition bonds, may be limited due to the lack of definitive transition bonds.

DTC has advised the bond trustee that it will take any action permitted to be taken by a transition bondholder under the indenture only at the direction of one or more Participants to whose account with DTC the transition bonds are credited.

CEDEL is incorporated under the laws of Luxembourg as a professional depository. CEDEL holds securities for its participating organizations ("CEDEL Participants") and facilitates the clearance and settlement of securities transactions between CEDEL Participants through electronic book-entry changes in accounts of CEDEL Participants, thereby eliminating the need for physical movement of securities. Transactions may be settled in CEDEL in any of 28 currencies, including United States dollars. CEDEL provides to CEDEL Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. CEDEL interfaces with domestic markets in several countries. As a professional depository, CEDEL is subject to regulation by the Luxembourg Monetary Institute. CEDEL Participants are recognized financial institutions around the world including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include any Underwriters,

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agents or dealers with respect to a series of transition bonds offered hereby. Indirect access to CEDEL is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a CEDEL Participant, either directly or indirectly.

Euroclear was created in 1968 to hold securities for participants of the Euroclear System ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of securities and any risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in any of 29 currencies, including United States dollars. The Euroclear System includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries generally similar to the arrangements for crossmarket transfers with DTC described in the fifth paragraph of this subheading. The Euroclear System is operated by Morgan Guaranty Trust Company of New York, out of its Brussels, Belgium office (the "Euroclear Operator"), under contract with Euroclear Clearance System S.C., a Belgian cooperative corporation (the "Cooperative"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks--including central banks--securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Euroclear Operator is the Belgian branch of a New York banking corporation that is a member bank of the Federal Reserve System. As such, it is regulated and examined by the Board of Governors of the Federal Reserve System and the New York State Banking Department, as well as the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of Euroclear and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific securities to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Payments with respect to transition bonds held through CEDEL or Euroclear will be credited to the cash accounts of CEDEL Participants or Euroclear Participants in accordance with the relevant systems' rules and procedures, to the extent received by its Depository. These payments will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See "United States Taxation" in this prospectus.

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CEDEL or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a Transition Bondholder under the Indenture on behalf of a CEDEL Participant or Euroclear Participant only in accordance with its relevant rules and procedures and subject to its Depository's ability to effect those actions on its behalf through DTC.

Although DTC, CEDEL and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of transition bonds among Participants of DTC, CEDEL and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued at any time.

DEFINITIVE TRANSITION BONDS

Each series or class of transition bonds will be issued in fully registered, certificated form to transition bondholders or their nominees, rather than to DTC or its nominee, only if:

- (1) the issuer advises the bond trustee in writing that DTC is no longer willing or able to discharge properly its responsibilities as depository with respect to that series or class of transition bonds and the issuer is unable to locate a qualified successor;
- (2) the issuer, at its option, elects to terminate the book-entry system through DTC; or
- (3) after the occurrence of an Event of Default under the indenture, transition bondholders representing at least a majority of the outstanding principal amount of the transition bonds of all series advise the bond trustee through DTC in writing that the continuation of a book-entry system through DTC, or a successor thereto, is no longer in the transition bondholders' best interest.

Upon the occurrence of any event described in the immediately preceding paragraph, DTC will be required to notify all affected transition bondholders through Participants of the availability of definitive transition bonds. Upon surrender by DTC of the definitive bonds representing the applicable transition bonds and receipt of instructions for re-registration, the bond trustee will authenticate and deliver definitive transition bonds, and thereafter the bond trustee will recognize the holders of these definitive transition bonds as transition bondholders under the indenture.

Payments of principal of, and interest on, the applicable transition bonds will thereafter be made by the bond trustee, as paying agent, in accordance with the procedures set forth in the Indenture directly to holders of definitive transition bonds in whose names the definitive transition bonds were registered at the close of business on the related record date. These payments will be made by check mailed to the address of such holder as it appears on the register maintained by the bond trustee. The final payment on any transition bond, however, will be made only upon presentation and surrender of that transition bond at the office or agency specified in the notice of final payment to transition bondholders.

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Definitive transition bonds will be transferable and exchangeable at the offices of the transfer agent and registrar, which will initially be the bond trustee. No service charge will be imposed for any registration of transfer or exchange, but the transfer agent and registrar may require payment of a sum sufficient to cover any tax or other governmental charge imposed in connection therewith.

CERTAIN WEIGHTED AVERAGE LIFE
AND YIELD CONSIDERATIONS

The rate of principal payments on each series or class of transition bonds, the aggregate amount of each interest payment on each series or class of transition bonds and the actual final payment date of each series or class of transition bonds will be dependent on the rate and timing of receipt of ITC Collections. Accelerated receipts of ITC Collections will generally not, however, result in payment of principal on the transition bonds earlier than the related expected final payment dates since receipts in excess of the amounts necessary to amortize the transition bonds in accordance with the applicable Expected Amortization Schedule will be deposited in the Overcollateralization Subaccount or Reserve Subaccount. However, delayed receipts of ITC Collections may result in principal payments on the transition bonds occurring more slowly than as reflected in the Expected Amortization Schedule or later than the related expected final payment dates. Redemption or acceleration of any class or series of transition bonds in accordance with the terms thereof will result in payment of principal earlier than the related expected final payment dates.

The actual payments on each payment date for each series or class of transition bonds and the weighted average life thereof will be affected primarily by the rate of ITC Collections and the timing of receipt of ITC Collections, as well as amounts available in the Reserve Subaccount, the Overcollateralization Subaccount and the Capital Subaccount. Because the Intangible Transition Charges will be calculated based on estimates of usage and revenue, the aggregate amount of ITC Collections and the rate of principal amortization on the transition bonds will depend, in part, on actual energy usage by customers and the rate of delinquencies and write-offs. Although the Intangible Transition Charges will be adjusted from time to time based in part on the actual rate of ITC Collections, no assurances are given that the servicer will be able to forecast accurately actual electricity usage impacting billed revenue from which Intangible Transition Charges are allocated and the rate of delinquencies and write-offs or implement adjustments to the Intangible Transition Charges that will cause ITC Collections to be received at any particular rate. See "Risk Factors--Nature of Intangible Transition Property" and "The QRO and the Intangible Transition Charges--The Intangible Transition Charges--The ITC Adjustment Process" in this prospectus.

If ITC Collections are received at a slower rate than expected, transition bonds may be retired later than expected. Because principal will only be paid at a rate not faster than that contemplated in the Expected Amortization Schedule for each series or class, except in the event of a redemption or the acceleration of the final payment date of the transition bonds after an Event of Default as specified in the indenture, the transition bonds are not expected to be paid earlier than scheduled. A payment on a date that is earlier than forecasted will result in a shorter weighted average life, and a payment on a date that is later than forecasted will result in a longer weighted average life. In addition, if a larger portion of the delayed payments on the transition bonds is received in later years, this will result in a longer weighted average life of the transition bonds.

THE TRANSFER AGREEMENT

The following summary describes all material terms and provisions of the Transfer Agreement pursuant to which West Penn is contributing to West Penn Funding Corporation Intangible Transition Property. The Transfer Agreement may be amended by the parties to that agreement, with the consent of the bond trustee, provided that notice of the substance of that amendment is provided by West Penn Funding Corporation to each Rating Agency. The form of the Transfer Agreement has been filed as an exhibit to the Registration Statement of which this prospectus forms a part. Please see that form of Transfer Agreement for a complete description of all terms and provisions of the Transfer Agreement, portions of which are summarized in this section.

On the series issuance date for the first series of transition bonds (the "Initial Contribution Date"), pursuant to the Transfer Agreement, West Penn will contribute to West Penn Funding Corporation, without recourse, except as provided in that agreement, Initial Intangible Transition Property representing the irrevocable right to receive through Intangible Transition Charges amounts sufficient to recover Qualified Transition Expenses with respect to that series of transition bonds. In consideration of that initial contribution, West Penn Funding Corporation shall issue [] shares of its outstanding capital stock, representing 100% of West Penn Funding Corporation's outstanding capital stock. In addition, West Penn may from time to time offer to contribute additional Intangible Transition Property to West Penn Funding Corporation, subject to the satisfaction of certain conditions (each, a "Subsequent Contribution"). Each Subsequent Contribution may be made in consideration of the issuance by West Penn Funding Corporation to West Penn of additional shares of West Penn Funding Corporation's capital stock. If any of these offers is accepted by West Penn Funding Corporation, the Subsequent Contribution will be effective on a date (a "Subsequent Contribution Date") specified in a written notice provided by West Penn to West Penn Funding Corporation.

In accordance with the Pennsylvania Competition Act, upon the execution and delivery of the Transfer Agreement and the related bill of sale, the contribution of the Initial Intangible Transition Property will be perfected as against all third persons, including judicial lien creditors, and upon the execution of a subsequent bill of sale and an addition notice, a contribution of Subsequent Intangible Transition Property will also be perfected against all third persons, including judicial lien creditors.

"Initial Intangible Transition Property" means Intangible Transition Property, as identified in the related bill of sale, contributed to West Penn Funding Corporation on the Initial Contribution Date pursuant to the Transfer Agreement in connection with the issuance of the initial series of transition bonds. "Subsequent Intangible Transition Property" means Intangible Transition Property, as identified in the related bill of sale, contributed to West Penn Funding Corporation on any Subsequent Contribution Date pursuant to the Transfer Agreement in connection with the subsequent issuance of a series of transition bonds.

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West Penn's accounting records and computer systems will reflect the contribution and sale of Intangible Transition Property to West Penn Funding Corporation.

Each contribution of Intangible Transition Property under the Transfer Agreement is subject to the satisfaction or waiver of each of the following conditions:

- (1) on or prior to the Initial Contribution Date or Subsequent Contribution Date, as applicable, West Penn shall have delivered to West Penn Funding Corporation a duly executed bill of sale identifying the Intangible Transition Property to be conveyed on that date, in the form required by the Transfer Agreement;
- (2) as of the Initial Contribution Date or the Subsequent Contribution Date, as applicable, West Penn was not insolvent and will not have been made insolvent by that sale, and West Penn is not aware of any pending insolvency with respect to itself;
- (3) as of the Initial Contribution Date or the Subsequent Contribution Date, as applicable, no breach by West Penn of its representations, warranties or covenants in the Transfer Agreement shall exist, and no Servicer Default shall have occurred and be continuing;
- (4) as of the Initial Contribution Date or the Subsequent Contribution Date, as applicable, the issuer shall have sufficient funds available to pay the purchase price for the Transferred Intangible Transition Property to be conveyed on that date pursuant to the Sale Agreement, and all conditions to the issuance of one or more series of transition bonds intended to provide those funds set forth in the indenture shall have been satisfied or waived;
- (5) on or prior to the Initial Contribution Date or Subsequent Contribution Date, as applicable, West Penn shall have taken all action required to transfer to West Penn Funding Corporation ownership of the Transferred Intangible Transition Property to be conveyed on that date, free and clear of all liens other than liens created by the issuer pursuant to the indenture, and West Penn Funding Corporation shall have taken any action required for West Penn Funding Corporation to transfer to the issuer ownership of the Transferred Intangible Transition Property to be conveyed

on that date, free and clear of all liens other than liens created by the issuer pursuant to the indenture, and the issuer shall have taken, or the servicer shall have taken on behalf of the issuer, any action required for the issuer to grant the bond trustee a first priority perfected security interest in the collateral and maintain such security interest as of such date;

(6) in the case of a contribution of Subsequent Intangible Transition Property only, West Penn shall have provided West Penn Funding Corporation, the issuer and the Rating Agencies with a timely addition notice specifying the Subsequent Contribution Date for that Subsequent Intangible Transition Property, on or prior to that Subsequent Contribution Date;

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(7) West Penn shall have delivered to the Rating Agencies, West Penn Funding Corporation and the issuer the opinion of counsel specified in the Transfer Agreement and certain other opinions of counsel to the bond trustee; and

(8) West Penn shall have delivered to West Penn Funding Corporation, the bond trustee and the issuer an officers' certificate confirming the satisfaction of each condition precedent specified above.

REPRESENTATIONS AND WARRANTIES OF WEST PENN

In the Transfer Agreement, West Penn will make representations and warranties to West Penn Funding Corporation--and acknowledge that such representations and warranties are also for the benefit of the issuer, as assignee of West Penn Funding Corporation, and the bond trustee, as collateral assignee of the issuer--as of the Initial Contribution Date and any Subsequent Contribution Date to the effect, among other things, that:

(1) all information provided by West Penn to West Penn Funding Corporation with respect to the Transferred Intangible Transition Property is correct in all material respects;

(2) the transfers and assignments contemplated by the Transfer Agreement constitute outright transfers of the Initial Intangible Transition Property or the Subsequent Intangible Transition Property, as the case may be, from West Penn to West Penn Funding Corporation, and the beneficial interest in and title to the Transferred Intangible Transition Property would not be part of the debtor's estate in the event of the filing of a bankruptcy petition by or against West Penn under any bankruptcy law;

(3) West Penn is the sole owner of the Intangible Transition Property being contributed to West Penn Funding Corporation on the Initial Contribution Date or Subsequent Contribution Date, as applicable, the Transferred Intangible Transition Property has been validly transferred to West Penn Funding Corporation free and clear of all liens other than liens created by the issuer pursuant to the indenture and all filings, including filings with the PUC under the Pennsylvania Competition Act, necessary in any jurisdiction to give West Penn Funding Corporation a valid ownership interest in Transferred Intangible Transition Property free and clear of all liens of West Penn or anyone claiming through West Penn and to give West Penn Funding Corporation a first priority perfected security interest in Transferred Intangible Transition Property have been made, other than any such filings--except for filings with the PUC under the Pennsylvania Competition Act and filings under the Uniform Commercial Code with the Secretary of State of the State of Delaware--the absence of which would not have an adverse impact on:

(x) the ability of the servicer to collect Intangible Transition Charges with respect to the Transferred Intangible Transition Property or

(y) the rights of West Penn Funding Corporation with respect to the Transferred Intangible Transition Property;

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(4) the QRO has been issued by the PUC in accordance with the Pennsylvania Competition Act, the QRO and the process by which it was issued comply with all applicable laws, rules and regulations and the QRO is in full force and effect;

(5) as of the date of issuance of any series of transition bonds,

such transition bonds are entitled to the protections provided by the Pennsylvania Competition Act and, accordingly, the provisions of the QRO relating to the Intangible Transition Property and Intangible Transition Charges are not revocable by the PUC;

(6) (x) under the Pennsylvania Competition Act, neither the Commonwealth of Pennsylvania nor the PUC may limit, alter or in any way impair or reduce the value of Intangible Transition Property or Intangible Transition Charges approved by the QRO or any rights thereunder, except such a limitation or alteration may be made by the Commonwealth of Pennsylvania or the PUC if adequate compensation is made by law for the full protection of the Intangible Transition Charges and of transition bondholders;

(y) under the Contract Clauses of the Constitutions of the Commonwealth of Pennsylvania and the United States, neither the Commonwealth of Pennsylvania nor the PUC can take any action that substantially impairs the rights of the transition bondholders unless such action is a reasonable exercise of the Commonwealth of Pennsylvania's sovereign powers and appropriate to further a legitimate public purpose; and

(z) under the Takings Clauses of the Constitutions of the Commonwealth of Pennsylvania and the United States, if such action constitutes a permanent appropriation of the property interest of transition bondholders in the Intangible Transition Property and deprives the transition bondholders of their reasonable expectations arising from their investments in transition bonds, just compensation, as determined by a court of competent jurisdiction, must be provided to transition bondholders;

(7) there is no order by any court providing for the revocation, alteration, limitation or other impairment of the Pennsylvania Competition Act, QRO, Intangible Transition Property or the Intangible Transition Charges or any rights arising under any of them or which seeks to enjoin the performance of any obligations under the QRO;

(8) no other approval, authorization, consent, order or other action of, or filing with any court, federal or state regulatory body, administrative agency or other governmental instrumentality is required in connection with the creation of Intangible Transition Property, except those that have been obtained or made;

(9) except as disclosed by West Penn to West Penn Funding Corporation there are no proceedings or investigations pending or, to the best of West Penn's knowledge, threatened before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over

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West Penn or its properties challenging the QRO or the Pennsylvania Competition Act;

(10) no failure on the Initial Contribution Date or any Subsequent Contribution Date or any time thereafter to satisfy any condition imposed by the Pennsylvania Competition Act with respect to the recovery of stranded costs will adversely affect the creation or contribution under the Transfer Agreement of the Intangible Transition Property or the right to collect Intangible Transition Charges;

(11) the assumptions used in calculating Intangible Transition Charges are reasonable and made in good faith;

(12) (x) Intangible Transition Property, other than Intangible Transition Property, if any, retained by West Penn, constitutes a current property right;

(y) Intangible Transition Property includes, without limitation, (A) the irrevocable right of West Penn Funding Corporation and the issuer, as assignee of West Penn Funding Corporation, to receive through Intangible Transition Charges an amount sufficient to recover all of West Penn's Qualified Transition Expenses described in the QRO in an amount equal to the aggregate principal amount of transition bonds plus an amount sufficient to provide for any credit enhancement, including the Overcollateralization Amount relating to each series of transition bonds, to fund any reserves and to pay interest, premium, if any, servicing fees and other expenses relating to the transition bonds, and (B) all right, title and interest of West Penn or its assignee applicable to the transition bonds in the QRO and in all revenues, collections, claims, payments, money, or proceeds of or arising from the Intangible Transition

Charges applicable to the transition bonds set forth in the QRO to the extent that in accordance with the Pennsylvania Competition Act, the QRO and the rates and charges authorized under the QRO are declared to be irrevocable; and

(z) the QRO, including the right to collect Intangible Transition Charges, has been declared to be irrevocable by the PUC;

(13) West Penn is a corporation duly organized and in good standing under the laws of the Commonwealth of Pennsylvania, with corporate power and authority to own its properties and conduct its business as currently owned or conducted;

(14) West Penn has the corporate power and authority to execute and deliver the Transfer Agreement and to carry out its terms, West Penn has full corporate power and authority to own the Intangible Transition Property and transfer the Initial Intangible Transition Property, in the case of the Initial Contribution Date, and the Subsequent Intangible Transition Property, in the case of each Subsequent Contribution Date, as applicable, and West Penn has duly authorized that transfer to West Penn Funding Corporation by all necessary corporate action and the execution, delivery and performance of the Transfer Agreement have been duly authorized by West Penn by all necessary corporate action;

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(15) the Transfer Agreement constitutes a legal, valid and binding obligation of West Penn, enforceable against West Penn in accordance with its terms, subject to customary exceptions relating to bankruptcy and equitable principles;

(16) the consummation of the transactions contemplated by the Transfer Agreement and the fulfillment of the terms thereof do not conflict with, result in any breach of any of the terms and provisions of, nor constitute, with or without notice or lapse of time, a default under, the articles of incorporation or by-laws of West Penn, or any indenture, agreement or other instrument to which West Penn is a party or by which it shall be bound; nor result in the creation or imposition of any lien upon any of its properties--other than any rights under the Transfer Agreement--pursuant to the terms of any such indenture, agreement or other instrument; nor violate any law or any order, rule or regulation applicable to West Penn of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over West Penn or its properties;

(17) except for continuation filings under the Uniform Commercial Code, no approval, authorization, consent, order or other action of, or filing with, any court, federal or state regulatory body, administrative agency or other governmental instrumentality is required in connection with the execution and delivery by West Penn of the Transfer Agreement, the performance by West Penn of the transactions contemplated by the Transfer Agreement or the fulfillment by West Penn of the terms of the Transfer Agreement, except those which have previously been obtained or made;

(18) there are no proceedings or investigations pending or, to West Penn's best knowledge, threatened, before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over West Penn or its properties:

(x) asserting the invalidity of the Transfer Agreement, the Sale Agreement, the Servicing Agreement, any bills of sale for Intangible Transition Property, the LLC Agreement, the indenture, the certificate of formation filed with the State of Delaware to form the Issuer or the Certificate of Incorporation of West Penn Funding Corporation (collectively, the "Basic Documents") or the transition bonds;

(y) seeking to prevent the issuance of transition bonds or the consummation of the transactions contemplated by the Basic Documents or the transition bonds; or

(z) except as disclosed by West Penn to West Penn Funding Corporation, seeking any determination or ruling that could be reasonably expected to materially and adversely affect the performance by West Penn of its obligations under, or the validity or enforceability of, the Basic Documents or the transition bonds;

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(19) after giving effect to the contribution of any Transferred Intangible Transition Property under the Transfer Agreement, West Penn

(v) is solvent and expects to remain solvent;

(w) is adequately capitalized to conduct its business and affairs considering its size and the nature of its business and intended purposes;

(x) is not engaged nor does it expect to engage in a business for which its remaining property represents an unreasonably small capital;

(y) believes that it will be able to pay its debts as they become due and that such belief is reasonable;

(z) is able to pay its debts as they mature and does not intend to incur, or believe that it will incur, indebtedness that it will not be able to repay at its maturity; and

(20) West Penn is duly qualified to do business as a foreign corporation in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business shall require those qualifications, licenses or approvals, except where the failure to so qualify would not be reasonably likely to have a material adverse effect on West Penn's business, operations, assets, revenues, properties or prospects.

West Penn shall indemnify West Penn Funding Corporation, the issuer and the bond trustee and certain other related parties, against:

(1) all taxes, other than any taxes imposed on transition bondholders solely as a result of their ownership of transition bonds, resulting from the acquisition or holding of Transferred Intangible Transition Property by West Penn Funding Corporation or the issuer or the issuance and sale by the issuer of transition bonds;

(2) any and all amounts of principal of and interest on the transition bonds not paid when due or when scheduled to be paid in accordance with their terms and the amount of any deposits to the issuer required to have been made in accordance with the terms of the Basic Documents which are not made when so required, in either case as a result of West Penn's breach of any of its representations, warranties or covenants contained in the Transfer Agreement; and

(3) any liabilities, obligations, losses, damages, payments or expenses which result from:

(x) West Penn's willful misconduct, bad faith or gross negligence in the performance of its duties under the Transfer Agreement,

(y) West Penn's reckless disregard of its obligations and duties under the Transfer Agreement, or

(z) West Penn's breach of any representations or warranties under the Transfer Agreement.

These indemnification obligations will rank pari passu with other general unsecured obligations of West Penn. The indemnities described above will survive the termination of the Transfer Agreement and include reasonable fees and expenses of investigation and litigation, including reasonable attorneys' fees

and expenses.

If an event like that occurs, upon receipt of written notice of the breach by West Penn from West Penn Funding Corporation, the issuer or bond trustee, West Penn will notify the servicer of the occurrence of that event so that the servicer may calculate the amount of indemnification in accordance with the provisions of the Servicing Agreement. Amounts on deposit in the Reserve Subaccount, the Overcollateralization Subaccount and the Capital Subaccount shall not be available to satisfy any indemnification amounts owed by West Penn under the Transfer Agreement.

West Penn will not indemnify West Penn Funding Corporation, the issuer or the bond trustee on behalf of the transition bondholders as a result of the Commonwealth of Pennsylvania's exercise of its power under the Pennsylvania Competition Act or a change in law by legislative enactment or constitutional amendment or the Commonwealth's limitation, alteration, impairment or reduction of the value of Intangible Transition Property or Intangible Transition Charges after the issuance date of any series of transition bonds in breach of the pledge of the Commonwealth under the Pennsylvania Competition Act. See "Risk Factors--Legal, Legislative or Regulatory Actions Could Adversely Affect Transition Bondholders--Legal Challenges Could Adversely Affect Transition Bondholders" and "--Changes in Law May Result in Losses to Transition Bondholders" in this prospectus.

In addition to the foregoing representations and warranties, West Penn has also covenanted, among other things, that it will deliver all ITC Collections it receives or the proceeds thereof, other than collections of Intangible Transition Charges relating to Intangible Transition Property retained by West Penn, to the servicer and will promptly notify the bond trustee of any lien on any Intangible Transition Property other than the conveyances under the Transfer Agreement, the Sale Agreement or the indenture.

West Penn shall also be obligated to take those legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar proceedings, as may be reasonably necessary:

(1) to protect West Penn Funding Corporation, the issuer and the transition bondholders from claims, state actions or other actions or proceedings of third parties which, if successfully pursued, would result in a breach of any of West Penn's representations and warranties in the Transfer Agreement; or

(2) to block or overturn any attempts to cause a repeal of, modification of or supplement to the Pennsylvania Competition Act, the QRO or the rights of holders of Intangible Transition Property by legislative enactment or constitutional amendment that would be adverse to the holders of Intangible Transition Property.

In addition, West Penn is required to execute and file those filings, including filings with the PUC pursuant to the Pennsylvania Competition Act, as may be required to fully preserve, maintain and protect the interests of West Penn Funding Corporation in

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the Transferred Intangible Transition Property. Other than as described in the previous paragraph, West Penn shall not be under any obligation to appear in, prosecute or defend any legal action that shall not be incidental to its obligations under the Transfer Agreement and that in its opinion may involve it in any expense or liability.

CERTAIN MATTERS REGARDING WEST PENN

The Transfer Agreement provides that certain persons which succeed to the major part of the electric distribution business of West Penn shall be the successor to West Penn if such persons execute an agreement of assumption to perform every obligation of West Penn under the Transfer Agreement. The Transfer Agreement further requires that:

(1) immediately after giving effect to that transaction, no representation or warranty made in the Transfer Agreement shall have been breached and no Servicer Default, and no event that, after notice or lapse of time, or both, would become a Servicer Default shall have occurred and be continuing;

(2) the Rating Agencies shall have received prior written notice of that transaction; and

(3) certain officers' certificates and opinions of counsel shall have been delivered to West Penn Funding Corporation, the issuer and the bond trustee.

GOVERNING LAW

The Transfer Agreement will be governed by and construed under the laws of the State of New York.

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THE SALE AGREEMENT

The following summary describes all material terms and provisions of the Sale Agreement pursuant to which West Penn Funding Corporation is selling and the issuer is purchasing Intangible Transition Property. The Sale Agreement may be amended by the parties to that agreement, with the consent of the bond trustee, provided notice of the substance of that amendment is provided by the issuer to each Rating Agency. The form of the Sale Agreement has been filed as an exhibit to the Registration Statement of which this prospectus forms a part. Please see that form of Sale Agreement for a complete description of all terms and provisions of the Sale Agreement, portions of which are summarized in this section.

SALE AND ASSIGNMENT OF INTANGIBLE TRANSITION PROPERTY

On the series issuance date for the first series of transition bonds (the "Initial Transfer Date"), pursuant to the Sale Agreement, West Penn Funding Corporation will sell and assign to the issuer, without recourse, except as provided in that agreement, the Initial Intangible Transition Property contributed by West Penn to West Penn Funding Corporation pursuant to the Transfer Agreement and all rights of West Penn Funding Corporation under the Transfer Agreement. The net proceeds received from the sale of the transition bonds issued on the Initial Transfer Date will be applied to the purchase of that Transferred Intangible Transition Property. In addition, West Penn Funding Corporation may from time to time offer to sell any additional Intangible Transition Property which may be contributed to West Penn Funding Corporation by West Penn pursuant to the Transfer Agreement to the issuer, subject to the satisfaction of certain conditions (each, a "Subsequent Sale"). Each Subsequent Sale will be financed through the issuance of an additional series of transition bonds. If any of these offers is accepted by the issuer, the Subsequent Sale will be effective on a date (a "Subsequent Transfer Date") specified in a written notice provided by West Penn Funding Corporation to the issuer.

In accordance with the Pennsylvania Competition Act, upon the execution and delivery of the Sale Agreement and the related bill of sale, the transfer of the Initial Intangible Transition Property will be perfected as against all third persons, including judicial lien creditors, and upon the execution of a subsequent bill of sale and an addition notice, a transfer of Subsequent Intangible Transition Property will also be perfected against all third persons, including judicial lien creditors.

West Penn Funding Corporation's accounting records and computer systems will reflect the sale and assignment of Intangible Transition Property to the issuer, and West Penn Funding Corporation shall treat the transition bonds as debt of West Penn Funding Corporation for federal income tax purposes so long as any of the transition bonds are outstanding.

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Each sale of Intangible Transition Property under the Sale Agreement is subject to the satisfaction or waiver of each of the following conditions:

(1) on or prior to the Initial Transfer Date or Subsequent Transfer Date, as applicable, West Penn Funding Corporation shall have delivered to the issuer a duly executed bill of sale identifying the Intangible Transition Property to be conveyed on that date, in the form required by the Sale Agreement;

(2) as of the Initial Transfer Date or the Subsequent Transfer Date, as applicable, West Penn Funding Corporation was not insolvent and will not have been made insolvent by that sale, and West Penn Funding Corporation is not aware of any pending insolvency with respect to itself;

(3) as of the Initial Transfer Date or the Subsequent Transfer Date, as applicable, no breach by West Penn Funding Corporation of its representations, warranties or covenants in the Sale Agreement shall exist, no Servicer Default shall have occurred and be continuing and no breach by

West Penn of its representations and warranties in the Transfer Agreement shall exist;

(4) as of the Initial Transfer Date or the Subsequent Transfer Date, as applicable, the issuer shall have sufficient funds available to pay the purchase price for the Transferred Intangible Transition Property to be conveyed on that date, and all conditions to the issuance of one or more series of transition bonds intended to provide those funds set forth in the Indenture shall have been satisfied or waived;

(5) on or prior to the Initial Transfer Date or Subsequent Transfer Date, as applicable, West Penn Funding Corporation shall have taken all action required to transfer to the issuer ownership of the Transferred Intangible Transition Property to be conveyed on that date, free and clear of all liens other than liens created by the issuer pursuant to the indenture, and the issuer shall have taken, or the servicer shall have taken on behalf of the issuer, any action required for the issuer to grant the bond trustee a first priority perfected security interest in the collateral and maintain that security interest as of that date;

(6) in the case of a sale of Subsequent Intangible Transition Property only, West Penn Funding Corporation shall have provided the issuer and the Rating Agencies with a timely addition notice specifying the Subsequent Transfer Date for that Subsequent Intangible Transition Property, on or prior to that Subsequent Transfer Date;

(7) West Penn Funding Corporation shall have delivered to the Rating Agencies and the issuer the opinion of counsel specified in the Sale Agreement and certain other opinions of counsel to the bond trustee; and

(8) West Penn Funding Corporation shall have delivered to the bond trustee and the issuer an officers' certificate confirming the satisfaction of each condition precedent specified above.

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REPRESENTATIONS AND WARRANTIES OF WEST PENN FUNDING CORPORATION

In the Sale Agreement, West Penn Funding Corporation will make representations and warranties to the issuer as of the Initial Transfer Date and any Subsequent Transfer Date to the effect, among other things, that:

(1) all information provided by West Penn Funding Corporation to the issuer with respect to the Transferred Intangible Transition Property is correct in all material respects;

(2) the transfers and assignments contemplated by the Sale Agreement constitute sales of the Initial Intangible Transition Property or the Subsequent Intangible Transition Property, as the case may be, from West Penn Funding Corporation to the issuer, and the beneficial interest in and title to the Transferred Intangible Transition Property would not be part of the debtor's estate in the event of the filing of a bankruptcy petition by or against West Penn Funding Corporation under any bankruptcy law;

(3) West Penn Funding Corporation is the sole owner of the Intangible Transition Property being sold to the issuer on the Initial Transfer Date or Subsequent Transfer Date, as applicable, the Transferred Intangible Transition Property has been validly transferred and sold to the issuer free and clear of all liens other than liens created by the issuer pursuant to the indenture and all filings, including filings with the PUC under the Pennsylvania Competition Act, necessary in any jurisdiction to give the issuer a valid ownership interest in Transferred Intangible Transition Property free and clear of all liens of West Penn Funding Corporation or anyone claiming through West Penn Funding Corporation and to give the bond trustee a first priority perfected security interest in Transferred Intangible Transition Property have been made, other than any filings--except for filings with the PUC under the Pennsylvania Competition Act and filings under the Uniform Commercial Code with the Secretary of State of the State of Delaware--the absence of which would not have an adverse impact on:

(x) the ability of the servicer to collect Intangible Transition Charges with respect to the Transferred Intangible Transition Property or

(y) the rights of the issuer or the bond trustee with respect to the Transferred Intangible Transition Property;

(4) West Penn Funding Corporation is a corporation duly organized and in good standing under the laws of the State of Delaware, with corporate power and authority to own its properties and conduct its business as currently owned or conducted;

(5) West Penn Funding Corporation has the corporate power and authority to execute and deliver the Sale Agreement and to carry out its terms, West Penn Funding Corporation has full corporate power and authority to own the Intangible Transition Property and sell and assign the Initial Intangible Transition Property, in the case of the Initial Transfer Date, and the Subsequent Intangible Transition

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Property, in the case of each Subsequent Transfer Date, as applicable, and West Penn Funding Corporation has duly authorized that sale and assignment to the issuer by all necessary corporate action and the execution, delivery and performance of the Sale Agreement have been duly authorized by West Penn Funding Corporation by all necessary corporate action;

(6) the Sale Agreement constitutes a legal, valid and binding obligation of West Penn Funding Corporation, enforceable against West Penn Funding Corporation in accordance with its terms, subject to customary exceptions relating to bankruptcy and equitable principles;

(7) the consummation of the transactions contemplated by the Sale Agreement and the fulfillment of the terms thereof do not conflict with, result in any breach of any of the terms and provisions of, nor constitute, with or without notice or lapse of time, a default under, the articles of incorporation or by-laws of West Penn Funding Corporation, or any indenture, agreement or other instrument to which West Penn Funding Corporation is a party or by which it shall be bound; nor result in the creation or imposition of any lien upon any of its properties pursuant to the terms of any such indenture, agreement or other instrument; nor violate any law or any order, rule or regulation applicable to West Penn Funding Corporation of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over West Penn Funding Corporation or its properties;

(8) except for continuation filings under the Uniform Commercial Code, no approval, authorization, consent, order or other action of, or filing with, any court, federal or state regulatory body, administrative agency or other governmental instrumentality is required in connection with the execution and delivery by West Penn Funding Corporation of the Sale Agreement, the performance by West Penn Funding Corporation of the transactions contemplated by the Sale Agreement or the fulfillment by West Penn Funding Corporation of the terms of the Sale Agreement, except those which have previously been obtained or made;

(9) there are no proceedings or investigations pending or, to West Penn Funding Corporation's best knowledge, threatened, before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over West Penn Funding Corporation or its properties:

(x) asserting the invalidity of the Basic Documents or the transition bonds;

(y) seeking to prevent the issuance of transition bonds or the consummation of the transactions contemplated by the Basic Documents or the transition bonds; or

(z) except as disclosed by West Penn Funding Corporation to the issuer, seeking any determination or ruling that could be reasonably expected to materially and adversely affect the performance by West Penn Funding

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Corporation of its obligations under, or the validity or enforceability of, the Basic Documents or the transition bonds;

(10) after giving effect to the sale of any Transferred Intangible Transition Property under the Sale Agreement, West Penn Funding Corporation:

(v) is solvent and expects to remain solvent;

(w) is adequately capitalized to conduct its business and affairs considering its size and the nature of its business and intended purposes;

(x) is not engaged nor does it expect to engage in a business for which its remaining property represents an unreasonably small capital;

(y) believes that it will be able to pay its debts as they become due and that such belief is reasonable; and

(z) is able to pay its debts as they mature and does not intend to incur, or believe that it will incur, indebtedness that it will not be able to repay at its maturity; and

(11) West Penn Funding Corporation is duly qualified to do business as a foreign corporation in good standing, and has obtained all necessary licenses and approvals, in all jurisdictions in which the ownership or lease of property or the conduct of its business shall require such qualifications, licenses or approvals, except where the failure to so qualify would not be reasonably likely to have a material adverse effect on West Penn Funding Corporation's business, operations, assets, revenues, properties or prospects.

West Penn Funding Corporation shall indemnify the issuer and the bond trustee and certain other related parties, against:

(1) all taxes, other than any taxes imposed on transition bondholders solely as a result of their ownership of transition bonds, resulting from the acquisition or holding of Transferred Intangible Transition Property by the issuer or the issuance and sale by the issuer of transition bonds; and

(2) any liabilities, obligations, losses, damages, payments or expenses which result from:

(x) West Penn Funding Corporation's willful misconduct, bad faith or gross negligence in the performance of its duties under the Sale Agreement,

(y) West Penn Funding Corporation's reckless disregard of its obligations and duties under the Sale Agreement, or

(z) West Penn Funding Corporation's breach of any representations or warranties.

If an event like that occurs, upon receipt of written notice of the breach by West Penn Funding Corporation from the issuer or bond trustee, West Penn Funding Corporation will notify the servicer of the occurrence of that event so that the servicer may calculate the amount of indemnification in accordance with the provisions of the

Servicing Agreement. Amounts on deposit in the Reserve Subaccount, the Overcollateralization Subaccount and the Capital Subaccount shall not be available to satisfy any indemnification amounts owed by West Penn Funding Corporation under the Sale Agreement.

In addition to the foregoing representations and warranties, West Penn Funding Corporation has also covenanted, among other things, that it will deliver all ITC Collections it receives or the proceeds thereof, other than collections of Intangible Transition Charges relating to Intangible Transition Property retained by West Penn Funding Corporation, to the servicer and will promptly notify the bond trustee of any lien on any Intangible Transition Property other than the conveyances under the Sale Agreement or the indenture.

West Penn Funding Corporation shall also be obligated to take those legal or administrative actions, including defending against or instituting and pursuing legal actions and appearing or testifying at hearings or similar

proceedings, as may be reasonably necessary:

(1) to protect the issuer and the transition bondholders from claims, state actions or other actions or proceedings of third parties which, if successfully pursued, would result in a breach of any of West Penn Funding Corporation's representations and warranties in the Sale Agreement; or

(2) to block or overturn any attempts to cause a repeal of, modification of or supplement to the Pennsylvania Competition Act, the QRO or the rights of holders of Intangible Transition Property by legislative enactment or constitutional amendment that would be adverse to the holders of Intangible Transition Property.

West Penn Funding Corporation is required to execute and file such filings, including filings with the PUC pursuant to the Pennsylvania Competition Act, as may be required to fully preserve, maintain and protect the interests of the issuer in the Transferred Intangible Transition Property. Other than as described in the previous paragraph, West Penn Funding Corporation shall not be under any obligation to appear in, prosecute or defend any legal action that shall not be incidental to its obligations under the Sale Agreement and that in its opinion may involve it in any expense or liability.

CERTAIN MATTERS REGARDING WEST PENN FUNDING CORPORATION

The Sale Agreement requires West Penn Funding Corporation to take all reasonable steps to continue its identity as a separate legal entity and to make it apparent to third persons that it is an entity with assets and liabilities distinct from those of West Penn, other affiliates or any other person, and that, except for financial reporting purposes (to the extent required by generally accepted accounting principles) and for state and federal income and franchise tax purposes, it is not a division of West Penn or any of its affiliated entities or any other person.

GOVERNING LAW

The Sale Agreement will be governed by and construed under the laws of the State of New York.

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THE SERVICING AGREEMENT

The following summary describes all material terms and provisions of the Servicing Agreement pursuant to which the servicer is undertaking to service Intangible Transition Property. The form of the Servicing Agreement has been filed as an exhibit to the Registration Statement of which this prospectus forms a part. Please see that form of Servicing Agreement for a complete description of all terms and provisions of the Servicing Agreement, portions of which are summarized in this section.

The Servicing Agreement may be amended by the parties to that agreement with the consent of the bond trustee under the indenture.

SERVICING PROCEDURES

General. The servicer will manage, service and administer, and make collections in respect of the Transferred Intangible Transition Property. The servicer's duties will include:

(1) calculating and billing the Intangible Transition Charges and collecting, from customers, electric generation suppliers and other third parties, as applicable, and posting all ITC Collections;

(2) responding to inquiries by customers, electric generation suppliers and other third parties, the PUC, or any federal, local or other state governmental authority with respect to the Transferred Intangible Transition Property and Intangible Transition Charges;

(3) accounting for ITC Collections, investigating delinquencies, processing and depositing collections and making periodic remittances, furnishing periodic reports to the issuer, the bond trustee and the Rating Agencies;

(4) selling, as agent for the issuer, defaulted or written-off accounts in accordance with the servicer's usual and customary practices; and

(5) taking action in connection with adjustments to the Intangible Transition Charges as described below under "--ITC Adjustment Process."

See also "The QRO and the Intangible Transition Charges--Competitive Billing" in this prospectus.

The servicer shall notify the issuer, the bond trustee and the Rating Agencies in writing of any laws or PUC regulations promulgated after the execution of the Servicing Agreement that have a material adverse effect on the servicer's ability to perform its duties under the Servicing Agreement.

The servicer shall institute any action or proceeding necessary to compel performance by the PUC or the Commonwealth of any of their obligations or duties under the Pennsylvania Competition Act or the QRO with respect to the Intangible Transition Property. The cost of any action like that shall be payable from ITC Collections as an operating expense at the time those costs are incurred.

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ITC Adjustment Process. Among other things, the Servicing Agreement requires the servicer to seek, and the Pennsylvania Competition Act and the QRO require the PUC to approve, adjustments to the Intangible Transition Charges charged to each Rate Schedule within any Customer Category based on actual ITC Collections and updated assumptions by the servicer as to projected future sales from which Intangible Transition Charges are allocated, expected delinquencies and write-offs and future payments and expenses relating to the Intangible Transition Property and the transition bonds. The servicer is required to file requests with the PUC for those adjustments (each, an "Adjustment Request") on October 1 of each year and on the additional date or dates specified in the prospectus supplement for any series of transition bonds (each, a "Calculation Date"). In accordance with the Pennsylvania Competition Act and the QRO, the PUC has 90 days to approve annual adjustments. In addition, the QRO provides that adjustments after the period commencing 12 months prior to the last scheduled payment date for the payment of principal on the last class of each series of transition bonds may be implemented quarterly or monthly.

The servicer agrees to calculate these adjustments to result in:

(1) the outstanding principal balance of each series or class equaling the amount provided for in the Expected Amortization Schedule for that series or class,

(2) the amount on deposit in the Overcollateralization Subaccount equaling the Calculated Overcollateralization Level,

(3) the amount in the Capital Subaccount equaling the Required Capital Amount, and

(4) the amount in the Reserve Subaccount equaling zero.

These Adjustment Requests are designed to achieve each of the above goals by the payment date immediately preceding the next Adjustment Date or with respect to the period in which monthly rate adjustments are utilized, generally the 25th day of the calendar month immediately preceding the next monthly Adjustment Date, as applicable, taking into account any amounts on deposit in the Reserve Subaccount. The Pennsylvania Competition Act and the QRO require the PUC to approve the annual adjustments within 90 days of the Adjustment Request.

The adjustments to the Intangible Transition Charges are expected to be implemented on or prior to January 1 of each year, and, with respect to each series of transition bonds, after the period commencing 12 months prior to the last scheduled payment date for the payment of principal on the last class of each series of transition bonds on the date or dates specified in the related prospectus supplement (each, an "Adjustment Date"). Those adjustments to the Intangible Transition Charges will cease with respect to each series on the final Adjustment Date specified in the prospectus supplement for that series.

ITC Collections. The servicer is required to remit all ITC Collections, from whatever source, and all proceeds of other collateral, if any, of the issuer received by the servicer, to the bond trustee for deposit pursuant to the indenture on each Remittance

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Date. As long as West Penn or any successor to West Penn's electric distribution business is the servicer, the "Remittance Date" is the 22nd day of each month--or if the 22nd is not a Business Day, the immediately succeeding Business Day--provided that, among other things:

(1) West Penn or its successor maintains a short-term rating of at least "A-1" by S&P, "P-1" by Moody's and, if rated by Fitch IBCA, Inc. ("Fitch IBCA"), "F-2" by Fitch IBCA--and for five Business Days following a reduction in, any such rating; or

(2) the Rating Agency Condition will have been satisfied with respect to each of the Rating Agencies other than Moody's, to which notice will be sent, and any conditions or limitations imposed by such Rating Agencies in connection therewith are complied with.

Otherwise, the Remittance Date is two Business Days after any ITC Collections or proceeds of other collateral are received by the servicer. A "Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the City of Greensburg, Pennsylvania, the City of New York or the State of Delaware are required by law or executive order to remain closed. The monthly period represented by each of West Penn's 12 billing cycles each year is referred to in this prospectus as the "Collection Period." Until ITC Collections are remitted to the Collection Account, the servicer will not segregate them from its general funds. Remittances of ITC Collections will not include interest on these collections prior to the Remittance Date or late fees from customers, which the servicer will be entitled to retain.

SERVICER ADVANCES

If specified in the related annex to the Servicing Agreement, the servicer will make advances of interest or principal on the related series of transition bonds in the manner and to the extent specified in such annex.

SERVICING COMPENSATION; RELEASES

The issuer agrees to pay the servicer the Servicing Fees with respect to their respective series of transition bonds. The Servicing Fee for each series, together with any portion of such Servicing Fee that remains unpaid from prior payment dates, will be paid solely to the extent funds are available therefor as described under "The Indenture--Allocations and Payments" in this prospectus. The Servicing Fee will be paid prior to the payment of or provision for any amounts in respect of interest on and principal of the transition bonds.

In the Servicing Agreement, the servicer releases the issuer and the bond trustee from any and all claims, subject to certain exceptions relating to the Transferred Intangible Transition Property or the Servicer's servicing activities with respect thereto.

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SERVICER DUTIES

In the Servicing Agreement, the servicer has agreed, among other things, that, in servicing the Transferred Intangible Transition Property:

(1) except where the failure to comply with any of the following would not adversely affect the issuer's or the bond trustee's interests in Intangible Transition Property;

(w) it will manage, service, administer and make collections in respect of the Transferred Intangible Transition Property with reasonable care and in material compliance with applicable law, including all applicable PUC regulations and guidelines, using the same degree of care and diligence that the servicer exercises with respect to billing and collection activities that the servicer conducts for itself and others;

(x) it will follow standards, policies and procedures in

performing its duties as servicer that are customary in the servicer's industry;

(y) it will use all reasonable efforts, consistent with its customary servicing procedures, to enforce and maintain rights in respect of the Transferred Intangible Transition Property;

(z) it will calculate the Intangible Transition Charges in compliance with the Pennsylvania Competition Act, the QRO and any applicable tariffs;

(2) it will keep on file, in accordance with customary procedures, all documents related to Intangible Transition Property and will maintain accurate and complete accounts, records and computer systems pertaining to the Intangible Transition Property; and

(3) it will use all reasonable efforts consistent with its customary servicing procedures to collect all amounts owed in respect of Intangible Transition Property as they become due.

The duties of the servicer set forth in the Servicing Agreement are qualified by any PUC regulations or orders in effect at the time those duties are to be performed.

SERVICER REPRESENTATIONS AND WARRANTIES

In the Servicing Agreement, the servicer will make representations and warranties as of each date that West Penn Funding Corporation sells or otherwise transfers any Intangible Transition Property to the issuer to the effect, among other things, that:

(1) the servicer is a corporation duly organized and in good standing under the laws of the state of its incorporation, with the corporate power and authority to own its properties and conduct its business as those properties are currently owned and that business is presently conducted and to execute, deliver and carry out the terms of the Servicing Agreement and has the power, authority and legal right to service the Transferred Intangible Transition Property;

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(2) the servicer is duly qualified to do business as a foreign corporation in good standing in all jurisdictions in which it is required to do so;

(3) the servicer's execution, delivery and performance of the Servicing Agreement have been duly authorized by the servicer by all necessary corporate action;

(4) the Servicing Agreement constitutes a legal, valid and binding obligation of the servicer, enforceable against the servicer in accordance with its terms, subject to customary exceptions relating to bankruptcy and equitable principles;

(5) the consummation of the transactions contemplated by the Servicing Agreement does not conflict with or result in any breach of the terms and provisions of or constitute a default under the servicer's articles of incorporation or by-laws or any material agreement to which the servicer is a party or bound, result in the creation or imposition of any lien upon the servicer's properties or violate any law or any order, rule or regulation applicable to the servicer or its properties;

(6) except for filings with the PUC for revised Intangible Transition Charges and Uniform Commercial Code continuation filings, no governmental approvals, authorizations, consents, orders, or other actions or filings are required for the servicer to execute, deliver and perform its obligations under the Servicing Agreement, except those which have previously been obtained or made; and

(7) no proceeding or investigation is pending or, to the servicer's best knowledge, threatened before any court, federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the servicer or its properties

(x) except as disclosed by the servicer to the issuer, seeking any determination or ruling that might materially and adversely affect the performance by the servicer of its obligations under, or the validity or enforceability against the servicer of, the Servicing Agreement or

(y) relating to the servicer and which might adversely affect

the federal or state income tax attributes of the transition bonds.

SERVICER INDEMNIFICATION

Under the Servicing Agreement, the servicer agrees to indemnify the issuer, the bond trustee, on behalf of the transition bondholders, and certain other related parties, against any costs, expenses, losses, damages, claims and liabilities that may be imposed upon, incurred by or asserted against that person as a result of:

(1) the servicer's willful misfeasance, bad faith or gross negligence in the performance of its duties or observance of its covenants under the Servicing Agreement or the servicer's reckless disregard of its obligations and duties under the Servicing Agreement; and

(2) the servicer's breach of any of its representations or warranties under the Servicing Agreement.

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STATEMENTS TO ISSUER AND BOND TRUSTEE

For each Adjustment Date, the servicer will provide to the issuer, the bond trustee and each of the Rating Agencies a statement indicating, with respect to the Transferred Intangible Transition Property:

(1) the outstanding principal balance for each series and the amount provided in the Expected Amortization Schedule for each series as of the immediately preceding payment date;

(2) the amount on deposit in the Overcollateralization Subaccount and the Calculated Overcollateralization Level as of the immediately preceding payment date;

(3) the amount on deposit in the Capital Subaccount and the Required Capital Amount as of the immediately preceding payment date;

(4) the sum of the amounts provided in the Expected Amortization Schedule for each outstanding series for each payment date prior to the next Adjustment Date and the servicer's projection of the aggregate principal amount of all series as of each payment date prior to the next Adjustment Date;

(5) the Calculated Overcollateralization Level for each payment date prior to the next Adjustment Date and the servicer's projection of the amount on deposit in the Overcollateralization Subaccount as of each payment date prior to the next Adjustment Date;

(6) the Required Capital Amount for each payment date prior to the next Adjustment Date and the servicer's projections of the amount on deposit in the Capital Subaccount as of each payment date prior to the next Adjustment Date; and

(7) the projected ITC Collections from the payment date immediately preceding the Adjustment Date through the next Adjustment Date.

Moreover, on or before each Remittance Date, the servicer will prepare and furnish to the issuer and the bond trustee a statement setting forth the aggregate amount remitted or to be remitted by the servicer to the bond trustee for deposit on that Remittance Date pursuant to the indenture.

In addition, at least three Business Days before each payment date for each series of transition bonds, the servicer will prepare and furnish to the issuer and the bond trustee a statement setting forth the amounts to be paid to the holders of transition bonds of that series. On the basis of this information, the bond trustee will furnish to the transition bondholders on each payment date the report described under "The Indenture--Reports to Transition Bondholders" in this prospectus.

EVIDENCE AS TO COMPLIANCE

The Servicing Agreement will provide that a firm of independent public accountants will furnish to the issuer, the bond trustee and the Rating Agencies, on or before

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March 31 of each year, beginning March 31, 2000, a statement as to compliance by the servicer during the preceding calendar year, or the relevant portion thereof, with certain standards relating to the servicing of Intangible

Transition Property. This report (the "Annual Accountant's Report") will state that the firm has performed certain procedures in connection with the servicer's compliance with the servicing procedures of the Servicing Agreement, identifying the results of such procedures and including any exceptions noted. The Annual Accountant's Report will also indicate that the accounting firm providing that report is independent of the servicer within the meaning of the Code of Professional Ethics of the American Institute of Certified Public Accountants.

The Servicing Agreement will also provide for delivery to the issuer and the bond trustee on or before March 31 of each year, a certificate signed by an officer of the servicer to the effect that the servicer has fulfilled its material obligations under the Servicing Agreement for the preceding calendar year, or the relevant portion thereof, or, if there has been a material default in the fulfillment of any such obligation, describing each such material default. The servicer has agreed to give the issuer, each Rating Agency and the bond trustee notice of any Servicer Default under the Servicing Agreement.

CERTAIN MATTERS REGARDING THE SERVICER

Pursuant to the QRO, West Penn may assign its obligations under the Servicing Agreement to any electric distribution company, as such term is defined in the Pennsylvania Competition Act, which succeeds to the major part of West Penn's electric distribution business. Prior to any such assignment, the servicer shall provide written notice thereof to each of the Rating Agencies. Under the Servicing Agreement, certain persons which succeed to the major part of the electric distribution business of the servicer, which persons assume the obligations of the servicer, will be the successor of the servicer under the Servicing Agreement. The Servicing Agreement further requires that:

- (1) immediately after giving effect to that transaction, no representation or warranty made by the servicer in the Servicing Agreement shall have been breached and no Servicer Default, and no event which, after notice or lapse of time, or both, would become a Servicer Default shall have occurred and be continuing;
- (2) certain officers' certificates and opinions of counsel shall have been delivered to the issuer, the bond trustee and the Rating Agencies; and
- (3) prior written notice shall have been received by the Rating Agencies.

The Servicing Agreement provides that, subject to the foregoing provisions, West Penn shall not resign from the obligations and duties imposed on it as servicer except upon a determination, communicated to the issuer, the bond trustee and each Rating Agency and evidenced by an opinion of counsel, that the performance of its duties under the Servicing Agreement are no longer permissible under applicable law. No such resignation shall become effective until a successor servicer has assumed the servicing obligations and duties of West Penn under the Servicing Agreement.

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In addition, the QRO and the Pennsylvania Competition Act require that the servicer's responsibility to collect the applicable Intangible Transition Charges and other obligations under the Servicing Agreement must be undertaken and performed by any other entity that provides transmission and distribution service to the customers.

Except as expressly provided in the Servicing Agreement, the servicer will not be liable to the issuer for any action taken or for refraining from taking any action pursuant to the Servicing Agreement or for errors in judgment, except to the extent that liability is imposed by reason of the servicer's willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of reckless disregard of obligations and duties under the Servicing Agreement.

SERVICER DEFAULTS

"Servicer Defaults" under the Servicing Agreement will include, among other things:

- (1) any failure by the servicer to deliver to the bond trustee, on behalf of the issuer, any required remittance that shall continue unremedied for a period of three Business Days after written notice of such failure is received by the servicer;
- (2) any failure by the servicer, duly to observe or perform in any material respect any other covenant or agreement in the Servicing Agreement or any other Basic Document to which it is a party, which failure materially and adversely affects Intangible Transition Property and which continues unremedied for 30 days after notice of that failure has been

given to the servicer, by the issuer or the bond trustee or after discovery of that failure by an officer of the servicer, as the case may be;

(3) any representation or warranty made by the servicer in the Servicing Agreement shall prove to have been incorrect when made, which has a material adverse effect on any of the transition bondholders and the issuer and which continues unremedied for 60 days after notice of such failure has been given to the servicer by the issuer or the bond trustee; and

(4) certain events of insolvency, readjustment of debt, marshaling of assets and liabilities, or similar proceedings with respect to the servicer and certain actions by the servicer indicating its insolvency, reorganization pursuant to bankruptcy proceedings or inability to pay its obligations.

The bond trustee may waive any default by the servicer, except a default in making any required remittances to the bond trustee.

RIGHTS UPON SERVICER DEFAULT

As long as a Servicer Default under the Servicing Agreement remains unremedied, the bond trustee may terminate all the rights and obligations of the servicer under the Servicing Agreement, other than the Servicer's indemnification obligation and obligation to continue performing its functions as Servicer until a successor servicer is appointed, whereupon a successor servicer appointed by the bond trustee will succeed to all the

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responsibilities, duties and liabilities of the servicer under the Servicing Agreement and will be entitled to similar compensation arrangements. Upon a Servicer Default based upon the commencement of a case by or against the servicer under the Bankruptcy Code or similar laws (the "Insolvency Laws"), the bond trustee and the issuer may be prevented from effecting a transfer of servicing. See "Risk Factors--Bankruptcy; Creditors' Rights" in this prospectus.

The bond trustee may make arrangements for compensation to be paid to any successor servicer, which in no event may be greater than the servicing compensation paid to the servicer under the Servicing Agreement. See "Risk Factors--Bankruptcy; Creditors' Rights" in this prospectus.

In addition, upon a Servicer Default because of a failure to make required remittances, the issuer or its pledgees or transferees will have the right to apply to the PUC for sequestration and payment of revenues arising from the Intangible Transition Property.

SUCCESSOR SERVICER

In accordance with the provisions of the QRO and pursuant to the provisions of the Servicing Agreement, if for any reason a third party assumes or succeeds to the role of the servicer under the Servicing Agreement, the Servicing Agreement will require the servicer to cooperate with the issuer, the bond trustee and the successor servicer in terminating the servicer's rights and responsibilities under the Servicing Agreement, including the transfer to the successor servicer of all documentation pertaining to Intangible Transition Property and all cash amounts then held by the servicer for remittance or subsequently acquired by the servicer. The Servicing Agreement will provide that the servicer shall be liable for all reasonable costs and expenses incurred in transferring servicing responsibilities to the successor servicer. A successor servicer may not resign unless it is prohibited from serving by law. The predecessor servicer is obligated, on an ongoing basis, to cooperate with the successor servicer and provide whatever information is, and take whatever actions are, reasonably necessary to assist the successor servicer in performing its obligations under the Servicing Agreement.

GOVERNING LAW

The Servicing Agreement will be governed by and construed under the laws of the State of New York.

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THE INDENTURE

The following summary describes all material terms and provisions of the indenture pursuant to which transition bonds will be issued. The form of the indenture, including the form of the supplemental indenture, has been filed as an exhibit to the Registration Statement of which this prospectus forms a part. Please see that form of indenture, including that form of supplemental

indenture, for a complete description of all terms and provisions of the indenture and supplemental indenture, portions of which are summarized in this section. See "West Penn Power Company" in this prospectus.

SECURITY

To secure the payment of principal of and premium, if any, and interest on, and any other amounts owing in respect of, the transition bonds pursuant to the indenture, the issuer will grant to the bond trustee for the benefit of the transition bondholders a security interest in all of the issuer's right, title and interest in and to the following collateral:

- (1) the Transferred Intangible Transition Property sold by West Penn Funding Corporation to the issuer from time to time pursuant to the Sale Agreement and all proceeds thereof;
- (2) the Transfer Agreement, except for certain provisions for indemnification of West Penn Funding Corporation and the issuer;
- (3) all bills of sale delivered by West Penn pursuant to the Transfer Agreement;
- (4) the Sale Agreement, except for certain provisions for indemnification of the issuer;
- (5) all bills of sale delivered by West Penn Funding Corporation pursuant to the Sale Agreement;
- (6) the Servicing Agreement, except for certain provisions for indemnification of the issuer;
- (7) the Collection Account and all amounts on deposit in that account from time to time;
- (8) any hedge or swap agreements to which the issuer is a party;
- (9) all other property of whatever kind owned from time to time by the issuer including all accounts, accounts receivable and chattel paper;
- (10) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing; and
- (11) all payments on or under, and all proceeds of every kind and nature whatsoever in respect of, any or all of the foregoing;

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provided that cash or other property distributed to the issuer from the Collection Account in accordance with the provisions of the indenture will not be subject to the lien of the indenture.

See "--Allocation and Payments" below.

ISSUANCE IN SERIES OR CLASSES

Transition bonds may be issued under the indenture from time to time to finance the purchase by the issuer of Intangible Transition Property (a "Financing Issuance") or to pay the cost of refunding, through redemption or payment, all or part of the transition bonds (a "Refunding Issuance"). Any series of transition bonds may include one or more classes which differ, among other things, as to interest rate and amortization of principal. The terms of all transition bonds of the same series will be identical, unless such series is comprised of more than one class, in which case the terms of all transition bonds of the same class will be identical. The particular terms of the transition bonds of any series and, if applicable, classes thereof, will be set forth in the related prospectus supplement for that series. The terms of that series and any classes thereof will not be subject to prior review by, or consent of, the transition bondholders of any previously issued series. See "Risk Factors--The Transition Bonds--Issuance of Additional Series May Adversely Affect Outstanding Transition Bonds," "The Transition Bonds" and "West Penn Power Company" in this prospectus.

Under the indenture, the bond trustee will authenticate and deliver an additional series of transition bonds only upon receipt by the bond trustee of, among other things, a certificate of the issuer that no Event of Default has occurred and is continuing, an opinion of counsel to the issuer and evidence of satisfaction that the issuance of that additional series of transition bonds will not result in any Rating Agency reducing or withdrawing its then-current rating of any outstanding series or class of transition bonds. The notification in writing by each Rating Agency to West Penn, West Penn Funding Corporation,

the servicer, the bond trustee and the issuer that any action will not result in such a reduction or withdrawal is referred to in this prospectus as the "Rating Agency Condition".

In addition, in connection with the issuance of the each new series, the bond trustee will have to provide a certificate or opinion of a firm of independent certified public accountants of recognized national reputation to the effect that, based on the assumptions used in calculating the initial Intangible Transition Charges with respect to the Transferred Intangible Transition Property or, if applicable, the most recent revised Intangible Transition Charges with respect to the Transferred Intangible Transition Property, after giving effect to the issuance of that series and the application of the proceeds therefrom, that Intangible Transition Charges will be sufficient to pay all fees and expenses of servicing the transition bonds, interest on each series of transition bonds when due and principal of each series of transition bonds in accordance with the Expected Amortization Schedule therefor and to fund the Calculated Overcollateralization Level and to replenish the Capital Subaccount as of each payment date.

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If the issuance is a Refunding Issuance, the amount of money necessary to pay premiums, if any, and the outstanding principal balance of and interest on the transition bonds being refunded shall be deposited into a separate account with the bond trustee.

COLLECTION ACCOUNT

Under the indenture, the issuer will establish one or more segregated trust accounts in the bond trustee's name, which collectively comprise the Collection Account, with the bond trustee or at another Eligible Institution. The Collection Account will be divided into subaccounts, which need not be separate bank accounts: the General Subaccount, the Overcollateralization Subaccount, the Capital Subaccount, the Reserve Subaccount and, if required by the indenture, one or more Defeasance Subaccounts. All amounts in the Collection Account not allocated to any other subaccount will be allocated to the General Subaccount. Unless the context indicates otherwise, references in this prospectus to the Collection Account include all of the subaccounts contained in the Collection Account. All monies deposited from time to time in the Collection Account, all deposits therein pursuant to the indenture, and all investments made in Eligible Investments with those monies, shall be held by the bond trustee in the Collection Account as part of the collateral.

"Eligible Institution" means

- (1) the corporate trust department of the bond trustee; or
- (2) a depository institution organized under the laws of the United States of America or any state (or any domestic branch of a foreign bank), which
 - (x) has (A) a long-term unsecured debt rating of "AAA" by S&P and "Aa3" by Moody's and (B) a short-term rating of "A-1+" by S&P and "P-1" by Moody's, or any other long-term, short-term or certificate of deposit rating acceptable to the Rating Agencies and
 - (y) whose deposits are insured by the Federal Deposit Insurance Corporation.

So long as no default or Event of Default has occurred and is continuing, all funds in the Collection Account may be invested in any of the following:

- (1) direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America;
- (2) demand deposits, time deposits, certificates of deposit, or bankers' acceptances of Eligible Institutions which are described in clause (x) of the preceding paragraph;
- (3) commercial paper, other than commercial paper issued by West Penn or the servicer or any of their affiliates, having, at the time of investment or contractual commitment to invest, a rating in the highest rating category from each Rating Agency;

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(4) money market funds which have the highest rating from each Rating Agency;

(5) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or certain agencies or instrumentalities thereof the obligations of which are backed by the full faith and credit of the United States of America, entered into with an Eligible Institution; or

(6) any other investment permitted by each Rating Agency (collectively, the "Eligible Investments"), in each case which mature no later than the Business Day prior to the next payment date for that series or class.

The bond trustee will have access to the Collection Account for the purpose of making deposits in and withdrawals from the Collection Account in accordance with the Indenture.

On each Remittance Date, the servicer will remit all ITC Collections, from whatever source, and all proceeds of other collateral received by the servicer to the bond trustee under the indenture for deposit pursuant to the indenture. Further, the bond trustee will deposit all Indemnity Amounts and investment earnings remitted to the bond trustee by West Penn, West Penn Funding Corporation or the servicer or otherwise received by the bond trustee into the General Subaccount of the Collection Account. "Indemnity Amounts" means any amounts paid by West Penn, West Penn Funding Corporation or the servicer to the bond trustee, for itself or on behalf of the transition bondholders, in respect of the indemnification obligations pursuant to the Transfer Agreement, the Sale Agreement and the Servicing Agreement. See "The Transfer Agreement", "The Sale Agreement" and "The Servicing Agreement" in this prospectus.

General Subaccount. ITC Collections remitted by the servicer to the bond trustee, as well as any Indemnity Amounts and investment earnings remitted by West Penn or the servicer or otherwise received by the bond trustee or the issuer, shall be deposited in the General Subaccount. On each payment date, the bond trustee will draw on amounts in the General Subaccount to make the allocations and payments described in "--Allocations and Payments" below.

Reserve Subaccount. ITC Collections available on any payment date above that necessary to pay:

(1) amounts payable in respect of fees and expenses of the bond trustee, the independent directors of the issuer, the Administrative Agent and the servicer and other fees and expenses,

(2) amounts distributable to the transition bondholders in respect of principal of and interest paid on that payment date,

(3) amounts required to replenish the Capital Subaccount,

(4) amounts required to replenish and fund the Overcollateralization Subaccount and

(5) net investment earnings on amounts in the Capital Subaccount released to the issuer,

will be allocated to the Reserve Subaccount.

Amounts in the Reserve Subaccount will be invested in Eligible Investments, and the issuer will be entitled to earnings on those amounts, subject to the limitations described under "--Allocations and Payments" below. On each payment date, the bond trustee will draw on amounts in the Reserve Subaccount, if any, to the extent amounts available in the General Subaccount are insufficient to make scheduled distributions to the transition bondholders and pay expenses of

the issuer, the bond trustee, the independent directors of the issuer, the Administrative Agent, the servicer and certain other fees and expenses and to fund the Overcollateralization Subaccount and replenish the Capital Subaccount. See "--Allocations and Payments" below.

Overcollateralization Subaccount. ITC Collections to the extent available, as described under "--Allocation and Payments" below, will be deposited in the Overcollateralization Subaccount on each payment date up to the Calculated Overcollateralization Level for all series. Amounts in the Overcollateralization Subaccount will be invested in Eligible Investments and the issuer will be entitled to earnings on those amounts, subject to the limitations described under "--Allocations and Payments" below. On each payment date, the bond trustee will draw on amounts in the Overcollateralization Subaccount to the extent amounts on deposit in the General Subaccount and the Reserve Subaccount are insufficient to make scheduled distributions to the transition bondholders and to pay expenses of the issuer, the bond trustee, the independent directors of the issuer, the Administrative Agent and the servicer and certain other fees and expenses. If any series or class of transition bonds is redeemed or any series is fully amortized as of any payment date, the amount by which amounts on deposit in the Overcollateralization Subaccount exceed the Calculated Overcollateralization Level for all series will be released to the issuer, free of the lien of the indenture.

Capital Subaccount. Upon the issuance of each series of transition bonds, West Penn Funding Corporation will make a capital contribution in the amount of the Required Capital Amount to the issuer, and the issuer will pay that amount to the bond trustee for deposit into the Capital Subaccount which will be invested in Eligible Investments, and the issuer will be entitled to earnings on those amounts subject to the limitations described under "--Allocations and Payments" below. The bond trustee will draw on amounts in the Capital Subaccount, if any, to the extent amounts available in the General Subaccount, the Reserve Subaccount and the Overcollateralization Subaccount are insufficient to make scheduled distributions to the transition bondholders and to pay expenses of the issuer, the bond trustee, the independent directors of the issuer, the Administrative Agent and the servicer and certain other fees and expenses. If any series or class of transition bonds is redeemed or any series is fully amortized as of any payment date, the amount by which amounts on deposit in the Capital Subaccount exceed the Required Capital Amount will be released to the issuer, free of the lien of the indenture.

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Defeasance Subaccount. In the event funds are remitted to the bond trustee in connection with the exercise of the Legal Defeasance Option or the Covenant Defeasance Option, the issuer shall establish a Defeasance Subaccount for each series to be defeased into which those funds shall be deposited. All amounts in the Defeasance Subaccount will be applied by the bond trustee, in accordance with the provisions of the transition bonds and the indenture, to the payment to the holders of the particular transition bonds for the payment or redemption of which those amounts were deposited with the bond trustee, including all sums due for principal, premium, if any, and interest. See "--Legal Defeasance and Covenant Defeasance" below.

ALLOCATIONS AND PAYMENTS

On each payment date, the bond trustee shall apply all amounts on deposit in the General Subaccount of the Collection Account and any investment earnings on each of the subaccounts of the Collection Account in the following priority:

- (1) all amounts owed to the bond trustee, including legal fees and expenses, Indemnity Amounts and Loss Amounts, will be paid to the bond trustee;
- (2) all amounts owed to the independent directors will be paid to the independent directors;
- (3) the Servicing Fee and all unpaid Servicing Fees from prior payment dates will be paid to the servicer;
- (4) the fees owed to the Administrative Agent under the Administration Agreements will be paid to the Administrative Agent;

(5) so long as no Event of Default has occurred and is continuing or would be caused by that payment, all operating expenses other than those referred to in clauses (1), (2), (3) and (4) above will be paid to the persons entitled thereto, provided that the amount paid on any payment date pursuant to this clause (5) may not exceed \$100,000 in the aggregate for all series;

(6) interest due and payable on the transition bonds, together with any overdue interest at the applicable bond rate and, to the extent permitted by law, interest on that overdue interest, will be paid to the transition bondholders;

(7) any principal of any series or class of the transition bonds payable as a result of acceleration triggered by an Event of Default, any principal of any series or class of transition bonds payable on a series termination date or class termination date, as applicable, and any principal of and premium on a series or class of transition bonds payable on a Redemption Date will be paid to the transition bondholders;

(8) an amount up to the principal amount of the transition bonds that is scheduled to be paid by that payment date in accordance with the Expected Amortization Schedule will be paid to the transition bondholders in respect of principal on the transition bonds;

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(9) all unpaid operating expenses and Indemnity Amounts will be paid to the persons entitled thereto;

(10) an amount, if any, necessary to fund the balance of the Capital Subaccount up to the Required Capital Amount will be transferred to the Capital Subaccount;

(11) an amount necessary to cause the amount in the Overcollateralization Subaccount to equal the Calculated Overcollateralization Level for that payment date will be allocated to the Overcollateralization Subaccount;

(12) provided that no event of default has occurred and is continuing, an amount equal to the net investment earnings on amounts in the Capital Subaccount will be released to the issuer, free from the lien of the indenture;

(13) the balance, if any, will be allocated to the Reserve Subaccount; and

(14) following repayment of all outstanding series of transition bonds, the balance, if any, will be released to the issuer free from the lien of the indenture.

If on any payment date funds on deposit in the General Subaccount are insufficient to make the payments and transfers contemplated by clauses (1) through (12) above, the bond trustee will draw from amounts on deposit in the following subaccounts up to the amount of such shortfall, in order to make such payments and transfers: from the Reserve Subaccount, then from the Overcollateralization Subaccount and finally from the Capital Subaccount.

All payments to transition bondholders of a series pursuant to clauses (6) or (7) of the first paragraph under "--Allocation and Payments" shall be made pro rata based on the respective outstanding principal amounts of transition bonds of that series held by those transition bondholders, unless, in the case of a series comprised of two or more classes, the applicable supplemental indenture for that series specifies otherwise. All payments to transition bondholders of a class pursuant to clause (6) or (7) of the first paragraph under "Allocation and Payments" shall be made pro rata based on the respective outstanding principal amounts of transition bonds of that class held by those transition bondholders.

REPORTS TO TRANSITION BONDHOLDERS

With respect to each series of transition bonds, on or prior to each payment date, the bond trustee will deliver a statement prepared by the bond trustee to each transition bondholder of that series which will include, to the extent applicable, the following information, and any other information so specified in the applicable supplemental indenture, as to the transition bonds of that series with respect to that payment date or the period since the previous payment date, as applicable:

(1) the amount paid to those transition bondholders in respect of principal;

(2) the amount paid to those transition bondholders in respect of interest;

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(3) the outstanding principal balance and the amount provided in the Expected Amortization Schedule, in each case for that series and as of the most recent payment date;

(4) the amount on deposit in the Overcollateralization Subaccount and the Calculated Overcollateralization Level, in each case for all series and as of the most recent payment date;

(5) the amount on deposit in the Capital Subaccount as of the most recent payment date and the Required Capital Amount; and

(6) the amount, if any, on deposit in the Reserve Subaccount as of the most recent payment date.

MODIFICATION OF INDENTURE

Without the consent of any of the holders of the outstanding transition bonds but with prior notice to the Rating Agencies, the issuer and the bond trustee may execute a supplemental indenture for any of the following purposes:

(1) to correct or amplify the description of the collateral, or to better assure, convey and confirm unto the bond trustee the collateral, or to subject to the lien of the indenture additional property;

(2) to evidence the succession, in compliance with the applicable provisions of the indenture, of another person to the issuer, and the assumption by any such successor of the covenants of the issuer contained in the indenture and in the transition bonds;

(3) to add to the covenants of the issuer, for the benefit of the holders of the transition bonds, or to surrender any right or power therein conferred upon the issuer;

(4) to convey, transfer, assign, mortgage or pledge any property to or with the bond trustee;

(5) to cure any ambiguity, to correct or supplement any provision of the indenture or in any supplemental indenture which may be inconsistent with any other provision of the indenture or in any supplemental indenture or to make any other provisions with respect to matters or questions arising under the indenture or in any supplemental indenture; provided, however, that:

(x) that action shall not, as evidenced by an officers certificate, adversely affect in any material respect the interests of

any transition bondholder and

(y) the Rating Agency Condition shall have been satisfied with respect thereto by all Rating Agencies other than Moody's--however, notice of that action shall be provided to Moody's;

(6) to evidence and provide for the acceptance of the appointment under the indenture by a successor bond trustee with respect to the transition bonds and to add to or change any of the provisions of the indenture as shall be necessary to

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facilitate the administration of the trusts under the indenture by more than one bond trustee, pursuant to certain requirements of the indenture;

(7) to modify, eliminate or add to the provisions of the indenture to the extent as shall be necessary to effect the qualification of the indenture under the Trust Indenture Act of 1939, as amended, or under any similar federal statute hereafter enacted and to add to the indenture the other provisions as may be expressly required by the Trust Indenture Act of 1939, as amended;

(8) to set forth the terms of any series that has not previously been authorized by a supplemental indenture; or

(9) to provide for any hedge or swap transactions with respect to any floating rate series or class of transition bonds or any series or class specific credit enhancement; provided, however, that:

(x) such action shall not, as evidenced by an officers certificate, adversely affect in any material respect the interests of any transition bondholder and

(y) the Rating Agency Condition shall have been satisfied with respect thereto by all Rating Agencies other than Moody's--however, notice of such action shall be provided to Moody's.

Additionally, without the consent of any of the transition bondholders, the issuer and bond trustee may execute a supplemental indenture to add provisions to, or change in any manner or eliminate any provisions of, the indenture, or to modify in any manner the rights of the transition bondholders under the indenture; provided, however:

(1) that action shall not, as evidenced by an opinion of counsel, adversely affect in any material respect the interests of any transition bondholder and

(2) that the Rating Agency Condition shall have been satisfied with respect to that action.

The issuer and the bond trustee also may, with prior notice to the Rating Agencies and with the consent of the holders of not less than a majority of the outstanding amount of the transition bonds of each series or class to be affected, execute a supplemental indenture for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the indenture or modifying in any manner the rights of the transition bondholders under the indenture; provided, however, that no such supplemental indenture shall, without the consent of the holder of each outstanding transition bond of each series or class affected thereby:

(1) change the date of payment of any installment of principal or of premium, if any, or interest on any transition bond, or reduce the principal amount of any transition bond, the interest rate specified on any transition bond or the redemption price or the premium, if any, with respect to any transition bond, change the provisions of the indenture and the related applicable supplemental indenture relating to the application of collections on, or the proceeds of the sale of, the

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collateral to payment of principal or of premium, if any, or interest on the transition bonds, or change any place of payment where, or the coin or currency in which, any transition bond or any interest on a transition bond

is payable;

(2) impair the right to institute suit for the enforcement of certain provisions of the indenture regarding payment;

(3) reduce the percentage of the aggregate amount of the outstanding transition bonds, or of a series or class thereof, the consent of the holders of which is required for any supplemental indenture, or the consent of the holders of which is required for any waiver of compliance with certain provisions of the indenture or of certain defaults thereunder and their consequences provided for in the indenture;

(4) reduce the percentage of the outstanding amount of the transition bonds required to direct the bond trustee to direct the issuer to sell or liquidate the collateral;

(5) modify any provision of the section of the indenture relating to the consent of transition bondholders with respect to supplemental indentures, except to increase any percentage specified therein or to provide that certain additional provisions of the indenture or the Basic Documents cannot be modified or waived without the consent of the holder of each outstanding transition bond affected thereby;

(6) modify any of the provisions of the indenture in such a manner as to affect the amount of any payment of interest, principal or premium, if any, payable on any transition bond on any payment date or to affect the rights of transition bondholders to the benefit of any provisions for the mandatory redemption of the transition bonds contained in the indenture or change the redemption dates, Expected Amortization Schedule or series termination dates or class termination dates of any transition bonds;

(7) decrease the Required Capital Amount with respect to any series, the Overcollateralization Amount or the Calculated Overcollateralization Level with respect to any payment date;

(8) modify or alter the provisions of the indenture regarding the voting of transition bonds held by the issuer, West Penn Funding Corporation, an affiliate of either of them or any obligor on the transition bonds;

(9) decrease the percentage of the aggregate principal amount of the transition bonds required to amend the sections of the indenture which specify the applicable percentage of the aggregate principal amount of the transition bonds necessary to amend the indenture or certain other related agreements; or

(10) permit the creation of any lien ranking prior to or on a parity with the lien of the indenture with respect to any of the collateral for the transition bonds or, except as otherwise permitted or contemplated in the indenture, terminate the lien of the indenture on any property at any time subject to the lien of the indenture or

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deprive the holder of any transition bond of the security provided by the lien of the indenture.

ENFORCEMENT OF THE TRANSFER AGREEMENT, THE SALE AGREEMENT AND THE SERVICING AGREEMENT

The indenture will provide that the issuer will take all lawful actions to enforce its rights under the Transfer Agreement, the Sale Agreement and the Servicing Agreement in a commercially reasonable manner and to compel or secure the performance and observance by West Penn, West Penn Funding Corporation and the servicer of each of their respective material obligations to the issuer under or in connection with the Transfer Agreement, the Sale Agreement and the Servicing Agreement. So long as no Event of Default occurs and is continuing, the issuer may exercise any and all rights, remedies, powers and privileges lawfully available to the issuer under or in connection with the Transfer Agreement, the Sale Agreement and the Servicing Agreement. However, if the issuer and West Penn Funding Corporation or servicer propose to amend, modify, waive, supplement, terminate or surrender, or agree to any amendment, modification, supplement, termination, waiver or surrender of, the process for adjusting Intangible Transition Charges, the issuer shall notify the bond trustee and the bond trustee shall notify transition bondholders of that proposal and the bond trustee shall consent thereto only with the consent of the holder of each outstanding transition bond of each series or class affected thereby.

If an Event of Default occurs and is continuing, the bond trustee may, and, at the direction of the holders of a majority of the outstanding principal

amount of the transition bonds of all series shall, exercise all rights, remedies, powers, privileges and claims of the issuer against West Penn, West Penn Funding Corporation or the servicer under or in connection with the Sale Agreement and the Servicing Agreement, and any right of the issuer to take that action shall be suspended.

MODIFICATIONS TO THE TRANSFER AGREEMENT, THE SALE AGREEMENT AND THE SERVICING AGREEMENT

With the consent of the bond trustee, the Transfer Agreement, the Sale Agreement and the Servicing Agreement may be amended at any time and from time to time, without the consent of the transition bondholders, provided that the amendment shall not, as evidenced by an officer's certificate, adversely affect the interest of any transition bondholder or change the adjustment process for the Intangible Transition Charges. The bond trustee shall not withhold its consent to that amendment so long as the Rating Agency Condition is satisfied in connection therewith by each Rating Agency other than Moody's--and the issuer shall have furnished Moody's with written notice of that amendment prior to the effectiveness thereof--and the foregoing officer's certificate is provided.

No amendment, modification, waiver, supplement, termination or surrender of the terms of the Transfer Agreement, the Sale Agreement or Servicing Agreement, or waiver of timely performance or observance by West Penn, West Penn Funding Corporation or

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the servicer under the Transfer Agreement, Sale Agreement or Servicing Agreement, respectively, in each case in a way as would adversely affect the interests of transition bondholders is permitted nor shall the bond trustee consent thereto. If the issuer, West Penn, West Penn Funding Corporation or the servicer shall otherwise propose to amend, modify, waive, supplement, terminate or surrender, or agree to any amendment, modification, waiver, supplement, termination or surrender of the terms of the Transfer Agreement, the Sale Agreement or the Servicing Agreement or waive timely performance or observance by West Penn, West Penn Funding Corporation or the servicer under the Transfer Agreement, the Sale Agreement or Servicing Agreement, respectively, the issuer shall notify the bond trustee and the bond trustee shall notify the transition bondholders thereof. The bond trustee shall consent thereto only with the consent of the holders of at least a majority of the outstanding principal amount of the transition bonds of each series or class.

The issuer shall furnish to each of the Rating Agencies:

- (1) prior to the execution of any such amendment or consent, written notification of the substance of that amendment or consent and
- (2) promptly after the execution of any such amendment or consent, a copy of that amendment or consent.

EVENTS OF DEFAULT; RIGHTS UPON EVENT OF DEFAULT

An "Event of Default" is defined in the indenture as being:

- (1) a default for five days or more in the payment of any interest on any transition bond;
- (2) a default in the payment of the then unpaid principal of any transition bond of any series on the series termination date for that series or, if applicable, any class on the class termination date for that class;
- (3) a default in the payment of the redemption price for any transition bond on the redemption date therefor;
- (4) a default in the observance or performance of any covenant or agreement of the issuer made in the indenture, other than those specifically dealt with in (1), (2) or (3) above, and the continuation of any such default for a period of thirty days after notice thereof is given to the issuer by the bond trustee or to the issuer and the bond trustee by the holders of at least 25% in outstanding principal amount of the transition bonds of any series; and
- (5) certain events of bankruptcy, insolvency, receivership or liquidation of the issuer.

If an Event of Default occurs and is continuing, the bond trustee or holders of a majority in principal amount of the transition bonds of all series then outstanding may declare the principal of all series of the transition bonds to be immediately due and payable. That declaration may, under certain circumstances, be rescinded by the holders of a majority in principal amount of

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If the transition bonds of all series have been declared to be due and payable following an Event of Default, the bond trustee may, in its discretion, either sell the collateral or elect to have the issuer maintain possession of the collateral and continue to apply distributions on the collateral as if there had been no declaration of acceleration. The bond trustee is prohibited from selling the collateral following an Event of Default other than a default in the payment of any principal, a default for five days or more in the payment of any interest on any transition bond of any series or a default on the payment of the price set for redemption in the related supplemental indenture for any transition bond on the date for redemption therefor set in the related supplemental indenture unless:

- (1) the holders of 100% of the principal amount of all series of transition bonds consent to that sale;
- (2) the proceeds of that sale or liquidation are sufficient to pay in full the principal of and premium, if any, and accrued interest on the outstanding transition bonds; or
- (3) the bond trustee determines that funds provided by the collateral would not be sufficient on an ongoing basis to make all payments on the transition bonds of all series as those payments would have become due if the transition bonds had not been declared due and payable, and the bond trustee obtains the consent of the holders of 66 2/3% of the aggregate outstanding amount of the transition bonds of each series.

Subject to the provisions of the indenture relating to the duties of the bond trustee, in case an Event of Default occurs and is continuing, the bond trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any of the holders of transition bonds of any series if the bond trustee reasonably believes it will not be adequately indemnified against the costs, expenses and liabilities which might be incurred by it in complying with that request. Subject to those provisions for indemnification and certain limitations contained in the indenture, the holders of a majority in principal amount of the outstanding transition bonds of all series will have the right to direct the time, method and place of conducting any proceeding or any remedy available to the bond trustee; provided that, among other things:

- (1) that direction shall not conflict with any rule of law or with the indenture;
- (2) subject to certain provisions in the indenture, any direction to the bond trustee to sell or liquidate the collateral shall be by the holders of 100% of the principal amount of all series of transition bonds then outstanding; and
- (3) the bond trustee may take any other action deemed proper by the bond trustee that is not inconsistent with that direction.

The holders of a majority in principal amount of the transition bonds of all series then outstanding may, in certain cases, waive any default with respect thereto, except a default in the payment of principal of or premium, if any, or interest on any of the transition bonds or a default in respect of a covenant or provision of the indenture that

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cannot be modified without the waiver or consent of all of the holders of the outstanding transition bonds of all series and classes affected.

No transition bondholder of any series will have the right to institute any proceeding, judicial or otherwise, or to avail itself of the remedies provided in Section 2812(d)(3)(v) of the Pennsylvania Competition Act, with respect to the indenture, unless:

- (1) that holder previously has given to the bond trustee written notice of a continuing Event of Default;
- (2) the holders of not less than 25% in principal amount of the outstanding transition bonds of each series have made written request of the bond trustee to institute such proceeding in its own name as bond trustee;
- (3) that holder or holders have offered the bond trustee security or indemnity reasonably satisfactory to the bond trustee against the costs,

expenses, and liabilities to be incurred in complying with that request;

(4) the bond trustee for 60 days after its receipt of such notice, request and offer has failed to institute that proceeding; and

(5) no direction inconsistent with that written request has been given to the bond trustee during that 60-day period by the holders of a majority in principal amount of the outstanding transition bonds of all series.

CERTAIN COVENANTS

The issuer will keep in effect its existence, rights and franchises as a limited liability company under Delaware law, provided that the issuer may consolidate with or merge into another entity or sell substantially all of its assets to another entity and dissolve if:

(1) the entity formed by or surviving that consolidation or merger or to whom substantially all of those assets are sold is organized under the laws of the United States or any state thereof and shall expressly assume by a supplemental indenture the due and punctual payment of the principal of and premium, if any, and interest on all transition bonds and the performance of the issuer's obligations under the indenture;

(2) that entity expressly assumes all obligations and succeeds to all rights of the issuer under the Transfer Agreement, the Sale Agreement and the Servicing Agreement pursuant to an assignment and assumption agreement executed and delivered to the bond trustee;

(3) no default or Event of Default will have occurred and be continuing immediately after giving effect to that merger, consolidation or sale;

(4) the Rating Agency Condition will have been satisfied with respect to that consolidation or merger or sale by each Rating Agency, except Moody's--and the issuer shall have furnished Moody's with prior written notice of that consolidation, merger or sale;

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(5) the issuer has received an opinion of counsel to the effect that that consolidation or merger or sale of assets would have no material adverse tax consequence to the issuer or any transition bondholder, that consolidation or merger or sale complies with the indenture and all conditions precedent therein provided relating to that consolidation or merger or sale and will result in the bond trustee maintaining a continuing valid first priority security interest in the collateral;

(6) none of the Intangible Transition Property, the QRO or West Penn's, West Penn Funding Corporation's, the servicer's or the issuer's rights under the Pennsylvania Competition Act or the QRO are impaired thereby; and

(7) any action that is necessary to maintain the lien and security interest created by the indenture will have been taken.

The issuer will from time to time execute and deliver those documents, make all filings and take any other action necessary or advisable to, among other things, maintain and preserve the lien and security interest--and priority thereof--of the indenture and will not permit the validity of the indenture to be impaired, the lien to be amended, hypothecated, subordinated or terminated or discharged, or any person to be released from any covenants or obligations except as expressly permitted by the indenture, nor will it permit any lien, charge, excise, claim, security interest, mortgage or other encumbrance, other than the lien and security interest created by the indenture, to be created on or extend to or otherwise arise upon or burden the collateral or any part thereof or any interest therein or the proceeds thereof, or permit the lien of the indenture not to constitute a continuing valid first priority security interest in the collateral.

The issuer may not, among other things:

(1) except as expressly permitted by the indenture, the Sale Agreement or the Servicing Agreement sell, transfer, exchange or otherwise dispose of any of the collateral unless directed to do so by the bond trustee in accordance with the indenture; or

(2) claim any credit on, or make any deduction from the principal or premium, if any, or interest payable in respect of, the transition bonds, other than amounts properly withheld under the Code, or assert any claim against any present or former transition bondholder because of the payment

of taxes levied or assessed upon the issuer.

The issuer may not engage in any business other than purchasing and owning the Transferred Intangible Transition Property, issuing transition bonds from time to time, pledging its interest in the collateral to the bond trustee under the indenture in order to secure the transition bonds, and performing activities that are necessary, suitable or convenient to accomplish the foregoing or are incidental thereto.

The issuer may not issue, incur, assume or guarantee any indebtedness except for the transition bonds or guarantee or otherwise become contingently liable in connection with the obligations, stocks or dividends of, or own, purchase, repurchase or acquire--or agree contingently to do so--any stock, obligations, assets or

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securities of, or any other interest in, or make any capital contribution to, any other person, except that the issuer may invest funds in Eligible Investments. The issuer may not, except as contemplated by the indenture, the Sale Agreement, the Servicing Agreement and certain related documents, including the LLC Agreement, make any loan or advance or credit to any person. The issuer will not make any expenditure--by long-term or operating lease or otherwise--for capital assets--either realty or personalty--other than Intangible Transition Property purchased from West Penn Funding Corporation pursuant to, and in accordance with, the Sale Agreement. The issuer may not make any payments, distributions or dividends to any holder of beneficial interests in the issuer in respect of that beneficial interest, except in accordance with the indenture.

The issuer will cause the servicer to deliver to the bond trustee the Annual Accountant's Report, compliance certificates and monthly reports regarding distributions and other statements required by the Servicing Agreement. See "The Servicing Agreement" in this prospectus.

LIST OF TRANSITION BONDHOLDERS

Any transition bondholder or group of transition bondholders--each of whom has owned a transition bond for at least six months--may, by written request to the bond trustee, obtain access to the list of all transition bondholders maintained by the bond trustee for the purpose of communicating with other transition bondholders with respect to their rights under the indenture or the transition bonds. The bond trustee may elect not to afford the requesting transition bondholders access to the list of transition bondholders if it agrees to mail the desired communication or proxy, on behalf and at the expense of the requesting transition bondholders, to all transition bondholders.

ANNUAL COMPLIANCE STATEMENT

The issuer will be required to file annually with the bond trustee a written statement as to the fulfillment of its obligations under the indenture. In addition, the issuer shall furnish to the bond trustee an opinion of counsel concerning filings made by the issuer on an annual basis and before the effectiveness of any amendment to the Transfer Agreement, the Sale Agreement or the Servicing Agreement.

BOND TRUSTEE'S ANNUAL REPORT

If required by the Trust Indenture Act of 1939, as amended, the bond trustee will be required to mail each year to all transition bondholders a brief report relating to, among other things, its eligibility and qualification to continue as the bond trustee under the indenture, any amounts advanced by it under the indenture, the amount, interest rate and maturity date of certain indebtedness owing by the issuer to it in the bond trustee's individual capacity, the property and funds physically held by the bond trustee as such, any additional issue of a series of transition bonds not previously reported and any action taken by it that materially affects the transition bonds of any series and that has not been previously reported.

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SATISFACTION AND DISCHARGE OF INDENTURE

The indenture will be discharged with respect to the transition bonds of any series upon the delivery to the bond trustee for cancellation of all the transition bonds of that series or upon the expected final payment date or the date of redemption therefor, provided that the issuer has deposited funds sufficient for the payment in full of all of the transition bonds of that series with the bond trustee and the issuer has delivered to the bond trustee the

officer's certificate and opinion of counsel specified in the indenture. Those deposited funds will be segregated and held apart solely for paying those transition bonds, and those transition bonds shall not be entitled to any amounts on deposit in the Collection Account other than amounts on deposit in the Defeasance Subaccount for those transition bonds.

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

The issuer may, at any time, terminate:

- (1) all of its obligations under the indenture with respect to the transition bonds of any series ("Legal Defeasance Option") or
- (2) its obligations to comply with certain covenants, including certain of the covenants described under "The Indenture--Certain Covenants" (the "Covenant Defeasance Option").

The issuer may exercise the Legal Defeasance Option with respect to any series of transition bonds notwithstanding its prior exercise of the Covenant Defeasance Option with respect to that series.

If the issuer exercises the Legal Defeasance Option with respect to any series, that series of transition bonds shall be entitled to payment only from the funds or other obligations set aside under the indenture for payment thereof on the expected final payment date or redemption date therefor as described below. That series of transition bonds shall not be subject to payment through redemption or acceleration prior to that expected final payment date or redemption date, as applicable. If the issuer exercises the Covenant Defeasance Option with respect to any series, the transition bonds of that series may not be accelerated because of an Event of Default relating to a default in the observance or performance of any covenant or agreement of the issuer made in the indenture.

The issuer may exercise the Legal Defeasance Option or the Covenant Defeasance Option with respect to any series of transition bonds only if:

- (1) the issuer irrevocably deposits or causes to be deposited in trust with the bond trustee cash or U.S. Government Obligations for the payment of principal of and premium, if any, and interest on those transition bonds to the expected final payment date or redemption date therefor, as applicable, that deposit to be made in the Defeasance Subaccount for such series of transition bonds;
- (2) the issuer delivers to the bond trustee a certificate from a nationally recognized firm of independent accountants expressing its opinion that the payments

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of principal and interest when due and without reinvestment will provide cash at the times and in the amounts as will be sufficient to pay in respect of the transition bonds of that series:

- (x) principal in accordance with the Expected Amortization Schedule therefor, or if that series is to be redeemed, the redemption price of that redemption on the redemption date therefor, and
 - (y) interest when due;
- (3) in the case of the Legal Defeasance Option, 95 days pass after the deposit is made and during the 95-day period no default relating to events of bankruptcy, insolvency, receivership or liquidation of the Issuer occurs and is continuing at the end of the period;
 - (4) no default has occurred and is continuing on the day of that deposit and after giving effect thereto;
 - (5) in the case of the Legal Defeasance Option, the issuer delivers to the bond trustee an opinion of counsel stating that:
 - (x) the issuer has received from, or there has been published by, the Internal Revenue Service a ruling; or
 - (y) since the date of execution of the Indenture, there has been a change in the applicable federal income tax law;

in either case to the effect that, and based thereon that opinion shall confirm that, the holders of the transition bonds of that series will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of such Legal Defeasance Option and will be subject to federal income tax on the same amounts, in the same manner and at the same

times as would have been the case if that Legal Defeasance had not occurred;

(6) in the case of the Covenant Defeasance Option, the issuer delivers to the bond trustee an opinion of counsel to the effect that the holders of the transition bonds of that series will not recognize income, gain or loss for federal income tax purposes as a result of the exercise of such Covenant Defeasance Option and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred; and

(7) the issuer delivers to the bond trustee a certificate of an authorized officer of the issuer and an opinion of counsel, each stating that all conditions precedent to the satisfaction and discharge of the transition bonds of that series have been complied with as required by the indenture.

There will be no other conditions to the exercise by the issuer of its Legal Defeasance Option or its Covenant Defeasance Option.

"U.S. Government Obligations" means direct obligations, or certificates representing an ownership interest in such obligations, of the United States of America, including any

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agency or instrumentality thereof, for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

THE BOND TRUSTEE

Bankers Trust Company will be the bond trustee under the indenture. The bond trustee may resign at any time by so notifying the issuer. The holders of a majority in principal amount of the transition bonds of all series then outstanding may remove the bond trustee by so notifying the bond trustee and may appoint a successor bond trustee. The issuer will remove the bond trustee if the bond trustee ceases to be eligible to continue as so under the indenture, the bond trustee becomes insolvent, a receiver or other public officer takes charge of the bond trustee or its property or the bond trustee becomes incapable of acting. If the bond trustee resigns or is removed or a vacancy exists in the office of bond trustee for any reason, the issuer will be obligated to appoint a successor bond trustee eligible under the indenture. Any resignation or removal of the bond trustee and appointment of a successor bond trustee will not become effective until acceptance of the appointment by a successor bond trustee. The issuer is required under the indenture to provide the Rating Agencies with written notice of any successor bond trustee.

The bond trustee shall at all times satisfy the requirements of the Trust Indenture Act and have a combined capital and surplus of at least \$50 million and a long term debt rating of "Baa3" or better by Moody's and "BBB-" by Fitch IBCA--if currently rated by Fitch IBCA. If the bond trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business or assets to, another entity, the resulting, surviving or transferee entity shall without any further action be the successor bond trustee.

GOVERNING LAW

The indenture will be governed by and construed under the laws of the State of New York.

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UNITED STATES TAXATION

GENERAL

This section summarizes the material U.S. tax consequences to holders of transition bonds. However, the discussion is limited in the following ways:

- The discussion only covers you if you buy your transition bonds in the initial offering.
- The discussion only covers you if you hold your transition bonds as a capital asset--that is, for investment purposes--and if you do not have a special tax status.

- The discussion does not cover tax consequences that depend upon your particular situation in addition to your ownership of transition bonds. We suggest that you consult your tax advisor about the consequences of holding transition bonds in your particular situation.
- The discussion is based on current law. Changes in the law may change the tax treatment of the transition bonds.
- The discussion generally does not cover state, local or foreign law.
- The discussion does not apply to you if you are a non-U.S. holder of transition bonds and if you (a) own 10% or more of the voting stock of Allegheny Energy, (b) are a "controlled foreign corporation" with respect to Allegheny Energy, or (c) are a bank making a loan in the ordinary course of its business.

TAXATION OF THE ISSUER AND OF THE TRANSITION BONDS

The issuer is a wholly owned subsidiary of West Penn Funding Corporation and has not elected to be taxed as a corporation for federal income tax purposes. As such, the issuer will be treated as a division of West Penn Funding Corporation and will not be treated as a separate taxable entity.

West Penn has received a ruling from the IRS that:

- (1) the issuance of the QRO by the PUC will not result in the recognition of gross income by West Penn or West Penn Funding Corporation,
- (2) the issuance of the transition bonds will not result in the recognition of gross income by West Penn or West Penn Funding Corporation and
- (3) the transition bonds will be classified as obligations of West Penn Funding Corporation.

In the opinion of our tax counsel, Cravath, Swaine & Moore, based on the ruling, for U.S. federal income tax purposes the transition bonds will be treated as debt of West Penn Funding Corporation secured by a pledge of the collateral. We have relied on the ruling and the opinion in preparing this section.

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IF YOU ARE CONSIDERING BUYING TRANSITION BONDS, WE SUGGEST THAT YOU CONSULT YOUR TAX ADVISORS ABOUT THE TAX CONSEQUENCES OF HOLDING THE TRANSITION BONDS IN YOUR PARTICULAR SITUATION.

TAX CONSEQUENCES TO U.S. HOLDERS

This section applies to you if you are a "U.S. Holder". A "U.S. Holder" is:

- an individual U.S. citizen or resident alien;
- a corporation, or entity taxable as a corporation, that was created under U.S. law (federal or state); or
- an estate or trust whose worldwide income is subject to U.S. federal income tax.

If a partnership holds transition bonds, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. We suggest that partners of partnerships holding transition bonds consult their tax advisors.

INTEREST

- If you are a cash method taxpayer, including most individual holders, you must report that interest in your income when you receive it.
- If you are an accrual method taxpayer, you must report that interest in your income as it accrues.

SALE OR RETIREMENT OF TRANSITION BONDS

On a sale or retirement of a transition bond:

- You will have taxable gain or loss equal to the difference between the amount received by you and your tax basis in the transition bond. Your tax basis in the transition bond is your cost, subject to certain adjustments.
- Your gain or loss will generally be capital gain or loss, and will be long term capital gain or loss if you held the transition bond for more than one year.
- If you sell the transition bond between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the transition bond but has not yet been paid by the sale date. That amount is treated as ordinary interest income and not as sale proceeds.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Under the tax rules concerning information reporting to the IRS:

- Assuming you hold your transition bonds through a broker or other securities intermediary, the intermediary is required to provide information to the IRS concerning interest and retirement proceeds we pay on transition bonds you own, unless an exemption applies.

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- Similarly, unless an exemption applies, you must provide the intermediary with your Taxpayer Identification Number for its use in reporting information to the IRS. If you are an individual, this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.
- If you are subject to these requirements but do not comply, the intermediary is required to withhold 31% of all amounts payable to you on the transition bonds, including principal payments. If the intermediary withholds payments, you may use the withheld amount as a credit against your federal income tax liability.
- All U.S. Holders that are individuals are subject to these requirements. Some U.S. Holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

TAX CONSEQUENCES TO NON-U.S. HOLDERS

This section applies to you if you are a "Non-U.S. Holder." A "Non-U.S. Holder" is:

- an individual that is a nonresident alien;
- a corporation organized or created under non-U.S. law; or
- an estate or trust that is not taxable in the U.S. on its worldwide income.

WITHHOLDING TAXES

Generally, payments of principal and interest on the transition bonds will not be subject to U.S. withholding taxes.

However, in order for the exemption from withholding taxes to apply to you, you must meet one of the following requirements:

- You provide your name, address, and a signed statement that you are the beneficial owner of the transition bond and are not a U.S. Holder. This statement is generally made on Form W-8 or Form W-8BEN.
- You or your agent claim an exemption from withholding tax under an applicable tax treaty. This claim is generally made on Form 1001 or Form W-8BEN.
- You or your agent claim an exemption from withholding tax on the ground that the income is effectively connected with the conduct of a trade or business in the U.S. This claim is generally made on Form 4224 or Form W-8ECI.

We suggest that you consult your tax advisor about the specific methods to satisfy these requirements. These procedures will change on January 1, 2001. In addition, a claim for exemption will not be valid if the person receiving the claim has actual knowledge that the statements on the applicable form are false.

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SALE OR RETIREMENT OF TRANSITION BONDS

If you sell a transition bond or it is redeemed, you will not be subject to federal income tax on any gain unless one of the following applies:

- The gain is connected with a trade or business that you conduct in the U.S.
- You are an individual, you are present in the U.S. for at least 183 days during the year in which you dispose of the transition bond, and certain other conditions are satisfied.
- The gain represents accrued interest, in which case the rules for interest would apply.

U.S. TRADE OR BUSINESS

If you hold a transition bond in connection with a trade or business that you are conducting in the U.S.:

- Any interest on the transition bond, and any gain from disposing of the transition bond, generally will be subject to income tax as if you were a U.S. Holder.
- If you are a corporation, you may be subject to the "branch profits tax" on your earnings that are connected with your U.S. trade or business, including earnings from the transition bond. This tax is 30%, but may be reduced or eliminated by an applicable income tax treaty.

ESTATE TAXES

If you are an individual, the transition bonds will not be subject to U.S. estate tax when you die. However, this rule only applies if, at the time of your death, payments on the transition bond would not have been connected to a trade or business that you were conducting in the U.S.

INFORMATION REPORTING AND BACKUP WITHHOLDING

U.S. rules concerning information reporting and backup withholding are described above under "Tax Consequences to U.S. Holders--Information Reporting and Backup Withholding". Under these rules:

- Principal and interest payments received by you will be automatically exempt from the usual rules if you provide the tax certifications needed to avoid withholding tax on interest, as described above under "Tax Consequences to U.S. Holders--Information Reporting and Backup Withholding". The exemption does not apply if the recipient of the applicable form knows that the form is false. However, interest payments made to you will be reported to the IRS on Form 1042-S.
- Sale proceeds you receive on a sale of your transition bonds through a broker may be subject to information reporting and/or backup withholding if you are not eligible for an exemption. In particular, information reporting and backup

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reporting may apply if you use the U.S. office of a broker, and information reporting--but not backup withholding--may apply if you use the foreign office of a broker if the broker has certain connections to the U.S. We suggest that you consult your tax advisor concerning information reporting and backup withholding on a sale.

MATERIAL COMMONWEALTH OF PENNSYLVANIA TAX MATTERS

In the opinion of Ballard Spahr Andrews & Ingersoll, LLP, special Pennsylvania tax counsel to the issuer and West Penn, interest from the transition bonds received by a person who is not otherwise subject to corporate or personal income tax in Pennsylvania will not be subject to these taxes. Transition bonds held by deceased Pennsylvania residents may be subject to Pennsylvania inheritance and estate taxes.

Due to the pendency of litigation involving the constitutionality of personal property taxes heretofore in effect, none are currently imposed in Pennsylvania. In the event enforcement of the personal property tax is resumed, residents of Pennsylvania, other than corporations and certain other exempt persons, would be subject to these taxes. Nonresidents would be exempt. The taxes referred to include the County Personal Property Tax and the additional property taxes imposed on Pittsburgh residents by the School District of Pittsburgh and the City of Pittsburgh.

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ERISA CONSIDERATIONS

Employee benefit plans are permitted to purchase transition bonds.

ERISA and/or Section 4975 of the Code impose certain requirements on employee benefit plans and certain other plans and arrangements, including individual retirement accounts and annuities, Keogh plans and certain collective investment funds or insurance company general or separate accounts in which those plans, accounts or arrangements are invested (collectively, "Plans"), and on persons who are fiduciaries with respect to Plans. ERISA imposes on Plan fiduciaries certain general fiduciary requirements. In addition, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of "prohibited transactions" involving assets of a Plan ("Plan Assets") and persons who have certain specified relationships to the Plan ("parties in interest" under ERISA and "disqualified persons" under the Code), unless a statutory or administrative exemption is available.

Additional prohibited transactions could arise if assets of the issuer were considered to be Plan Assets with respect to any Plan that acquired transition bonds. However, the transition bonds are debt for state law purposes and should not be considered to have "substantial equity features". As a result, a Plan's acquisition of transition bonds should not cause assets of the Issuer to be considered to be Plan Assets.

If you are considering whether to purchase transition bonds with Plan Assets, we suggest that you consult with your legal advisor and refer to the related prospectus supplement for further guidance.

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PLAN OF DISTRIBUTION

The transition bonds of each series may be sold to or through underwriters named in the related prospectus supplement (the "Underwriters") by a negotiated firm commitment underwriting and public reoffering by the Underwriters or any other underwriting arrangement as may be specified in the related prospectus supplement or may be offered or placed either directly or through agents. The issuer and the bond trustee intend that transition bonds will be offered through various methods from time to time and that offerings may be made concurrently through more than one of these methods or that an offering of a particular series of transition bonds may be made through a combination of these methods.

The distribution of transition bonds may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to the prevailing market prices or in negotiated transactions or otherwise at varying prices to be determined at the time of sale.

The transition bonds may be offered through one or more different methods, including offerings through underwriters. It is not anticipated that any of the transition bonds will be listed on any securities exchange.

In connection with the sale of the transition bonds, Underwriters or agents may receive compensation in the form of discounts, concessions or commissions. Underwriters may sell transition bonds to particular dealers at prices less a concession. Underwriters may allow, and these dealers may reallow, a concession to other dealers. Underwriters, dealers and agents that participate in the distribution of the transition bonds of a series may be deemed to be underwriters, and any discounts or commissions received by them from the issuer and any profit on the resale of the transition bonds by them may be deemed to be underwriting discounts and commissions under the Securities Act. These Underwriters or agents will be identified, and any compensation received from the issuer will be described, in the related prospectus supplement.

Under agreements which may be entered into by West Penn, West Penn Funding Corporation, the issuer and the bond trustee, Underwriters and agents who participate in the distribution of the transition bonds may be entitled to indemnification by West Penn, West Penn Funding Corporation and the issuer against liabilities specified therein, including under the Securities Act.

The Underwriters may, from time to time, buy and sell transition bonds, but there can be no assurance that an active secondary market will develop and there is no assurance that any such market, if established, will continue.

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RATINGS

It is a condition of any Underwriter's obligation to purchase the transition bonds that each class receive the rating indicated in the related prospectus supplement, which will be in one of the four highest categories, from at least one Rating Agency.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning Rating Agency. No person is obligated to maintain the rating on any transition bonds, and, accordingly, there can be no assurance that the ratings assigned to any class of transition bonds upon initial issuance will not be lowered or withdrawn by a Rating Agency at any time thereafter. If a rating of any class of transition bonds is revised or withdrawn, the liquidity of that class of transition bonds may be adversely affected. In general, ratings address credit risk and do not represent any assessment of any particular rate of principal payments on the transition bonds other than the payment in full of each series or class of transaction bonds by the applicable series termination date or class termination date.

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LEGAL MATTERS

Certain legal matters relating to the issuance of the transition bonds will be passed upon for the issuer by Cravath, Swaine & Moore, New York, New York and for the Underwriters by Latham & Watkins, New York, New York. Certain legal matters relating to the issuer and issuance of the transition bonds under the laws of the State of Delaware will be passed upon for the issuer by Richards, Layton & Finger, P.A., Wilmington, Delaware. Certain legal matters relating to the federal tax consequences of the issuance of the transition bonds will be passed upon for the issuer by Cravath, Swaine & Moore. Certain legal matters relating to the state tax consequences of the issuance of the transition bonds will be passed upon for the issuer by Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania.

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GLOSSARY OF DEFINED TERMS

Set forth below is a glossary of defined terms used in this prospectus.

"ADJUSTMENT DATE" means, with respect to any series of transition bonds, each date on which adjustments to the Intangible Transition Charges are implemented, all as specified in the related prospectus supplement.

"ADJUSTMENT REQUEST" means each request filed by the servicer with the PUC for adjustments to the Intangible Transition Charges charged to each Rate Schedule within any Customer Category based on actual ITC Collections and updated assumptions by the servicer as to the projected future sales from which Intangible Transition Charges are allocated, expected delinquencies and write-offs and future payments and expenses relating to the Intangible Transition Property and the transition bonds.

"ADMINISTRATIVE AGENT" means Allegheny Power Service Corporation, as administrative agent under the Administration Agreements, and its permitted successors and assigns under that agreement.

"BANKRUPTCY CODE" means Title 11 of the United States Code, as the same may be amended, modified or supplemented from time to time.

"BASIC DOCUMENTS" means, collectively, the Transfer Agreement, the Sale

Agreement, the Servicing Agreement, the Administrative Agreements, any bills of sale for Intangible Transition Property, the indenture, the LLC Agreement, the certificate of formation filed with the State of Delaware to form the issuer and the certificate of incorporation of West Penn Funding Corporation.

"BUSINESS DAY" means any day other than a Saturday, Sunday or a day on which banking institutions in the City of New York, the City of Greensburg, Pennsylvania or the State of Delaware are required by law or executive order to remain closed.

"CALCULATED OVERCOLLATERALIZATION LEVEL" means the amount anticipated to be on deposit in the Overcollateralization Subaccount for all series of transition bonds as of each payment date, as specified in each prospectus supplement.

"CALCULATION DATE" means, with respect to any series of transition bonds, each date on which the servicer is required to file an Adjustment Request, as specified in the related prospectus supplement.

"CAPITAL SUBACCOUNT" means a subaccount of the Collection Account in which the amount of capital required to be held by the issuer for a series of transition bonds will be deposited by West Penn Funding Corporation on the date of issuance of that series.

"COLLECTION ACCOUNT" means the single collection account for all series of transition bonds established by the issuer and held by the bond trustee under the indenture.

"CUSTOMER CATEGORY" means each of the following three categories of West Penn customers: residential, commercial and industrial, which includes street lighting.

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"EVENT OF DEFAULT" means an event of default under the indenture, including the defaults described under "The Indenture--Events of Default; Rights Upon Event of Default."

"EXPECTED AMORTIZATION SCHEDULE" means, with respect to any series or class of transition bonds, the expected amortization schedule for the principal balance of that series or class, as set forth in the related prospectus supplement.

"GENERAL SUBACCOUNT" means a subaccount of the Collection Account into which funds received from ITC Collections will initially be allocated.

"INDEMNITY AMOUNTS" means any amounts paid by West Penn, West Penn Funding Corporation or the servicer to the bond trustee, for itself or on behalf of the transition bondholders, in respect of the indemnification obligations pursuant to the Transfer Agreement, the Sale Agreement and the Servicing Agreement.

"ITC COLLECTIONS" means collections of Intangible Transition Charges.

"LLC AGREEMENT" means the Amended and Restated Limited Liability Company Agreement of the issuer, as amended and supplemented from time to time.

"OVERCOLLATERALIZATION SUBACCOUNT" means a subaccount of the Collection Account into which the Overcollateralization Amount will be deposited over the expected life of a series of transition bonds.

"PUC" means the Pennsylvania Public Utility Commission or any successor thereto.

"QRO" means the qualified rate order issued by the PUC to West Penn on November 19, 1998, as supplemented by a supplemental qualified rate order issued by the PUC to West Penn on August 12, 1999.

"QUALIFIED TRANSITION EXPENSES", as set forth in the QRO, means, collectively, the aggregate principal amount of the transition bonds and an

West Penn Funding LLC
Issuer

West Penn Power Company
Originator and Servicer

SERIES 1999-A
\$[]
Transition Bonds

\$[] Class A-1
\$[] Class A-2
\$[] Class A-3
\$[] Class A-4

PROSPECTUS SUPPLEMENT

Underwriters

MORGAN STANLEY DEAN WITTER

[]

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION.

WE ARE NOT OFFERING THE TRANSITION BONDS IN ANY STATE WHERE THE OFFER IS NOT PERMITTED.

THE DATE OF THIS PROSPECTUS SUPPLEMENT IS , 1999.

DEALERS WILL DELIVER A PROSPECTUS SUPPLEMENT AND PROSPECTUS WHEN ACTING AS UNDERWRITERS OF THESE SECURITIES AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS. IN ADDITION, ALL DEALERS SELLING THESE SECURITIES WILL DELIVER A PROSPECTUS SUPPLEMENT AND PROSPECTUS UNTIL [], 1999.

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PART II

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following is an itemized list of the estimated expenses to be incurred in connection with the offering of the securities being offered hereunder other than underwriting discounts and commissions.

<TABLE>	
<S>	<C>
Registration Fee.....	\$278
Printing and Engraving Expenses.....	*
Trustees' Fees and Expenses.....	*
Legal Fees and Expenses.....	*
Blue Sky Fees and Expenses.....	*
Accountants' Fees and Expenses.....	*
Rating Agency Fees.....	*
Miscellaneous Fees and Expenses.....	*
Total.....	\$*
	====

</TABLE>

* To be provided by amendment.

ITEM 15. INDEMNIFICATION OF MEMBERS AND MANAGERS

Section 18-108 of the Delaware Limited Liability Company Act provides that, subject to specified standards and restrictions, if any, as are set forth in the limited liability company agreement, a limited liability company shall have the power to indemnify and hold harmless any member or manager or other person from and against any and all claims and demands whatsoever.

The Amended and Restated Limited Liability Company Agreement (the "LLC Agreement") of West Penn Funding LLC (the "Issuer") provides that, to the fullest extent permitted by law, the Issuer shall indemnify its members and managers against any liability incurred in connection with any proceeding in which any member or manager may be involved as a party or otherwise by reason of the fact that the member or manager is or was serving in its capacity as a member or manager, unless this liability is based on or arises in connection with the member's or manager's own willful misconduct or gross negligence.

ITEM 16. EXHIBITS

EXHIBIT NO.	DESCRIPTION
1.1	Form of Underwriting Agreement.
4.1.1	Limited Liability Company Agreement of West Penn Funding LLC.**
4.1.2	Form of Assignment of Limited Liability Company Interest and Amendment to Limited Liability Company Agreement.

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EXHIBIT NO.	DESCRIPTION
4.1.3	Form of Amended and Restated Limited Liability Company Agreement of West Penn Funding LLC.
4.2	Certificate of Formation for West Penn Funding LLC.**
4.3	Form of Indenture.**
4.4	Form of Transition Bonds.
5.1	Opinion of Richards, Layton & Finger, P.A. relating to legality of the Transition Bonds.
5.2	Opinion of Cravath, Swaine & Moore, relating to legality of the Transition Bonds.
8.1.1	Opinion of Cravath, Swaine & Moore with respect to material federal tax matters.
8.1.2	Opinion of Ballard Spahr Andrews & Ingersoll, LLP with respect to material state tax matters.
10.1	Form of Transfer Agreement.**
10.2	Form of Sale Agreement.**
10.3	Form of Servicing Agreement.**
10.4	Joint Petition for Full Settlement of West Penn Power Company's Restructuring Plan and Related Appeals and Application for a Qualified Rate Order and Application for Transfer of Generation Assets dated November 3, 1998.
23.1	Consent of Cravath, Swaine & Moore (included in its opinions filed as Exhibits 5.2 and 8.1.1).
23.2	Consent of Richards, Layton & Finger, P.A. (included in its opinion filed as Exhibit 5.1).
23.3	Consent of Ballard Spahr Andrews & Ingersoll, LLP (included in its opinion filed as Exhibit 8.1.2).
23.4	Consent of [Accountants].*
25.1	Statement of Eligibility under the Trust Indenture Act of 1939, as amended, of Bankers Trust Company, as Bond Trustee under the Indenture.*
27.1	Financial Data Schedule.*
99.1	Qualified Rate Order issued November 19, 1998.
99.2	Supplemental Qualified Rate Order issued August 12, 1999.
99.3	Internal Revenue Service Private Letter Ruling pertaining to Transition Bonds.

* To be filed by amendment

** Previously filed

ITEM 17. UNDERTAKINGS

The undersigned Registrant on behalf of West Penn Funding LLC (the "Issuer") hereby undertakes as follows:

(a) (1) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement; (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended; (ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not

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exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) of the Securities Act of 1933, as amended, if, in the aggregate, the changes in volume and price represent no more than a twenty percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement; and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change in such information in the Registration Statement; provided, however, that (a)(1)(i) and (a)(1)(ii) will not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended, that are incorporated by reference in this Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, as amended, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering hereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) That, for purposes of determining any liability under the Securities Act of 1933, as amended, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (and, where applicable, each filing of any employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended), with respect to the Issuer that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) That insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to members, managers, directors, officers and controlling persons of the registrant pursuant to the provisions described under Item 15 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, theretofore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a member, manager, director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such member, manager, director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933, as amended, and will be governed by the final adjudication of such issue.

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(d) That, for purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(i) or (4) or 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(e) That, for the purpose of determining any liability under the

Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(f) The undersigned registrant hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of Section 310 of the Trust Indenture Act of 1939, as amended, in accordance with the rules and regulations prescribed by the Commission under Section 305(b)(2) of the Trust Indenture Act of 1939, as amended.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and that the security rating requirement of Form S-3 will be met by the time of sale, and has duly caused this Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Greensburg, Commonwealth of Pennsylvania, on September 10, 1999.

WEST PENN FUNDING LLC,

by /s/ CAROL G. RUSS

 Name: Carol G. Russ
 Title: Sole Member

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 to the Registration Statement has been signed on behalf of West Penn Funding LLC on September 10, 1999 by the following persons in the capacities indicated.

<TABLE>
 <CAPTION>

SIGNATURE -----	TITLE -----
<C> /s/ CAROL G. RUSS ----- Carol G. Russ	<S> Principal and Chief Executive Officer (Principal Executive Officer)
/s/ CAROL G. RUSS ----- Carol G. Russ	Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ CAROL G. RUSS ----- Carol G. Russ	Sole Member

</TABLE>

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INDEX TO EXHIBITS

<TABLE>
 <CAPTION>
 EXHIBIT NO.

EXHIBIT NO. -----	DESCRIPTION -----
<C> 1.1 4.1.1 4.1.2 4.1.3 4.2 4.3 4.4	<S> Form of Underwriting Agreement. Limited Liability Company Agreement of West Penn Funding LLC.** Form of Assignment of Limited Liability Company Interest and Amendment to Limited Liability Company Agreement. Form of Amended and Restated Limited Liability Agreement of West Penn Funding LLC. Certificate of Formation for West Penn Funding LLC.** Form of Indenture.** Form of Transition Bonds.

5.1	Opinion of Richards, Layton & Finger, P.A. relating to legality of the Transition Bonds.
5.2	Opinion of Cravath, Swaine & Moore, relating to legality of the Transition Bonds.
8.1.1	Opinion of Cravath, Swaine & Moore with respect to material federal tax matters.
8.1.2	Opinion of Ballard Spahr Andrews & Ingersoll, LLP with respect to material state tax matters.
10.1	Form of Transfer Agreement.**
10.2	Form of Sale Agreement.**
10.3	Form of Servicing Agreement.**
10.4	Joint Petition for Full Settlement of West Penn Power Company's Restructuring Plan and Related Appeals and Application for a Qualified Rate Order and Application for Transfer of Generation Assets dated November 3, 1998.
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27.1	Financial Data Schedule.*
99.1	Qualified Rate Order issued November 19, 1998.
99.2	Supplemental Qualified Rate Order issued August 12, 1999.
99.3	Internal Revenue Service Private Letter Ruling pertaining to Transition Bonds.

</TABLE>

* To be filed by amendment

** Previously filed

WEST PENN FUNDING LLC
TRANSITION BONDS SERIES 1999-A

WEST PENN POWER COMPANY

WEST PENN FUNDING CORPORATION

UNDERWRITING AGREEMENT

New York, New York
_____, 1999

To the Representative named in Schedule I
hereto of the Underwriters named in Schedule
II hereto

Ladies and Gentlemen:

1. Introduction. West Penn Funding LLC, a Delaware limited liability company (the "Issuer"), proposes to sell to the underwriters named in Schedule II hereto (the "Underwriters"), for whom you (the "Representative") are acting as representative, the principal amount of the securities identified in Schedule I hereto (the "Transition Bonds"). If the firm or firms listed in Schedule II hereto include only the firm or firms listed in Schedule I hereto, then the terms "Underwriters" and "Representative", as used herein, shall each be deemed to refer to such firm or firms.

The Issuer was formed on May 26, 1999, for the purpose of purchasing and owning the Initial Intangible Transition Property, issuing the Transition Bonds, and pledging its interest in the Collateral to _____ (the "Bond Trustee") under an indenture, dated as of _____, 1999 (as amended and supplemented from time to time, including any Series Supplement, the "Indenture"), between the Issuer and the Bond Trustee, to secure the Transition Bonds. The Transition Bonds will be secured primarily by the Initial Intangible Transition Property. The Initial Intangible Transition Property will be transferred by West Penn Power Company (the "Company") to West Penn Funding Corporation, a Delaware corporation (the "Seller"), pursuant to an intangible transition property transfer agreement, dated as of _____, 1999 (the "Transfer Agreement"), between the Company and the Seller. Such Initial Intangible Transition Property will then be sold to the Issuer by the Seller pursuant to an intangible transition property sale agreement, dated as of _____, 1999 (the "Sale Agreement"), between the Seller and the Issuer. Subsequent Intangible Transition Property may be sold to the Issuer by the Seller pursuant to an agreement substantially similar to the Sale Agreement. The Initial Intangible Transition Property will be serviced pursuant to a servicing agreement, dated as of _____, 1999 (as amended and supplemented from time to time, the "Servicing Agreement"), between the Company, as servicer, and the Issuer.

Capitalized terms used and not otherwise defined herein shall have the meanings given to them in the Indenture.

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2. Representations and Warranties. Each of the Company, the Issuer and the Seller represents and warrants to, and agrees with, each Underwriter as set forth below in this Section 2. Certain terms used in this Section 2 are defined in paragraph (c) hereof.

(a) If the offering of the Transition Bonds is a Delayed Offering (as specified in Schedule I hereto), paragraph (i) below is applicable and, if the offering of the Transition Bonds is a Non-Delayed Offering (as so specified), paragraph (ii) below is applicable.

(i) The Issuer and the Transition Bonds meet the requirements for the use of Form S-3 under the Securities Act of 1933 (the "Act"), and the Issuer has filed with the Securities and Exchange Commission (the "SEC") a registration statement (the file number of which is set forth in Schedule I hereto) on such Form, including a basic prospectus, for registration under the Act of the offering and sale of the Transition Bonds. The Issuer may have filed one or more

amendments thereto, and may have used a Preliminary Final Prospectus, each of which has previously been furnished to you. Such registration statement, as so amended, has become effective. The offering of the Transition Bonds is a Delayed Offering and, although the Basic Prospectus may not include all the information with respect to the Transition Bonds and the offering thereof required by the Act and the rules thereunder to be included in the Final Prospectus, the Basic Prospectus includes all such information required by the Act and the rules thereunder to be included therein as of the Effective Date. The Issuer will next file with the SEC pursuant to Rules 415 and 424(b) (2) or (5) a final supplement to the form of prospectus included in such registration statement relating to the Transition Bonds and the offering thereof. As filed, such final prospectus supplement shall include all required information with respect to the Transition Bonds and the offering thereof and, except to the extent the Representative shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond that contained in the Basic Prospectus and any Preliminary Final Prospectus) as the Issuer has advised you, prior to the Execution Time, will be included or made therein.

(ii) The Issuer and the Transition Bonds meet the requirements for the use of Form S-3 under the Act and the Issuer has filed with the SEC a registration statement (the file number of which is set forth in Schedule I hereto) on such Form, including a basic prospectus, for registration under the Act of the offering and sale of the Transition Bonds. The Issuer may have filed one or more amendments thereto, including a Preliminary Final Prospectus, each of which has previously been furnished to you. The Issuer will next file with the SEC either (x) a final prospectus supplement relating to the Transition Bonds in accordance with Rules 430A and 424(b) (1) or (4), or (y) prior to the effectiveness of such registration statement, an amendment to such registration statement, including the form of final prospectus supplement. In the case of clause (x), the Issuer has included in such registration statement, as amended at

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the Effective Date, all information (other than Rule 430A Information) required by the Act and the rules thereunder to be included in the Final Prospectus with respect to the Transition Bonds and the offering thereof. As filed, such final prospectus supplement or such amendment and form of final prospectus supplement shall contain all Rule 430A Information, together with all other such required information, with respect to the Transition Bonds and the offering thereof and, except to the extent the Representative, shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond that contained in the Basic Prospectus and any Preliminary Final Prospectus) as the Issuer has advised you, prior to the Execution Time, will be included or made therein.

(b) On the Effective Date, the Registration Statement did or will, and when the Final Prospectus is first filed (if required) in accordance with Rule 424(b) and on the Closing Date, the Final Prospectus (and any supplement thereto) will, comply in all material respects with the applicable requirements of the Act, the Securities Exchange Act of 1934 (the "Exchange Act") and the Trust Indenture Act of 1939 (the "Trust Indenture Act") and the respective rules thereunder; on the Effective Date, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; on the Effective Date and on the Closing Date the Indenture did or will comply in all material respects with the requirements of the Trust Indenture Act and the rules thereunder, and, on the Effective Date, the Final Prospectus, if not filed pursuant to Rule 424(b), did not or will not, and on the date of any filing pursuant to Rule 424(b) and on the Closing Date, the Final Prospectus (together with any supplement thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

provided, however, that neither the Issuer, the Seller nor the Company makes any representations or warranties as to (i) that part of the Registration Statement which shall constitute the Statements of Eligibility and Qualification (Forms T-1) under the Trust Indenture Act of the Bond Trustee or (ii) the information contained in or omitted from the Registration Statement or the Final Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Issuer by or on behalf of any Underwriter through the Representative specifically for inclusion in the Registration Statement or the Final Prospectus (or any supplement thereto).

(c) The terms which follow, when used in this Agreement, shall have the meanings indicated. The term "Effective Date" shall mean each date that the Registration Statement and any post-effective amendment or amendments thereto became or become effective and each date after the date hereof on which a document incorporated by reference in the Registration Statement is filed. "Execution Time" shall mean the date and time that this Agreement is executed and delivered by the parties hereto. "Basic Prospectus" shall mean the prospectus referred to in paragraph (a) above contained in the Registration Statement at the Effective Date including, in the case of a Non-Delayed Offering, any Preliminary

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Final Prospectus. "Preliminary Final Prospectus" shall mean any preliminary prospectus supplement to the Basic Prospectus which describes the Transition Bonds and the offering thereof and is used prior to filing of the Final Prospectus. "Final Prospectus" shall mean the prospectus supplement relating to the Transition Bonds that is first filed pursuant to Rule 424(b) after the Execution Time, together with the Basic Prospectus or, if, in the case of a Non-Delayed Offering, no filing pursuant to Rule 424(b) is required, shall mean the form of final prospectus relating to the Transition Bonds, including the Basic Prospectus, included in the Registration Statement at the Effective Date. "Registration Statement" shall mean the registration statement referred to in paragraph (a) above, including incorporated documents, exhibits and financial statements, as amended at the Execution Time (or, if not effective at the Execution Time, in the form in which it shall become effective) and, in the event any post-effective amendment thereto becomes effective prior to the Closing Date (as hereinafter defined), shall also mean such registration statement as so amended. Such term shall include any Rule 430A Information deemed to be included therein at the Effective Date as provided by Rule 430A. "Rule 415", "Rule 424", "Rule 430A" and "Regulation S-K" refer to such rules or regulation under the Act. "Rule 430A Information" means information with respect to the Transition Bonds and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A. Any reference herein to the Registration Statement, the Basic Prospectus, any Preliminary Final Prospectus or the Final Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the Exchange Act on or before the Effective Date of the Registration Statement or the issue date of the Basic Prospectus, any Preliminary Final Prospectus or the Final Prospectus, as the case may be; and any reference herein to the terms "amend", "amendment" or "supplement" with respect to the Registration Statement, the Basic Prospectus, any Preliminary Final Prospectus or the Final Prospectus shall be deemed to refer to and include the filing of any document under the Exchange Act after the Effective Date of the Registration Statement or the issue date of the Basic Prospectus, any Preliminary Final Prospectus or the Final Prospectus, as the case may be, deemed to be incorporated therein by reference. A "Non-Delayed Offering" shall mean an offering of securities which is intended to commence promptly after the effective date of a registration statement, with the result that, pursuant to Rules 415 and 430A, all information (other than Rule 430A Information) with respect to the securities so offered must be included in such registration statement at the effective date thereof. A "Delayed Offering" shall mean an offering of securities pursuant to Rule 415 which does not commence promptly after the effective date of a registration statement, with the result that only information required pursuant to Rule 415 need be included in such registration statement at the effective date thereof with respect to the securities so offered. Whether the offering of the Transition Bonds is a Non-Delayed Offering or a Delayed Offering shall be set forth in Schedule I hereto.

3. Purchase and Sale. Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Issuer agrees to sell to each Underwriter, and each Underwriter agrees, severally and

not jointly, to purchase from the Issuer, at the purchase price set forth in Schedule I hereto the principal amount

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of the Transition Bonds set forth opposite such Underwriter's name in Schedule II hereto.

4. Delivery and Payment. Delivery of and payment for the Transition Bonds shall be made on the date and at the time specified in Schedule I hereto (or such later date not later than five business days after such specified date as the Representative shall designate), which date and time may be postponed by agreement between the Representative and the Issuer or as provided in Section 9 hereof (such date and time of delivery and payment for the Transition Bonds being herein called the "Closing Date"). Delivery of the Transition Bonds shall be made to the Representative for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representative of the purchase price thereof to the Issuer by wire transfer of immediately available funds. Delivery of the Transition Bonds shall be made at such location as the Representative shall reasonably designate at least one business day in advance of the Closing Date. The Transition Bonds to be so delivered shall be initially represented by Bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). The interests of beneficial owners of the Transition Bonds will be represented by book entries on the records of DTC and participating members thereof. Definitive Transition Bonds will be available only under limited circumstances.

The Issuer agrees to have the Transition Bonds available for inspection, checking and packaging by the Representative in New York, New York, not later than 1:00 PM on the business day prior to the Closing Date.

5. Covenants.

(a) Covenants of the Issuer. The Issuer covenants and agrees with the several Underwriters that:

(i) The Issuer will use its best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereto, to become effective. Prior to the termination of the offering of the Transition Bonds, the Issuer will not file any amendment of the Registration Statement or supplement (including the Final Prospectus or any Preliminary Final Prospectus) to the Basic Prospectus unless the Issuer has furnished you a copy for your review prior to filing and will not file any such proposed amendment or supplement to which you reasonably object. Subject to the foregoing sentence, the Issuer will cause the Final Prospectus, properly completed, and any supplement thereto to be filed with the SEC pursuant to the applicable paragraph of Rule 424 (b) within the time period prescribed and will provide evidence satisfactory to the Representative of such timely filing. The Issuer will promptly advise the Representative (i) when the Registration Statement, if not effective at the Execution Time, and any amendment thereto, shall have become effective, (ii) when the Final Prospectus, and any supplement thereto, shall have been filed with the SEC pursuant to Rule 424(b), (iii) when, prior to termination of the offering of the Transition Bonds, any amendment to the Registration Statement shall have been filed or become effective, (iv) of any request by the SEC for any amendment of the Registration Statement or supplement to the Final Prospectus or for any additional information,

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(v) of the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement or the institution or threatening of any proceeding for that purpose and (vi) of the receipt by the Issuer of any notification with respect to the suspension of the qualification of the Transition Bonds for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Issuer will use its best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(ii) If, at any time when a prospectus relating to the Transition Bonds is required to be delivered under the

Act, any event occurs as a result of which the Final Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend the Registration Statement or supplement the Final Prospectus to comply with the Act or the Exchange Act or the respective rules thereunder, the Issuer promptly will (i) prepare and file with the SEC, subject to the second sentence of paragraph (a)(i) of this Section 5, an amendment or supplement which will correct such statement or omission or effect such compliance and (ii) supply any supplemented Prospectus to you in such quantities as you may reasonably request.

(iii) As soon as practicable, the Issuer will make generally available to the Bondholders and to the Representative an earnings statement or statements of the Issuer which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act.

(iv) The Issuer will furnish to the Representative and counsel for the Underwriters, without charge, copies of the Registration Statement (including exhibits thereto) and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Act, as many copies of any Preliminary Final Prospectus and the Final Prospectus and any supplement thereto as the Representative may reasonably request. The Issuer shall furnish or cause to be furnished to the Representative copies of all reports on Form SR required by Rule 463 under the Act. The Issuer will pay the expenses of printing or other production of all documents relating to the offering.

(v) The Issuer will arrange for the qualification of the Transition Bonds for sale under the laws of such jurisdictions as the Representative may designate, will maintain such qualifications in effect so long as required for the distribution of the Transition Bonds and will arrange for the determination of the legality of the Transition Bonds for purchase by institutional investors; provided that in no event shall the Issuer be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Transition Bonds, in any jurisdiction where it is not now so subject.

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(vi) Until the business date set forth on Schedule I hereto, the Issuer will not, without the consent of the Representative, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any asset-backed securities of a special purpose vehicle (other than the Transition Bonds).

(vii) For a period from the date of this Agreement until the retirement of the Transition Bonds, or until such time as the Underwriters shall cease to maintain a secondary market in the Transition Bonds, whichever occurs first, the Issuer will deliver to the Representative the annual statements of compliance and the annual independent auditor's servicing reports furnished to the Issuer or the Trustee pursuant to the Servicing Agreement or the Indenture, as applicable, as soon as such statements and reports are furnished to the Issuer or the Trustee.

(viii) So long as any of the Transition Bonds are outstanding, the Issuer will furnish to the Representative (i) as soon as available, a copy of each report filed with the SEC under the Exchange Act, or mailed to Bondholders, (ii) a copy of any filings with the Pennsylvania Public Utility Commission (the "PUC") or any other governmental agency or instrumentality relating to the Transition Bonds, and (iii) from time to time, any information concerning the Company, the Seller or the Issuer, as the Representative may reasonably request.

(ix) To the extent, if any, that any rating necessary to satisfy the condition set forth in Section 6(o) of this Agreement is conditioned upon the furnishing of documents or the taking of other actions by the Issuer on or after the

Closing Date, the Issuer shall furnish such documents and take such other actions.

(b) Covenants of the Company and the Seller . The Company and the Seller each covenants and agrees with the several Underwriters that, to the extent that the Issuer has not already performed such act pursuant to Section 5 (a):

(i) Each of the Company and the Seller will use its best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereto, to become effective. Each of the Company and the Seller will use its best efforts to prevent the issuance by the SEC of any stop order suspending the effectiveness of the Registration Statement and, if issued, to obtain as soon as possible the withdrawal thereof.

(ii) Until the business date set forth on Schedule I hereto, each of the Company and the Seller will not, without the consent of the Representative, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any asset-backed securities of a special purpose vehicle (other than the Transition Bonds).

(iii) So long as any of the Transition Bonds are outstanding and the Company is the Servicer, the Company will furnish to the Representative (i) as soon as available, a copy of each report filed with the

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SEC under the Exchange Act, or mailed to Bondholders, (ii) a copy of any filings with the PUC or any other governmental agency or instrumentality relating to the Transition Bonds, and (iii) from time to time, any information concerning the Company and, to the extent readily available, the Issuer and the Seller, as the Representative may reasonably request.

(iv) To the extent, if any, that any rating necessary to satisfy the condition set forth in Section 6(o) of this Agreement is conditioned upon the furnishing of documents or the taking of other actions by the Company or the Seller on or after the Closing Date, the Company and the Seller shall furnish such documents and take such other actions.

6. Conditions to the Obligations of the Underwriters. The obligations of the Underwriters to purchase the Transition Bonds shall be subject to the accuracy of the representations and warranties on the part of the Issuer, the Seller and the Company contained herein as of the Execution Time and the Closing Date, on the part of the Company contained in Article III of the Transfer Agreement, on the part of the Seller contained in Article III of the Sale Agreement and on the part of the Company contained in Section 5.01 of the Servicing Agreement as of the Closing Date, to the performance by the Issuer, the Seller and the Company of their obligations hereunder and to the following additional conditions:

(a) If the Registration Statement has not become effective prior to the Execution Time, unless the Representative agree in writing to a later time, the Registration Statement will become effective not later than (i) 6:00 PM New York City time, on the date of determination of the public offering price, if such determination occurred at or prior to 3:00 PM New York City time on such date, or (ii) 12:00 Noon on the business day following the day on which the public offering price was determined, if such determination occurred after 3:00 PM New York City time on such date; if filing of the Final Prospectus, or any supplement thereto, is required pursuant to Rule 424(b), the Final Prospectus, and any such supplement, shall have been filed in the manner and within the time period required by Rule 424 (b); and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened.

(b) The Representative shall have received opinions of counsel for the Company and the Seller, portions of which may be delivered by Cravath, Swaine & Moore, outside counsel for the Company and the Seller, portions of which may be delivered by _____, Esq., in-house counsel for the Company and the Seller, portions of which may be delivered by _____, special regulatory counsel for the Company and the Seller, and portions of which may be delivered by Richards, Layton & Finger, P. A., special Delaware counsel for the Company and the Seller, each dated the Closing

Date, in form and substance reasonably satisfactory to the Representative, to the effect that:

(i) each of the Company and the Seller (a) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction in which it is organized, (b) has all requisite corporate power and authority to own its properties, conduct its

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business as presently conducted and execute, deliver and perform its obligations under this Agreement, the Sale Agreement, the Transfer Agreement and the Servicing Agreement, as applicable, and (c) is duly qualified to do business, in all jurisdictions (and is in good standing under the laws of all such jurisdictions) to the extent that such qualification and good standing is or shall be necessary to protect the validity and enforceability of this Agreement, the Basic Documents to which the Company and/or the Seller is party and each other instrument or agreement necessary or appropriate to the proper administration of this Agreement and the transactions contemplated hereby;

(ii) (a) the Transfer Agreement and the Servicing Agreement have been duly authorized, executed and delivered by the Company and constitute legal, valid and binding instruments enforceable against the Company in accordance with their terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other similar laws or equitable principles affecting creditors' rights generally from time to time in effect);

(b) the Transfer Agreement and the Sale Agreement have been duly authorized, executed and delivered by the Seller and constitute legal, valid and binding instruments enforceable against the Seller in accordance with their terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency moratorium or other similar laws or equitable principles affecting creditors' rights generally from time to time in effect);

(iii) to the best knowledge of such counsel, there is no pending or threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator involving the Company, the Seller or any of their subsidiaries of a character required to be disclosed in the Registration Statement which is not adequately disclosed in the Final Prospectus, and there is no franchise, contract or other document of a character required to be described in the Registration Statement or Final Prospectus, or to be filed as an exhibit, which is not described or filed as required;

(iv) this Agreement has been duly authorized, executed and delivered by the Company and the Seller;

(v) no consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated herein, except such as have been obtained under the Pennsylvania Electricity Generation Customer Choice and Competition Act (the "Competition Act") and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Transition Bonds by the Underwriters and such other approvals (specified in such opinion) as have been obtained;

(vi) neither the execution and delivery of this Agreement, the Transfer Agreement, the Sale Agreement, the Servicing Agreement, nor

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the consummation of the transactions contemplated by this Agreement, the Transfer Agreement, the Sale Agreement or the Servicing Agreement, nor the fulfillment of the terms of this Agreement, the Transfer Agreement, the Sale Agreement or the Servicing Agreement by the Company and the Seller as

applicable, will (A) conflict with, result in any breach of any of the terms or provisions of, or constitute (with or without notice or lapse of time) a default under the articles of incorporation, bylaws or other organizational documents of the Company or the Seller, or conflict with or breach any of the terms or provisions of, or constitute (with or without notice or lapse of time) a default under, any indenture, material agreement or other material instrument to which the Company or the Seller is a party or by which the Company or the Seller is bound, (B) result in the creation or imposition of any lien upon any properties of the Company or the Seller pursuant to the terms of any such indenture, agreement or other instrument (other than as contemplated by the Basic Documents and the Competition Act), or (C) violate any law or any order, rule or regulation applicable to the Company or the Seller of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Company, the Seller or any of their properties;

(vii) upon the delivery of the fully executed Transfer Agreement and related Bill of Sale to the Seller, the fully executed Sale Agreement and related Bill of Sale to the Issuer and the payment of the purchase price of the Initial Intangible Transition Property by the Issuer to the Seller pursuant to the Sale Agreement, then (A) the transfer of the Initial Intangible Transition Property by the Company to the Seller pursuant to the Transfer Agreement and related Bill of Sale conveys the Company's right, title and interest in the Initial Intangible Transition Property to the Seller and will be treated as an absolute transfer of all the Company's right, title and interest in the Initial Intangible Transition Property, other than for federal and state income and franchise tax purpose, (B) the transfer of the Initial Intangible Transition Property by the Seller to the Issuer pursuant to the Sale Agreement and related Bill of Sale conveys the Seller's right, title and interest in the Initial Intangible Transition Property to the Issuer and will be treated as an absolute transfer of all of the Seller's right, title, and interest in the Initial Intangible Transition Property, other than for federal and state income and franchise tax purposes, (C) such transfers of the Initial Intangible Transition Property are perfected, (D) such transfers have priority over any other assignment of the Initial Intangible Transition Property (except that the transfer of Initial Intangible Transition Property from the Company to the Seller pursuant to the Transfer Agreement and related Bill of Sale shall not have priority over the sale of the Initial Intangible Transition Property to the Issuer from the Seller pursuant to the Sale Agreement and related Bill of Sale), and (E) the Initial Intangible Transition Property is free and clear of all liens created prior to the respective transfers to the Seller and the Issuer pursuant to the applicable Bills of Sale; and

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(viii) the Initial Intangible Transition Property is not subject to the Lien of the Mortgage Bond Indenture, dated as of _____, between the Company and _____, as trustee.

In rendering such opinion, Cravath, Swaine & Moore may rely as to matters involving the application of laws of the State of Pennsylvania, to the extent deemed proper and specified in such opinion, upon the opinion of other counsel of good standing believed to be reliable and who are satisfactory to counsel for the Underwriters, and such counsel may rely as to matters of fact, to the extent deemed proper, on certificates of responsible officers of the Company and the Seller. References to the Final Prospectus in this paragraph (b) include any supplements thereto at the Closing Date.

(c) The Representative shall have received opinions of counsel for the Issuer, portions of which may be delivered by Cravath, Swaine & Moore, outside counsel for the Issuer, portions of which may be delivered by _____, Esq., in-house counsel for the Issuer, portions of which may be delivered by _____, special regulatory counsel for the Issuer, and portions of which may be delivered by Richards, Layton & Finger, P.A., special Delaware counsel for the Issuer, each dated the Closing Date, in form and substance reasonably satisfactory to the Representative, to the effect that:

(i) the Issuer has been duly formed and is validly

existing as a limited liability company and is in good standing under the laws of the State of Delaware, with full power and authority to execute, deliver and perform its obligations under this Agreement, the Sale Agreement, the Servicing Agreement and the Indenture;

(ii) the Sale Agreement, the Servicing Agreement and the Indenture have been duly authorized, executed and delivered by the Issuer and constitute legal, valid and binding instruments enforceable against the Issuer in accordance with their terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other similar laws or equitable principles affecting creditors' rights generally from time to time in effect); and the Transition Bonds have been duly authorized and executed by the Issuer, and when authenticated in accordance with the provisions of the Indenture and delivered to and paid for by the Underwriters in accordance with the terms of this Agreement, will constitute legal, valid and binding obligations of the Issuer entitled to the benefits of the Indenture and enforceable against the Issuer in accordance with their terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other similar laws or equitable principles affecting creditors' rights generally from time to time in effect);

(iii) this Agreement has been duly authorized, executed and delivered by the Issuer;

(iv) the Indenture has been duly qualified under the Trust Indenture Act;

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(v) to the best knowledge of such counsel, there is no pending or threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator involving the Issuer, or relating to the Transition Bonds, the Competition Act, the qualified rate order issued by the PUC to the Company on November 19, 1998, as supplemented by a supplemental qualified rate order issued by the PUC to the Company on August 12, 1999 (collectively, the "Qualified Rate Order") or the use and enjoyment of Initial Intangible Transition Property of a character required to be disclosed in the Registration Statement which is not adequately disclosed in the Final Prospectus, and there is no franchise, contract or other document of a character required to be described in the Registration Statement or Final Prospectus, or to be filed as an exhibit, which is not described or filed as required;

(vi) the Registration Statement has become effective under the Act; any required filing of the Basic Prospectus, any Preliminary Final Prospectus and the Final Prospectus, and any supplements thereto, pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); to the best knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued, no proceedings for that purpose have been instituted or threatened, and the Registration Statement and the Final Prospectus (other than the financial statements and other financial and statistical information contained therein as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act, the Exchange Act and the Trust Indenture Act and the respective rules thereunder; and such counsel has no reason to believe that at the Effective Date the Registration Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or that the Final Prospectus as of its date and the Closing Date includes any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (other than the financial statements and other financial and statistical information contained therein as to which such counsel need express no opinion);

(vii) no consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated herein, except

such as have been obtained under the Competition Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Transition Bonds by the Underwriters and such other approvals (specified in such opinion) as have been obtained;

(viii) neither the execution and delivery of this Agreement, the Sale Agreement, the Servicing Agreement or the Indenture, nor the issue and sale of the Transition Bonds, nor the consummation of the transactions contemplated by this Agreement, the Sale Agreement, the Servicing Agreement, or the Indenture, nor the fulfillment of the terms of

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this Agreement, the Sale Agreement, the Servicing Agreement or the Indenture by the Issuer, will (A) conflict with, result in any breach of any of the terms or provisions of, or constitute (with or without notice or lapse of time) a default under the Limited Liability Company Agreement of the Issuer, or conflict with or breach any of the terms or provisions of, or constitute (with or without notice or lapse of time) a default under, any indenture, agreement or other instrument known to such counsel and to which the Issuer is a party or by which the Issuer is bound, (B) result in the creation or imposition of any lien upon any properties of the Issuer pursuant to the terms of any such indenture, agreement or other instrument (other than as contemplated by the Basic Documents and the Competition Act), or (C) violate any law or any order, rule or regulation applicable to the Issuer of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over the Issuer, or any of its properties;

(ix) (A) to the extent that the provisions of the Competition Act apply to the grant of a security interest by the Issuer in the Collateral pursuant to the Indenture, then upon the giving of value by the Bond Trustee to the Issuer with respect to the Collateral, (I) the Indenture creates in favor of the Bond Trustee a security interest in the rights of the Issuer in the Collateral, (II) such security interest is valid and enforceable against the Issuer and third parties (subject to the rights of any third parties holding security interests in such Collateral perfected in the manner described in the Competition Act) and has attached, (III) such security interest is perfected, and (IV) such perfected security interest is of first priority, (B) to the extent that the provisions of the Competition Act do not apply to the grant of a security interest by the Issuer in the Collateral pursuant to the Indenture, then upon the giving of value by the Bond Trustee to the Issuer with respect to the Collateral, (I) the Indenture creates in favor of the Bond Trustee a security interest in the rights of the Issuer in the Collateral, and such security interest is enforceable against the Issuer with respect to such Collateral, (II) such security interest is perfected, and (III) such perfected security interest is of first priority;

(x) the Issuer is not an "investment company" or under the "control" of an "investment company" as such terms are defined under the Investment Company Act of 1940, as amended.

(xi) the statements included in the Final Prospectus under the captions "The Competition Act", "West Penn's Restructuring Plan", "The QRO and The Intangible Transition Charges", "The Transition Bonds", "The Transfer Agreement", "The Sale Agreement", "The Servicing Agreement", and "The Indenture" fairly summarize the matters described therein; and

(xii) the statements included in the Final Prospectus under the captions "United States Taxation" and "Erisa Considerations", to the extent that they constitute matters of law on legal conclusions with respect thereto, provide a fair and accurate summary of such law and conclusions.

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In rendering such opinion, Cravath, Swaine & Moore may rely as to matters involving the application of laws of the Commonwealth of Pennsylvania, to the extent deemed proper and specified in such opinion, upon the opinion of other counsel of good standing believed to be reliable and who are satisfactory to counsel for the Underwriters, and such counsel may rely as to matters of fact, to the extent deemed proper, on certificates of responsible officers of the Issuer and public officials. References to the Final Prospectus in this paragraph (c) include any supplements thereto at the Closing Date.

(d) The Representative and the Issuer have received an opinion of _____, counsel to the Bond Trustee, dated the Closing Date, in form and substance reasonably satisfactory to the Representative, to the effect that:

(i) [the Bond Trustee is validly existing as a national banking association in good standing under the federal laws of the United States of America;]

(ii) the Indenture has been duly authorized, executed and delivered by the Bond Trustee, and constitutes a legal, valid and binding instrument enforceable against the Bond Trustee in accordance with its terms (subject, as to enforcement of remedies, to applicable bankruptcy, reorganization, insolvency, moratorium or other similar laws or equitable principles affecting creditors' rights generally from time to time in effect); and

(iii) the Transition Bonds have been duly authenticated by the Trustee.

(e) The Representative shall have received from Latham & Watkins, counsel for the Underwriters, such opinion or opinions, dated the Closing Date, with respect to the issuance and sale of the Transition Bonds, the Indenture, the Registration Statement, the Final Prospectus (together with any supplement thereto) and other related matters as the Representative may reasonably require, and the Company, the Seller and the Issuer shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(f) The Representative and the Bond Trustee shall have received a certificate of the Issuer, signed by the [President] and the principal financial or accounting officer of the Issuer, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Final Prospectus, any supplement to the Final Prospectus and this Agreement and that:

(i) the representations and warranties of the Issuer in this Agreement and in the Indenture are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date, and the Issuer has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

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(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Issuer's best knowledge, threatened; and

(iii) since the dates as of which information is given in the Final Prospectus (exclusive of any supplement thereto), there has been no material adverse change in (x) the condition (financial or other), prospects, earnings, business or properties of the Issuer, whether or not arising from transactions in the ordinary course of business, or (y) the Initial Intangible Transition Property, except as set forth in or contemplated in the Final Prospectus (exclusive of any supplement thereto).

(g) The Representative and the Bond Trustee shall have received a certificate of the Company, signed by the [Vice President and Treasurer] and the principal financial officer of the Company, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Final Prospectus, any supplement to the Final Prospectus and this Agreement and that:

(i) the representations and warranties of the Company in this Agreement, the Transfer Agreement and the Servicing Agreement are true and correct in all material respects on and

as of the Closing Date with the same effect as if made on the Closing Date, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Company's best knowledge, threatened; and

(iii) since the dates as of which information is given in the Final Prospectus (exclusive of any supplement thereto), there has been no material adverse change in (x) the condition (financial or other), prospects, earnings, business or properties of the Company and its subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business, or (y) the Initial Intangible Transition Property, except as set forth in or contemplated in the Final Prospectus (exclusive of any supplement thereto)

(h) The Representative and the Bond Trustee shall have received a certificate of the Seller, signed by the Vice President and Treasurer and the principal financial officer of the Seller, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Final Prospectus, any supplement to the Final Prospectus and this Agreement and that:

(i) The representations and warranties of the Seller in this Agreement and the Sale Agreement are true and correct in all material

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respects on and as of the Closing Date with the same effect as if made on the Closing Date, and the Seller has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Seller's best knowledge, threatened; and

(iii) since the dates as of which information is given in the Final Prospectus (exclusive of any supplement thereto), there has been no material adverse change in (x) the condition (financial or other), prospects, earnings, business or properties of the Seller and its subsidiaries taken as a whole, whether or not arising from transactions in the ordinary course of business, or (y) the Initial Intangible Transition Property, except as set forth in or contemplated in the Final Prospectus (exclusive of any supplement thereto)

(i) At the Closing Date, _____ shall have furnished to the Representative (i) a letter or letters (which may refer to letters previously delivered to one or more of the Representative), dated the Closing Date, in form and substance satisfactory to the Representative, confirming that they are independent accountants within the meaning of the Act and the Exchange Act and the respective applicable published rules and regulations thereunder and stating in effect that they have performed certain specified procedures as a result of which they determined that certain information of an accounting, financial or statistical nature (which is limited to accounting, financial or statistical information derived from the general accounting records of the Company and its subsidiaries) set forth in the Registration Statement and the Final Prospectus, agrees with the accounting records of the Company and its subsidiaries, excluding any questions of legal interpretation, and (ii) the opinion or certificate, dated the Closing Date, in form and substance satisfactory to the Representative, satisfying the requirements of Section 2.10(i) of the Indenture.

References to the Final Prospectus in this paragraph (i) include any supplement thereto at the date of the letter.

In addition, except as provided in Schedule I hereto, at the Execution Time, _____ shall have furnished to the Representative a letter or letters, dated the Execution Time, in form and substance satisfactory to the Representative, to the effect set forth above.

(j) Subsequent to the Execution Time or, if earlier, the dates

as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Final Prospectus (exclusive of any supplement thereto), there shall not have been any change, or any development involving a prospective change, in or affecting either (i) the business, properties or financial condition of the Company, the Seller or the Issuer or (ii) the Initial Intangible Transition Property, the Transition Bonds, the Qualified Rate Order or the Competition Act, the effect of which is, in the judgment of the Representative, so

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material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Transition Bonds as contemplated by the Registration Statement (exclusive of any amendment thereof) and the Final Prospectus (exclusive of any supplement thereto).

(k) The Representative and the Issuer, shall have received on the Closing Date an opinion letter or letters of Cravath, Swaine & Moore, counsel to the Company, the Seller and the Issuer, dated the Closing Date, in form and substance reasonably satisfactory to the Representative, (i) with respect to the characterization of the transfer of the Initial Intangible Transition Property by the Company to the Seller as a "true sale" for bankruptcy purposes, [(ii) to the effect that a court would not order the substantive consolidation of the assets and liabilities of the Seller with those of the Company in the event of a bankruptcy, reorganization or other insolvency proceeding involving the Company], (iii) with respect to the characterization of the transfer of the Initial Intangible Transition Property by the Seller to the Issuer as a "true sale" for bankruptcy purposes, and (iv) to the effect that a court would not order the substantive consolidation of the assets and liabilities of the Issuer with those of the Seller or the Company, in the event of a bankruptcy, reorganization or other insolvency proceeding involving the Seller or the Company, respectively.

(l) The Representative and the Issuer shall have received on the Closing Date an opinion letter or letters of counsel for the Company, portions of which may be delivered by Cravath, Swaine & Moore, outside counsel for the Company, portions of which may be delivered by _____, special regulatory counsel for the Company, and portions of which may be delivered by _____, in-house counsel for the Company, each dated the Closing Date, in form and substance reasonably satisfactory to the Representative, to the effect that: (i) the Qualified Rate Order has been duly authorized and adopted by the PUC and is irrevocable to the extent provided therein; (ii) the decisions of the PUC adopting the Qualified Rate Order are non-appealable; and (iii) any state action (whether by legislative action, PUC action, or otherwise) to revoke or limit the Qualified Rate Order, the Intangible Transition Property, or the Intangible Transition Charges would be subject to a successful constitutional contracts clause challenge under the United States and Pennsylvania Constitutions.

(m) On or prior to the Closing Date, the Company shall have furnished to the Representative (i) copies of the private letter ruling, dated _____, 1999, issued by the Internal Revenue Service to the Company, and (ii) copies of the Declaration on Form U-1 issued by the SEC to the Company on _____, 1999 under the Public Utility Holding Company Act of 1935.

(n) The Representative and the Bond Trustee shall have received on the Closing Date an opinion letter or letters of Richards, Layton & Finger, P.A., special Delaware counsel to the Issuer, dated the Closing Date, in form and substance reasonably satisfactory to the Representative, to the effect that: (i) if properly presented to a Delaware court, a Delaware court applying Delaware law, would conclude that (x) in order for a person to file a voluntary bankruptcy petition on behalf of the Issuer, the prior unanimous written consent of the Member and the Board of Directors (including the Independent Director), as

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provided in Section _____ of the Limited Liability Company Agreement of the Issuer (the "LLC Agreement"), is required, and (y) such provision, contained in Section _____ of the LLC Agreement, that requires the unanimous written consent of the Member and the Board

of Directors (including the Independent Director) in order for a person to file a voluntary bankruptcy petition on behalf of the Issuer, constitutes a legal, valid and binding agreement of the Member and is enforceable against the Member, in accordance with its terms; and (ii) the LLC Agreement constitutes a legal, valid and binding agreement of the Member, and is enforceable against the Member in accordance with its terms.

(o) The Transition Bonds shall have been rated in the highest long-term rating category by each of the Rating Agencies.

(p) On or prior to the Closing Date, the Issuer shall have delivered to the Representative evidence, in form and substance reasonably satisfactory to the Representative, that appropriate filings have been or are being made in accordance with the Competition Act and other applicable law reflecting the grant of a security interest by the Issuer in the Collateral to the Bond Trustee, including filings with the PUC and the filing of the UCC financing statements in the office of the [Secretary] of the Commonwealth of Pennsylvania.

(q) On or prior to the Closing Date, the Issuer shall have delivered to the Representative evidence, in form and substance satisfactory to the Representative, of the PUC's issuance of the Qualified Rate Order relating to the Transition Property.

(r) On or prior to the Closing Date, the Issuer shall have furnished to the Representative the documents required pursuant to Section 2.10 of the Indenture.

(s) Prior to the Closing Date, the Issuer, the Company and the Seller shall have furnished to the Representative such further information, certificates, opinions and documents as the Representative may reasonably request, including any documents provided to the Rating Agencies.

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the Representative and counsel for the Underwriters, this Agreement and all obligations of the Underwriters hereunder may be canceled at, or at any time prior to, the Closing Date by the Representative. Notice of such cancellation shall be given to the Issuer in writing or by telephone or telegraph confirmed in writing.

The documents required to be delivered by this Section 6 shall be delivered at the offices of Cravath, Swaine & Moore, Worldwide Plaza, 825 Eighth Avenue, New York, New York 10019 on the Closing Date.

7. Reimbursement of Underwriters' Expenses. If the sale of the Transition Bonds provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 6 hereof is not satisfied, because of

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any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company, the Seller or the Issuer to perform any agreement herein or comply with any provision hereof other than by reason of a default (including under Section 9) by any of the Underwriters, the Company, the Seller and the Issuer will, jointly and severally, reimburse the Underwriters upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Transition Bonds.

8. Indemnification and Contribution. (a) The Company, the Seller and the Issuer will, jointly and severally, indemnify and hold harmless each Underwriter, the directors, officers, members, employees and agents of each Underwriter, and each person who controls any Underwriter, within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of the Transition Bonds as originally filed or in any amendment thereof, or in the Basic Prospectus, any Preliminary Final Prospectus or the Final Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and will reimburse each such indemnified party, as incurred, for any legal or other expenses

reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that neither the Company, the Seller nor the Issuer will be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Issuer, the Seller or the Company by or on behalf of any Underwriter through the Representative specifically for inclusion therein; provided further, that with respect to any untrue statement or omission of material fact made in any Preliminary Final Prospectus, the indemnity agreement contained in this Section 8(a) shall not inure to the benefit of any Underwriter or any person controlling such Underwriter from whom the person asserting any such loss, claim, damage or liability purchased the Transition Bonds that are the subject thereof, to the extent that any such loss, claim, damage or liability of such Underwriter occurs under the circumstance where it shall have been determined by a court of competent jurisdiction by final and nonappealable judgment that (w) the Company, the Seller or the Issuer had previously furnished copies of the Final Prospectus to the Representative, (x) delivery of the Final Prospectus was required by the Act to be made to such person, (y) the untrue statement or omission of a material fact contained in the Preliminary Final Prospectus was corrected in the Final Prospectus and (z) there was not sent or given to such person, at or prior to the written confirmation of the sale of such Transition Bonds to such person, a copy of the Final Prospectus. This indemnity agreement will be in addition to any liability which the Company, the Seller and the Issuer may otherwise have.

(b) Each Underwriter severally agrees to indemnify and hold harmless the Company, the Seller and the Issuer, each of their directors, each of their officers who

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signs the Registration Statement, and each person who controls the Company, the Seller or the Issuer within the meaning of either the Act or the Exchange Act, to the same extent as the foregoing indemnity from the Company, the Seller and the Issuer to each Underwriter, but only with reference to written information relating to such Underwriter furnished to the Issuer, the Seller or the Company by or on behalf of such Underwriter through the Representative specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have. The Issuer, the Seller and the Company acknowledge that the statements set forth in the third, fourth, fifth, and sixth paragraphs under the heading "Underwriting The Series 1999-A Bonds" and in the fourth paragraph under the heading "Plan of Distribution" in any Preliminary Final Prospectus or the Final Prospectus constitute the only information furnished in writing by or on behalf of the several Underwriters for inclusion in the documents referred to in the foregoing indemnity, and you, as the Representative, confirm that such statements are correct.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be reasonably satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the

indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

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(d) In the event that the indemnity provided in paragraph (a) or (b) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company, the Seller, the Issuer and the Underwriters agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the Issuer and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative benefits received by the Issuer and by the Underwriters from the offering of the Transition Bonds; provided, however, that in no case shall any Underwriter (except as may be provided in any agreement among underwriters relating to the offering of the Transition Bonds) be responsible for any amount in excess of the underwriting discount or commission applicable to the Transition Bonds purchased by such Underwriter hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company, the Seller, the Issuer and the Underwriters shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Issuer and of the Underwriters in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Issuer shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) of the Transition Bonds and benefits received by the Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Final Prospectus. Relative fault shall be determined by reference to whether any alleged untrue statement or omission relates to information provided by the Issuer or the Underwriters. The Company, the Seller, the Issuer and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person who controls an Underwriter within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and each person who controls the Issuer, the Seller or the Company within the meaning of either the Act or the Exchange Act, each officer of the Issuer, the Seller or the Company who shall have signed the Registration Statement and each director of the Issuer, the Seller or the Company shall have the same rights to contribution as the Issuer, the Seller or the Company, subject in each case to the applicable terms and conditions of this paragraph (d).

9. Default by an Underwriter. If any one or more Underwriters shall fail to purchase and pay for any of the Transition Bonds agreed to be purchased by such Underwriter or Underwriters hereunder and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the nondefaulting Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Transition Bonds set forth opposite their names in Schedule II hereto bears to the aggregate amount of Transition Bonds set forth opposite the names of all the remaining Underwriters) the Transition Bonds which the defaulting Underwriter or Underwriters agreed but failed to purchase; provided, however, that in the event that the aggregate amount of Transition Bonds which the defaulting Underwriter or Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Transition Bonds set forth in Schedule II hereto, the

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nondefaulting Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Transition Bonds, and if such nondefaulting Underwriters do not purchase all the Transition Bonds, this Agreement will terminate without liability to any nondefaulting Underwriter, the Issuer, the Seller or the Company. In the event of a default by any Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding seven days, as the Representative shall determine in order that the required changes in the Registration Statement and the Final Prospectus or in any other documents or arrangements may be effected. Nothing contained in

this Agreement shall relieve any defaulting Underwriter of its liability, if any, to the Issuer, the Seller and the Company and any nondefaulting Underwriter for damages occasioned by its default hereunder.

10. Termination. This Agreement shall be subject to termination in the absolute discretion of the Representative, by notice given to the Issuer prior to delivery of and payment for the Transition Bonds, if prior to such time (i) there shall have occurred any change, or any development involving a prospective change, in or affecting either (A) the business, properties or financial condition of the Issuer, the Seller or the Company or (B) the Initial Intangible Transition Property, the Transition Bonds, the Qualified Rate Order or the Competition Act, the effect of which, in the judgment of the Representative, materially impairs the investment quality of the Transition Bonds or makes it impractical or inadvisable to market the Transition Bonds, (ii) trading in the Company's Common Stock shall have been suspended by the SEC or the New York Stock Exchange or trading in securities generally on the New York Stock Exchange shall have been suspended or limited or minimum prices shall have been established on such Exchange, (iii) a banking moratorium shall have been declared either by Federal, New York State or Pennsylvania State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the judgment of the Representative, impracticable or inadvisable to proceed with the offering or delivery of the Transition Bonds as contemplated by the Final Prospectus (exclusive of any supplement thereto).

11. Computational Materials and ABS Term Sheets.

(a) Each Underwriter severally represents and warrants to the Issuer, the Company and the Seller that it has not and will not use any information that constitutes "Computational Materials," as defined in the SEC's No-Action Letter, dated May 20, 1994, addressed to Kidder, Peabody Acceptance Corporation I, Kidder Peabody & Co. Incorporated and Kidder Structured Asset Corporation (as made generally applicable to registrants, issuers and underwriters by the SEC's response to the request of the Public Securities Association dated May 27, 1994), with respect to the offering of the Transition Bonds.

(b) Each Underwriter severally represents and warrants to the Issuer, the Company and the Seller that it has not and will not use any information that constitutes "ABS Term Sheets," as defined in the SEC's No-Action Letter, dated February 17, 1995, addressed to the Public Securities Association, with respect to the offering of the Transition Bonds.

12. Representations and Indemnities to Survive. The respective agreements, representations, warranties, indemnities and other statements of the

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Company or its officers, the Issuer or its officers, the Seller or its officers and of the Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or of the Company, the Issuer, the Seller or any of the officers, directors or controlling persons referred to in Section 9 hereof, and will survive delivery of and payment for the Transition Bonds. The provisions of Sections 7 and 6 hereof shall survive the termination or cancelation of this Agreement.

13. Notices. All communications hereunder will be in writing and may be given by United States mail, courier service, telegram, telex, telemessage, telecopy, telefax, cable or facsimile (confirmed by telephone or in writing in the case of notice by telegram, telex, telemessage, telecopy, telefax, cable or facsimile) or any other customary means of communication, and any such communication shall be effective when delivered, or if mailed, three days after deposit in the United States mail with proper postage for ordinary mail prepaid, and if sent to the Representative, to them at the address specified in Schedule I hereto; and if sent to the Company, to it at _____, Attention: ; and if sent to the Issuer, to it at _____, Attention: Treasurer; and if sent to the Seller, to it at _____, Attention: . The parties hereto, by notice to the others, may designate additional or different addresses for subsequent communications.

14. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

15. Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York.

16. Counterparts. This Agreement may be signed in any number of

counterparts, each of which shall be deemed an original, which taken together shall constitute one and the same instrument.

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If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company, the Issuer, the Seller and the several Underwriters.

Very truly yours,

WEST PENN POWER COMPANY,

by

Name:
Title:

WEST PENN FUNDING LLC,

by

Name:
Title:

WEST PENN FUNDING CORPORATION

by

Name:
Title:

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The foregoing Agreement is hereby confirmed and accepted as of the date specified in Schedule I hereto.

MORGAN STANLEY & CO.
INCORPORATED

by

Name:
Title:

for themselves and the other several Underwriters, if any, named in Schedule II to the foregoing Agreement.

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SCHEDULE I

Underwriting Agreement dated _____, 1999

Registration Statement No. 333-_____

Representative(s);

Morgan Stanley & Co.
Incorporated
1585 Broadway

Title, Purchase Price and Description of Bonds:

Title: West Penn Funding LLC \$ Transition
 Bonds, Series 1999 - A -----

Principal Amount, Price to Public, Underwriting Discounts and Commissions, Proceeds to the Issuer, and Required Ratings:

<TABLE>
 <CAPTION>

	Total Principal Amount of Class -----	Price to Public -----	Underwriting Discounts and Commissions -----	Proceeds to the Issuer -----	Required Ratings -----
<S>	<C>	<C>	<C>	<C>	<C>
Per Class A-1 Bond					
Per Class A-2 Bond					
Per Class A-3 Bond					
Per Class A-4 Bond					
Total					

</TABLE>

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Plus the Underwriters will be reimbursed by the Issuer for:

\$_____ of expenses,
 consisting of \$_____ of out-of-pocket expenses and
 \$_____ for Underwriters' Counsel

Original Issue Discount (if any): \$_____

Redemption provisions:

Other provisions:

Closing Date, Time and Location: _____, 1999, _____ a.m., Eastern Standard Time, New York, NY

Type of Offering: Delayed Offering

Date referred to in Section 5(a) (vi) after which the Issuer may offer or sell asset-backed securities in a special purpose vehicle without the consent of the Representative(s): _____, 1999

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SCHEDULE II

<TABLE>
 <CAPTION>

UNDERWRITERS -----	PRINCIPAL AMOUNT OF BONDS TO BE PURCHASED				TOTAL -----
	CLASS A-1 BONDS -----	CLASS A-2 BONDS -----	CLASS A-3 BONDS -----	CLASS A-4 BONDS -----	
<S>	<C>	<C>	<C>	<C>	<C>
Morgan Stanley & Co. Incorporated					
Goldman, Sachs & Co.					
Banc of America Securities LLC					
PNC Capital Markets, Inc.					
Pryor, McCleendon, Counts & Co., Inc.					
Total.....					

</TABLE>

ASSIGNMENT OF LIMITED LIABILITY COMPANY INTEREST
AND AMENDMENT TO
LIMITED LIABILITY COMPANY AGREEMENT
OF
WEST PENN FUNDING LLC

This Assignment of Limited Liability Company Interest and Amendment to Limited Liability Company Agreement of West Penn Funding LLC, dated as of _____, 1999 (this "Assignment and Amendment Agreement"), is entered into by and between Carol G. Russ, as the sole member of West Penn Funding LLC, and West Penn Funding Corporation, a Delaware corporation.

W I T N E S S E T H :

WHEREAS, West Penn Funding LLC (the "Company") has been formed as a limited liability company under the Delaware Limited Liability Company Act (6 Del.C. Section 18101, et seq.) (the "Act") pursuant to a Certificate of Formation of the Company, as filed in the office of the Secretary of State of the State of Delaware on May 26, 1999, and a Limited Liability Company Agreement of the Company, dated as of May 26, 1999 (the "Agreement");

WHEREAS, Carol G. Russ is the sole member of the Company;

WHEREAS, Carol G. Russ desires to assign, transfer and convey all of her limited liability company interest in the Company as a member of the Company (the "Interest") to West Penn Funding Corporation, and Carol G. Russ desires to

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resign from the Company as a member of the Company;

WHEREAS, West Penn Funding Corporation desires to purchase the Interest presently held by Carol G. Russ, and West Penn Funding Corporation desires to be admitted to the Company as a substitute member of the Company; and

WHEREAS, the undersigned, to accomplish the foregoing, desire to amend the Agreement in the manner set forth herein.

NOW, THEREFORE, the undersigned, in consideration of the premises, covenants and agreements contained herein, does hereby agree as follows:

1. Assignment. Notwithstanding any provision in the Agreement to the contrary, for value received, the receipt and sufficiency of which are hereby acknowledged, upon the execution of this Assignment and Amendment Agreement by the parties hereto, Carol G. Russ does hereby assign, transfer and convey the Interest to West Penn Funding Corporation.

2. Admission. Notwithstanding any provision in the Agreement to the contrary, contemporaneously with the assignment described in paragraph 1 of this Assignment and Amendment Agreement, West Penn Funding Corporation shall be admitted to the Company as a substitute member of the Company.

3. Resignation. Notwithstanding any provision in

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the Agreement to the contrary, immediately following the admission of West Penn Funding Corporation as a substitute member of the Company, Carol G. Russ shall and does hereby resign from the Company as a member of the Company, and shall thereupon cease to be a member of the Company, and shall thereupon cease to have or exercise any right or power as a member of the Company.

4. Continuation of the Company. The parties hereto agree that the assignment of the Interest, the admission of West Penn Funding Corporation as a substitute member of the Company and the resignation of Carol G. Russ as a member of the Company shall not dissolve the Company and that the business of the Company shall continue.

5. Books and Records. The member of the Company shall take all actions necessary under the Act and the Agreement, including causing the amendment of the Agreement, to evidence the resignation of Carol G. Russ from the Company as a member of the Company and the admission of West Penn Funding Corporation to the Company as a member of the Company.

6. Future Cooperation. Each of the parties hereto agrees to cooperate at all times from and after the date hereof with respect to all of the matters described herein, and to execute such further assignments, releases, assumptions, amendments of the Agreement, notifications and

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other documents as may be reasonably requested for the purpose of giving effect to, or evidencing or giving notice of, the transactions contemplated by this

Assignment and Amendment Agreement.

7. Contribution. West Penn Funding Corporation has paid \$1 to Carol G. Russ for the Interest.

8. Binding Effect. This Assignment and Amendment Agreement shall be binding upon, and shall enure to the benefit of, the parties hereto and their respective successors and assigns.

9. Execution in Counterparts. This Assignment and Amendment Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

10. Agreement in Effect. Except as hereby amended, the Agreement shall remain in full force and effect.

11. Governing Law. This Assignment and Amendment Agreement shall be governed by, and interpreted in accordance with, the laws of the State of Delaware, all rights and remedies being governed by such laws.

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IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Amendment Agreement to be duly executed as of the day and year first above written.

Carol G. Russ

WEST PENN FUNDING CORPORATION

By: _____
Name:
Title:

AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT
OF
WEST PENN FUNDING LLC

This Amended and Restated Limited Liability Company Agreement (together with the schedules attached hereto, this "Agreement") of West Penn Funding LLC (the "Company"), is entered into by WEST PENN FUNDING CORPORATION, a Delaware corporation, as the sole equity member (the "Member"), and _____ and _____, as the Special Members (as defined on Schedule A hereto). Capitalized terms used and not otherwise defined herein have the meanings set forth on Schedule A hereto.

The Member, by execution of this Agreement, (i) hereby continues the Company as a limited liability company pursuant to and in accordance with the Delaware Limited Liability Company Act (6 Del. C. Section 18-101 et seq.), as amended from time to time (the "Act"), and this Agreement, (ii) hereby amends and restates in its entirety the Limited Liability Company Agreement of the Company, dated as of May 26, 1999 (the "Initial LLC Agreement"), as amended by the Assignment of Limited Liability Company Interest and Amendment to Limited Liability Company Agreement dated as of [], 1999 (the "Assignment Agreement"), and, together with [NAMES OF SPECIAL MEMBERS/INDEPENDENT DIRECTORS], hereby agrees as follows:

Section 1. Name.

The name of the limited liability company formed hereby is West Penn Funding LLC.

Section 2. Principal Business Office.

The principal business office of the Company shall be located at 800 Cabin Hill Drive, Room [], Greensburg, Pennsylvania 15601 or such other location as may hereafter be determined by the Member.

Section 3. Registered Office.

The address of the registered office of the Company in the State of Delaware is c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801.

Section 4. Registered Agent.

The name and address of the registered agent of the Company for service of process on the Company in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801.

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Section 5. Members.

(a) The mailing address of the Member is set forth on Schedule B attached hereto. The Member was admitted to the Company as a member of the Company upon its execution of the Assignment Agreement heretofore.

(b) Subject to Section 9(j), the Member may act by written consent.

(c) Upon the occurrence of any event that causes the Member to cease to be a member of the Company (other than (i) upon an assignment by the Member of all of its limited liability company interest in the Company and the admission of the transferee pursuant to Sections 21 and 23, or (ii) the resignation of the Member and the admission of an additional member of the Company pursuant to Sections 22 and 23), each person acting as an Independent Director pursuant to Section 10 shall, without any action of any Person and simultaneously with the Member ceasing to be a member of the Company, automatically be admitted to the

Company as a Special Member and shall continue the Company without dissolution. No Special Member may resign from the Company or transfer its rights as Special Member unless (i) a successor Special Member has been admitted to the Company as Special Member by executing a counterpart to this Agreement, and (ii) such successor has also accepted its appointment as Independent Director pursuant to Section 10; provided, however, the Special Members shall automatically cease to be members of the Company upon the admission to the Company of a substitute Member. Each Special Member shall be a member of the Company that has no interest in the profits, losses and capital of the Company and has no right to receive any distributions of Company assets. Pursuant to Section 18-301 of the Act, a Special Member shall not be required to make any capital contributions to the Company and shall not receive a limited liability company interest in the Company. A Special Member, in its capacity as Special Member, may not bind the Company. Except as required by any mandatory provision of the Act, each Special Member, in its capacity as Special Member, shall have no right to vote on, approve or otherwise consent to any action by, or matter relating to, the Company, including, without limitation, the merger, consolidation or conversion of the Company. In order to implement the admission to the Company of each Special Member, each person acting as an Independent Director pursuant to Section 10 shall execute a counterpart to this Agreement. Prior to its admission to the Company as Special Member, each person acting as an Independent Director pursuant to Section 10 shall not be a member of the Company.

Section 6. Certificates.

Howard L. Siegel, is hereby designated as an "authorized person" within the meaning of the Act, and has executed, delivered and filed the Certificate of Formation of the Company with the Secretary of State of the State of Delaware. Upon the filing of the Certificate of Formation with the Secretary of State of the State of Delaware, his powers as an "authorized person" ceased, and Carol Russ, as the initial member under the Initial LLC Agreement thereupon became the designated "authorized person" and after Carol Russ's assignment of her membership interest in the Company to the Member pursuant to the Assignment Agreement, the Member became and shall continue as the designated "authorized person" within the meaning of the Act. The Member or an Officer shall execute, deliver and file any other certificates (and any amendments and/or restatements thereof) necessary for the Company to qualify to do business in Pennsylvania, New York and in any other jurisdiction in which the Company may wish to conduct business.

The existence of the Company as a separate legal entity shall continue until cancellation of the Certificate of Formation as provided in the Act.

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Section 7. Purposes. The purpose to be conducted or promoted by the Company is to engage in the following activities:

(a)

- (i) to acquire, own, hold, administer, service, or enter into agreements for the servicing of, finance, manage, sell, assign, pledge, collect amounts due on and otherwise deal with the Intangible Transition Property and other assets to be acquired pursuant to the Basic Documents and any proceeds or rights associated therewith;
- (ii) to issue, sell, authorize and deliver the Transition Bonds and to enter into any agreement or document providing for the authorization, issuance, sale and delivery of the Transition Bonds;
- (iii) to sell, exchange, pledge, encumber or otherwise dispose of all or any part of the Intangible Transition Property and its other assets and property and, in connection therewith, to accept, collect, hold, sell, exchange or otherwise dispose of evidences of indebtedness or other property received pursuant thereto, including the encumbrance of all of the Intangible Transition Property and its other assets and property as collateral security for the Transition Bonds;

- (iv) to execute, deliver and perform the Basic Documents;
- (v) to invest proceeds from the Intangible Transition Property and its other assets and any capital and income of the Company in accordance with the Basic Documents or as otherwise determined by the Board and not inconsistent with this Section 7 or the Basic Documents;
- (vi) to acquire, own, hold, sell, transfer, service, convey, safekeep, dispose of, pledge, assign, borrow money against, finance, refinance or otherwise deal with, publicly or privately and whether with unrelated third parties or with affiliated entities; and
- (vii) to engage in any lawful act or activity and to exercise any powers permitted to limited liability companies organized under the laws of the State of Delaware that are related or incidental to and necessary, convenient or advisable for the accomplishment of the above-mentioned purposes (including the entering into of interest rate or basis swap, cap, floor or collar agreements, currency exchange agreements or similar hedging transactions and referral, management, servicing and administration agreements).

(b) The Company, by or through the Member, or any Director or Officer on behalf of the Company, may enter into and perform the Basic Documents and all documents, agreements, certificates, or financing statements contemplated thereby or related thereto, all without any further act, vote or approval of any other Person notwithstanding any other provision of this Agreement, the Act or applicable law, rule or regulation. The foregoing authorization shall not

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be deemed a restriction on the powers of the Member or any Director or Officer to enter into other agreements on behalf of the Company.

(c) The Company hereby ratifies and approves all actions taken by Carol G. Russ, in her prior capacity as sole member of the Company, on behalf of the Company in connection with the execution, delivery and filing with the Securities and Exchange Commission of the Registration Statement on Form S-3 and Amendment No. 1 and Amendment No. 2 thereto.

Section 8. Powers.

Subject to Section 9(j), the Company, and the Board of Directors and the Officers of the Company on behalf of the Company, (i) shall have and exercise all powers necessary, convenient or incidental to accomplish its purposes as set forth in Section 7 and (ii) shall have and exercise all of the powers and rights conferred upon limited liability companies formed pursuant to the Act.

Section 9. Management.

(a) Board of Directors. Subject to Section 9(j), the business and affairs of the Company shall be managed by or under the direction of a Board of one or more Directors designated by the Member. Subject to Section 10, the Member may determine at any time in its sole and absolute discretion the number of Directors to constitute the Board. The authorized number of Directors may be increased or decreased by the Member at any time in its sole and absolute discretion, upon notice to all Directors, and subject in all cases to Section 10. The initial number of Directors shall be five, two of which shall be

Independent Directors pursuant to Section 10. Each Director elected, designated or appointed by the Member shall hold office until a successor is elected and qualified or until such Director's earlier death, resignation, expulsion or removal. Each Director shall execute and deliver the Management Agreement. Directors need not be a Member. The initial Directors designated by the Member are listed on Schedule D hereto.

(b) Powers. Subject to Section 9(j), the Board of Directors shall have the power to do any and all acts necessary, convenient or incidental to or for the furtherance of the purposes described herein, including all powers, statutory or otherwise. Subject to Section 7, the Board of Directors has the authority to bind the Company.

(c) Meeting of the Board of Directors. The Board of Directors of the Company may hold meetings, both regular and special, within or outside the State of Delaware. Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board. Special meetings of the Board may be called by the President on not less than one day's notice to each Director by telephone, facsimile, mail, telegram or any other means of communication, and special meetings shall be called by the President or Secretary in like manner and with like notice upon the written request of any one or more of the Directors.

(d) Quorum: Acts of the Board. At all meetings of the Board, a majority of the Directors shall constitute a quorum for the transaction of business and, except as otherwise provided in any other provision of this Agreement, the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board. If a quorum shall not be present at any meeting of the Board, the Directors present at such meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee, as the case may be.

(e) Electronic Communications. Members of the Board, or any committee designated by the Board, may participate in meetings of the Board, or any committee, by means

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of telephone conference or similar communications equipment that allows all Persons participating in the meeting to hear each other, and such participation in a meeting shall constitute presence in Person at the meeting. If all the participants are participating by telephone conference or similar communications equipment, the meeting shall be deemed to be held at the principal place of business of the Company.

(f) Committees of Directors.

(i) The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the Directors of the Company. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

(ii) In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member.

(iii) Any such committee, to the extent provided in the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Company. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board. Each committee

shall keep regular minutes of its meetings and report the same to the Board when required.

(g) Compensation of Directors; Expenses. The Board shall have the authority to fix the compensation of Directors. The Directors may be paid their expenses, if any, of attendance at meetings of the Board, which may be a fixed sum for attendance at each meeting of the Board or a stated salary as Director. No such payment shall preclude any Director from serving the Company in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

(h) Removal of Directors. Unless otherwise restricted by law, any Director or the entire Board of Directors may be removed or expelled, with or without cause, at any time by the Member, and, subject to Section 10, any vacancy caused by any such removal or expulsion may be filled by action of the Member.

(i) Directors as Agents. To the extent of their powers set forth in this Agreement and subject to Section 9(j), the Directors are agents of the Company for the purpose of the Company's business, and the actions of the Directors taken in accordance with such powers set forth in this Agreement shall bind the Company. Notwithstanding the last sentence of Section 18-402 of the Act, except as provided in this Agreement or in a resolution of the Directors, a Director may not bind the Company.

(j) Limitations on the Company's Activities.

(i) This Section 9(j) is being adopted in order to comply with certain provisions required in order to qualify the Company as a "special purpose" entity.

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(ii) The Member shall not, so long as any Obligation is outstanding, amend, alter, change or repeal the definition of "Independent Director" or Sections 7, 8, 9, 10, 16, 20, 21, 22, 23, 24, 25, 26 or 31 or Schedule A of this Agreement without the unanimous written consent of the Board (including all Independent Directors). Subject to this Section 9(j), the Member reserves the right to amend, alter, change or repeal any provisions contained in this Agreement in accordance with Section 31.

(iii) Notwithstanding any other provision of this Agreement and any provision of law that otherwise so empowers the Company, the Member, the Board, any Officer or any other Person, neither the Member nor the Board nor any Officer nor any other Person shall be authorized or empowered, nor shall they permit the Company, without the prior unanimous written consent of the Member and the Board (including all Independent Directors), to take any Material Action.

(iv) The Board and the Member shall cause the Company to do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises; provided, however, that the Company shall not be required to preserve any such right or franchise if: (1) the Board shall determine that the preservation thereof is no longer desirable for the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Company and (2) the Rating Agency Condition is satisfied. The Board also shall cause the Company to:

(A) maintain its own separate books and records and bank accounts;

(B) at all times hold itself out to the public and all other Persons as a legal entity separate from the Member and any other

Person;

- (C) have a Board of Directors separate from that of the Member and any other Person;
- (D) file its own tax returns, if any, as may be required under applicable law, to the extent (1) not part of a consolidated group filing a consolidated return or returns or (2) not treated as a division for tax purposes of another taxpayer, and pay any taxes so required to be paid under applicable law;
- (E) except as contemplated by the Basic Documents, not commingle its assets with assets of any other Person;
- (F) conduct its business in its own name and strictly comply with all organizational formalities to maintain its separate existence;
- (G) maintain separate financial statements;
- (H) pay its own liabilities only out of its own funds;
- (I) maintain an arm's length relationship with its Affiliates and the Member;

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- (J) pay the salaries of its own employees, if any;
- (K) not hold out its credit or assets as being available to satisfy the obligations of others;
- (L) allocate fairly and reasonably any overhead for shared office space;
- (M) use separate stationery, invoices and checks;
- (N) except as contemplated by the Basic Documents, not pledge its assets for the benefit of any other Person;
- (O) correct any known misunderstanding regarding its separate identity;
- (P) maintain adequate capital in light of its contemplated business purpose, transactions and liabilities;
- (Q) cause its Board of Directors to meet at least annually or act pursuant to written consent and keep minutes of such meetings and actions and observe all other Delaware limited liability company formalities;
- (R) not acquire any securities of the Member; and
- (S) cause the Directors, Officers, agents and other representatives of the Company to act at all times with respect to the Company consistently and in furtherance of the foregoing and in the best interests of the Company.

Failure of the Company, or the Member or Board on behalf of the Company, to comply

with any of the foregoing covenants or any other covenants contained in this Agreement shall not affect the status of the Company as a separate legal entity or the limited liability of the Member or the Directors.

- (v) So long as any Obligation is outstanding, the Board shall not cause or permit the Company to:
- (A) except as contemplated by the Basic Documents, guarantee any obligation of any Person, including any Affiliate;
 - (B) engage, directly or indirectly, in any business other than the actions required or permitted to be performed under Section 7, the Basic Documents or this Section 9(j);
 - (C) incur, create or assume any indebtedness other than as expressly permitted under the Basic Documents;
 - (D) make or permit to remain outstanding any loan or advance to, or own or acquire any stock or securities of, any Person, except that the Company may invest in those investments permitted under the

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Basic Documents and may make any advance required or expressly permitted to be made pursuant to any provisions of the Basic Documents and permit the same to remain outstanding in accordance with such provisions;

- (E) to the fullest extent permitted by law, engage in any dissolution, liquidation, consolidation, merger, asset sale or transfer of ownership interests other than such activities as are expressly permitted pursuant to any provision of the Basic Documents; or
- (F) form, acquire or hold any subsidiary (whether corporate, partnership, limited liability company or other).

Section 10. Independent Director.

As long as any Obligation is outstanding, the Member shall cause the Company at all times to have at least two Independent Directors who will be appointed by the Member. To the fullest extent permitted by law, including Section 18-1101(c) of the Act, the Independent Directors shall consider only the interests of the Company, including its respective creditors, in acting or otherwise voting on the matters referred to in Section 9(j)(iii). No resignation or removal of an Independent Director, and no appointment of a successor Independent Director, shall be effective until such successor (i) shall have accepted his or her appointment as an Independent Director by a written instrument, which may be a counterpart signature page to the Management Agreement, and (ii) shall have executed a counterpart to this Agreement as required by Section 5(c). In the event of a vacancy in the position of Independent Director, the Member shall, as soon as practicable, appoint a successor Independent Director. All right, power and authority of the Independent Directors shall be limited to the extent necessary to exercise those rights and perform those duties specifically set forth in this Agreement. Except as provided in the second sentence of this Section 10, in exercising their rights and performing their duties under this Agreement, any Independent Director shall have a fiduciary duty of loyalty and care similar to that of a director of a business corporation organized under the General Corporation Law of the State of Delaware. No Independent Director shall at any time serve as trustee in bankruptcy for any Affiliate of the Company.

Section 11. Officers.

(a) Officers. The initial Officers of the Company shall be designated by the Member. The additional or successor Officers of the Company shall be chosen by the Board and shall consist of at least a President, a Secretary and a Treasurer. The Board of Directors may also choose one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers. Any number of offices may be held by the same person. The Board shall choose a President, a Secretary and a Treasurer. The Board may appoint such other Officers and agents as it shall deem necessary or advisable who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board. The salaries of all Officers and agents of the Company shall be fixed by or in the manner prescribed by the Board. The Officers of the Company shall hold office until their successors are chosen and qualified. Any Officer may be removed at any time, with or without cause, by the affirmative vote of a majority of the Board. Any vacancy occurring in any office of the Company shall be filled by the Board. Upon the effectiveness of this Agreement, the Officers of the Company designated by the Member are listed on Schedule E hereto and any persons formerly appointed as Officers of the Company shall automatically cease to be Officers of the Company.

(b) President. The President shall be the chief executive officer of the Company, shall preside at all meetings of the Board, shall be responsible for the general and active

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management of the business of the Company and shall see that all orders and resolutions of the Board are carried into effect. The President or any other Officer authorized by the President or the Board shall execute all bonds, mortgages and other contracts, except: (i) where required or permitted by law or this Agreement to be otherwise signed and executed, including Section 7(b); (ii) where signing and execution thereof shall be expressly delegated by the Board to some other Officer or agent of the Company, and (iii) as otherwise permitted in Section 11(c).

(c) Vice President. In the absence of the President or in the event of the President's inability to act, the Vice President, if any (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Directors, or in the absence of any designation, then in the order of their election), shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents, if any, shall perform such other duties and have such other powers as the Board may from time to time prescribe.

(d) Secretary and Assistant Secretary. The Secretary shall be responsible for filing legal documents and maintaining records for the Company. The Secretary shall attend all meetings of the Board and record all the proceedings of the meetings of the Company and of the Board in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or shall cause to be given, notice of all meetings of the Member, if any, and special meetings of the Board, and shall perform such other duties as may be prescribed by the Board or the President, under whose supervision the Secretary shall serve. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board (or if there be no such determination, then in order of their election), shall, in the absence of the Secretary or in the event of the Secretary's inability to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

(e) Treasurer and Assistant Treasurer. The Treasurer shall have the custody of the Company funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board. The Treasurer shall disburse the funds of the Company as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the President and to the Board, at its regular meetings or when the Board so requires, an account of all of the Treasurer's transactions and of the financial condition of the Company. The Assistant Treasurer, or if there shall be more than one, the Assistant Treasurers in the order determined by the Board (or if

there be no such determination, then in the order of their election), shall, in the absence of the Treasurer or in the event of the Treasurer's inability to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

(f) Officers as Agents. The Officers, to the extent of their powers set forth in this Agreement or otherwise vested in them by action of the Board not inconsistent with this Agreement, are agents of the Company for the purpose of the Company's business and, subject to Section 9(j), the actions of the Officers taken in accordance with such powers shall bind the Company.

(g) Duties of Board and Officers. Except to the extent otherwise provided herein, each Director and Officer shall have a fiduciary duty of loyalty and care similar to that of directors and officers of business corporations organized under the General Corporation Law of the State of Delaware.

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Section 12. Limited Liability.

Except as otherwise expressly provided by the Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be the debts, obligations and liabilities solely of the Company, and neither the Member nor the Special Members nor any Director shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Member, Special Member or Director of the Company.

Section 13. Capital Contributions.

The Member has contributed to the Company property of an agreed value as listed on Schedule B attached hereto. In accordance with Section 5(c), the Special Members shall not be required to make any capital contributions to the Company.

Section 14. Additional Contributions.

The Member is not required to make any additional capital contribution to the Company. However, the Member may make additional capital contributions to the Company at any time upon the written consent of such Member. To the extent that the Member makes an additional capital contribution to the Company, the Member shall revise Schedule B of this Agreement. The provisions of this Agreement, including this Section 14, are intended to benefit the Member and the Special Members and, to the fullest extent permitted by law, shall not be construed as conferring any benefit upon any creditor of the Company (and no such creditor of the Company shall be a third-party beneficiary of this Agreement) and the Member and the Special Members shall not have any duty or obligation to any creditor of the Company to make any contribution to the Company or to issue any call for capital pursuant to this Agreement.

Section 15. Allocation of Profits and Losses.

The Company's profits and losses shall be allocated to the Member.

Section 16. Distributions.

Distributions shall be made to the Member at the times and in the aggregate amounts determined by the Board. Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not be required to make a distribution to the Member on account of its interest in the Company if such distribution would violate Section 18-607 of the Act or any other applicable law or any Basic Document.

Section 17. Books and Records.

The Board shall keep or cause to be kept complete and accurate books of account and records with respect to the Company's business. The books of the Company shall at all times be maintained by the Board. The Member and its duly authorized representatives shall have the right to examine the Company books, records and documents during normal business hours. The Company, and the Board on behalf of the Company, shall not have the right to keep confidential from the Member any information that the Board would otherwise be permitted to keep

confidential from the Member pursuant to Section 18-305(c) of the Act. The Company's books of account shall be kept using the method of accounting determined by the Member. The Company's independent auditor, if any, shall be an independent public accounting firm selected by the Member.

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Section 18. Reports.

(a) Within 60 days after the end of each fiscal quarter, the Board shall cause to be prepared an unaudited report setting forth as of the end of such fiscal quarter:

- (i) unless such quarter is the last fiscal quarter, a balance sheet of the Company; and
- (ii) unless such quarter is the last fiscal quarter, an income statement of the Company for such fiscal quarter.

(b) The Board shall use diligent efforts to cause to be prepared and mailed to the Member, within 90 days after the end of each fiscal year, an audited or unaudited report setting forth as of the end of such fiscal year:

- (i) a balance sheet of the Company;
- (ii) an income statement of the Company for such fiscal year; and
- (iii) a statement of the Member's capital account.

(c) The Board shall, after the end of each fiscal year, use reasonable efforts to cause the Company's independent accountants, if any, to prepare and transmit to the Member as promptly as possible any such tax information as may be reasonably necessary to enable the Member to prepare its federal, state and local income tax returns relating to such fiscal year.

Section 19. Other Business.

The Member, the Special Members and any Affiliate of the Member or the Special Members may engage in or possess an interest in other business ventures (unconnected with the Company) of every kind and description, independently or with others. The Company shall not have any rights in or to such independent ventures or the income or profits therefrom by virtue of this Agreement.

Section 20. Exculpation and Indemnification.

(a) Neither the Member nor the Special Members nor any Officer, Director, employee or agent of the Company nor any employee, representative, agent or Affiliate of the Member or the Special Members (collectively, the "Covered Persons") shall be liable to the Company or any other Person who has an interest in or claim against the Company for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Covered Person in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Covered Person by this Agreement, except that a Covered Person shall be liable for any such loss, damage or claim incurred by reason of such Covered Person's gross negligence or willful misconduct.

(b) To the fullest extent permitted by applicable law, a Covered Person shall be entitled to indemnification from the Company for any loss, damage or claim incurred by such Covered Person by reason of any act or omission performed or omitted by such Covered Person in good faith on behalf of the Company and in a manner reasonably believed to be within the scope of the authority conferred on such Covered Person by this Agreement, except that no Covered Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Covered Person by reason of such Covered Person's gross negligence or willful

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misconduct with respect to such acts or omissions; provided, however, that any

indemnity under this Section 20 by the Company shall be provided out of and to the extent of Company assets only, and the Member and the Special Members shall not have personal liability on account thereof; and provided further, that so long as any Obligation is outstanding, no indemnity payment from funds of the Company (as distinct from funds from other sources, such as insurance) of any indemnity under this Section 20 shall be payable from amounts allocable to any other Person pursuant to the Basic Documents.

(c) To the fullest extent permitted by applicable law, expenses (including legal fees) incurred by a Covered Person defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Company prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Company of an undertaking by or on behalf of the Covered Person to repay such amount if it shall be determined that the Covered Person is not entitled to be indemnified as authorized in this Section 20.

(d) A Covered Person shall be fully protected in relying in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any Person as to matters the Covered Person reasonably believes are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, or any other facts pertinent to the existence and amount of assets from which distributions to the Member might properly be paid.

(e) To the extent that, at law or in equity, a Covered Person has duties (including fiduciary duties) and liabilities relating thereto to the Company or to any other Covered Person, a Covered Person acting under this Agreement shall not be liable to the Company or to any other Covered Person for its good faith reliance on the provisions of this Agreement or any approval or authorization granted by the Company or any other Covered Person. The provisions of this Agreement, to the extent that they restrict the duties and liabilities of a Covered Person otherwise existing at law or in equity, are agreed by the Member and the Special Members to replace such other duties and liabilities of such Covered Person.

(f) The foregoing provisions of this Section 20 shall survive any termination of this Agreement.

Section 21. Assignments.

Subject to Section 23, the Member may assign in whole or in part its limited liability company interest in the Company. If the Member transfers all of its limited liability company interest in the Company pursuant to this Section 21, the transferee shall be admitted to the Company as a member of the Company upon its execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement, which instrument may be a counterpart signature page to this Agreement. Such admission shall be deemed effective immediately prior to the transfer and, immediately following such admission, the transferor Member shall cease to be a member of the Company. Notwithstanding anything in this Agreement to the contrary, any successor to the Member by merger or consolidation in compliance with the Basic Documents shall, without further act, be the Member hereunder, and such merger or consolidation shall not constitute an assignment for purposes of this Agreement and the Company shall continue without dissolution.

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Section 22. Resignation.

So long as any Obligation is outstanding, the Member may not resign, except as permitted under the Basic Documents and if the Rating Agency Condition is satisfied. If the Member is permitted to resign pursuant to this Section 22, an additional member of the Company shall be admitted to the Company, subject to Section 23, upon its execution of an instrument signifying its agreement to be bound by the terms and conditions of this Agreement, which instrument may be a counterpart signature page to this Agreement. Such admission shall be deemed effective immediately prior to the resignation and, immediately following such admission, the resigning Member shall cease to be a member of the Company.

Section 23. Admission of Additional Members.

One or more additional members of the Company may be admitted to the Company with the written consent of the Member; provided, however, that, notwithstanding the foregoing, so long as any Obligation remains outstanding, no additional Member may be admitted to the Company unless the Rating Agency Condition is satisfied.

Section 24. Dissolution.

(a) Subject to Section 9(j), the Company shall be dissolved, and its affairs shall be wound up upon the first to occur of the following: (i) the termination of the legal existence of the last remaining member of the Company or the occurrence of any other event which terminates the continued membership of the last remaining member of the Company in the Company unless the business of the Company is continued in a manner permitted by this Agreement or the Act or (ii) the entry of a decree of judicial dissolution under Section 18-802 of the Act. Upon the occurrence of any event that causes the last remaining member of the Company to cease to be a member of the Company, to the fullest extent permitted by law, the personal representative of such member is hereby authorized to, and shall, within 90 days after the occurrence of the event that terminated the continued membership of such member in the Company, agree in writing (i) to continue the Company and (ii) to the admission of the personal representative or its nominee or designee, as the case may be, as a substitute member of the Company, effective as of the occurrence of the event that terminated the continued membership of the last remaining member of the Company in the Company.

(b) Notwithstanding any other provision of this Agreement, the Bankruptcy of the Member or a Special Member shall not cause the Member or Special Member, respectively, to cease to be a member of the Company and upon the occurrence of such an event, the business of the Company shall continue without dissolution.

(c) In the event of dissolution, the Company shall conduct only such activities as are necessary to wind up its affairs (including the sale of the assets of the Company in an orderly manner), and the assets of the Company shall be applied in the manner, and in the order of priority, set forth in Section 18-804 of the Act.

(d) The Company shall terminate when (i) all of the assets of the Company, after payment of or due provision for all debts, liabilities and obligations of the Company shall have

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been distributed to the Member in the manner provided for in this Agreement and (ii) the Certificate of Formation shall have been canceled in the manner required by the Act.

Section 25. Waiver of Partition; Nature of Interest.

Except as otherwise expressly provided in this Agreement, to the fullest extent permitted by law, each of the Member and the Special Members hereby irrevocably waives any right or power that such Person might have to cause the Company or any of its assets to be partitioned, to cause the appointment of a receiver for all or any portion of the assets of the Company, to compel any sale of all or any portion of the assets of the Company pursuant to any applicable law or to file a complaint or to institute any proceeding at law or in equity to cause the dissolution, liquidation, winding up or termination of the Company. The Member shall not have any interest in any specific assets of the Company, and the Member shall not have the status of a creditor with respect to any distribution pursuant to Section 16 hereof. The interest of the Member in the Company is personal property.

Section 26. Benefits of Agreement; No Third-Party Rights.

None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditor of the Company or by any creditor of the Member or a

Special Member. Nothing in this Agreement shall be deemed to create any right in any Person (other than Covered Persons) not a party hereto, and this Agreement shall not be construed in any respect to be a contract in whole or in part for the benefit of any third Person (except as provided in Section 29).

Section 27. Severability of Provisions.

Each provision of this Agreement shall be considered severable and if for any reason any provision or provisions herein are determined to be invalid, unenforceable or illegal under any existing or future law, such invalidity, unenforceability or illegality shall not impair the operation of or affect those portions of this Agreement which are valid, enforceable and legal.

Section 28. Entire Agreement.

This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof.

Section 29. Binding Agreement.

Notwithstanding any other provision of this Agreement, the Member agrees that this Agreement, including, without limitation, Sections 7, 8, 9, 10, 20, 21, 22, 23, 24, 26, 29 and 31, constitutes a legal, valid and binding agreement of the Member, and is enforceable against the Member by the Independent Directors, in accordance with its terms. In addition, the Independent Directors shall be intended beneficiaries of this Agreement.

Section 30. Governing Law.

This Agreement shall be governed by and construed under the laws of the State of Delaware (without regard to conflict of laws principles), all rights and remedies being governed by said laws.

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Section 31. Amendments.

Subject to Section 9(j), this Agreement may be modified, altered, supplemented or amended pursuant to a written agreement executed and delivered by the Member. Notwithstanding anything to the contrary in this Agreement, so long as any Obligation is outstanding, this Agreement may not be modified, altered, supplemented or amended unless the Rating Agency Condition is satisfied except: (i) to cure any ambiguity or (ii) to convert or supplement any provision in a manner consistent with the intent of this Agreement and the other Basic Documents.

Section 32. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original of this Agreement and all of which together shall constitute one and the same instrument.

Section 33. Notices.

Any notices required to be delivered hereunder shall be in writing and personally delivered, mailed or sent by telecopy, electronic mail or other similar form of rapid transmission, and shall be deemed to have been duly given upon receipt (a) in the case of the Company, to the Company at its address in Section 2, (b) in the case of the Member, to the Member at its address as listed on Schedule B attached hereto and (c) in the case of either of the foregoing, at such other address as may be designated by written notice to the other party.

Section 34. Effectiveness.

Pursuant to Section 18-201 (d) of the Act, this Agreement shall be effective as of _____, 1999.

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IN WITNESS WHEREOF, the undersigned, intending to be legally bound hereby, has duly executed this Amended and Restated Limited Liability Company Agreement as of the ____ day of _____, 1999.

MEMBER:

WEST PENN FUNDING CORPORATION

By: _____
Name:
Title:

SPECIAL MEMBERS:

Name:

Name:

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SCHEDULE A

Definitions

A. Definitions

When used in this Agreement, the following terms not otherwise defined herein have the following meanings:

"Act" has the meaning set forth in the preamble to this Agreement.

"Administrative Services Agreement" means the Administrative Services Agreement dated as of [], 1999, between the Company and Allegheny Power Service Corporation, as administrative agent, as the same may be amended or supplemented from time to time.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such Person.

"Agreement" means this Amended and Restated Limited Liability Company Agreement of the Company, together with the schedules attached hereto, as amended, restated or supplemented or otherwise modified from time to time.

"Bankruptcy" means, with respect to any Person, if such Person (i) makes an assignment for the benefit of creditors, (ii) files a voluntary petition in bankruptcy, (iii) is adjudged a bankrupt or insolvent, or has entered against it an order for relief, in any bankruptcy or insolvency proceedings, (iv) files a petition or answer seeking for itself any reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against it in any proceeding of this nature, (vi) seeks, consents to or acquiesces in the appointment of a trustee, receiver or liquidator of the Person or of all or any substantial part of its properties, or (vii) if 120 days after the commencement of any proceeding against the Person seeking reorganization, arrangement, composition, readjustment, liquidation or similar relief under any statute, law or regulation, if the proceeding has not been dismissed, or if within 90 days after the appointment without such Person's consent or acquiescence of a trustee, receiver or liquidator of such Person or of all or any substantial part of its properties, the appointment is not vacated or stayed, or within 90 days after the expiration of any such stay, the appointment is not vacated. The foregoing definition of "Bankruptcy" is intended to replace

and shall supersede and replace the definition of "Bankruptcy" set forth in Sections 18-101(1) and 18-304 of the Act.

"Basic Documents" means this Agreement, the Management Agreement, the Sale Agreement, the Bill of Sale, the Servicing Agreement, the Indenture (including any Series Supplement), the Administrative Services Agreement, the Transition Bonds and all documents and certificates contemplated thereby or delivered in connection therewith.

"Bill of Sale" means the Bill of Sale dated as of [], 1999, between the Company and the Seller relating to the sale of the Intangible Transition Property from the Seller to the Company.

"Board" or "Board of Directors" means the Board of Directors of the Company.

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"Bond Trustee" means [], a [], as bond trustee under the Indenture, or any successors to the foregoing.

"Certificate of Formation" means the Certificate of Formation of the Company filed with the Secretary of State of the State of Delaware on May 26, 1999, as amended or amended and restated from time to time.

"Class" means, with respect to any Series, any one of the classes of Transition Bonds of that Series.

"Company" means West Penn Funding LLC, a Delaware limited liability company.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities or general partnership or managing member interests, by contract or otherwise. "Controlling" and "Controlled" shall have correlative meanings. Without limiting the generality of the foregoing, a Person shall be deemed to Control any other Person in which it owns, directly or indirectly, a majority of the ownership interests.

"Covered Persons" has the meaning set forth in Section 20(a).

"Customers" means each person that (i) was a customer of West Penn located within West Penn's retail electric service territory on January 1, 1997 or that became a customer of electric services within such territory after January 1, 1997, (ii) is still located within such territory, and (iii) is in a Rate Schedule that has been assigned stranded cost responsibility.

"Directors" means the Persons elected to the Board of Directors from time to time by the Member, including the Independent Directors, in their capacity as managers of the Company. A Director is hereby designated as a "manager" of the Company within the meaning of Section 18-101(10) of the Act.

"Indenture" means the indenture dated as of [], 1999, between the Company and the Bond Trustee, as the same may be amended and supplemented from time to time, including by any Series Supplement.

"Independent Director" means a natural person who, for the five-year period prior to his or her appointment as Independent Director has not been, and during the continuation of his or her service as Independent Director is not: (i) an employee, director, stockholder, partner or officer of the Company or any of its Affiliates (other than his or her service as an Independent Director of the Company); (ii) a customer or supplier of the Company or any of its Affiliates; or (iii) any member of the immediate family of a person described in (i) or (ii).

"Intangible Transition Charges" means the amounts authorized by the PUC to be imposed on all Customer bills with respect to the Intangible Transition Property and collected, through a non-bypassable mechanism, by West Penn or its successor or by any other entity which provides electric service to Customers, to recover Qualified Transition Expenses pursuant to the Qualified Rate Order.

"Intangible Transition Property" means the irrevocable right of West

Penn or its successor or assignee to collect Intangible Transition Charges from Customers to recover the Qualified Transition Expenses described in the Qualified Rate Order, including all right, title and interest of West Penn or its successor or assignee in such order and in all revenues, collections,

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claims, payments, money or proceeds of or arising from Intangible Transition Charges pursuant to such order, and all proceeds of any of the foregoing.

"Management Agreement" means the agreement of the Directors in the form attached hereto as Schedule C. The Management Agreement shall be deemed incorporated into, and a part of, this Agreement.

"Material Action" means to consolidate or merge the Company with or into any Person, or sell all or substantially all of the assets of the Company, or to institute proceedings to have the Company be adjudicated bankrupt or insolvent, or consent to the institution of bankruptcy or insolvency proceedings against the Company or file a petition seeking, or consent to, reorganization or relief with respect to the Company under any applicable federal or state law relating to bankruptcy, or consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Company or a substantial part of its property, or make any assignment for the benefit of creditors of the Company, or admit in writing the Company's inability to pay its debts generally as they become due, or, to the fullest extent permitted by law, take action in furtherance of any such action, or dissolve or liquidate the Company.

"Member" means West Penn Funding Corporation, as the member of the Company, and includes any Person admitted as an additional member of the Company or a substitute member of the Company pursuant to the provisions of this Agreement, each in its capacity as a member of the Company; provided, however, the term "Member" shall not include the Special Members.

"Obligations" shall mean the indebtedness, liabilities and obligations of the Company under or in connection with this Agreement, the other Basic Documents or any related document in effect as of any date of determination.

"Officer" means an officer of the Company described in Section 11.

"Officer's Certificate" means a certificate signed by any Officer of the Company who is authorized to act for the Company in matters relating to the Company.

"Person" means any individual, corporation, partnership, joint venture, limited liability company, limited liability partnership, association, joint stock company, trust, unincorporated organization, or other organization, whether or not a legal entity, and any governmental authority.

"PUC" means the Pennsylvania Public Utility Commission or any successor.

"Qualified Rate Order" means the order of the PUC issued on November 19, 1998, as supplemented by a supplemental qualified rate order of the PUC issued on August 12, 1999, adopted in accordance with the Statute, which, among other things, creates the Intangible Transition Property and authorizes the imposition and collection of the Intangible Transition Charges by West Penn or its assignee.

"Qualified Transition Expenses" has the meaning assigned to that term in the Qualified Rate Order.

"Rate Schedule" means each of the rate schedules into which Customers are divided as of the date hereof, as such rate schedules may be reconfigured from time to time.

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"Rating Agency" means any rating agency rating the Transition Bonds of any Class or Series at the time of issuance thereof at the request of the Company. If no such organization or successor is any longer in existence, "Rating Agency" shall be a nationally recognized statistical rating organization

or other comparable Person designated by the Company, notice of which designation shall be given to the Bond Trustee under the Indenture and the Servicer.

"Rating Agency Condition" means, with respect to any action, the notification in writing by each Rating Agency to West Penn, the Seller, the Servicer, the Bond Trustee and the Company that such action will not result in a reduction or withdrawal of the then current rating by such Rating Agency of any outstanding Series or Class of Transition Bonds issued by the Company.

"Sale Agreement" means the Intangible Transition Property Sale Agreement dated as of [], 1999, between the Seller and the Company, relating to the sale of Intangible Transition Property to the Company, as the same may be amended or supplemented from time to time.

"Seller" means West Penn Funding Corporation and its successors in interest to the extent permitted under the Sale Agreement.

"Series" means any series of Transition Bonds issued by the Company.

"Series Supplement" means an indenture supplemental to the Indenture that authorizes a particular Series of Transition Bonds.

"Servicer" means West Penn, as the servicer of the Intangible Transition Property, and each successor to West Penn (in the same capacity) pursuant to Section 5.03 or 6.04 of the Servicing Agreement.

"Servicing Agreement" means the Servicing Agreement dated as of [], 1999, between the Company and the Servicer, as the same may be amended and supplemented from time to time.

"Special Member" means, upon such person's admission to the Company as a member of the Company pursuant to Section 5(c), a person acting as Independent Director, in such person's capacity as a member of the Company. A Special Member shall only have the rights and duties expressly set forth in this Agreement.

"Statute" means the Pennsylvania Electricity Generation Customer Choice and Competition Act, Chapter 28 of Title 66 of the Pennsylvania Consolidated Statutes, 66 Pa. C.S., Section 2801, et seq.

"Transition Bonds" means "transition bonds" (as defined in the Statute) issued by the Company.

"West Penn" means West Penn Power Company, a Pennsylvania corporation.

B. Rules of Construction

Definitions in this Agreement apply equally to both the singular and plural forms of the defined terms. The words "include" and "including" shall be deemed to be followed by the phrase "without limitation." The terms "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section, paragraph or

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subdivision. The Section titles appear as a matter of convenience only and shall not affect the interpretation of this Agreement. All Section, paragraph, clause, Exhibit or Schedule references not attributed to a particular document shall be references to such parts of this Agreement.

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SCHEDULE B

Member

<TABLE>
<CAPTION>

Agreed Value of

Membership

Name	Mailing Address	Capital Contribution	Interest
<S> West Penn Funding Corporation	<C>	<C> [\$_____]	<C> 100%

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SCHEDULE C

Management Agreement

_____, 1999

Management Agreement --West Penn Funding LLC

For good and valuable consideration, each of the undersigned Persons, who have been designated as directors of West Penn Funding LLC, a Delaware limited liability company (the "Company"), in accordance with the Amended and Restated Limited Liability Company Agreement of the Company, dated as of _____, 1999, as it may be amended or restated from time to time (the "LLC Agreement"), hereby agree as follows:

1. Each of the undersigned accepts such Person's rights and authority as a Director under the LLC Agreement and agrees to perform and discharge such Person's duties and obligations as a Director under the LLC Agreement, and further agrees that such rights, authorities, duties and obligations under the LLC Agreement shall continue until such Person's successor as a Director is designated or until such Person's resignation or removal as a Director in accordance with the LLC Agreement. Each of the undersigned agrees and acknowledges that it has been designated as a "manager" of the Company within the meaning of the Delaware Limited Liability Company Act.

2. So long as any Obligation is outstanding, each of the undersigned agrees, solely in its capacity as a creditor of the Company on account of any indemnification or other payment owing to the undersigned by the Company, not to acquiesce, petition or otherwise invoke or cause the Company to invoke the process of any court or governmental authority for the purpose of commencing or sustaining a case against the Company under any federal or state bankruptcy, insolvency or similar law or appointing a receiver, liquidator, assignee, trustee, custodian, sequestrator or other similar official of the Company or any substantial part of the property of the Company, or ordering the winding up or liquidation of the affairs of the Company.

3. THIS MANAGEMENT AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, AND ALL RIGHTS AND REMEDIES SHALL BE GOVERNED BY SUCH LAWS WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

Initially capitalized terms used and not otherwise defined herein have the meanings set forth in the LLC Agreement.

This Management Agreement may be executed in any number of counterparts, each of which shall be deemed an original of this Management Agreement and all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the undersigned have executed this Management Agreement as of the day and year first above written.

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SCHEDULE D

DIRECTORS

- 1.
- 2.
- 3.
- 4.
- 5.

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SCHEDULE E

OFFICERS

TITLE

President

Vice President

Treasurer

Secretary

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REGISTERED
No. _____

\$([])

SEE REVERSE FOR CERTAIN DEFINITIONS

CUSIP NO.

THE PRINCIPAL OF THIS CLASS [] TRANSITION BOND WILL BE PAID IN INSTALMENTS AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS CLASS [] TRANSITION BOND AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF.

WEST PENN FUNDING LLC

TRANSITION BONDS, SERIES 1999-A, Class [] .

<TABLE>

<CAPTION>

Bond Rate	Original Principal Amount	Expected Final Payment Date
----	-----	-----
<S> []%	<C> \$[]	<C> [], []

</TABLE>

West Penn Funding LLC, a limited liability company organized and existing under the laws of the State of Delaware (herein referred to as the "Issuer"), for value received, hereby promises to pay to the Registered Holder hereof, or registered assigns, the Original Principal Amount shown above in [quarterly] instalments on the Payment Dates and in the amounts specified on the reverse hereof or, if less, the amounts determined pursuant to Section 8.02(d) of the Indenture, in each year, commencing on the date determined as provided on the reverse hereof and ending on or before the Class [] Termination Date, to pay the entire unpaid principal hereof on the Class [] Termination Date and to

pay interest, at the Bond Rate shown above, on each [], [], [] and [] or if any such day is not a Business Day, the next succeeding Business Day, commencing on [], 1999 and continuing until the earlier of the payment of the principal hereof and the Class [] Termination Date (each a "Payment Date"), on the principal amount of this Class [] Transition Bond outstanding from time to time. Interest on this Class [] Transition Bond will accrue for each Payment Date from the most recent Payment Date on which interest has been paid to

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but excluding such Payment Date or, if no interest has yet been paid, from [], 1999. Interest will be computed on the basis of a 360-day year of four 90-day periods. Such principal of and interest on this Class [] Transition Bond shall be paid in the manner specified on the reverse hereof.

The principal of and interest on this Class [] Transition Bond are payable in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. All payments made by the Issuer with respect to this Class [] Transition Bond shall be applied first to interest due and payable on this Class [] Transition Bond as provided above and then to the unpaid principal of and premium, if any, on this Class [] Transition Bond, all in the manner set forth in Section 8.02(d) of the Indenture.

Reference is made to the further provisions of this Class [] Transition Bond set forth on the reverse hereof, which shall have the same effect as though fully set forth on the face of this Class [] Transition Bond.

Unless the certificate of authentication hereon has been executed by the Bond Trustee whose name appears below by manual signature, this Class [] Transition Bond shall not be entitled to any benefit under the Indenture referred to on the reverse hereof, or be valid or obligatory for any purpose.

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IN WITNESS WHEREOF, the Issuer has caused this instrument to be signed, manually or in facsimile, by an Authorized Officer of the Issuer.

Date:

WEST PENN FUNDING LLC,

by _____

Name:
Title:

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BOND TRUSTEE'S CERTIFICATE OF AUTHENTICATION

Dated: _____, 199[]

This is one of the Class [] Transition Bonds of the Series 1999-A Transition Bonds, designated above and referred to in the within-mentioned Indenture.

[BOND TRUSTEE], not in its individual capacity but solely as Bond Trustee on behalf of the Transition Bondholders,

by

Authorized Signatory

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[REVERSE OF TRANSITION BOND]

This Series 1999-A, Class [] Transition Bond is one of a duly authorized issue of Transition Bonds of the Issuer, designated as its Transition Bonds (herein called the "Transition Bonds"), issued and to be issued in one or more Series, which Series are issuable in one or more Classes, and this Series 1999-A Transition Bond, in which this Class [] Transition Bond represents an interest, consists of 4 Classes, including the Class [] Transition Bonds (herein called the "Class [] Transition Bonds"), all issued and to be issued under an indenture dated as of [], 1999, and a series supplement thereto dated as of [], 1999 (such series supplement, as supplemented or amended, the "Supplement" and, collectively with such indenture, as supplemented or amended, the "Indenture"), each between the Issuer and [], as Bond Trustee (the "Bond Trustee", which term includes any successor bond trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the Collateral property pledged, the nature and extent of the security, the respective rights, obligations and immunities thereunder of the Issuer, the Bond Trustee and the Holders of the Transition Bonds and the terms and conditions under which additional Transition Bonds may be issued. All terms used in this Class [] Transition Bond that are defined in the Indenture, as supplemented or amended, shall have the meanings assigned to them in the Indenture.

The Class [] Transition Bonds, the other Classes of Series 1999-A Transition Bonds and any other Series of Transition Bonds issued by the Issuer are and will be equally and ratably secured by the Collateral pledged as security therefor as provided in the Indenture.

The principal of this Class [] Transition Bond shall be payable on each Payment Date only to the extent that amounts in the Collection Account are available therefor, and only until the outstanding principal balance thereof on such Payment Date (after giving effect to all payments of principal, if any, made on such Payment Date) has been reduced to the principal balance specified in the Expected Amortization Schedule which is attached to the Supplement as Schedule A, unless payable earlier either because (i) an Event of Default shall have occurred and be continuing and the Bond Trustee or the Holders of Transition

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Bonds representing not less than a majority of the Outstanding Amount of the Transition Bonds of all Series have declared the Transition Bonds to be immediately due and payable in accordance with Section 5.02 of the Indenture or (ii) the Issuer, at its option, shall have called for the redemption of the Series 1999-A Transition Bonds in whole or from time to time in part pursuant to Section 10.01 of the Indenture. However, actual principal payments may be made in lesser than expected amounts and at later than expected times as determined pursuant to Section 8.02(d) of the Indenture. The entire unpaid principal amount of this Class [] Transition Bond shall be due and payable on the earlier of the Class [] Termination Date hereof and the Redemption Date, if any, herefor. Notwithstanding the foregoing, the entire unpaid principal amount of the Transition Bonds shall be due and payable, if not then previously paid, on the date on which an Event of Default shall have occurred and be continuing and the Bond Trustee or the Holders of the Transition Bonds representing not less than a majority of the Outstanding Amount of the Transition Bonds have declared the Transition Bonds to be immediately due and payable in the manner provided in Section 5.02 of the Indenture. All principal payments on the Class [] Transition Bonds shall be made pro rata to the Class [] Transition Bondholders entitled thereto based on the respective principal amounts of the Class [] Transition Bonds held by them.

Payments of interest on this Class [] Transition Bond due and payable on each Payment Date, together with the instalment of principal or premium, if any, due on this Class [] Transition Bond on such Payment Date shall be made by check mailed first-class, postage prepaid, to the Person whose name appears as the Registered Holder of this Class [] Transition Bond (or one or more Predecessor Transition Bonds) in the Transition Bond Register as of the close of business on the Record Date or in such other manner as may be provided in the Supplement, except that with respect to Class [] Transition Bonds registered on the Record Date in the name of a Clearing Agency, payments will be made by wire transfer in immediately available funds to the account designated

by such Clearing Agency and except for the final instalment of principal and premium, if any, payable with respect to this Class [] Transition Bond on a Payment Date which shall be payable as provided below. Such checks shall be mailed to the Person entitled thereto at the address of such Person as it appears in the Transition Bond Register as of the applicable Record Date without requiring

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that this Class [] Transition Bond be submitted for notation of payment. Any reduction in the principal amount of this Class [] Transition Bond (or any one or more Predecessor Transition Bonds) effected by any payments made on any Payment Date shall be binding upon all future Holders of this Class [] Transition Bond and of any Class [] Transition Bond issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not noted hereon. If funds are expected to be available, as provided in the Indenture, for payment in full of the then remaining unpaid principal amount of this Class [] Transition Bond on a Payment Date, then the Bond Trustee, in the name of and on behalf of the Issuer, will notify the Person who was the Registered Holder hereof as of the second preceding Record Date to such Payment Date by notice mailed no later than five days prior to such final Payment Date and shall specify that such final instalment will be payable to the Registered Holder hereof as of the Record Date immediately preceding such final Payment Date and only upon presentation and surrender of this Class [] Transition Bond and shall specify the place where this Class [] Transition Bond may be presented and surrendered for payment of such instalment.

The Issuer shall pay interest on overdue instalments of interest on this Class [] Transition Bond at the Class [] Bond Rate to the extent lawful.

As provided in the Indenture, the Class [] Transition Bonds may be redeemed, in whole or from time to time in part, at the option of the Issuer on any Redemption Date at the Redemption Price.

As provided in the Indenture and subject to certain limitations set forth therein, the transfer of this Class [] Transition Bond may be registered in the Transition Bond Register upon surrender of this Class [] Transition Bond for registration of transfer at the office or agency designated by the Issuer pursuant to the Indenture, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Bond Trustee duly executed by the Holder hereof or his attorney duly authorized in writing, with such signature guaranteed by an Eligible Guarantor Institution, and thereupon one or more new Class [] Transition Bonds of any Authorized Initial Denominations and in the same aggregate initial principal amount will be issued to the designated transferee or transferees. No service charge will be charged for any

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registration of transfer or exchange of this Class [] Transition Bond, but the transferor may be required to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange.

Each Class [] Transition Bondholder, by acceptance of a Class [] Transition Bond, covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Issuer or the Bond Trustee on the Class [] Transition Bonds or under the Indenture or any certificate or other writing delivered in connection herewith or therewith, against (i) any owner of a beneficial interest in the Issuer or (ii) any partner, owner, beneficiary, agent, officer, director or employee of the Bond Trustee, any holder of a beneficial interest in the Issuer or the Bond Trustee or of any successor or assign of the Bond Trustee, except as any such Person may have expressly agreed (it being understood that all of the Bond Trustee's obligations are in its individual capacity).

Prior to the due presentment for registration of transfer of this Class [] Transition Bond, the Issuer, the Bond Trustee and any agent of the Issuer or the Bond Trustee may treat the Person in whose name this Class [] Transition Bond is registered (as of the day of determination) as the owner hereof for the purpose of receiving payments of principal of and premium, if any, and interest on this Class [] Transition Bond and for all other purposes whatsoever, whether or not this Class [] Transition Bond be overdue, and neither the Issuer, the Bond Trustee nor any such agent shall be affected by notice to the contrary.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Issuer and the rights of the Holders of the Transition Bonds under the Indenture at any time by the Issuer with the consent of the Holders of Transition Bonds representing a majority of the Outstanding Amount of all Transition Bonds at the time Outstanding of each Series or Class to be affected. The Indenture also contains provisions permitting the Holders of Transition Bonds representing specified percentages of the Outstanding Amount of the Transition Bonds of all Series, on behalf of the Holders of all the Transition Bonds, to waive compliance by the Issuer with certain provisions of the Indenture and

certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Class [] Transition Bond (or any one of more Predecessor Transition Bonds) shall be conclusive and binding upon such Holder and upon all future Holders of this Class [] Transition Bond and of any Class [] Transition Bond issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof whether or not notation of such consent or

waiver is made upon this Class [] Transition Bond. The Indenture also permits the Bond Trustee to amend or waive certain terms and conditions set forth in the Indenture without the consent of Holders of the Transition Bonds issued thereunder.

The term "Issuer" as used in this Class [] Transition Bond includes any successor to the Issuer under the Indenture.

The Issuer is permitted by the Indenture, under certain circumstances, to merge or consolidate, subject to the rights of the Bond Trustee and the Holders of Transition Bonds under the Indenture.

The Class [] Transition Bonds are issuable only in registered form in Authorized Initial Denominations as provided in the Indenture and the Supplement, subject to certain limitations therein set forth.

This Class [] Transition Bond, the Indenture and the Supplement shall be construed in accordance with the laws of the State of New York, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder and thereunder shall be determined in accordance with such laws.

No reference herein to the Indenture and no provision of this Class [] Transition Bond or of the Indenture shall alter or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on this Class [] Transition Bond at the times, place, and rate, and in the coin or currency herein prescribed.

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ASSIGNMENT

Social Security or taxpayer I.D. or other identifying number of assignee

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____

(name and address of assignee)

the within Class [] Transition Bond and all rights thereunder, and hereby irrevocably constitutes and appoints

_____, attorney, to transfer said Class [] Transition Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

*

* NOTE: The signature to this assignment must correspond with the name of the registered owner as it appears on the face of the within Class [] Transition Bond in every particular, without alteration, enlargement or any change whatsoever.

[LETTERHEAD OF RICHARDS, LAYTON & FINGER P.A.]

September 10, 1999

West Penn Funding LLC
800 Cabin Hill Drive
Greensburg, PA 15601

Re: West Penn Funding LLC -- Legality of Transition Bonds

Ladies and Gentlemen:

We have acted as special Delaware counsel for West Penn Funding Corporation, a Delaware corporation ("Funding"), and West Penn Funding LLC, a Delaware limited liability company (the "Company"), in connection with the matters set forth herein. At your request, this opinion is being furnished to you.

For purposes of giving the opinions hereinafter set forth, our examination of documents has been limited to the examination of executed or conformed counterparts, or copies otherwise proved to our satisfaction, of the following:

(a) The Certificate of Formation of the Company, dated as of May 26, 1999, as filed in the office of the Secretary of State of the State of Delaware (the "Secretary of State") on May 26, 1999;

(b) The Limited Liability Company Agreement of the Company, dated as of May 26, 1999, executed by Carol G. Russ, as the sole member of the Company;

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West Penn Funding LLC
September 10, 1999
Page 2

(c) The Form of Assignment of Limited Liability Company Interest and Amendment to Limited Liability Company Agreement of the Company, to be entered into between Carol G. Russ, as the assignor, and Funding, as the assignee, attached as an Exhibit to the Registration Statement (as hereinafter defined);

(d) The Form of Amended and Restated Limited Liability Company Agreement of the Company (the "LLC Agreement"), to be executed by Funding, as

the sole member of the Company (the "Member"), and the Special Members (as defined in the LLC Agreement), attached as an Exhibit to the Registration Statement (as hereinafter defined);

(e) The form of Management Agreement, to be executed by each member of the Board of Directors of the Company, including the Independent Directors (as defined in the LLC Agreement);

(f) Amendment No. 2 to the Registration Statement (the "Registration Statement") on Form S-3, including a related prospectus (the "Prospectus"), to be filed by the Company with the Securities and Exchange Commission on or about September 10, 1999;

(g) The form of Indenture, to be executed by the Company and the Bond Trustee to be named therein, attached as an exhibit to the Registration Statement pursuant to which the Transition Bonds are to be issued;

(h) The form of Series Supplement, to be executed by the Company and the Bond Trustee (the "Series Supplement");

(i) The form of Transition Bonds, Series 1999-A, attached as an Exhibit to the Series Supplement (the "Transition Bonds"); and

(j) A Certificate of Good Standing for the Company, dated September 8, 1999, obtained from the Secretary of State.

Initially capitalized terms used herein and not otherwise defined are used as defined in the LLC Agreement. The documents listed in paragraphs (g) and (h) above are hereinafter referred to each as a "Transaction Document" and collectively as the "Transaction Documents."

For purposes of this opinion, we have not reviewed any documents other than the documents listed in paragraphs (a) through (j) above. In particular, we have not reviewed any document (other than the documents listed in paragraphs (a) through (j)

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West Penn Funding LLC

September 10, 1999

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above) that is referred to in or incorporated by reference into any document reviewed by us. We have assumed that there exists no provision in any document that we have not reviewed that is inconsistent with the opinions stated herein. We have conducted no independent factual investigation of our own but rather have relied solely upon the foregoing documents, the statements and information set forth therein and the additional matters recited or assumed herein, all of which we have assumed to be true, complete and accurate in all material respects.

With respect to all documents examined by us, we have assumed that (i) all signatures on documents examined by us are genuine, (ii) all documents submitted to us as originals are authentic, and (iii) all documents submitted to us as copies conform with the original copies of those documents.

For purposes of this opinion, we have assumed (i) except to the extent provided in paragraph 1 below, the due organization or due formation, as the case may be, and valid existence in good standing of each party to the documents examined by us under the laws of the jurisdiction governing its organization or formation and the legal capacity of natural persons who are signatories to the documents examined by us, (ii) except to the extent provided in paragraph 2 below, that each of the parties to the documents examined by us has the power and authority to execute and deliver, and to perform its obligations under, such documents, and (iii) except to the extent provided in paragraph 3 below, the due authorization, execution and delivery by all parties thereto of all documents examined by us. We have not participated in the preparation of the Registration Statement and assume no responsibility for its contents.

This opinion is limited to the laws of the State of Delaware (excluding the securities laws of the State of Delaware), and we have not considered and express no opinion on the laws of any other jurisdiction, including federal laws and rules and regulations relating thereto. Our opinions are rendered only with respect to Delaware laws and rules, regulations and orders thereunder which are currently in effect.

Based upon the foregoing, and upon our examination of such questions of law and statutes of the State of Delaware as we have considered necessary or appropriate, and subject to the assumptions, qualifications, limitations and exceptions set forth herein, we are of the opinion that:

1. The Company has been duly formed and is validly existing in good standing as a limited liability company under the laws of the State of Delaware.

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West Penn Funding LLC

September 10, 1999

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2. Under the Delaware Limited Liability Company Act, 6 Del. C. Section 18-101, et seq. (the "LLC Act") and the LLC Agreement, the Company has all necessary limited liability company power and authority to execute and deliver the Transaction Documents and issue the Transition Bonds, and to perform its obligations under the Transaction Documents.

3. Under the LLC Act and the LLC Agreement, the execution and delivery by the Company of the Transaction Documents and the Transition Bonds, and the performance by the Company of its obligations under the Transaction Documents, have been duly authorized by all necessary limited liability company action on

the part of the Company.

We consent to the filing of this opinion with the Securities and Exchange Commission as an exhibit to the Registration Statement. In giving the foregoing consent, we do not thereby admit that we come within the category of Persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder. Except as stated above, without our prior written consent, this opinion may not be furnished or quoted to, or relied upon by, any other Person for any purpose.

Very truly yours,

/s/ Richards, Layton & Finger, P.A.

JGL/GWL/smc

[Letterhead of]

CRAVATH, SWAINE & MOORE
[New York Office]

(212) 474-1000

September 10, 1999

West Penn Funding LLC
Registration Statement on Form S-3
(Registration No. 333-79619)

Ladies and Gentlemen:

We have acted as counsel to West Penn Funding LLC, a Delaware limited liability company (the "Issuer"), in connection with the preparation of the registration statement on Form S-3 (Registration No. 333-79619) and the amendments thereto (the "Registration Statement") initially filed with the Securities and Exchange Commission (the "Commission") on May 28, 1999, for the registration under the Securities Act of 1933, as amended (the "Act"), of up to \$670,000,000 aggregate principal amount of the Issuer's Transition Bonds, Series 1999-A (the "Transition Bonds"), to be sold in a proposed public offering (the "Offering"), all as set forth in the Registration Statement. The Transition Bonds will be issued under an Indenture in the form of Exhibit 4.3 to the Registration Statement (the "Indenture") to be executed by the Issuer and the Bond Trustee named therein (the "Bond Trustee").

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, limited liability company records and other instruments as we have deemed necessary for the purposes of this opinion, including the following: (a) the

Certificate of Formation of the Issuer dated May 26, 1999 (the "Certificate of Formation"), (b) the Amended and Restated Limited Liability Company Agreement of the Issuer, (c) the Registration Statement and (d) the Indenture.

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Based upon the foregoing and in reliance thereon, and subject to (i) compliance with applicable state securities laws, (ii) receipt from the Securities and Exchange Commission of an order declaring the Registration Statement effective and (iii) the filing with the Secretary of State of the State of Delaware of the Certificate of Formation of the Issuer, it is our opinion that when (A) the Bond Trustee is qualified to act as Bond Trustee under the Indenture, (B) the Bond Trustee has duly executed and delivered the Indenture, (C) the Indenture has been duly authorized and validly executed and delivered by the Issuer to the Bond Trustee, (D) the Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended, (E) the Board of Directors of the Issuer or a duly constituted and acting committee thereof (such Board of Directors or committee being hereinafter referred to as the "Board") has taken all necessary action to approve the issuance and terms of such Transition Bonds, the terms of the Offering thereof and related matters, and (F) such Transition Bonds have been duly executed, authenticated, issued and delivered in accordance with the provisions of the Indenture, and the applicable definitive underwriting or similar agreement approved by the Board upon payment of the consideration therefor provided for therein, such Transition Bonds will constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms (subject to applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting creditors' rights generally from time to time in effect and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law).

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We hereby consent to the filing of this opinion as an exhibit to the Registration Statement, and we further consent to the use of our name under the caption "Legal Matters" in the prospectus forming a part of said Registration Statement. We further consent to the incorporation of this opinion by reference as an exhibit to any Rule 462(b) Registration Statement. In giving these consents, we do not hereby admit that we are within the category of persons whose consent is required under Section 7 of the Act or the Rules and Regulations of the Commission.

Very truly yours,

/s/ Cravath, Swaine & Moore

Cravath, Swaine & Moore

West Penn Funding LLC
800 Cabin Hill Drive
Greensburg, PA 15601

[Letterhead of]

CRAVATH, SWAINE & MOORE
[New York Office]

(212) 474-1000

September 10, 1999

West Penn Funding LLC

Registration Statement on Form S-3

(Registration No. 333-79619)

Ladies and Gentlemen:

We have acted as special U.S. Federal income tax counsel to West Penn Funding LLC, a Delaware limited liability company (the "Issuer"), in connection with the preparation of the registration statement on Form S-3 (Registration No. 333-79619) and the amendments thereto (the "Registration Statement") initially filed with the Securities and Exchange Commission (the "Commission") on May 28, 1999, for the registration under the Securities Act of 1933, as amended (the "Act"), of up to \$670,000,000 aggregate principal amount of the Issuer's Transition Bonds, Series 1999-A (the "Transition Bonds"), to be sold in a proposed public offering, all as set forth in the Registration Statement. The Transition Bonds will be issued under an Indenture in the form of Exhibit 4.3 to the Registration Statement (the "Indenture") to be executed by the Issuer and the Bond Trustee named therein.

In that connection, we have examined originals, or copies certified or otherwise identified to our satisfaction, of such documents, limited liability

company records and other instruments as we have deemed necessary for the purposes of this opinion, including the following: (a) the Certificate of Formation of the Issuer dated May 26, 1999, (b) the Amended and Restated Limited Liability Company Agreement of the Issuer, (c) the Registration Statement,

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(d) the Indenture and (e) the Internal Revenue Service ruling issued to West Penn Power Company dated July 23, 1999.

Based upon the foregoing and subject to the qualifications hereinafter set forth, we are of the opinion that the statements in the prospectus (the "Prospectus") forming a part of the Registration Statement under the headings "Prospectus Summary--Tax Status" and "United States Taxation" accurately describe the material U.S. tax consequences to holders of the Transition Bonds.

Our opinion is based upon existing statutory, regulatory and judicial authority, any of which may be changed at any time with retroactive effect. Any change in applicable laws or the facts and circumstances surrounding the issuance, or any inaccuracy in the statements upon which we have relied, may affect the continuing validity of our opinion as set forth herein. We assume no responsibility to inform you of any such change or inaccuracy that may occur or come to our attention. Finally, our opinion is limited to the tax matters specifically covered hereby, and we have not been asked to address, nor have we addressed, any other tax consequences to prospective investors of acquiring, holding and disposing of the Transition Bonds.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement, and we further consent to the use of our name under the headings "United States Taxation" and "Legal Matters" in the Prospectus. We further consent to the incorporation of this opinion by reference as an exhibit to any Rule 462(b) Registration Statement. In giving these consents, we do not hereby admit that we are within the category of persons whose consent is required under Section 7 of the Act or the Rules and Regulations of the Commission.

Very truly yours,

/s/ Cravath, Swaine & Moore

Cravath, Swaine & Moore

West Penn Funding LLC
800 Cabin Hill Drive
Greensburg, PA 15601

[BALLARD SPAHR ANDREWS & INGERSOLL, LLP LETTERHEAD]

OPINION OF BALLARD SPAHR ANDREWS & INGERSOLL, LLP WITH RESPECT
TO MATERIAL COMMONWEALTH OF PENNSYLVANIA TAX MATTERS

September 10, 1999

West Penn Funding LLC
800 Cabin Hill Drive
Greensburg, PA 15601

RE: WEST PENN FUNDING LLC

Ladies and Gentlemen:

We have acted as special Pennsylvania tax counsel to West Penn Funding LLC, a Delaware limited liability company (the "Company"), in connection with the preparation of the Registration Statement, as amended to the date hereof, filed on Form S-3 (the "Registration Statement") with the Securities and Exchange Commission in connection with the registration under the Securities Act of 1933, as amended, of Transition Bonds of the Company to be offered from time to time as described in the prospectus (the "Prospectus") included as part of the Registration Statement.

We hereby adopt and confirm to you our Pennsylvania tax opinion as set forth under the headings "Summary of Terms - Tax Status" in the supplement to the Prospectus and "Prospectus Summary - Tax Status" and "Material Commonwealth of Pennsylvania Tax Matters" in the Prospectus, and hereby consent to the filing of the opinion as an exhibit to the Registration Statement and the reference to this firm under the headings "Summary of Terms - Tax Status" in the supplement to the Prospectus and "Prospectus Summary - Tax Status" and "Material Commonwealth of Pennsylvania Tax Matters in the Prospectus."

Very truly yours,

/s/ BALLARD SPAHR ANDREWS &
INGERSOLL, LLP

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of West Penn Power :
Company for Approval of its : Docket No. R-00973981
Restructuring Plan Under Section 2806 :
of the Public Utility Code, et al. :

JOINT PETITION FOR FULL SETTLEMENT OF
WEST PENN POWER COMPANY'S RESTRUCTURING PLAN AND
RELATED COURT PROCEEDINGS

November 3, 1998

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APPENDICES TO JOINT PETITION FOR SETTLEMENT

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- E. Application of West Penn Power Company for a Qualified Rate Order
- F. West Penn Power Company Electric Generation Coordination Tariff
- G. West Penn Power Competitive Safeguards
- H. West Penn Power Company Interim Code of Conduct
- I. West Penn Power Company Competitive Organization
- J. West Penn Power Company Generation Assets and Liability Accounts for Transfer
- K. West Penn Power Company Proof of Revenues (1999-2008)

[Appendices not included in this filing]

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of West Penn Power Company for :
Approval of Restructuring Plan Under : Docket No. R-00973981
Section 2806 of the Public Utility Code :

JOINT PETITION FOR FULL SETTLEMENT OF
WEST PENN POWER COMPANY'S
RESTRUCTURING PLAN AND
RELATED COURT PROCEEDINGS

West Penn Power Company ("West Penn" or "Allegheny" or the "Company"); the Office of Consumer Advocate ("OCA"); the Office of Small Business Advocate ("OSBA"); the Office of Trial Staff ("OTS"); the West Penn Power Industrial Intervenors ("WPPII"); Allegheny Electric Cooperative ("AEC"); Pennsylvania Retailers' Association ("PRA"); Enron Power Marketing, Inc. ("Enron"); Mid-Atlantic Power Supply Association ("MAPSA"); New Energy Ventures East L.L.C. ("NEV"); Community Action Association of Pennsylvania ("CAAP"); the Environmentalists; Hospital Shared Services, Inc./ Administrative Resources, Inc. ("HSS/ARI"); and The Pennsylvania State University ("Penn State"); PECO Energy Company ("PECO") and other parties designated on the signature pages (all such parties collectively referred to as the "Joint Petitioners"), by their counsel, respectfully submit this Joint Petition for Full Settlement of West Penn's Proposed Restructuring Plan and Related Appeals

("Joint Petition").

The terms and conditions of the Joint Petition represent a comprehensive settlement which resolves all issues before the Commonwealth Court and all issues before the U.S. District Court arising from challenges by the Joint Petitioners to the Commission's final order, reconsideration order, compliance order and any related appeals regarding West Penn's Application for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code. The Joint Petitioners aver that this comprehensive settlement is in the public

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interest and, therefore, request that the Commission: (1) approve without modification the proposed settlement as set forth in the Joint Petition; (2) amend the Commission's final order, reconsideration order and compliance orders as necessary to implement the full settlement; (3) approve the tariff supplements necessary to implement the proposed settlement as appended hereto; (4) issue a Qualified Rate Order authorizing West Penn to securitize up to \$670 million of stranded assets and costs as agreed to herein; (5) approve West Penn's transfer of generation assets as set forth herein, including potential adjustment of recovery of stranded costs determined, at West Penn's option, by divestiture of generation assets; and (6) approve West Penn's establishment of a regulatory asset for CTC revenues as described more fully herein.

In support of their request, the Joint Petitioners state as follows:

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I. SUMMARY OF SETTLEMENT

The Joint Petitioners have agreed to the proposed settlement terms and conditions set forth in this document as a means to resolve, finally and equitably, all issues arising from West Penn's proposed restructuring plan, in lieu of further protracted and expensive litigation in state and federal courts.

In particular, the Joint Petitioners have agreed to terms and conditions that fairly balance the interests of all parties affected by West Penn's restructuring plan and that foster the creation of a competitive market. All West Penn retail customer classes will receive a guaranteed 2.5% rate reduction effective January 1, 1999, the start date of retail electric generation competition, through December 31, 1999. In addition to the guaranteed rate reduction, customers shall receive system-average shopping credits of 3.16 cents per KWH on January 1, 1999, with a steady escalation of the shopping credit throughout the entire recovery period of the Competitive Transition

Charges ("CTCs"). Customers that elect to shop for generation could receive rate reductions in 1999 equal to the 2.5% rate decrease plus savings produced by the difference between their generation purchase price and their shopping credit. In addition, West Penn agrees to cap its rates to customers at the levels currently in effect until at least January 1, 2006 and its generation rates at the levels set forth in Appendix A until at least January 1, 2009, subject to the terms contained herein.

In the event that Allegheny Energy, Inc.'s ("Allegheny Energy") proposed merger with DQE, Inc. ("DQE") is consummated, system average shopping credits will escalate from 3.16 cents per KWH in 1999 to 4.09 cents per KWH in 2008, and distribution rates will be reduced starting in 2001.

In addition, subject to the terms contained herein, West Penn shall (1) recover a substantially smaller amount of stranded cost recovery than it claimed before the

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Commission; (2) be subject to competitive safeguards to ensure fair dealing; (3) expand its current universal service programs; (4) accelerate the phase-in for customer choice for all customer classes; (5) educate consumers about restructuring; (6) facilitate funding of sustainable energy; (7) encourage small renewable energy technologies; (8) withdraw all of its proceedings before the Commonwealth Court and its civil complaint before the U.S. District Court challenging the Commission's Restructuring Order, Reconsideration Order, and Compliance Orders at Docket No. R-00973981; (9) accelerate the recognition of CTC revenue through the creation of a regulatory asset; (10) be required to securitize up to 100% of stranded costs with 75% of the savings realized from such securitization shared with consumers; (11) be permitted to transfer generation assets to an affiliate; and (12) be required to adjust the CTC recovery in the event West Penn sells its generation assets within the next three years.

The other Joint Petitioners, in turn, agree to resolve all objections to West Penn's Restructuring Plan, as set forth herein, and to withdraw (1) all cases pending before the Commonwealth Court which challenge the constitutionality of the Electric Competition Act except as specifically provided in Paragraph N.5. and (2) all proceedings pending before the Commonwealth Court which challenge the Commission's Restructuring Order, Reconsideration Order and Compliance Orders at Docket No. R-00973981, as set forth in Part N herein.

II. BACKGROUND

1. On December 3, 1996, Governor Ridge signed into law the Electricity Generation Customer Choice and Competition Act (66 Pa. C.S. Sections 2801 et seq.) (the "Electric Competition Act"). The Electric Competition Act fundamentally restructures the

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provision of retail electric service in Pennsylvania by mandating the introduction of customer choice of generation supplier commencing January 1, 1999.

2. On August 1, 1997, West Penn submitted a comprehensive Restructuring Plan in which it requested the Commission to approve (1) the imposition of unbundled rates, CTCs and specific tariff provisions to ensure customers direct access to all electric generation suppliers licensed under Chapter 28 of the Public Utility Code to offer services authorized under the licenses within the Commonwealth of Pennsylvania ("EGSs"); (2) the recovery of \$1.2 billion of stranded costs net of mitigation; (3) the implementation of a plan to meet its universal service obligations, including a mechanism to recover the costs of those obligations; (4) the implementation of a proposed Consumer Education Program; and (5) implementation of procedures to establish West Penn as a provider of last resort.

3. West Penn provided notice of its Restructuring Plan filing to all customers by bill insert. In addition, notice of the filing was published in newspapers of general circulation in West Penn's service territory. West Penn also provided a summary of the filing to all individuals on the Commission's Executive Director's Stakeholders list.

4. West Penn's filing was assigned to Administrative Law Judge Larry Gesoff (the "ALJ"). Thereafter, the parties above intervened in the proceeding. Extensive testimony addressing almost every aspect of West Penn's Restructuring Plan was filed by West Penn and the other active parties. In addition, three public input hearings were held at which a total of thirteen individuals testified. Evidentiary hearings were held on December 15-19, 1997, and January 5-7, 1998. The record in this proceeding was closed on

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January 30, 1998. On February 12, 1998, ALJ Gesoff denied West Penn's Motion to Compel and Reopen.

5. On March 23, 1998, ALJ Gesoff issued his Recommended Decision. Among other things, the ALJ recommended that West Penn recover, through the CTC, approximately \$241 million in stranded costs.

6. At its public meeting on May 21, 1998, the Commission adopted an Opinion and Order which modified the ALJ's Recommended Decision and West Penn's proposed Restructuring Plan. The Opinion and Order, which issued on May 29, 1998, determined, inter alia, that West Penn's proven net stranded costs were \$593 million (or \$524.2 million in the event that the proposed merger between Allegheny Energy and DQE is consummated) and that unbundling of West

Penn's rates resulted in a customer shopping credit of 3.12 cents per KWH in the first year (assuming that the merger took place).

7. On June 12, 1998, West Penn and HSS/ARI, filed petitions requesting that the Commission rehear, reconsider, clarify and amend certain aspects of its Restructuring Order. By Opinion and Order entered July 21, 1998, the Commission denied the petitions with a few limited exceptions; the Commission granted West Penn's request to correct a typographical error which incorrectly identified the date of full phase-in, and to correct an error in the Deferred Emission Allowances calculation. This change increased the amount of stranded costs recoverable by West Penn by \$522,000. In order to preserve the shopping credit of 3.12 cents per KWH in 1999, the Commission extended the recovery period for West Penn's CTC through June 30, 2006.

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8. In response to the Restructuring Order entered May 29, 1998, the Reconsideration Order entered July 21, 1998, and the Commission's orders on West Penn's compliance filings, West Penn has filed appeals to the Commonwealth Court and a civil complaint action in the U.S. District Court. In addition, an appeal to the Commonwealth Court challenging various aspects of the Commission's orders has been filed by HSS/ARI. Cross appeals have been filed by OCA and WPPII. WPPII also filed an appeal from one of the Commission's Compliance Orders. An original jurisdiction action for Declaratory Judgment was filed with the Commonwealth Court by West Penn on September 2, 1998.

9. On and after August 14, 1998, the Joint Petitioners signed a "Pre-Settlement Agreement" designed to set forth the procedural ground rules for participation in settlement negotiations aimed at resolving the matter in lieu of further litigation in state and federal courts. Talks initially terminated without a resolution, but were restarted on October 16, 1998. This Joint Petition is the product of these negotiations.

III. TERMS AND CONDITIONS

1. The Joint Petitioners, intending to be legally bound and for consideration given, agree as follows:

A. STRANDED COSTS

A. 1. West Penn shall be permitted to recover from its retail electric customers \$670 million of stranded assets and costs (\$630 million in the event a merger with DQE occurs) through either a CTC (to remain in effect from January 1, 1999 to December 31, 2008) and/or an Intangible Transition Charge ("ITC") to be put in place any time after the effective date of this Settlement and the issuance of transition bonds and to remain in effect up to December 31, 2008.

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A.2. West Penn requests the Commission to declare that good cause has been shown under Section 2808 of the Electric Competition Act to permit West Penn to recover the stranded assets and costs set forth below through a CTC or ITC extending to December 31, 2008. West Penn also requests that the Commission expressly find that the transition and stranded cost recovery and level of CTC/ITC charges to customers and the recording of a regulatory asset associated with such recovery as provided herein are just and reasonable and that securitization of up to \$670 million of stranded costs is just and reasonable and in the public interest.

A.3. The other Joint Petitioners do not object to these findings. The total authorized recovery of \$670 million (or \$630 million in the event of a merger with DQE) includes all amounts previously approved for recovery by the Commission in its May 29, 1998 Restructuring Order and its July 21, 1998 Reconsideration Order at Docket No. R-00973981, and all amounts of stranded cost recovery above the amount previously ordered by the Commission shall be deemed to apply to West Penn's owned generation assets.

A.4. Under the terms of this Settlement, West Penn shall be permitted to recover \$670 million (or \$630 million in the event of a merger with DQE) for transition and stranded costs through a CTC and/or an ITC as set forth in Appendices A, B and K and Paragraphs A.1, A.5, B.I. and B.2. Subject to the provisions of Section A.6, this total authorized recovery of \$670 million (or \$630 million in the event of a merger with DQE) constitutes full and final satisfaction of all transition and stranded costs that West Penn has claimed or could have claimed before the Commission pursuant to Section 2808 of the Electric Competition Act. The Appendices also set forth the shopping credits and CTC recovery of \$630 million dollars, in the event the merger with DQE is consummated.

A.5. West Penn will seek to securitize an amount not exceeding \$670 million (or \$630 million in the event of a merger with DQE) in stranded costs, subject to the requirements of the Electric Competition Act and the terms and conditions set forth below. The Joint Petitioners agree that 75% of the annual net savings of West Penn's securitization of stranded costs will be applied to reduce the CTC/ITC as those savings are realized as set forth in a securitization compliance filing and the remaining 25% of the annual net savings of securitization will be retained by West Penn. The savings from securitization are provided for in these CTC/ITC reductions and constitute full compliance with Sections 2808(e) and 2812(b)(2) of the Electric Competition Act and no further rate adjustment is required. 66 Pa. C.S. Sections 2808(e) and 2812(b)(2). West Penn is required to seek securitization of its stranded assets and costs under reasonable terms and conditions, absent a legal impediment as reasonably determined by West Penn's Vice President-Legal. The effectiveness of this Settlement is contingent upon the issuance by the Commission simultaneous with approval of this Settlement of an irrevocable Qualified Rate Order as set forth

in Appendix E under Section 2812 of the Electric Competition Act (66 Pa. C.S. Section 2812) authorizing the issuance of up to \$670 million (or \$630 million in the event of a merger with DQE) of Transition Bonds at any time after the issuance of such Qualified Rate Order, provided that the ITC charges to customers terminate no later than December 31, 2008. West Penn hereby applies for the issuance of a Qualified Rate Order as set forth in Appendix E which is incorporated as a part of this Settlement. The Joint Petitioners agree not to oppose West Penn's application for a Qualified Rate Order and West Penn's securitization of its stranded assets and costs in accordance with this agreement. The Joint Petitioners agree that, to the extent necessary, the testimony, exhibits, applications and other documents submitted by the parties and the record from the hearings in this proceeding form the basis for this Settlement and West Penn's Application for a Qualified Rate Order.

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A.6 Notwithstanding anything else contained herein to the contrary, in the event West Penn (or its affiliate, if a transfer has been undertaken pursuant to Section K) enters into a definitive agreement to sell all or a portion of its generating assets under the circumstances set forth below on or before January 1, 2002, West Penn shall, upon application to and approval by the Commission, adjust its stranded cost recovery amount to reflect actual stranded costs as determined by a divestiture of generation assets. Such adjustment shall only apply to generation sales pursuant to a voluntary divestiture of all West Penn owned generation, or to an involuntary divestiture of individual stations required by a final order of this Commission, the Federal Energy Regulatory Commission or the Department of Justice as a condition of approval for the proposed merger of Allegheny Energy and DQE. Such adjustment shall take into account any expenses associated with a divestiture, including any impact on securitization bonds. In the event of a partial divestiture, ordered as set forth above, the Company's stranded costs will be adjusted by the difference between the after tax proceeds from such sale and the market value of the sold assets as set forth in Appendix L. If West Penn seeks a voluntary divestiture of a portion of its generating assets, West Penn shall seek approval of such transfer from the Commission and all parties reserve the right to present all positions in that proceeding regarding appropriate adjustment to the stranded cost amount.

A. 7. In the event West Penn (or its affiliate, if a transfer has been undertaken pursuant to Section K) enters into a definitive agreement to sell all of its generating assets after January 1, 2002, 100% of the net Pennsylvania jurisdictional proceeds shall be utilized to offset all of the Company's stranded costs (including all CTC collections) up to the total amount of the stranded cost approved for recovery in this Settlement. Such adjustment shall take into account any reasonable, verifiable and necessary expenses associated with a divestiture, including any impact on securitization bonds. If such

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transaction results in an increased stranded cost amount, no increased stranded costs shall be recovered from ratepayers.

A. 8. West Penn agrees that it will not contend this Settlement provides for inadequate recovery of NUG-related stranded costs as the basis for unilaterally reducing the contract rates paid to FERC-qualifying facilities selling power to West Penn under PUC-approved contracts. This settlement is not intended to limit and does not limit, in any way any other argument or claim West Penn may make regarding the rates paid to FERC-qualifying facilities selling power to West Penn under PUC-approved contracts. This settlement is also not intended to preclude and does not preclude mutually agreed upon buy down or buy out agreements or any other voluntary contract renegotiations.

B. COLLECTION AND RATES

B.1. West Penn shall reduce its retail electric rates by 2.5% effective January 1, 1999, and that 2.5% rate decrease will continue in effect through December 31, 1999. The January 1, 1999 rate decrease reflects the Company's obligation, as of the effective date of this Settlement, to make a refund to customers from 1998 revenues of \$ 25.1 million (which excludes gross receipts tax). The rate decrease will apply to each rate classification and all customers within those rate classifications as set forth in Appendices B and K.

B.1.a. On January 1, 1999, West Penn will unbundle its retail electric rates into the following components: (1) distribution charges, (2) transmission charges, (3) a CTC and, if applicable, an ITC and (4) a generation shopping credit. Transmission and distribution charges, and the amount for the ancillary services included therein shall be priced and stated separately. The system-wide average values for these components for the

years and the appropriate income recognition for CTC amounts, both with and without the merger, are indicated as set forth in the following Appendix A. The proposed tariffs set forth in Appendix B are the tariffs that implement this Settlement.

B.1.b. The parties have contested the appropriate method of setting CTC rates. The parties agree to resolve this conflict by acknowledging that the annual stranded cost values that West Penn is authorized to receive are as specified in Appendix A. The resulting annual CTC Revenue Requirements, subject to annual reconciliation and adjustment as required by Section 2808(f) of the Act, to be collected from West Penn's customers are shown in Appendix A which also shows how CTC revenues will be divided between regulatory asset amortization and return. West Penn is authorized to create a regulatory asset for the stranded cost recovery values for 1999 through 2002, and the recovery of that regulatory asset shall be amortized over the years 2003

through 2008 as shown in Appendix A.

B.2. The Joint Petitioners agree that the rate cap exceptions set forth in Section 2804(4) of the Electric Competition Act shall apply to the rates set forth in this Settlement, except as otherwise specifically set forth herein. If at any time during the CTC Recovery Period, West Penn requests and is granted a rate increase pursuant to Section 2804(4) of the Electric Competition Act (Rate Cap Exceptions) such increase shall not reduce the shopping credits listed in Appendices A and B and such increase shall be allocated to the appropriate unbundled rate category in accordance with determinations of the Commission.

B.3. The cap on West Penn's transmission and distribution charges, which otherwise would expire on June 30, 2001 under Section 2804(4) of the Electric

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Competition Act (66 Pa. C.S. Section 2804(4)), will be extended until December 31, 2005 for all retail customers. As set forth in Appendices A and B, the generation rate cap is extended from the end of 2005 to the end of 2008, three years beyond the statutory rate cap period provided in the Electric Competition Act, and is increased to 4.11 cents/KWH in 2006 and 2007, and increased to 4.39 cents/KWH in 2008. To the extent that West Penn transfers any generating capacity to an affiliate pursuant to Paragraph K.1 of this Settlement, any power subsequently purchased by West Penn from that affiliate shall be deemed to be within the control of West Penn for purposes of determining the applicability of the rate cap exception in Section 2804 (4)(iii)(D) of the Electric Competition Act. In any proceeding under that subsection, the Commission shall consider the impact of any sales by that affiliate to third parties in determining whether the rate cap exception should be granted.

B.4. The Joint Petitioners shall not file a complaint with the Commission or otherwise challenge West Penn's current retail transmission or distribution rate structure, or the level of retail transmission charges or the level of West Penn's retail distribution rates as set forth in Appendices A and B hereto until the expiration of the transmission and distribution cap as set forth above. Any Joint Petitioner, however, may participate as a complainant or otherwise in any future transmission rate proceeding in which an increase in West Penn's transmission rates or change in rate structure is proposed and, further, may file a complaint or otherwise participate in any proceeding before the Commission to adjust West Penn's distribution rates as a result of any increase in West Penn's transmission rates or change in rate structure in effect as of November 1, 1998.

B.5. The transmission and distribution rate cap of 1.73 cents per KWH includes 1.72 cents per KWH for all existing costs and services and .01 cents per KWH for the sustainable energy fund during the transmission and distribution rate cap

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period. No new fees shall be proposed or charged during the transmission and distribution rate cap period for a cost or service that is included in the bundled transmission and distribution rate. In the event of merger with DQE, the transmission and distribution rates set forth in Appendix A will apply.

B.6. Pursuant to this Settlement, West Penn agrees to cap the sum of its transmission and distribution charges, as described above. If, during the period that this rate cap is in effect, West Penn's transmission charges or rates (including but not limited to ancillary charges) are increased, then West Penn's distribution rates will be reduced in a non-discriminatory manner sufficient to avoid exceeding the transmission and distribution rate cap. Within sixty days after issuance of a Federal Energy Regulatory Commission ("FERC") Order modifying West Penn's transmission revenue requirement or rate structure to the extent that such change or modification affects West Penn's transmission charges, West Penn shall submit a tariff supplement with supporting data to the Pennsylvania Public Utility Commission which makes any necessary changes to West Penn's distribution rates to ensure that the sum of the distribution rates and the transmission rates and charges to each class of customers does not exceed the transmission and distribution rate cap.

C. PROVIDER OF LAST RESORT

C.1. West Penn agrees that, for the duration of the CTC/ITC recovery period, it will serve as the provider of last resort for all retail electric customers in its service territory that do not choose or cannot choose to purchase power from alternative suppliers, subject to the following terms, conditions and qualifications:

C.1.a. On January 1, 2001, 20% of all of West Penn's residential customers -- determined by random selection, including low-income and inability-to-pay customers, and without regard to whether such customers are obtaining generation service

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from an EGS -- shall be assigned to a provider of last resort-default supplier other than West Penn that will be selected on the basis of a Commission-approved energy and capacity market price bidding process, except as provided in C.1.h. This service shall be referred to as Competitive Default Service ("CDS").

C.1.b. For purposes of this bidding process, all of the customers selected shall constitute a single bidding block. To qualify for the CDS bidding process an EGS must, among other Commission-approved requirements, agree to provide in 2002 at least 2.0% of its offered energy supply for CDS service from solar, wind, sustainable biomass (including landfill

gas but excluding incineration of Municipal Solid Waste), geothermal or ocean power. This increment shall increase by annual increments of 0.5% thereafter. The requirement to include these levels of sources in the resource mix may be lowered by the Commission if the cost of the power from these sources increases the cost of the entire block by more than 2% over what the cost would be without these sources.

C.1.c. Terms and conditions of CDS shall be established, maintained, and modified by the Commission. Competitive Default Service bids will require a term that will be established by the Commission. Bids will provide a fixed rate for the term, unless an alternative rate structure is approved by the Commission. Any bid that exceeds the generation shopping credit will be rejected. West Penn's EDC or West Penn's divisional or affiliated EGSs may not bid (either directly or as a partner or participant in any business combination with a bidder) on CDS service. Any non-affiliated EGS or consortium of EGSs that are licensed by the Commission and that meet applicable terms and conditions and standards for CDS service may bid to provide CDS service. Chapter 56 billing and collection costs, uncollectible expense, and universal service costs shall be unbundled by West Penn. Revenues equal to the amount of these unbundled costs shall be portable with customers

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randomly assigned to the CDS and shall be provided to the CDS provider to the extent it is providing services funded by these unbundled costs.

C.1.d. A customer assigned to CDS retains the right to elect a competitive EGS or return to West Penn default provider of last resort service at any time with no switching charge. If a consumer returns to CDS for any reason, the consumer will receive service from its CDS on the same terms and conditions and at the same rate available to other CDS customers. The CDS provider will, at the customer's option, provide a single bill, subject to the same standards for EGS consolidated billing as provided in Appendix C and as established by the Commission. The CDS will include all customer care functions, including processing customer accounts in accordance with all applicable regulations, including but not limited to Chapter 56. The CDS will be rebid annually, unless an alternative bidding term is approved by the Commission. If, 30 days prior to the annual bid the number of residential customers served by the CDS has fallen below 17%, a further random selection of customers shall be assigned to CDS service to restore the number of customers for the 20% level. The further random selection shall be chosen in a manner to be determined by the Commission. The Commission will develop qualifications for an EGS to bid on CDS, including credit worthiness and increased bond amount.

C.1.e. The EGS selected as the CDS provider will assume all responsibilities and obligations associated with provider of last resort service that are specified by the Commission. By January 1, 2001, the Commission will issue final standards governing the PLR responsibilities and obligations of West Penn and the CDS in West Penn's service territory. Provided,

however, that nothing in the Commission's final standards shall permit a CDS to install, initially test or maintain a residential meter prior to January 1, 2003.

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C.1.f. West Penn's distribution company shall satisfy its obligation as provider of last resort by maintaining or purchasing, at wholesale, required amounts of energy and capacity from other generation suppliers including, in its sole discretion, any generation affiliates, and reselling that energy and capacity. Until January 1, 2001, West Penn will charge customers its tariff rates as set forth in Appendices A and B.

C.1.g. On and after January 1, 2001 West Penn as provider of last resort-default supplier will price its generation service to residential customers at its sole discretion with the following limitations. West Penn will establish a rate for each residential rate schedule. The rate will be:

C.1.g. (i) no less than the price charged by the CDS selected to be the alternative provider of last resort-default supplier in the 20% bid; and

C.1.g.(ii) no higher than the shopping credit.

C.1.h. In no event will the price exceed the shopping credit or be lower than the winning CDS bid. In the event that no qualifying bids are received at or below the shopping credit, West Penn shall provide PLR service at the rate cap levels. Notwithstanding the above, West Penn retains the right to file a petition with the Commission seeking authorization for a rate cap exception pursuant to Section 2804 (4) (iii). Residential customers that remain with or return to West Penn provider of last resort-default service will pay the rate as set by West Penn during January of each year.

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C.1.i. West Penn, as provider of last resort-default supplier, will price its service to industrial and commercial customers at tariffed rates or at special contract rates as set forth in Appendix B.

C.1.j. The Joint Petitioners agree that through December 31, 2008, customers may choose to purchase power from alternative suppliers and later return to take generation service from West Penn's EDC, or to their assigned provider of last resort-default supplier at the rates, riders and schedules in the approved tariffs.

C.2. This Settlement does not address, and the Joint Petitioners make no commitment regarding, West Penn's obligation to serve after December 31, 2008, or the continuance or discontinuance of the right to choose an alternative supplier and later return after December 31, 2008. The obligation

to serve beyond December 31, 2008 shall be subject to the Commission regulations promulgated pursuant to Section 2807 (e), or any Commission order regarding the obligation to serve.

D. ENVIRONMENTAL ISSUES

D.1. Renewable Energy Development. West Penn has included in its Tariff a Net Energy Metering Rider (as shown in Appendix B) which allows residential and small commercial customers to install and operate renewable energy generation, including appropriate provisions for self-generation and net metering. Renewable generation sources which qualify for service may include photovoltaic systems, biomass, coal mine-based methane gas, fuel cell, hydro, methane field, and wind. Also included, are hybrid renewable generation systems and other renewable technologies specifically approved by the Company.

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D.2. The design and installation of the customer's generation must comply with all applicable laws and regulations and shall meet all applicable safety and performance standards established by the National Electric Code, the Institute of Electrical and Electronics Engineers, Underwriters Laboratory and the Company. The Company has established standards to insure safety and reliability of interconnected operations. These standards are set forth in APS Engineering Manual Section 35, Subject Indices 1.0, 2.0 and 3.0 and are titled "Nonutility Generation", ("Standards"). These standards are on file with the Pennsylvania Public Utility Commission and must be satisfied before the Company will interconnect with the Customer. The interconnection requirements for the inverter portion of photovoltaic systems as described in IEEE P929 Recommended Practice for Utility Interface of Photovoltaic (PV) Systems including its references to Inverter test procedure UL 1741 references will be incorporated into the Company established standards as soon as the recommended practice becomes a standard. As further evidence of West Penn's commitment to this principal, the inspection fee included in Net Energy Metering Rider for a qualifying photovoltaic generating system has been set at \$35.00 and the cost for the engineering review and inspection of other types of renewable generation systems based on actual cost up to a maximum of \$250.00.

D.3. Sustainable Energy Fund. West Penn will establish a sustainable energy fund which shall be funded by a payment of \$11,425,721 on December 31, 1998. Beginning January 1, 2006, the fund shall be funded from the 1.73 cents per KWH transmission and distribution rate at .01 cents per KWH (less applicable gross receipts tax) on all power sold after that date, unless the Commission establishes new distribution rates. The .01 cent per KWH shall not automatically be considered a cost of service element upon expiration of the transmission and distribution rate cap. The Sustainable Energy Fund shall be managed by an administrator designated by a seven-

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member Board of Directors to be nominated by the Joint Petitioners and approved by the Commission. The fund shall operate according to the procedures set forth in its by-laws, which are to be reviewed and approved by the Commission. The fund is to have an annual audit and is to make semi-annual reports to the Commission and to the parties. The purpose of the fund is to promote the development and use of renewable energy and clean energy technologies, energy conservation and efficiency which promote clean energy.

D.4. Renewable Energy Pilot Program. West Penn agrees to implement a low-income renewable energy pilot program for 1999 and 2000 which will consist of a solar hot water heater program and a photovoltaic program. The number of installations of solar hot-water heaters and photovoltaics shall be determined in a cooperative effort between West Penn, the Commission's Bureau of Consumer Services, the Office of Consumer Advocate, the Community Action Association of Pennsylvania, and the Pennsylvania Weatherization Providers Task Force and other interested parties during the design and development of the renewable energy pilot program. The renewable energy pilot program will be operated by Pennsylvania Weatherization Providers Task Force members agencies. The budget for the solar hot water heater program will be \$110,000 for each year. The 1999 budget for photovoltaic installations will be \$125,000 and the 2000 budget will be \$265,000. The photovoltaic program may include small-scale wind and pv/wind hybrid systems. There will be a 5% administration factor for the entire budget. Funding of the renewable energy pilot program will be provided in the Universal Service and Energy Conservation budget other than the mandated LIURP and LIPURP funding levels set forth in the Commission Order of May 29, 1998. To the extent that the Company's renewable pilot program expenses in a given year do not reach the budgeted levels noted above, such unexpended funds will be rolled over to be spent in later years.

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D.5. ECAP Programs. In order to foster competition in the retail residential electric market in the western Pennsylvania region, and strengthen Pennsylvania's conservation and renewable energy initiatives, West Penn agrees to contribute four million dollars (\$4 million) of shareholder funds to the Energy Cooperative Association of Pennsylvania (ECAP), a licensed aggregator, for a four-year program aimed at: (i) providing residential customers, particularly low-income and rural households, with lower priced electricity than they could secure on their own; (ii) enabling low-income customers to also realize long term savings through participation in ECAP's conservation services program consistent with West Penn's obligation under Section 2804 (15) of the Act; (iii) providing an opportunity for clean and renewable energy sources to be expanded, and to become a greater part of the energy mix in Pennsylvania; and (iv) providing a practical opportunity to create a fuel mix source and emissions disclosure test/pilot program.

D.5.a. All ECAP low-income and rural programs and services will be provided through the same Community-Based Organization networks in the manner prescribed in paragraphs D.4. and E.2. of this document except

where these local providers are not in a position to or unwilling to provide the programs and services.

D.5.b. All ECAP low-income and rural program designs will be submitted for review to the Commission's West Penn Consumer Advisory Committee as provided for in paragraph E.5 of this document. A report on this project shall be submitted annually by ECAP to the West Penn Consumer Advisory Committee.

E. UNIVERSAL SERVICE AND ENERGY CONSERVATION

E. 1. West Penn shall implement a Universal Service and Energy Conservation Program, including LIPURP and LIURP programs, in the manner and at the

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funding levels approved in the Commission's order of May 29, 1998, at pages 247-255. For purposes of this Settlement, the maximum level of funding as approved in the Order -- \$5.88 million per year for LIPURP, and \$2.202 million per year for LIURP, as well as the renewable energy pilot program -- shall be deemed to be reflected in the residential distribution rates set forth in the West Penn Tariff at Appendices B and K.

E.2. West Penn shall use Community-Action Agencies to operate its LIPURP and Pennsylvania Weatherization Providers Task Force member agencies to operate its LIURP.

E.3. To the extent that the Company's expenses in a given year do not reach the funding levels noted above, the excess monies collected for the universal service fund shall be rolled over to be spent in later years for universal service programs.

E.4. The allocation of any universal service and energy conservation program costs among customer classes after the end of the distribution and transmission rate cap shall be determined by the Commission at that time.

E.5. A consumer advisory committee made up of consumer, environmental, rural, public and utility representatives from or serving the West Penn service territory, including representatives of the Community-Action Association of Pennsylvania and the Pennsylvania Weatherization Task Force, and a staff member of the Commission's Bureau of Consumer Services, will be established to participate in the development of the Company's universal service and energy conservation programs. The committee will periodically review the Company's universal service and energy conservation programs and the Company will consider all committee recommendations.

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F. INDUSTRIAL TARIFFS

F.1. For Schedule 40 and 46, the Company will prorate provisions of those rate schedules based upon the transmission, distribution and generation services purchased by the customer from the Company to the extent such purchases impact the rate schedule calculations for minimum billing demands, minimum bills, billing demand ratchets, and base bill demand and consumption.

F.2. For individual customers served on Schedules 40 and 46, 1998 demand and energy levels will be utilized as base year consumption for purposes of calculating the individual customer's CTC. A customer's growth in demand and energy usage above the customer's 1998 base year levels will be exempted from competitive transition charges. In no circumstance will the total CTC revenue allocated each year and collected from either Rate Schedule 40 or 46 be reduced due to this provision.

F.3. The Company will unbundle special and individualized contracts into transmission, distribution, competitive transition charge and shopping credit components such that any discount or credit applied to each component will be portable and shall apply on a comparable basis whether or not a customer chooses to obtain generation supply from a competitive supplier.

F.4. The availability section of the Opportunity Power Rider shall be amended in order to permit eight levels of Opportunity Power to be scheduled in any billing month as opposed to the current limitation of four levels.

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G. BILLING AND METERING

G.1. Commercial and Industrial Metering. Subject to review as described in Paragraph G.7., in consultation with the Joint Petitioners regarding operational constraints, effective September 1, 1999, a Commission-licensed EGS may provide, finance, install, own, maintain, calibrate and remotely read advanced meters for service to commercial and industrial customers located in West Penn's service territory subject to the ability of the EGS to comply with Appendix C.(1)

G.1.a. Starting August 1, 1999, West Penn shall maintain costbased rates in its tariff, to be approved by the Commission, to be offered to EGSs and customers for installation, initial testing and maintenance services for commercial and industrial customer advanced meters.

G.2. Commercial and Industrial Billing. In consultation with the Joint Petitioners and subject to operational constraints, effective September 1, 1999, a Commission-licensed EGS may (in addition to any

other rights to act as agent for the customer set forth in West Penn's tariffs) act as agent to provide a single bill and provide associated billing and collection services to commercial and industrial customers located in West Penn's service territory, subject to the ability of the EGS to comply with Appendix C.

G.3. Residential Metering. In consultation with the Joint Petitioners regarding operational constraints, effective September 1, 1999, a Commission-licensed EGS

(1) Appendix C contains: (1) the original Appendix C to the PECO Settlement; (2) the comprehensive PECO Energy Company Competitive Metering Specifications; (3) the comprehensive PECO Energy Company Competitive Billing Specifications as approved by the Commission in PECO's restructuring docket; and (4) the Commission's Order of July 1, 1998 implementing competitive billing and metering standards (Commission Docket No. R-00973953 and P-00971265).

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may provide, finance, own, calibrate and remotely read advanced meters for service to residential customers located in West Penn's service territory subject to the ability of the EGS to comply with Appendix C. An EGS shall not install, initially test or maintain advanced meters for service to residential customers located in West Penn's service territory prior to January 1, 2003. Prior to January 1, 2003, all advanced meters for residential consumers shall be installed, initially tested and maintained by West Penn.

G.3.a. For the period between September 1, 1999 and December 31, 2002, West Penn employees will install and initially test one EGS-provided advanced meter per year for each residential account, and will maintain such meter, without assessing any additional fees or charges on the customer or the EGS. Starting August 1, 1999, West Penn shall maintain cost-based rates in its tariff for installation, initial testing and maintenance of additional advanced residential meters. Neither West Penn nor any EGS shall assess any fees or charges to residential customers for meter testing or maintenance, except as permitted by 52 Pa. Code Chapters 56 and 57.

G.3.b. Starting October 1, 2002, West Penn shall include cost based rates in its tariff, to be approved by the Commission, to be charged to EGSs and customers for installation, initial testing and maintenance services for residential advanced meters.

G.4. Residential Billing. Effective September 1, 1999, a Commission-licensed EGS may (in addition to any other rights to act as agent for the customer set forth in West Penn's tariffs) act as agent to provide a single bill and provide associated billing and collection services to its

residential customers located in West Penn's service territory, subject to the ability of the EGS to comply with Appendix C.

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G.5. Manual Meters. West Penn, as the EDC, shall provide, finance, install, own, maintain, calibrate and read all manual meters that are used to provide service to retail electric customers located in West Penn's service territory.

G.6. Billing and Metering Credits. West Penn will unbundle its retail electric rates for metering, metering services, meter reading, and billing and collection services to provide credits for those customers that have the right and elect to have an EGS perform these services. The unbundled rates for each customer class are set forth in Appendices B and D.

G.7. Determination of potential implementation impediments for Competitive Metering and/or Billing on September 1, 1999. The Bureau of Audits, working with a third party consultant, shall conduct a review of any constraints raised by West Penn that may prevent implementation of competitive metering and/or billing on September 1, 1999. The third party consultant, who shall possess expertise in the area of utility billing and metering systems, will be selected by the Commission, in consultation with the Joint Petitioners. The review will examine those constraints which cannot reasonably be overcome in time to implement competitive metering and/or billing by September 1, 1999 and, if constraints are identified, will provide a recommendation as to when those constraints can be eliminated. The cost of the third party consultant shall be borne by West Penn at a cost not to exceed \$100,000. The review shall be completed no later than June 30, 1999, and a report shall be submitted to the Commission and provided to the Joint Petitioners.

G.8. Development of Standards. By March 1, 1999, the Joint Petitioners agree to modify Appendix C only as necessary to assure the standards are consistent with West Penn's systems and the provisions set forth in this Part.

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G.9. Commission Standards. Regardless of whether the Joint Petitioners reach agreement on the development of standards, by August 1, 1999, the Commission shall establish metering and billing standards for the West Penn service territory which adopt Appendix C and include only such modification to Appendix C necessary to make the standards consistent with West Penn operational systems, including the specific applicability of provisions contained within 52 Pa. Code Chapters 56 and 57 to EGSs performing consolidated billing. Upon the entry of a final Commission order, these standards will be applicable to those services being offered by the EDC or the EGS. These Commission standards shall also include, at a minimum, data exchange and billing format standards to facilitate the efficient, speedy and nondiscriminatory

exchange of information between West Penn and EGSs necessary to a properly functioning competitive market for retail electric generation services. An EGS that bills EDC charges must comply with all billing and disclosure requirements for EDC charges applicable to an EDC absent waiver by the Commission, including the unbundling of transmission and distribution rates.

G.10. Physical Disconnection. Only West Penn EDC employees can physically disconnect or reconnect a customer's distribution service. Physical termination of service for nonpayment may only be permitted for failure to pay for 2 EDC or PLR service.

H. PHASE-IN

H.1. Direct access to electric generation suppliers will be phased in for all customers located in West Penn's service territory in accordance with the West Penn Restructuring Order, in three steps -- one-third of the non-coincident peak load of each customer class of service will have access on January 1, 1999, two-thirds of the non-

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coincident peak load of each customer class on January 2, 1999, and the remainder on January 2, 2000.

H.2. In the event the Commission determines that an additional six-month transition period is necessary prior to implementation of retail access on a statewide basis, pursuant to Section 2806(c)(1) and/or (c)(2) of the Public Utility Code. West Penn's service territory will be subject to a similar six-month extension. 66 Pa. C.S. Section 2806(c)(1) and (c)(2).

I. EGS FUNCTION

I.1. As set forth in Appendix 1, West Penn shall continue to operate functionally separate delivery and supply units. West Penn shall be permitted to have an EGS function subject to the Commission's Competitive Safeguards and Code of Conduct in Appendices G and H. Notwithstanding the above, West Penn is permitted to create an EGS that is structurally separate from West Penn EDC and West Penn GENCO that can serve retail load both inside and outside of West Penn's current certificated service territory and such structurally separate EGS shall be bound by the Competitive Safeguards and Code of Conduct in Appendices G and H.

I.2. The interim EGS license granted to West Penn shall remain in effect and West Penn will be permitted to provide generation supplier services under such license to customers to which it was providing service on the date this settlement is approved by the Commission through the end of the last billing month of the contract under which service is being provided to customers as of the date of this agreement. Upon application, compliance with all applicable Commission regulations and notice to all Joint

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West Penn may, pursuant to this Part I or Part K herein, transfer such license to an affiliated corporation, even if West Penn may no longer provide service under such license.

I.3. The Commission will develop Codes of Conduct, separate and distinct from Codes of Conduct established in this proceeding, which will apply to EDC activities in the marketplace and which will clarify the PLR function. Issuance of Interim Guidelines Addressing Electric Distribution Companies' Activities Relating to Their Provider of Last Resort Function, Docket No. M-00960890 F. 0017.

J. CODE OF CONDUCT

J.1. West Penn further agrees that it will be subject to and governed by the Code of Conduct set forth in Appendix H to this Joint Petition upon final Commission approval of this Settlement. The Code of Conduct set forth in Appendix H shall remain applicable to West Penn until the later of January 1, 2001, or the date when the statewide generic code of conduct established by the Commission in its rulemaking becomes effective.

K. TRANSFER OF GENERATING ASSETS

K.1. West Penn and its subsidiaries are permitted, but not required, to transfer, lease or assign all of their generating assets and liabilities, as those assets and liabilities are delineated in its Restructuring Plan filing and included at the date of transfer in the accounts set forth in Appendix J hereto, and any other assets necessary for the operation of the generating plants, and their wholesale power purchase contracts (other than PUC-approved contracts with qualifying facilities selling power to West Penn) to a separate corporate entity or entities. The entity or entities may, at West Penn's discretion, be an affiliate or subsidiary of West Penn or its parent or a non-affiliate. If an affiliate, such entity

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or entities may function as an EGS (as set forth in Section I above) outside of West Penn's service territory starting January 1, 1999, and as an EGS inside West Penn's service territory after January 1, 2004, as set forth in more detail in the Competitive Safeguards and the Code of Conduct attached hereto as Appendices G and H. Such entity may also receive an EGS license as set forth herein.

K.2. The wholesale power purchase contracts transferred will exclude those wholesale power purchase contracts that West Penn

utilizes to satisfy its provider of last resort obligations. West Penn shall also assign any market price based retail contracts entered into under West Penn's interim EGS license prior to the date of this agreement. The generating assets and liabilities shall be transferred at their net book value at the date of transfer. Once the transfer is completed, the generation entity, if an affiliate of West Penn, will be regulated by the Commission only if it makes retail sales, and then only as an EGS.

K.3. West Penn hereby requests, and the effectiveness of this Settlement is conditioned upon, the Commission's approval, without addition, condition or modification, of all aspects of West Penn's transfer of its generation assets and liabilities and wholesale power purchase contracts under this Settlement and licensing as an EGS of the entity receiving such assets, and the Commission's issuance of such orders and certificates of public convenience as are necessary to implement those transfers. The Commission approval includes, but is not limited to, approval under Chapters 5, 11, 19, 21, and 28 of the Public Utility Code (66 Pa.C.S.). The Commission's approval shall expressly contain the statements required by section 32(c) of the Public Utility Holding Company Act of 1935, 15 U.S.C. Section 79z-5a(c), to wit: that the transfer (1) will benefit consumers, (2) is in the public interest and (3) does not violate state law.

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K.4. The Joint Petitioners expressly acknowledge that such transfers may require various regulatory approvals or waivers, including, without limitation, the FERC, the Securities and Exchange Commission and perhaps other agencies and third parties not subject to West Penn's control, and therefore the Joint Petitioners will neither oppose, nor support any opposition to, West Penn's requests to obtain such approvals. If such authorizations or waivers (other than approval by this Commission) are not obtained in a manner acceptable to West Penn, then West Penn will not transfer the generation assets or liabilities or contracts affected, provided, however that if a generating asset, liability or contract is not transferred, West Penn will continue to separate that asset, liability or contract and its operation from its regulated transmission and distribution functions by organizing generation assets, liabilities or contracts into a functionally separate business unit or units. Failure to obtain such authorization or waiver will not affect any other aspects of this Settlement.

K.5. West Penn and its affiliates and subsidiaries agree to be bound by the competitive safeguard provisions set forth in Appendix G. Upon request of a Joint Petitioner the information referenced in paragraph 8 of Appendix G shall be provided directly to the Joint Petitioner, who shall not disclose or use the information in a manner that violates the Commission's standard rules governing proprietary information. Complaints under these provisions shall be filed with the Commission and finally adjudicated by the Commission within sixty days of filing.

K.6. In the event West Penn transfers its assets as

set forth in this section, the affiliate to which such assets are transferred shall offer its owned capacity and associated energy in the amounts set forth in paragraph 7 of Appendix G, at non-

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discriminatory terms, rates and conditions to unaffiliated licensed EGSs through the year 2002.

L. MISCELLANEOUS

L.1. All parties will commit to work with all other parties to support and successfully implement all aspects of the Settlement Agreement.

L.2. Not later than November 30, 1998, the Company shall file with the FERC, with service on the Joint Petitioners, such provisions of the Settlement Agreement (including Appendix F and other appendices) that the Company believes require FERC approval in order to effectuate the Settlement Agreement including filings necessary to adjust the Allegheny Power System Power Supply Agreement and the Allegheny Generating Company Power Agreement. The filings shall include only such provisions as have been agreed to by the Joint Petitioners. The Joint Petitioners agree to support or not to oppose such filings.

L.3. West Penn and AEC agree that the Company will provide AEC the option, at AEC's sole discretion, to terminate, effective May 1, 1999, the generation capacity and energy services portions of the 1974 Electric Service Agreement, as amended, ("ESA") for the delivery points designated in the ESA with no continuing generation obligation and without any additional contract costs, contract penalties, stranded costs or extra contractual costs relating to generation services to AEC other than any obligation arising from the buyouts of the Milesburg, Shannopin and Burgettstown PURPA projects, as may ultimately be determined by specific final rulings from FERC or other court of competent jurisdiction (the "Option"). However, the execution of the Joint Petition may not, in any way, be used to support the existence of any such buyout obligations. AEC retains its

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full rights to oppose any filing seeking recovery of such buyout costs from it. The Option, if exercised by AEC, must be by a writing delivered to the Company at least 45 days in advance of May 1, 1999. Notwithstanding any other provisions of the Joint Petition, nothing in this Joint Petition other than this paragraph shall be deemed a modification of the existing capacity and energy sale and purchase requirements of the existing ESA. Without limitation of any existing rights to termination of the ESA, AEC shall decide whether, at its sole option,

to discontinue the generation service provisions of the ESA at least 45 days prior to May 1, 1999. Even if AEC exercises the Option, the delivery service provisions of the ESA may, at AEC's sole option, remain in effect as provided for in the ESA as agreed to by the Company and AEC. Notwithstanding any provision of this Joint Petition, AEC retains any and all rights AEC may have under the ESA and may participate in any proceeding regarding the transfer of West Penn generating assets to protect AEC's rights under the ESA; provided that AEC shall not oppose the transfer of any generating assets, as provided in Paragraph K hereof.

M. RESOLUTION OF OTHER ISSUES

M.1. Any issue not specifically addressed in this Settlement and related agreements shall be treated and resolved in accordance with the resolution of that issue adopted by the Commission at this docket in the Restructuring Order entered May 29, 1998, the Reconsideration Order entered July 21, 1998, and Compliance Orders entered July 28, 1998 and September 17, 1998.

N. WITHDRAWAL OF PENDING STATE AND FEDERAL COURT CASES

N.1. Within ten days of the execution of this Joint Petition by all of the Joint Petitioners, the Petitioners in the following cases with the concurrence and support of the Commission and other parties and intervenors that are Joint Petitioners hereto,

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shall petition the Commonwealth Court to continue generally, further consideration of their respective actions (all such actions collectively referred to as the "Commonwealth Court Actions"):

1592 C.D. 1998	Hospital Shared Services and Administrative Resources, Inc., Petitioners v. PaPUC, Respondent
1700 C.D. 1998	West Penn Power, Petitioner v. PaPUC, Respondent
1798 C.D. 1998	Irwin A. Popowsky, Consumer Advocate, Cross-Petitioner v PaPUC, Respondent
1821 C.D. 1998	West Penn Power Industrial Intervenors, Petitioner v. PaPUC, Respondent
2076 C.D. 1998	West Penn Power, Petitioner, v. PaPUC, Respondent
2225 C.D. 1998	Irwin A. Popowsky, Consumer Advocate, Petitioner v. PaPUC, Respondent
2308 C.D. 1998	West Penn Power, Petitioner, v. PaPUC, Respondent
2771 C.D. 1998	West Penn Power Industrial Intervenors, Petitioner v. PaPUC, Respondent
2793 C.D. 1998	West Penn, Petitioner v. PaPUC, Respondent
2310 C.D. 1998	Citizen's Power, Inc. and the Pa. Public Interest Research Group, Petitioners v. Pa. PUC, Respondent
798 M.D. 1998	West Penn Power, Petitioner, v. PaPUC, Respondent

N.3. Within ten days of the execution of this Joint Petition by all of the Joint Petitioners, West Penn shall petition the United States District Court to continue generally its action filed at Civil Docket No. 98-1117 (W.D.Pa.).

N.4. Within ten days after the Commission's approval of this Joint Petition becomes final and no longer subject to administrative or judicial challenge, West Penn shall (a) withdraw with prejudice all of its pending Commonwealth Court Actions, (b) withdraw with prejudice all of its pending Commonwealth Court Reconsideration Actions and (c) dismiss with prejudice, pursuant to Rule 41(a)(1), its pending civil action before the U.S. District Court, and the other Joint Petitioners shall similarly withdraw with prejudice all of their Commonwealth Court Actions and Commonwealth Court Reconsideration Actions.

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N.5. The Joint Petitioners agree that they shall not initiate or join in any court challenge, arising out of the issues resolved by this Settlement, to the constitutionality or legality of the Electric Competition Act such that would prevent or preclude implementation of this Settlement or any of its terms, this Joint Petition for Settlement or any order approving this Joint Petition, except as provided in Paragraph P.1., and provided that, notwithstanding any other provision of this Joint Petition, nothing in this Joint Petition shall prevent any Joint Petitioner that is a party to the restructuring proceedings of another utility from initiating or continuing any court challenge, including a challenge to the constitutionality or legality of the Electric Competition Act, arising from such proceedings.

O. EFFECTIVENESS, DURATION AND ENFORCEMENT OF SETTLEMENT

O.1. The settlement proposed herein will go into effect upon the Commission's issuance of a final order approving this Joint Petition and all the settlement terms and conditions without modification. The terms of this Settlement shall be implemented and enforceable notwithstanding the pendency of a legal challenge to the Commission's approval of this Joint Petition or to actions taken by another regulatory agency or Court, unless such implementation and enforcement is stayed or enjoined by the Commission, another regulatory agency, or a Court having jurisdiction over the matter.

O.2. The obligations under this Settlement that apply for a specific term set forth herein shall expire automatically in accordance with the term specified, and shall require no further action for their expiration. This Settlement, including all of the terms and conditions set forth above, shall expire on December 31, 2008 except with respect to those aspects of this Settlement, orders of the Commission implementing this Settlement or

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West Penn's tariff approved as part of this Settlement, implementation of which necessarily must be completed beyond that date.

O.3. The Joint Petitioners may enforce this Joint Petition through any appropriate action before the Commission or through any other available remedy. Joint Petitioners shall consider any final Commission order related to the enforcement or interpretation of this Joint Petition as an appealable order to Commonwealth Court. This shall be in addition to any other available remedy at law and equity.

O.4. If a court grants a legal challenge to the Commission's approval of this Joint Petition and issues a final non-appealable order which prevents or precludes implementation of any material term of the Settlement, or if some other legal bar has the same effect, then this Settlement is voidable, upon written notice by any Joint Petitioner.

P. COMPLETE AGREEMENT; NO ALTERATIONS OR MODIFICATIONS

P.1. This Settlement resolves, with prejudice, all of the issues specifically addressed herein and precludes the Joint Petitioners from asserting contrary positions with respect to any such issue during subsequent litigation, provided, however, that this Settlement is made without admission against or prejudice to any factual or legal positions which any of the Joint Petitioners may assert: (i) in the event that the Commission does not issue a final, non-appealable Order approving this Settlement without modification; or (ii) in other Pennsylvania utilities' Restructuring proceedings before the Commission under Section 2806(d) of the Electric Competition Act and related appeals; or (iii) other proceedings before the Commission or other for as long as such positions are not in derogation of this Settlement. The Joint Petitioners agree that this Settlement shall not

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constitute or be cited as controlling precedent in any other proceedings, including Pennsylvania utilities' restructuring proceedings before the Commission under Section 2806(d). This Settlement is determinative and conclusive of all of the issues addressed herein and constitutes a final adjudication as to the Joint Petitioners of the matters thereof.

P.2. This Settlement is expressly conditioned upon the Commission's approval of all of the specific terms and conditions contained herein without modification. If the Commission should fail to grant such approval, or should modify any of the terms and conditions herein, this Settlement will terminate and be of no force and effect. The Joint Petitioners will make best efforts to support this Settlement and to secure its approval by the Commission.

P.3. It is expressly understood and agreed that this Settlement constitutes a negotiated resolution solely of West Penn's restructuring proceedings at Docket No. R-00973981 and the related court appeals and other actions listed herein.

IV. PUBLIC INTEREST CONSIDERATIONS

The Joint Petitioners submit that this Settlement is in the public interest and should be approved in full for the following reasons:

1. Competition Will Be Promoted. Customers will receive shopping credits that may allow shopping customers to achieve bill savings. In addition, there will be an immediate overall 2.5 % rate decrease in 1999.

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2. Transmission And Distribution Charges Will Be Capped For An Additional Period. The Settlement provides that the cap on West Penn's transmission and distribution charges, which otherwise would expire on June 30, 2001, will be extended through 2005.

3. Generation Rates Will Be Capped For An Additional Three Years. The Settlement provides that a cap on West Penn's generation rates, which otherwise would expire December 31, 2005, will be in place as provided in the Electric Competition Act (66 Pa. C.S. Section 2804(4)), until December 31, 2008 and is increased as set forth in Appendix A hereto.

4. Universal Service Coverage Will Be Expanded. The Settlement provides for expansion of funding levels for West Penn's LIPURP and LIURP programs. In addition, non-shopping customers will be served by the West Penn EDC in its role as a provider of last resort or a competitive provider of last resort that will offer electric service at market determined rates.

5. Economic Development and the Environment Will Benefit. The Settlement is intended to promote competition to the benefit of business and industry as well as to residential consumers. The Settlement promotes renewable energy development and provides for a renewable energy pilot program. The Settlement also provides for a sustainable energy fund designed to promote the development and use of renewable energy and clean energy technologies, energy conservation and efficiency which promote clean energy.

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6. The Securitization of Stranded Assets Will Be Facilitated. The Settlement provides for the Commission to issue a Qualified Rate Order authorizing West Penn to securitize up to \$670 million (\$630 million in the event of a merger with DQE) of its recoverable stranded assets and costs.

7. Substantial Litigation And Associated Costs Will Be

Avoided. The Settlement amicably resolves a number of important and contentious issues raised in the proceeding and, at the same time, provides for the withdrawal of various actions currently pending before state and federal courts. The administrative and appellate burden and costs to litigate these matters, including likely future appeals, to conclusion would be substantial.

8. The Settlement Is Consistent With Commission Policies Promoting Negotiated Settlements. The Joint Petitioners arrived at the settlement terms after conducting extensive discovery, submitting comprehensive testimony and engaging in in-depth discussions. The settlement terms and conditions constitute a carefully crafted package representing reasonable negotiated compromises on the issues addressed herein. Thus, this Settlement is consistent with the Commission's rules and practices encouraging negotiated settlements (see 52 Pa. Code Sections 5.231, 69.391, 69.401).

V. CONCLUSION

WHEREFORE, the Joint Petitioners, intending to be legally bound, respectfully request that the Commission: (1) approve the settlement terms and conditions set forth in the Joint Petition without modification; (2) amend the Commission's Restructuring Order and Reconsideration Order as necessary to implement the proposed Settlement; (3) approve the Tariff Supplements attached as Appendix B to become effective pursuant to the terms set forth therein; (4) issue the Qualified Rate Order set forth in

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Appendix E hereto; (5) approve West Penn's transfer of generating assets as set forth herein; and (6) approve West Penn's establishment of a regulatory asset for certain CTC revenues as set forth herein.

The undersigned counsel or representatives certify that they have full authority to enter into this settlement and to act on behalf of their respective parties, and each is executing this agreement as a duly authorized representative of such party.

Michael P. Morrell
For West Penn

Date

Irwin A. Popowsky, Esquire
Tanya J. McCloskey, Esquire
Edmund J. Berger, Esquire
For Office of Consumer Advocate

Date

Bernard A. Ryan, Jr., Esquire
Steven C. Gray, Esquire
For Office of Small Business Advocate

Date

Charles F. Hoffman, Esquire
Scott H. DeBroff, Esquire
For Office of Trial Staff

Date

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David M. Kleppinger, Esquire
Derrick Williamson, Esquire
For West Penn Power Industrial Intervenors

Date

Kenneth Zielonis
For Pennsylvania Retailers' Association

Date

William T. Hawke, Esquire
For Mid-Atlantic Power Supply Association

Date

Barbara Kates-Garnick
Jeff Bladen

Date

For New Energy Ventures

Kevin J. Moody, Esquire
For Enron Power Marketing, Inc.

Date

Patricia Armstrong, Esquire
For Allegheny Electric Cooperative, Inc.

Date

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Kathleen O'Reilly, Esq.
For Environmentalists

Date

Mark Sundback, Esquire
For Hospital Shared Services/Administrative Resources, Inc.

Date

Charles E. Thomas, Jr., Esquire
For Pennsylvania State University

Date

Eugene Brady
For Community Action Association of Pennsylvania

Date

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PUBLIC UTILITY COMMISSION
HARRISBURG, PA 17105-3265

Public Meeting held November 19, 1998

Commissioners Present:

John M. Quain, Chairman
Robert K. Bloom, Vice Chairman
David W. Rolka, Statement attached
Nora Mead Brownell
Aaron Wilson, Jr.

Application of West Penn Power Company
for Approval of a Restructuring Plan Under
Section 2806 of the Code.

Docket No. R-00973981

FINAL OPINION AND ORDER

BY THE COMMISSION:

Before the Commission for consideration are the comments filed with respect to our Tentative Order, entered November 4, 1998, in the above-captioned proceedings. These proceedings concern the restructuring plans and resulting litigation arising under the Electric Generation Customer Choice and Competition Act, 66 Pa. C.S. Sections 2801-2812 ("Act"), Of West Penn Power Company ("West Penn" or "the Company"). Our Tentative Order approved the terms of a proposed full settlement ("Settlement") set forth in the Joint Petition for Full Settlement of West Penn's Restructuring Plan and Related Court Proceedings, dated November 3, 1998 ("Joint Petition"). In the Tentative Order, we provided that the determinations contained therein would not become final until this Commission considered all timely filed comments and issued a final order.

Comments have been received from the Environmentalists ("the Environmentalists"), and the Mid-Atlantic Power Supplier Association ("MAPSA"). Also, a group of Joint Petitioners involved with universal service

issues -- West Penn, the Office of Consumer Advocate ("OCA"), Community Action Agencies of Pennsylvania ("CAAP") and the Environmentalists -- filed a joint

comment. The Dollar Energy Fund ("DEF"), an independent non-profit organization that provides energy assistance programs to low income families throughout Pennsylvania, did not participate in the West Penn restructuring proceeding, but did file a comment.

We also received timely comments from individual West Penn customers: Mrs. Hiram Boggs, William J. Graham, Adam Kushner, George H. Milne, Frank Beachly, Edward J. Giron, and John Zutko.

BACKGROUND

The Joint Petition dated November 3, 1998 has been filed with the following signatories: West Penn; the OCA; the Office of Small Business Advocate ("OSBA"), the Office of Trial Staff ("OTS"), West Penn Power Industrial Intervenors ("WPPII") (1), CAAP, Allegheny Electric Cooperative, Inc. ("AEC"), the Pennsylvania State University ("Penn State"), Pennsylvania Retailers' Association ("PRA"), the Environmentalists(2), Hospital Shared Services/Administrative Resources, Inc. ("HHS/ARI"), and PECO Energy Company ("PECO") (all parties collectively referred to as the Joint Petitioners).

As noted in the Tentative Order, the proposed terms and conditions of the Joint Petition represent a comprehensive settlement of the complex matters involved in achieving the restructuring of West Penn. The Joint Petition is intended to resolve all issues on appeal before the Commonwealth Court and the United States District Court arising from challenges by various Joint Petitioners to this Commission's final orders and related determinations regarding West Penn's Application for Approval

(1) WPPII includes in its membership ARMCO, Inc. who had signed the Joint Petition individually.

(2) The Environmentalists include The Sierra Club, The Group Against Smog and Pollution, Clean Water Action, Citizen Power, Inc., The Pennsylvania Public Interest Research Group and Citizens' Organization on Utility Policies.

of its Restructuring Plan under Section 2806 of the Public Utility Code, 66 Pa. C.S. Section 2806. The essential accomplishments of the Settlement are as follows:

- customers will receive overall rate decreases of 2.5% during 1999;
- two-thirds of all customers will have the opportunity to

choose an alternate electric generation supplier on January 2, 1999;

- customers will receive shopping credits that may allow shopping customers to achieve bill savings in addition to the guaranteed rate cuts;
- provisions of the settlement will insure that a competitive market for electricity will be created and functioning by January 1, 1999;
- in the event that West Penn divests itself of generation assets, the net jurisdictional proceeds will be used to offset the Company's stranded costs, that is recoverable from ratepayers through West Penn's Competitive Transition Charge;
- transmission and distribution rates will be capped for an additional four and one-half years, (to December 31, 2005);
- the generation rate caps will be extended for an additional three years;
- universal service program will be expanded, and a sustainable energy fund will promote the development and the use of renewable energy and clean energy technologies, energy conservation and efficiency which will benefit the environment;
- consumers will have the opportunity to receive metering and billing services from competitive suppliers;
- a competitive market for the provider of last resort service will be established so that non-shopping customers also have the opportunity to realize bill savings; and
- substantial litigation and its associated costs and uncertainties will be avoided.

Copies of the Joint Petition, Settlement and Appendices have been served by West Penn on all parties to the proceeding by overnight mail or hand delivery. Written notice of the proposed settlement has been provided by letter to all West Penn customers, as well as posting in offices and on the

Companies' Internet web page, and by news release. (See Tentative Order, p. 2, n. 1).

COMMENTS OF THE ENVIRONMENTALISTS

A. NET METERING

In their comments, the Environmentalists voice support for the Joint Petition but propose a substantive change -- that language in the Net Energy Metering Rider be made consistent with the net metering provisions of the PECO Energy Company's final order. The Environmentalists state that the language proposed by the Company at "Metering" (paragraph 19 on page 4-12), "Self-Generation Competitive Transition Charge" (paragraph 40 on page 4-33) and "Net Energy Metering Rider" (pages 34-1 through 34-3) differs from the net metering provisions approved in the previous three settlement agreements in the following ways:

1. The West Penn rider states that customers with eligible renewable energy projects are subject to the competitive transition charge. In the previous cases, these projects were exempt from the CTC. This provision destroys the retail-in/retail-out up to net feature of the net metering tariff.
2. The West Penn rider requires the customer to forfeit any surplus of generation above generation during the billing period. In the other settlements, the customer that is likely to regularly generate a surplus can choose either the two meter option or the smart meter option to receive payment for energy its generates in excess of consumption. The West Penn customer does not have this option.
3. The West Penn rider does not give the customer the option of using its existing non-ratcheted, bi-directional meter. This meter option, present in the other three settlements, is critical to keep the costs reasonable.
4. The West Penn rider holds the customer responsible for the cost of all changes in the distribution system. In the other three settlements, the customer was not responsible for the first \$1,000 of local distribution system upgrades.

The Environmentalists request that the above provisions be changed, and expressed their willingness to work with the Company for inclusion in its compliance filing to draft a net metering tariff that is consistent with earlier settlements.

West Penn, in reply to the Environmentalists' comments, prefaces its comments by pointing out that the Environmentalists fully participated in the settlement negotiations, and that in the Agreement signed by the Environmentalists they agree to support the Settlement Agreement before the Commission and not to initiate or join in any court challenge of the Settlement Agreement. (See Paragraph N.5.)

As to the Environmentalists' proposed changes, West Penn states that it is willing to allow net metering through a non-ratcheted, bi-directional meter if one is already in place (Item No. 3 on the Environmentalists' list). In addition, West Penn is willing to allow those kilowatt-hours of customer use that is supplied by the customer's own generation to be exempt from a CTC, with the understanding that such treatment does not reduce the total amount of CTC revenue which West Penn is authorized to collect from customers (Item No. 1 on the Environmentalists' list).

However, in light of West Penn's contribution of \$4 million in shareholder funds to ECAP for development of conservation services and for expansion of clean and renewable energy sources, West Penn does not support adding provisions to the signed Agreement at this late date to incorporate Item No. 2 (a buy back of customer generation) or Item No. 4 (free distribution system upgrades) requested by the Environmentalists.

As there is agreement in regard to the Environmentalists' requested changes regarding the allowance of net metering through a non-ratcheted, bi-directional meter that is already in place (Item No. 1), and the exemption from a CTC of those kilowatt-hours supplied for a customer's own use by the customer's own generation (provided that the practice does not reduce the total amount of CTC revenue which West Penn is authorized to collect

from customers) (Item. No. 3), the Commission will direct that these revisions be made to West Penn's Tariff.

As to the other two proposed changes advanced by the Environmentalists, the Commission must agree with West Penn. The Joint Petition provides that any matter not specifically addressed is controlled by the Commission's May 29, 1998 Order on West Penn Restructuring filing. Joint Petition, Paragraph M.1. At p. 190 of that Order, the Commission specifically rejected the Environmentalists' proposal that West Penn be required to purchase generation from any customer. Accordingly, by the terms of the settlement, this request cannot be granted.

In regard to the Environmentalists' request that West Penn provide free distribution system upgrades to self-generators, the Joint Petition and the Commission's May 29, 1998 orders and subsequent compliance filing orders are silent. Section 2804(2) of the Act, 66 Pa. C.S. Section 2804(2), directs that customers should be afforded "reasonable opportunities to self-generate and interconnect." We believe that West Penn, in providing \$4 million in funding to ECAP's residential energy conservation and renewable resource program, has sufficiently satisfied the Act's requirement. Therefore, we will deny the Environmentalists' request for additional expenditures by West Penn relating to self-generation.

B. IDENTIFICATION OF CITIZEN POWER, INC. AS FUND RECIPIENT

The Environmentalists also request a change to the language at paragraph D.5 of page 25 of the Joint Petition that would include the following language:

... West Penn agrees to contribute four million dollars (\$4 million) of shareholder funds to Citizen Power, Inc., the sponsor of the western division of the Energy Association of Pennsylvania (ECAP), a licensed aggregator, for a four year program...

The Environmentalists explain that there are two reasons for this change. The first is that the proposed language more accurately reflects the current status of ECAP as provided for in an agreement between ECAP and

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Citizen's Power. Second, the proposed language will better preserve the funds for the purpose described in paragraph D.5 of the Joint Petition. As a tax-exempt cooperative, ECAP must distribute all residual proceeds to its members each tax year. Unless the \$4 million was totally spent in 1998, the choice is distribute the remainder of the \$4 million to ECAP's members, or for ECAP to pay income tax on the unspent amount. The plan is to place the funds in a tax-exempt account of Citizen Power until they are actually used to provide ECAP services.

In its comment, the Environmentalists state that West Penn has approved this revision to the Settlement's language and that OCA has no opinion about the proposed revision. In its reply comments, West Penn reiterates that it does not object to the addition of the language in Paragraph D.5 if it is included in the Commission's Final Order. Accordingly, the Commission directs that the language in Paragraph D.5 is revised as proposed by the Environmentalists.

COMMENTS OF THE DOLLAR ENERGY FUND; COMMENTS FILED BY JOINT PETITIONERS

In its comments, DEF requests that the Commission change language that appears at Paragraph E.2 of the Joint Petition. This language reads as follows:

West Penn shall use Community Action Agencies to operate its LIPURP and Pennsylvania Weatherization Providers Task Force member agencies to operate its LIURP.

DEF, who was not a participant in West Penn's Restructuring Proceeding or in the Joint Petition for Settlement, comments that the above language is restrictive and precludes other qualified community agencies, such as DEF, from working with West Penn to administer their universal service programs. DEF requests that generic language be substituted for this restrictive provision:

E.2. West Penn shall use community-based agencies to operate its LIPURP and LIURP.

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Alternate language for this paragraph is offered in comments filed by those Joint Petitioners who were interested in the Settlement's universal service provisions -- Office of Consumer Advocate, CAAP, West Penn and the Environmentalists. OCA explains that it had contacted the other parties and had worked with DEF to attempt to reach agreement on the language that could be substituted for original language in Paragraphs D.5.a and E.2. This substitute language reads as follows:

D.5.a. All ECAP low income and rural programs and services will be provided through Community Action Agencies and Pennsylvania Weatherization Task Force member agencies except where these local providers are not in a position to or are unwilling to provide the programs and services.

E.2. West Penn shall use Dollar Energy Fund (Dollar Energy) and Community Action Agencies to operate its LIPURP and Pennsylvania Weatherization Providers Task Force member agencies to operate its LIURP unless these agencies are unavailable or unwilling to provide the programs and services. With respect to LIURP, Dollar Energy will provide prescreening and referral. Additionally, 50-75% of all LIURP jobs will receive quality control inspection from Dollar Energy.

OCA states that it is authorized to state that CAAP, West Penn, OCA and the Environmentalists agree that the Settlement should be modified to incorporate this language, and request that the Commission direct that the modification be made. OCA also states that DEF has informed the OCA that the language in Paragraph E.2 would allow DEF to continue providing services in West Penn service territory and that it would not oppose this language.

In its reply comments, West Penn states that it concurs in the adoption of the language presented by OCA for Sections D.5.a and E.2 of the Agreement and extends its appreciation to OCA for its lead role in resolving universal service issues in a way that will allow DEF to continue providing service in West Penn's service area.

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In light of the agreement of those Joint Petitioners who are involved with universal service issues that these amendments to the Joint Petition should be made, the Commission will direct that these provisions should be so revised.

COMMENTS OF MAPSA

In its comments(3), MAPSA seeks a clarification as to a specific portion of the Supplier Coordination Tariff that had been appended to the Joint Petition as Appendix F. Specifically, MAPSA is concerned with Section 6.2.6 that provides for the calculation of the percentage of a load attributable to an electric generation supplier ("EGS"), and the percentage of a load attributable to West Penn during the phase-in period. MAPSA states that this provision is silent as to which entity's energy is considered to be the "first through the meter" for purposes of calculating a customer's shopping credit. MAPSA explains that because West Penn has a declining block rate structure, the entity whose energy is considered as being the first through the meter determines the size of the customer's shopping credit. MAPSA further explains that if a supplier's energy is considered to be the first through the meter, the customer will have a larger shopping credit with which to shop, but if the converse is true, namely if West Penn's energy is calculated to be the first through the meter, the customer will have a much smaller shopping credit (considering that West Penn's energy as being first pushes the energy usage used to calculate the shopping credit out to the lower blocks of the rate schedule, thus creating a smaller shopping credit for the customer). MAPSA claims that calculating West Penn's portion of load as being first through the meter discourages customers from shopping.

MAPSA requests that the Commission clarify Section 6.2.6 of West Penn's Supplier Tariff and require that an EGS's portion of the load be counted as "first through the meter" for all purposes. MAPSA notes that the

(3) In its comments, MAPSA states that with regard to those portions of the Competitive Safeguards (Appendix G), in particular Articles 5, 6 and 7, it will communicate with West Penn regarding standards for posting transactions, offerings to the market, etc., and will attempt to meet with West Penn to address these issues. MAPSA states that the results of these discussions will be submitted to the Commission where appropriate.

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Commission approved this provision in PP&L Inc.'s Supplier Coordination Tariff, and that the PP&L tariff was the basis for discussion of West Penn's tariff. MAPSA states that West Penn is currently calculating its energy as being first through the meter and that this practice deprives "commercial and industrial customers of the benefit of the bargain, and essentially will vitiate the two-thirds phase-in." For these reasons, MAPSA requests that the Commission adopt this clarification.

In its reply comments, West Penn states that the "first through the meter" issue for partial loads has been extensively debated and resolved during the proceeding. West Penn further states that the issue was initially raised by WPPII in its comments to West Penn's Compliance Filing of June 18, 1998. In response to these comments, by order, the Commission directed West Penn to demonstrate that its methodology for partial loads would not place customers on a different, less advantageous rate or violate the rate provisions of the Act. Order entered July 23, 1998 at Docket No. R-00973981, p. 24.

West Penn continues that in its Revised Compliance Filing of August 19, 1998, it demonstrated that it would split charges during the phase-in for customers with loads being served both by West Penn's EDC and the EGS, assuming a full enrollment and 66 percent of the load available to shop. The example submitted with the Compliance Filing shows that the West Penn and the EGS provide generation at the same overall load factor.

West Penn then states that on September 17, 1998, the Commission entered an Opinion and Order on the Company's Revised Compliance Filing which addressed WPPII's concerns for partial load industrial customers. In its September 17, 1998 Order, the Commission summarized the WPPII contentions with respect to receiving service at a different, less advantageous rate and summarized WPPII's contention that West Penn should be directed to implement phase-in for partial load on a load-following basis. In resolving the contentions of West Penn and WPPII, the Commission stated that it believed that the methodology employed by

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West Penn reasonably allocates customers' consumption between the EDC and the EGS, and further that West Penn's methodology has only a de minimis impact, if any, on a customer's ability to shop.

West Penn states further that at the time of negotiations the issue about partial loads during the phase-in period arose again. West Penn claims that it was considered in the context of the whole negotiation and settlement, and that WPPII has agreed to withdraw its appeal relating to partial load as part of the broader settlement, and submits that the issue has been fully resolved.

The Commission has considered the merits of these arguments in the context of this proceeding and agrees with West Penn. The issue has been considered by this Commission in the context of West Penn's previous compliance filings and has been resolved. Order entered September 17, 1998 at Docket No. R-00973981, p. 19. In that order, the Commission found that West Penn's methodology for allocation of partial customer loads as presented in its compliance filings had only a de minimis impact on a customer's ability to shop. We therefore decline to make this clarification.

COMMENTS FROM INDIVIDUAL WEST PENN CUSTOMERS

The individual comments filed by West Penn customers were very complimentary to West Penn commending its continued reliable service and low rates(4). Others questioned the amount of transition costs that the Company would be allowed to recover from customer.

Based on the record before us, we believe that the amount of stranded costs reached in the settlement is reasonable. West Penn is permitted to recover a slightly greater amount than authorized in the Commission's

(4) A couple of comments protested the proposed merger of West Penn with DQE, Inc. which was the subject of Commission proceedings on the Joint Application of DQE, Inc. and Allegheny Power System, Inc. and AYP Sub, Inc. for Approval of the Transfer by Merger of Property and Rights of Duquesne Light Company to Allegheny Power System, Inc., Dkt. No. A-110150 F.0015. The Commission will not address this matter here except to point out that the anticipated savings that will result from the proposed merger will reduce the total amount of stranded costs that West Penn will be permitted to collect from its customers under the Settlement from \$670 million to \$630 million.

May 29, 1998 Restructuring Order, but customers will obtain a 2.5% rate decrease during 1999 and have the protection of a rate cap for an extended period of time. These and other provisions of the settlement package, taken as a whole, represent a fair and reasonable balance of the competing interests involved in this matter.

CONCLUSION

The Joint Petition represents a comprehensive settlement of all issues concerning the restructuring of West Penn Power Company. We are convinced that a resolution of this proceeding is in the public interest; THEREFORE,

IT IS ORDERED:

1. That the Tentative Opinion and Order entered November 4, 1998, is hereby, made final, subject to and incorporating herein, the modifications contained in this Final Opinion and Order.

2. That in consideration of and reliance upon the representations, mutual promises and undertakings of the parties to this proposed settlement, including the express agreement of each signatory to be legally bound by its terms and certification of each signatory that he or she has full authority to enter into the settlement and act on behalf of their respective parties, the terms of the proposed full settlement set forth in the Joint Petition and the Appendices shall be hereby approved as to each and every one of its terms and conditions, and we hereby reconsider and amend our prior orders in these proceedings as necessary to implement the terms of the full settlement. Any issue not specifically addressed in this settlement shall be treated and resolved in accordance with the resolution of that issue in the Restructuring Order adopted by the Commission and entered on May 29, 1998, at Docket No. R-00973981.

3. That the Commission hereby grants, subject to the terms and conditions set forth in the Settlement, the approvals, licenses and certificates required under the Public Utility Code regarding the transfer,

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lease or assignment of the Company's generating assets and liabilities, including but not limited to approvals under Chapter 5, 11, 19, 21 and 28 of the Public Utility Code.

4. That the recovery of stranded costs by West Penn of \$670 million (or \$630 million in the event of a merger with DQE, Inc.) is just and reasonable and in the public interest.

5. That the tariff supplements appended to the Joint Petition and all Appendices are hereby approved, being necessary to implement the full

settlement, and shall become effective pursuant to the terms set forth in the Joint Petition and Appendices.

6. That in the event of divestiture or transfer of West Penn's generating facilities, it is hereby determined with respect to the divested generation facilities of the Company that allowing these generation facilities to qualify as "eligible facilities" under the Public Utility Holding Company Act of 1935 (1) will benefit consumers, (2) is in the public interest and (3) does not violate State law.

7. That the Commission's approval of the terms and conditions set forth in the Joint Petition and Appendices is expressly contingent upon and shall not become final and enforceable until all appeals and civil actions required to be dismissed with prejudice as referred to in Part N of the Joint Petition have been finally withdrawn, discontinued, or dismissed with prejudice in accordance with the provisions of the settlement.

8. That the Application of West Penn Power Company for the Issuance of a Qualified Rate Order Under Sections 2808 and 2812 of the Electricity Generation Customer Choice and Competition Act, 66 Pa. C.S. Section 2808 and Section 2812, contained in the Joint Petition for Settlement of West Penn Power Company's Restructuring Plan be, and hereby is, granted, consistent with this Qualified Rate Order.

9. That to the extent specified in this Qualified Rate Order, West Penn's filings, testimony and exhibits submitted to the Commission in

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conjunction with West Penn's Restructuring Plan at Docket R-00973981, are hereby incorporated herein by reference.

10. That it is just and reasonable and in the public interest for West Penn to recover from its customers, through Intangible Transition Charges as and to the extent authorized at Paragraph 12 of this Qualified Rate Order, up to \$630 million of Qualified Transition Expenses (or in the event that the proposed merger of Allegheny Energy, Inc., and DQE, Inc. is not consummated, up to \$670 million in Qualified Transition Expenses) including all Transition or Stranded Costs approved by the Commission for recovery from customers and other Qualified Transition Expenses, as defined in Paragraph 12, below. The savings from securitization and issuance of transition bonds are provided for in the rates and rate reductions set forth in Section B.1 and Appendix A of the Joint Petition for Full Settlement of West Penn Power Company's Restructuring Plan and Related Court Proceedings at Docket No. R-00973981 and further reductions in the CTC/ITC set forth in Section A.5 of the Joint Petition. The aforesaid rates and CTC/ITC reductions constitute full compliance with Sections 2808(e) and 2812(b) (2) of the Electricity Generation Customer Choice and Competition Act and no further rate reduction is required.

11. That this Commission authorizes the issuance of Transition Bonds in an aggregate principal amount not to exceed \$630 million (or not to exceed \$670 million in the event that the merger is not consummated) and finds that the issuance of such amount of Transition Bonds is in the public interest. Provided that the rate reductions specified in the Joint Petition are implemented as provided in Paragraph 13 of this Qualified Rate Order, this Commission hereby determines that 75% of all savings that may be accomplished through securitization will be passed on to customers through the rate reductions in Paragraph 13 and West Penn is not required to pass on additional savings, and no further rate adjustment is required because the Commission hereby finds that such additional savings have already been reflected in this Joint Petition.

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12. That this Commission authorizes West Penn to impose on, and to collect from its customers, either directly or through bills rendered by electric generation suppliers or any subsequently selected providers of last resort, through non-bypassable charges applied to the bill of every customer of electric services within the geographic area that comprises West Penn's certified service territory on the effective date of the Act, whether such customer was a customer on the effective date of the Act, or became a customer after that date, (i) Competitive Transition Charges ("CTCs") as provided in the Joint Petition in an amount sufficient to permit West Penn to recover the full amount of its Transition or Stranded Costs as authorized for recovery by the Commission's approval of the Settlement Petition, and (ii) Intangible Transition Charges in an amount sufficient to recover the aggregate principal amount of the Transition Bonds plus a reasonable amount sufficient to provide for any credit enhancement to fund any reserves, and to pay interest, premiums upon acquisition or redemption of equity or debt, if any, costs of defeasance, servicing fees and other fees, costs and charges relating to the Transition Bonds (the Transition or Stranded Costs, which includes the principal and interest on Transition Bonds, costs for credit enhancements, the costs of retiring existing debt and equity, costs of defeasance, servicing fees and other related fees, taxes, costs, charges and expenses permitted to be recovered through Intangible Transition Charges, collectively the "Qualified Transition Expenses"). The Commission finds that such recovery and the imposition of such CTCs and Intangible Transition Charges are in the public interest and are just and reasonable. The Commission finds that good cause has been shown to extend the payment period for imposing the CTCs and the Intangible Transition Charges to December 31, 2008. The Intangible Transition Charges shall be collected over periods of time and in such amounts as are necessary to amortize each series and class of Transition Bonds in accordance with the terms thereof, but in no event shall be charged to the customers after December 31, 2008. Notwithstanding anything else in this Qualified Rate Order, the Intangible Transition Charges shall be collected from customers in an amount sufficient to discharge the Transition Bonds in accordance with their terms.

13. Upon the successful issuance of Transition Bonds authorized by this Qualified Rate Order and the imposition of Intangible Transition Charges related thereto, West Penn is directed to implement the following adjustments to its rates: West Penn shall reduce the CTCs imposed on its customers by an amount equal to the Intangible Transition Charges associated with such Transition Bond issuance and West Penn shall reduce the CTCs imposed on its customers by an additional amount necessary to flow through to customers 75% of the net savings achieved as a result of securitization of its Transition or Stranded costs and issuance of Transition Bonds. The reductions specified above shall be implemented on the following terms: (a) upon the issuance of any series of Transition Bonds, a corresponding reduction shall be calculated and implemented corresponding to each such series; (b) the rate reduction shall be applied to bills using the method set forth in the Joint Petition; and (c) the Intangible Transition Charges associated with the Transition Bonds issued on that date shall be applied to bills simultaneously with the reduction of the CTCs.

14. That the CTCs and the Intangible Transition Charges shall be applied to customer bills using the methodology and allocation set forth in West Penn's QRO Application and its Restructuring Filing, as adjusted by the Joint Petition. Pursuant to Section 2812(b)(5) of the Act, the Commission authorizes West Penn to make annual adjustments (each, an "Annual Adjustment") to the Intangible Transition Charges if collections of such Intangible Transition Charges fall below the amount necessary to ensure the receipt by the assignee of the Intangible Transition Property and Financing Party of revenue sufficient to recover fully the Qualified Transition Expenses consistent with this Commission's Order; provided, however, that adjustments during the final calendar year of Intangible Transition Charge collection for any series of Transition Bonds shall be done quarterly or monthly, if necessary, in order to ensure full recovery of Intangible Transition Charges. The revenues received by the assignee of the Intangible Property and the Financing Party through the Intangible Transition Charges shall be determined to be sufficient for this purpose if and only if the revenues so received through the Intangible Transition

Charges are sufficient to provide for the payment of the principal, interest, and acquisition or redemption premiums on Transition Bonds, to fund any reserves and to pay relayed credit enhancement, servicing fees and other related fees, costs and charges in accordance with the terms thereof and as consistent with the terms of this Qualified Rate Order and the Joint Petition. For each Annual Adjustment, West Penn shall file with this Commission: (a) an accounting of Intangible Transition Charges received by the assignee of the Intangible Transition Property and the Financing Party for the previous annual period; (b)

a statement of any over- or under-receipts; (c) the charge or credit to be added to the Intangible Transition Charges to ensure that the Intangible Transition Charges revenue received by assignee of the Intangible Property and the Financing Party will be sufficient to amortize the Qualified Transition Expenses in accordance with the amortization schedule for Transition Bonds to be determined at the time of issuance of each series of Transition Bonds, and the corresponding reduction or increase in the CTCs, or if CTCs have not been imposed, West Penn's distribution rates; and (d) any proposal by West Penn to modify the reconciliation methodology. Pursuant to 66 Pa. C.S. Section 2812 (b) (5), this Commission shall finally adjudicate all Annual Adjustments within 90 days of West Penn's Annual Adjustment filing.

15. That this Commission determines that the methodology under which West Penn will recover the Intangible Transition Charges authorized by this Qualified Rate Order satisfies the provisions of 66 Pa. C.S. Section 2812(g), which require the methodology not shift inter-class or intra-class costs and that the methodology maintains consistency with the allocation methodology for utility production plant used by the Commission in West Penn's most recently concluded base-rate proceeding.

16. That this Commission concludes that it is in the public interest to, and authorizes West Penn and any Assignee to, (a) assign, sell, transfer or pledge Intangible Transition Property (such term includes all right, title, and interest of West Penn or any Assignee in this Qualified Rate Order) in an amount sufficient to recover all its Qualified Transition Expenses and in all revenues, collections, claims, payments, money or proceeds arising from

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Intangible Transition Charges pursuant to this Qualified Rate Order to the extent that this Qualified Rate Order and the rates and other charges authorized hereunder are declared irrevocable and (b) issue, sell and refinance, in reliance on this Qualified Rate Order, one or more series of Transition Bonds, each series in one or more classes, secured by Intangible Transition Property created by this Qualified Rate Order, provided that the final maturity of any series of Transition Bonds shall not exceed 10 years from the date of issuance and in no event shall any Transition Bond have a final maturity after December 31, 2008. Notwithstanding the foregoing, West Penn retains sole discretion regarding whether to assign, sell or otherwise transfer Intangible Transition Property created hereby or to issue or cause the Transition Bonds to be issued or refinanced.

17. That West Penn or any Assignee may refinance the Transition Bonds in a face amount not to exceed the unamortized principal thereof. That, if West Penn or any Assignee refinances the Transition Bonds, the Intangible Transition Charges authorized in this Qualified Rate Order shall be adjusted in accordance with the true-up mechanism described in Paragraph 14 of this Qualified Rate Order to ensure the receipt by the Transition Bond Assignee of

revenues sufficient to pay for all Transition or Stranded Costs of West Penn approved by the Commission for recovery under Sections 2804 (relating to standards for restructuring of the electric industry) and 2808 (relating to competitive transition charge), through the issuance of Transition Bonds; the reasonable costs of retiring existing debt or equity capital of the electric utility or its holding company parent, including accrued interest and premium upon acquisition or redemption of equity or debt, costs of defeasance, and other related fees, costs and charges relating to, through the issuance of Transition Bonds or the assignment, sale, or other transfer of Intangible Transition Property; and the costs incurred to issue, service or refinance the Transition Bonds, including accrued interest and acquisition or redemption premium, and other related fees, taxes, costs and charges, or to assign, sell, or otherwise transfer Intangible Transition Property. The revenues received by the Transition Bond Assignee through the Intangible Transition Charges shall be

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determined to be sufficient for this purpose if and only if the revenues so received through the Intangible Transition Charges provide for the amortization of Transition Bonds in accordance with the amortization schedule set forth in any prospectus or other offering document provided to the holders of the refinanced bonds after payment of interest, reserves, all Transition or Stranded Costs of West Penn approved by the Commission for recovery under Sections 2804 (relating to standards for restructuring of electric industry) and 2808 (relating to competitive transition charge), through the issuance of Transition Bonds; the costs of retiring existing debt or equity capital of the electric utility or its holding company parent, including accrued interest and premiums upon acquisition or redemption of equity or debt, costs of defeasance, and other related fees, costs and charges relating to, through the issuance of Transition Bonds or the assignment, sale or other transfer of Intangible Transition Property; and the costs incurred to issue, service, or refinance the Transition Bonds, including accrued interest and premiums upon acquisition or redemption of equity or debt, and other related fees, costs and charges, or to assign, sell or otherwise transfer Intangible Transition Property.

18. That this Commission directs that West Penn use the proceeds from the assignment, sale, transfer or pledge of Intangible Transition Property and the issuance and sale of Transition Bonds principally to reduce West Penn's Transition or Stranded Costs as set forth in the Settlement Petition by reducing related capitalization. The Commission authorizes West Penn to reduce West Penn's existing capitalization through retirement of outstanding debt and preferred stock and through stock buy backs, dividends and purchases of common stock in such proportions as West Penn determines.

19. That West Penn shall file with this Commission, no later than 120 days after the issuance or refinancing of Transition Bonds, a description of the final structure of each issuance or refinancing of Transition Bonds, a description of the final structure of each issuance or refinancing of such

Transition Bonds, including the principal amount, the price at which each such series and/or class of Transition Bonds was sold,

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payment schedules, the interest rate and other financing costs, and the final plans for West Penn's use of the proceeds of such offering. Notwithstanding such filing, the final structure of each such issuance or refinancing shall not be subject to change or revision by this Commission after the date of such issuance or refinancing.

20. That to the extent that West Penn, or any Assignee, assigns, sells, transfers, or pledges any interest in the Intangible Property created hereby, this Commission authorizes West Penn to contract, for a specified fee, with such Assignee for West Penn, its successors or assigns to continue to operate the system to provide electric services to West Penn's customers, to impose and collect the applicable Intangible Transition Charges for the benefit and account of the Assignee, to make periodic adjustments of the Intangible Transition Charges contemplated under Paragraph 14 of this Qualified Rate Order, and to account for and remit the applicable Intangible Transition Charges to or for the account of the Assignee free of any charge, deduction, or surcharge of any kind (other than the specified contractual fee referred to above). This Commission also authorizes West Penn to contract with the Assignee and an alternative party, which may be a trustee, that the alternative party will replace West Penn under its contract with the Assignee and perform the obligations of West Penn contemplated in this Qualified Rate Order. The obligations of West Penn (a) shall be binding upon West Penn, its successors and assigns and (b) shall be required by this Commission to be undertaken and performed by West Penn and any other entity that provides transmission and distribution services to a person that was a customer of West Penn located within West Penn's certified territory on January 1, 1997, or that became a customer of electric services within such territory after January 1, 1997, and is still located within such territory, as a condition to providing service to such customer or municipal entity providing such services in place of West Penn by West Penn or such other entity.

21. That this Commission hereby declares that this Qualified Rate Order shall be irrevocable for purposes of Section 2812 of the Public Utility Code, 66 Pa. C.S. Section 2812, and accordingly agrees that it will not directly or

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indirectly, by any subsequent action, reduce, postpone, impair or terminate this Qualified Rate Order or the Intangible Transition Charges authorized to be imposed or collected under this Qualified Rate Order. This Commission further

declares that the right, title and interest of West Penn and any Assignee in this Qualified Rate Order and the Intangible Transition Charges, the rates and other charges authorized hereby and all revenues, collections, claims, payments, money or proceeds arising from the same constitutes Intangible Transition Property. West Penn shall have the irrevocable right to issue Transition Bonds in accordance with the Qualified Rate Order until December 31, 2008.

22. That West Penn may apply to the Commission for supplements to this Qualified Rate Order, not inconsistent with the terms and provisions hereof and the Settlement Petition, as West Penn deems necessary to enable the issuance of Transition Bonds authorized thereunder.

23. That during some or all of this period during which the Intangible Transition Charges and the CTCs approved by this Qualified Rate Order are being collected, the generation component of West Penn's charges to customers will be limited by the provisions of 66 Pa. C.S. Section 2804(4) (pertaining to rate caps) and the provisions of the Joint Petition. For purposes of 66 Pa. C.S. Section 2804(4) (ii), the generation component of West Penn's charges includes CTCs, Intangible Transition Charges, and other generation charges. If the combined total of these elements would cause the generation component of West Penn's charges to exceed the rate cap specified in 66 Pa. C.S. Section 2804(4) and the Joint Petition, West Penn shall retain whatever right it may have under existing provisions of the statute as limited by the Joint Petition to request relief from the rate cap, but if it does not seek such relief, or if that relief is denied, West Penn shall adjust the nonsecuritized elements of its generation charges, rather than the Intangible Transition Charges approved by this Qualified Rate Order, to bring the charges into compliance with the rate cap provisions of 66 Pa. C.S. Section 2804(4) and the Joint Petition.

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24. That all regulatory approvals within the jurisdiction of the Commission that are necessary for the securitization of Qualified Transition Expenses and all related transactions contemplated in West Penn's Application for a Qualified Rate Order, including but not limited to any approvals under Chapter 11 and 19 of the Public Utility Code, are hereby granted.

25. That West Penn is authorized to create a regulatory asset for the stranded cost recovery values for 1999 through 2002, and the recovery of that regulatory asset shall be amortized over the years 2003 through 2008 as shown in Appendix A of the Joint Petition.

26. That consistent with Section B.1 of the Joint Petition, West Penn is directed to implement its January 1, 1999 rate decrease through a refund to customers from 1998 revenues in the amount of \$25.1 million, and that rate decrease shall apply to each retail rate classification and customers within

those rate classifications as set forth in Appendices B and K of the Joint Petition.

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27. That a copy of this Final Opinion and Order shall be served upon all parties to the instant restructuring proceeding at Docket No. R-00973981.

BY THE COMMISSION,

James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: November 19, 1998

ORDER ENTERED:

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PENNSYLVANIA
PUBLIC UTILITY COMMISSION
HARRISBURG, PA. 17107-3265

Public Meeting held August 12, 1999

Commissioners Present:

John M. Quain, Chairman
Robert K. Bloom, Vice Chairman
David W. Rolka
Nora Mead Brownell
Aaron Wilson, Jr.

Petition of West Penn Power Company for Issuance of a
Supplemental Qualified Rate Order Under
Sections 2808 and 2812 of the Public Utility Code.

Docket Number:
R-00994649

ORDER

BY THE COMMISSION:

On April 23, 1999, West Penn Power Company (West Penn) filed the above-docketed petition (Petition) for the issuance of a supplemental Qualified Rate Order (QRQ) under Sections 2808 and 2812 of the Public Utility Code, 66 Pa. C.S. Sections 2808 and 2812. A copy of the Petition was served upon the Office of Consumer Advocate (OCA), the Office of Small Business Advocate (OSBA), the Office of Trial Staff, and all active parties in West Penn's restructuring proceeding at Docket No. R-00973981.

On November 19, 1998, we entered a Final Order at Docket No. R-00973981 (Final Order), approving the settlement of West Penn's Restructuring Proceeding under the Electricity Generation Customer Choice and Competition Act of December 3, 1996 (Competition Act). As part of the Final Order, we issued a QRO (Initial QRO) authorizing West Penn to issue, through December 31, 2008, Transition Bonds in an aggregate principal amount not to exceed \$670 million (or not to exceed \$630 million in the event of a merger with DQE, Inc.). The Final Order provided that West Penn may apply to the Commission for supplements to the initial QRO, not inconsistent with the terms and provisions approved in the

Final Order, as West Penn deemed necessary to enable the issuance of Transition Bonds.

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In the Final Order, we determined that 75% of all savings that West Penn accomplished through securitization will be passed on to customers through rate reductions. The savings arise from the difference between the weighted average interest rate on the Transition Bonds, and the Commission authorized 11.00 percent weighted average return on unamortized Competitive Transition Charge (CTC) balances. If the market conditions seem favorable and if the Transition Bonds have not yet been issued, West Penn may enter into one or more contracts to lock-in a particular interest rate. If the contracts are entered into, their effects and associated costs would be reflected in the calculation of the savings from the issuance of Transition Bonds.

Through the instant Petition, West Penn is seeking to supplement and clarify certain provisions of the Initial QRO which relate primarily to the computation, design, and reconciliation of Intangible Transition Charges (ITCs) that are intended to provide for collection of amounts needed to pay Qualified Transition Expenses (QTEs) incurred in connection with the issuance of Transition Bonds. West Penn is also seeking Commission approval for a financing structure for the Transition Bonds that it believes will be adequate to achieve a AAA-rating, after reasonable credit enhancements.

On May 13, 1999, the OCA filed an answer to West Penn's Petition. The Pennsylvania State University (PSU), the West Penn Power Industrial Intervenors (WPPII), and the Mid-Atlantic Power Supply Association (MAPSA), each filed a Petition to Intervene in the proceeding on May 12, 1999, May 14, 1999, and May 17, 1999, respectively. On May 18, 1999, the OSBA filed a Notice of Intervention in this proceeding. The OCA, PSU, WPPII, MAPSA, and the OSBA will be collectively known as "the parties". Also, several West Penn customers sent correspondences commenting on the issuance of Transition Bonds.

The OCA contends in its answer to the Petition, that West Penn's proposal regarding reconciliation and adjustment may result in a double count of both uncollectibles and payment lags. The OCA submits that the implications of West Penn's proposal to address the rate cap, particularly with the deferred accounting request, are unclear and that the proposal requires further clarification to ensure consistency with the Final Order and the Act. The OCA also notes that West Penn has itemized a number of costs and servicer fees, and submits that these fees and costs should be reviewed at the

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appropriate reconciliation proceeding when the actual costs are known. The OCA is also concerned that, if the merger between DQE, Inc. and West Penn were to be consummated, the bond issuance may leave ratepayers paying costs associated with

a bond issuance of an unjustified amount. And finally, the OCA submits that certain aspects of West Penn's General Account should be clarified to assure that interest earned on this ratepayer funded account is used to the benefit of ratepayers.

PSU and WPPII's concerns deal with the computation, allocation, design and reconciliation of the ITC, the bond rating for the Transition Bonds, the sufficiency of funds available to pay the principal and interest on the Transition Bonds, and the annual reconciliation procedure which will be used by West Penn.

West Penn and the parties, collectively referred to as the "Joint Petitioners", have resolved most differences amicably with respect to the Petition, and as a result, on August 2, 1999, the Joint Petitioners filed a "Joint Petition for Approval of Settlement Agreement and Presentation of Outstanding Issue" (Joint Petition). The Joint Petition includes the Settlement Agreement and the parties' Position Statements setting forth brief legal argument of their respective positions. Components of the Settlement Agreement are detailed in the following discussion; however, if an issue resolved in the Settlement Agreement is not specifically addressed, it is our intent that the resolution of the issue in the Settlement Agreement prevail.

The Joint Petitioners request expedited consideration and approval of the Settlement Agreement (attached as Appendix A) and expedited consideration and resolution of the outstanding issue which deals with the adjustment of the "shopping credit" in the reconciliation process for ITCs in the event that West Penn's ITC is in an underrecovery position.

Proposed Transition Bonds

West Penn has designed a financing structure whereby West Penn's Intangible Transition Property (ITP) will be transferred to a special purpose company (SPC) formed or acquired by a wholly-owned subsidiary (Newco) of West Penn. The SPC will then issue the Transition Bonds in one or more series at different times in

response to market conditions and other business circumstances. The proceeds from the Transition Bonds will be transferred to Newco and then to West Penn. Such transfers will be deemed perfected when the requirements set forth in Section 2812 of the Public Utility Code and any applicable Commission regulations are met. West Penn will use the proceeds principally to reduce stranded costs and related capitalization.

To meet the funding requirements imposed pursuant to the periodic adjustment mechanism in Section 2812(b)(4) of the Competition Act, which ensures that the recovery of revenues is sufficient to provide for the payments of

principal, interest, acquisition, or redemption premiums and for other fees, costs and charges associated with the Transition Bonds, West Penn is proposing to act as servicer of the bonds by billing and collecting the ITCs for the account of the SPC. Included in Appendix A of the instant Petition, is a list of fees and expenses that West Penn expects to incur for the securitization. Because ITC collections will be the property of the SPC, West Penn will receive these funds solely as agent for the SPC. West Penn will periodically remit collections of the ITCs to the SPC. West Penn will measure cash payments of the ITC as they are collected, and if conditions dictate, West Penn may use a collections curve as the basis for determining collections forwarded to the SPC.

The list of fees and expenses that West Penn provided in its Appendix A to the Petition, included no dollar amounts or details about the categories. The OCA proposes that we not rule on fees and costs until they are incurred and then West Penn can demonstrate whether they represent incremental costs to West Penn. Exhibit A of the Settlement Agreement provides a revised list of expenses which were agreed upon by the parties. Each of these expenses will be based on actual experience. The parties reserve the right to review the actual amounts incurred for reasonableness. The Settlement Agreement states that any adjustments made by the Commission shall be reflected in the ITC reconciliation process.

West Penn states that the ITC remittances from ratepayers must be sufficient to permit full payment of all Reconciliation Funding Requirements on a timely basis over the life of the Transition Bonds. Therefore, the calculation of West Penn's monthly ITC remittances will reflect both a projection of uncollectible ITCs and payment lags based upon West Penn's most recent actual experience. If actual uncollectibles

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realized are less than the assumed amount of uncollectibles, the excess ITC collections generated by this differential will be used either for Reconciliation Funding Requirements or be deposited in the Reserve Subaccount described below. Uncollectible ITCs and payment lags will be projected separately for each of the three customer classes and will be updated annually.

The SPC will establish a Collection Account, comprised of several subaccounts, as a trust account to be held by the Trustee as collateral to ensure the payment of principal and interest on the Transition Bonds and other Reconciliation Funding Requirements (QTEs including amounts to replenish the subaccounts) in full and on a timely basis. These subaccounts will be funded by the ongoing process of the ITC and by a capital contribution from West Penn. If the ITC remittances to the Trustee are insufficient to make all scheduled payments of Reconciliation Funding Requirements, these subaccounts will be drawn down to make up the difference.

The Trustee will deposit the ITC remittances from West Penn into the

General Subaccount. Monies in this subaccount, including interest earned, will be applied by the Trustee on a periodic basis to pay expenses of the SPC, to pay principal and interest on the Transition Bonds, and to meet the funding requirements of the other subaccounts. When the Transition Bonds and related expenses have been paid in full, the balance remaining in this subaccount, including interest earned, will be released to the SPC, and West Penn's customers will receive a credit equal to that amount through an adjustment to the CTC or through a temporary reduction in distribution rates.

The Overcollateralization Subaccount will be established to serve as collateral to ensure timely payment of principal and interest on the Transition Bonds and other Reconciliation Funding Requirements. To the extent it becomes necessary to draw on this subaccount to pay those amounts due to a shortfall in the ITC remittances, it will be replenished through future ITC remittances to its required level, not expected to exceed 2 percent of the original principal amount of the Transition Bonds, through the periodic reconciliation process. Monies in this subaccount will be invested in interest bearing securities and will be used to pay principal and interest on the Transition Bonds and other Reconciliation Funding Requirements. When the Transition Bonds and related expenses have been paid in full, the balance remaining in this subaccount, including

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interest earned, will be released to the SPC, and West Penn's customers will receive a credit equal to that amount through an adjustment to the CTC or through a temporary reduction in distribution rates.

The Capital Subaccount will be funded by a capital contribution from West Penn expected to equal 0.5 percent of the original principal amount of the bond issuance. This subaccount will also serve as collateral to ensure timely payment of principal and interest on the Transition Bonds and other Reconciliation Funding Requirements. To the extent it becomes necessary to draw on this subaccount to pay those amounts due to a shortfall in the ITC remittances, it will be replenished to its original level through future ITC remittances determined in the periodic reconciliation process. The monies in this subaccount will be invested in interest bearing securities, and amounts equal to the interest earnings will be periodically released by the Trustee to the SPC if not needed during the current period to pay principal and interest on the bonds or to meet other obligations. Because the Capital Subaccount will be funded by a West Penn capital contribution, any balance remaining in this subaccount, including any interest, will revert back to West Penn when the Transition Bonds and related expenses have been paid in full.

The Reserve Subaccount will hold any ITC remittances and interest earnings on the Overcollateralization Subaccount. Further, it will hold any earned interest on the balance within the Reserve Subaccount in excess of the amounts needed to pay current principal and interest requirements on the

Transition Bonds, and to pay other Reconciliation Funding Requirements. The payments from this subaccount include, but are not limited to, funding or replenishing the Overcollateralization and Capital Subaccounts. Any balance in this subaccount will be treated as an overcollection for reconciliation purposes and will be reflected as a credit for the periodic ITC adjustments. Like the other subaccounts, monies in this subaccount will be invested in interest bearing securities, and will be used to pay principal and interest on the Transition Bonds and other Reconciliation Funding Requirements. When the Transition Bonds and related expenses have been paid in full, the balance remaining in this subaccount, including interest earned, will be released to the SPC, and West Penn's customers will receive a credit equal to that amount through an adjustment to the CTC or through a temporary reduction in distribution rates.

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As mentioned, if the ITC remittances to the Trustee are insufficient to make all scheduled payments of Reconciliation Funding Requirements, the Reserve Subaccount, the Overcollateralization Subaccount, and the Capital Subaccount will be drawn down to make those payments. These subaccounts will be drawn down without regard to the level of contributions made by each customer class and each rate schedule. However, the Overcollateralization and the Capital Subaccounts must be replenished on a periodic basis through the reconciliation process and that process will reflect draw-downs on a customer class basis as an undercollection.

CTC and ITC Rate Design

West Penn proposes to reflect the savings from the issuance of the transition Bonds through CTC reductions and then allocate CTC reductions among West Penn's retail rate schedules utilizing the same methodology employed to allocate generation-related stranded cost under the Final Order. The OCA agrees with the methodology but reserves the right to review the final details of the allocation when filed.

The Settlement Agreement recommends that West Penn's methodology be approved, provided that the parties reserve the right to review the final ITCs when filed. The Settlement Agreement further stated that any subsequent adjustment by the Commission shall be made in ITC reconciliation proceedings. Nothing in the Settlement Agreement is intended to limit the imposition of ITCs sufficient to recover all QTEs on a timely basis.

ITC Reconciliation and Adjustment

In the instant Petition, West Penn states that since the issuance of the Final Order, it has become apparent from meetings with underwriters and rating agencies that in order to secure a AAA-rating for the Transition Bonds, with reasonable credit enhancements, it must implement more detailed

reconciliation procedures than were set forth in its initial QRO application. West Penn has determined that the reconciliation process described in this petition eliminates the need for the originally approved mechanisms and requests that the Commission specifically find that West Penn can implement its proposed reconciliation process in lieu of that originally approved. West

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Penn claims that if its proposed reconciliation procedures are not approved, it is likely that its Transition Bonds will not attain a AAA-rating and that costly additional credit enhancements will be required to attain a AAA-rating. West Penn maintains that this would significantly reduce the savings that customers would realize from the issuance of the Transition Bonds.

The QRO approved by the Commission on November 19, 1998, provided for two tariff supplements relating to the ITC and its reconciliation. One tariff supplement, the Net Securitization Adjustment (NSA), reflected a provision for the recovery of all known and estimated QTEs consisting of transition or stranded costs, expenses associated with the issuance and service of Transition Bonds, and related recapitalization costs. The NSA was designed to periodically reconcile only the difference between the revenue requirement necessary to amortize the QTE principal balance and actual revenues, and to adjust the ITC rate accordingly. The second tariff supplement, the Transition Bond Expense Adjustment (TBEA), was a reconciliation mechanism to collect or refund the difference between the estimated Transition Bond Expenses that have been incorporated into the Transition Bonds being recovered through the ITC, and the actual bond expenses.

The major provisions reflected in the Petition for the Supplemental QRO and subsequent Settlement Agreement that were not included in the original QRO are: Tariff 37 and Tariff 39, each using a single ITC reconciliation rider as compared to two, with both the revenue and costs being reconciled through the same mechanism; the combining of the over/under collections of Tariff 37 with the over/under collections of the Rate Schedules of Tariff 39 to produce a total over/under collection for the commercial class; the reforecasting of sales during the reconciliation process rather than using the sales forecast approved by the Commission in the Settlement; reflecting projected uncollectible ITCs and payment lags in the calculation of the ITC rates; grouping the various rate schedules into three customer classes for reconciliation purposes; the establishment of collateral accounts by the transferee of the Intangible Transition Property funded by both West Penn and ITC revenues to ensure the payment of the QTEs on a timely basis; and a provision for review and audit by the Commission.

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As mentioned, the instant Petition and Settlement Agreement would differ from the original QRO in its customer grouping of rate schedules for reconciliation purposes. West Penn's tariff has approximately 21 rate schedules and rate riders. In the instant petition, West Penn is proposing a reconciliation of the ITC by customer class within three principal customer class groupings: (1) residential; (2) commercial; and (3) industrial, including street lighting. These three broad customer class groupings are based upon the various customers conditions of service. Because some rate schedules have only a few customers and a small delivery base, West Penn believes that it is necessary to reconcile over/under collections by customer class rather than by individual rate schedule in order to provide a broad base of deliveries against which to reconcile, to prevent large rate swings in the reconciliation process, and to reduce the risk of failure to meet the Reconciliation Funding Requirements. West Penn states that reconciliation by rate schedule would effectively preclude the issuance of Transition Bonds for many rate schedules and would significantly increase the cost of any securitization which could be accomplished.

Although West Penn proposes to aggregate the over/under collection by customer class, a separate ITC reconciliation credit/charge will be calculated for each rate schedule based on the cost allocations approved in the Final Order. Any over/under collection for a particular Customer Class will be allocated to each individual Rate Schedule within that Customer Class. Such allocation will be based upon the ratio of the cumulative ITC over/under collection applicable to the Customer Class to the projected ITC revenues for the Customer Class for the period during which the ITC reconciliation factor will be applied. The resulting allocated over/under collection will be reflected in the ITC rates for each Rate Schedule within the customer class.

After all QTEs have been paid in full and the Capital Subaccount has been fully replenished, any overcollection of ITC revenues, including an amount equal to the balances remaining in the General Subaccount, the Overcollateralization Subaccount and the Reserve Subaccount, will be reflected in the reconciliation of the CTC for the calendar year in which the Transition Bond principal and interest were paid in full or through a temporary reduction in distribution rates.

The Commission, in its Order entered April 10, 1997, at M-00960890 F0006, established that the annual ITC reconciliation filings are to be made within 45 days subsequent to the anniversary date of the QRO. West Penn's initial QRO was entered on November 19, 1998. The QRO anniversary date is established by the initial QRO, regardless of the supplemental QRO requested in the instant petition. West Penn is requesting in Paragraph 28 of the Petition that the Commission waive this requirement in order to permit it to make annual reconciliation filings on October 1 of each year, which is 49 days before the anniversary date of the Commission's initial QRO for West Penn. The Company states that it is requesting this waiver so that there will be a full 90 day

review period from the proposed annual filing date of October 1 and the proposed annual effective date of January 1.

We approve West Penn's requested waiver from the annual ITC reconciliation filing requirements set forth in its April 10, 1997, Order. We believe that the requested annual filing and ITC adjustment effective dates are in compliance with Section 2812(b)(4) of the Competition Act. That Section states that adjustments to the ITC, if required, are to be approved within 90 days of each anniversary of the issuance of the QRO or of each additional interval provided for in the QRO. The November 19 anniversary date and the proposed January 1 effective dates are within the 90 day time period prescribed by the Competition Act. Further, an October 1 filing date and a January 1 effective date, preserve the 90 day review period which the Commission believes is the intent of Section 2812(b)(4).

West Penn states that the annual reconciliation filings submitted on October 1 of each year during the bond period will include a schedule of actual over/under collections for the nine months ended August 31, an estimate of over/under collections for the three months ending November 30, and a recalculation of the ITCs based upon the most recent forecasts of annual deliveries, uncollectibles, payment lags and other expenses for the next calendar year. On December 15 of each year, West Penn will file actual over/under collection data as of November 30, replacing the estimated data submitted on October 1, along with a tariff supplement reflecting the new ITCs and supporting data for the ITC rates to become effective each January 1. The annual rate adjustment and reconciliation will become effective for service rendered on and after January 1 and would remain in effect for one year, except possibly during the final bond

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year. The Settlement Agreement provides for a similar procedure for annual changes to the CTC. As a result, annual changes to both the Company's ITC and CTC would occur January 1 of each year.

In order to facilitate and expedite the review process for the annual reconciliation, West Penn will file on April 15 and July 15 of each year an update of its reconciliation data with the Bureau of Audits. These updates will provide the same information in the same format as the October 1 filing, but will of necessity rely more heavily on projections. Further, as provided for in the Settlement Agreement, West Penn will also file an update of its ITC reconciliation data on January 15 of each year.

During the final 12 months of the bond period, West Penn is proposing to be permitted to make interim reconciliation filings as often as monthly in order to minimize any possible over/under collection of the ITC for the final reconciliation. These interim adjusted ITC rates, which may be monthly or quarterly as determined by West Penn, would continue until the earlier of the

full payment of all QTEs or December 31, 2008, the last day of the authorized bond period. Such interim reconciliation filings would become effective on the first day of the next calendar month, with not less than 15 days' notice.

As previously mentioned, the OCA submitted comments regarding several items contained in the instant Petition. First, the OCA stated that the Company's description of the General Subaccount does not mention any credit for ratepayers relating to the interest earned by that account which is funded with ratepayer monies. The OCA requested a clarification on the matter. We share the OCA's concern regarding the use of the interest earned by the subaccounts. However, it should be noted that each of these subaccounts provide that the primary use of any interest earned on the balances in the subaccounts is for paying the principal and interest on the Transition Bonds. Any remaining interest in the Overcollateralization Subaccount and the Reserve Subaccount will be used for making the payment on the principal and interest on the Transition Bonds in a later payment period. The Settlement Agreement provides that interest earned on the General Subaccount will be treated in the same fashion as interest on the Overcollateralization Subaccount.

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Regarding the proposed time frame for annual filings, the OCA does not oppose West Penn's proposed annual filing schedule. The OCA does express a concern that it may be difficult to completely resolve all issues in the 90 day time period, October 1 to January 1, particularly if other utilities are on a similar schedule. As part of the Settlement Agreement, West Penn will submit monthly updates to its October 1 filing within 15 days following the conclusion of each calendar month. Following Commission action on West Penn's November 15, filing, the Company will file, in compliance, actual ITC over/under collections as of November 30, replacing the previously submitted estimates as well as a tariff supplement and supporting data setting forth ITC rates to become effective January 1. We believe such monthly updates, along with the availability of quarterly reports for review and audit as discussed above, will allow staff sufficient time to perform a meaningful review of any proposed ITC rate adjustment and to prepare a report based upon the November 15 filing update.

The ITC charges will be terminated at the earlier of December 31, 2008, or the time when the Trustee issues a report stating that all required payments of principal, interest, and other QTEs for the Transition Bonds have been made and the Capital Account is fully funded. West Penn maintains that although the ITC charges will be terminated on or before December 31, 2008, prorated bills issued after such termination will reflect such charges for service rendered prior to such termination, and that West Penn will continue to receive customer payments of such charges and prior charges after such termination. Thus, West Penn is seeking authority to extend the final stated maturity date of the Transition Bonds to the earlier of ten years after the issuance date or September 25, 2009, so that such ITC collections may be taken

into account by the rating agencies in determining the rating of the Transition Bonds. The OCA requests that unless it is shown that the calculation of these charges and savings will properly reflect the full benefit of the savings for ratepayers during the CTC period, then the maturity dates of the Transition Bonds should not be extended.

The Settlement Agreement stipulates that West Penn should be allowed to extend the legal final maturity of the Transition Bonds to the earlier of ten years after the issuance date or September 25, 2009. This is to assure that all ITC charges will be taken into account by the rating agencies and any credit enhancements in determining the ratings of the Transition Bonds. The scheduled maturity date of the Transition Bonds will

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be prior to December 31, 2008 and will not be affected by the change in the legal final maturity date so as not to increase required credit enhancements.

As indicated previously, West Penn is proposing to reforecast its annual sales during the reconciliation proceedings rather than utilize the sales forecast contained in the Settlement approved by the Commission in the Final Order. The Final Order approved a 10 year sales forecast with a pre-established annual escalator beginning in 1999. Our understanding is that West Penn and the bond underwriters believe that a 10 year forecast is too long a period to use for the ITC without risking the potential for large annual over/under collections and rate swings. In order to mitigate that potential risk, and to assure a AAA-rating on its bonds, West Penn has proposed that it be permitted to use an annual reforecasting of its sales in its ITC reconciliation process.

The OCA has commented that it does not oppose the reforecasting of sales during the reconciliation proceeding, and agrees that this will help eliminate large over/under collections. However, the OCA has stated that caution must be utilized in the reforecasting process to assure that the rate caps are not violated. The Settlement Agreement approves the use of reforecasting provided that any reforecasting will comply with the rate cap provisions of Section 2804(4) of the Competition Act. We believe this is a sufficient guarantee that the rate cap will not be violated.

Exhibit B to the Settlement Agreement sets forth several changes to the Company's ITC and CTC riders which have been agreed to by the Parties. One of these changes provides for Commission review and audit of the annual ITC reconciliation filings. The amended Rider provides that the review and audit must be concluded on a timely basis so as to permit implementation of changes in the ITC rates by the January 1, annual effective date. It is our understanding that the audit is to be completed prior to the implementation of the recalculated ITC rates in order to assure underwriters that scheduled recoveries will not be impacted by any potential audit adjustments after the ITC rates have gone into effect. Without such assurance, it is unlikely that the Transition

Bonds will attain a AAA-rating without costly additional credit enhancements.

We do not believe that the time frame initially proposed in the company's Petition, a 16 day period from December 15 until January 1, for auditing the annual

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reconciliation statement ending November 30 would be feasible, particularly if other ITC filings have the same provision and filing period. However, the ITC Reconciliation Rider, as proposed in the Petition and amended in the Settlement Agreement, provides for West Penn to submit quarterly reports to the Commission within 15 days after the conclusion of each calendar year quarter. We believe that such quarterly reports would be the basis for the required audit, would afford adequate audit time, and still provide reasonable assurance of the accuracy of the over/under collection reflected in the ITC rates to be implemented on January 1.

West Penn states that it will remit payments of the ITCs to the SPC on account, based upon the cash payments of the ITC as they are collected. Should conditions dictate, West Penn proposes using a collections curve as the basis for determining collections forwarded to the SPC. West Penn asserts that the purpose of this adjustment is to recognize that not all amounts billed to customers are paid, or are not paid on time.

The OCA responded to this issue by stating that West Penn's proposed procedure may result in a double counting of both uncollectibles and payment lags. It is the OCA's position that uncollectibles associated with the full amount of West Penn's revenues, including its OCA/ITC revenues, were assigned to the Transmission and Distribution (T&D) rates in the unbundling process in West Penn's restructuring proceeding at Docket No. R-00973981. Accordingly, the OCA contended that West Penn should not be allowed to reduce the amounts paid to the SPC by an uncollectibles factor, and then seek to recover them in the reconciliation, since ratepayers are fully compensating West Penn for those uncollectibles through the T&D rates. The OCA also noted that, under the Commission's payment ordering rules and West Penn's tariff implementing these rules, the CTC/ITC is the first item to be paid, other than a pre-retail access arrearage.

In addition, the OCA stated that West Penn's existing rates were also set to include the lag in billing and collecting of revenues through an allowance for cash working capital. The OCA believes that since West Penn's current rates compensate for this billing lag, it is inappropriate to allow West Penn to reflect this lag again in calculating its monthly remittance to the SPC. The OCA submits that the uncollectibles

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and payment lag adjustment may result in a double count of both uncollectibles and payments lags which are already reflected in rates. The Settlement Agreement addresses this matter by providing for an offsetting CTC credit equal to any uncollectible accounts expense included in the ITC.

At paragraph B.5. of the Joint Petition for Full Settlement (1998 Joint Petition) filed November 3, 1998, the parties agreed that the T&D rate cap of 1.73 cents per KWH includes 1.72 cents per KWH for all existing costs and services and .01 cents per KWH for the sustainable energy fund during the T&D rate cap period. Additionally, no new fees shall be proposed or charged during the T&D rate cap period for a cost of service that is included in the bundled T&D rate. In the event of a merger with DQE, the T&D rates set forth in Appendix A of the 1998 Joint Petition will apply.

West Penn's tariff implements procedures for applying partial payments comply with our guideline relating to partial payments found in the Final Order Re: Guidelines for Maintaining Customer Services at the Same Level of Quality Pursuant to 66 Pa. C.S. Section 2807(d), and Assuring Conformance with 52 Pa. Code Chapter 56 Pursuant to 66 Pa. C.S. Section 2809(e) and (f) Appendix B, Guideline 3H of Docket No. M-00960890F0011 dated July 10, 1997.

Guideline 3H states:

In regard to application of partial payments, the restructuring plans should direct how payments which are insufficient to cover all charges should be applied. For a customer who has a pre-retail access balance, the payment should be applied by the EDC as follows: (1) outstanding pre-retail access balance or the installment amount for a payment agreement on this balance; (2) intangible transition charge (ITC) and competitive transition charge (CTC); (3) EDC transmission and distribution charges (T&D); (4) supply charges, and (5) non-basic service charges. If the customer's account develops a post-retail access balance, partial payments should be applied to the pre-retail access balance, according to the terms of the pre-retail access payment agreement, before being applied to any other outstanding post-retail access charges. For a customer with no pre-retail access balance but with a post-retail access balance, partial payments should be applied as follows: (1) balance due for prior ITC, CTC and T&D service; (2) ITC and CTC; (3) T&D; (4) balance due for prior supply charges; (5) supply charges, and (6) non-basic service charges.

As noted earlier, if the merger with DQE, Inc. is consummated, West Penn's stranded cost recovery would be limited to \$630 million. In the Petition, West Penn states that if the merger is consummated, and West Penn has already issued Transition Bonds in excess of \$630 million, the costs of servicing the entire amount of the Transition Bonds, including interest, principal, and all other related fees, costs, credit enhancements, and charges, would constitute QTEs which thereafter would be recovered through ITCs. At the next reconciliation, West Penn would establish a credit adjustment to customers' bills to account for the difference between the \$630 million and the actual principal amount of Transition Bonds outstanding.

The OCA submits that West Penn's proposal to recover the expenses associated with the entire \$670 million may be unjust and unreasonable and that ratepayers will be left paying costs associated with an issuance of an unjustified amount. In the Settlement Agreement, the parties determined that West Penn's procedures relating to the merger should be approved, provided that any credit adjustment to rates necessary to reflect issuance of not more than \$630 million of Transition Bonds include a reduction for all associated costs, fees, and expenses attributable to the Transition Bonds issued in excess of \$630 million. The Settlement Agreement further stipulates that the amounts as proposed by West Penn will be subject to review and concurrence by the parties and the Commission.

Adjustment of Shopping Credits

In the Joint Petition for Settlement, the parties advise that there is one issue which could not be resolved. The agreed-upon statement of this issue is as follows:

Whether the Pennsylvania Public Utility Commission should permit West Penn Power Company to adjust (up or down) the yearly level of the "shopping credit" contained in the Restructuring Settlement approved by the Commission for over/under collections in Intangible Transition Charge [ITC] if West Penn proceeds with securitization of up to 100% of its remaining stranded costs and subsequently experiences an undercollection or overcollection in its ITC as reflected in reconciliation.

Petition, p. 2.

West Penn, OCA, MAPSA and WPPII have submitted position statements in regard to the above issue. West Penn answers the above issue in the affirmative while the others address the issue in the negative.

It is West Penn's position that the Competition Act and the Initial QRO mandate the recovery of stranded costs through the CTC and/or ITCs and

adjustments of the ITCs to ensure recovery of Qualified Rate Expenses sufficient to pay the Transition Bonds. In so doing, West Penn references Paragraph 23 of the Initial QRO. West Penn also states that both the Competition Act and the QRO mandate the inviolability of the ITC (a major factor in rating of Transition Bonds) and adherence to the rate cap. West Penn concludes that if adjustments to the ITCs exceed the available CTC, the only solution that will not violate the rate cap provisions of the Act and the Initial QRO, is that the utility's shopping credit, i.e. charges for generation, be reduced.

OCA opposes the adjustment of the shopping credit to offset under-or overcollections of the ITC. OCA does not challenge West Penn's interpretation of the Paragraph 23, but instead expresses concern that in these circumstances, wherein West Penn proposes to securitize 100% of its stranded costs, allowing immediate adjustment of the shopping credit will compromise the intent of the Restructuring Settlement. OCA submits that West Penn be allowed to securitize only a portion of its remaining stranded costs, thus allowing the remaining CTC and savings from securitization to remain available as revenue sources to fund underrecovered ITC obligations before the necessity of reducing the shopping credit or seeking a rate cap exception would arise.

In its position statement, WPPII expresses concern that if West Penn is permitted to reduce the shopping credit, both the customers and the developing market will be harmed. It states further that the provisions of the Restructuring Settlement that require that securitization be pursued under reasonable terms and conditions will not be satisfied where West Penn is permitted to securitize 100% of its stranded costs.

MAPSA also opposes the adjustment of shopping credits. It claims that the shopping credits are mandatory and there is no discretion on the part of any party to modify the system average shopping credit. MAPSA also claims that West Penn's ability

to securitize is a discretionary act and its proposal to adjust the shopping credit is a violation of the express terms of the Restructuring Settlement.

Upon consideration of all of the arguments presented, the Commission believes that the express language of the Initial QRO read in light of the Section 2804(4)(ii) rate cap and other provisions of its Commission's May 29, 1998 Order(1) permits adjustment of the shopping credit when necessary. Paragraph 23 of the QRO reads as follows:

That during some or all of this period during which the Intangible Transition Charges and the CTCs approved by this Qualified Rate Order are being collected, the generation component of West Penn's charges to customers will be limited by the provisions of 66 Pa. C.S. Section 2804(4) (pertaining to rate caps) and the provisions

of the Joint Petition. For purposes of 66 Pa. C.S. Section 2804 (4)(ii), the generation component of West Penn's charges includes CTCs, Intangible Transition Charges and other generation components. If the combined total of these elements would cause the generation component of West Penn's charges to exceed the rate cap specified in 66 Pa. C.S. Section 2804(4) and the Joint Petition, West Penn shall retain whatever right it may have under existing provisions of the statute as limited by the Joint Petition to request relief from the rate cap, but if it does not seek such relief, or if that relief is denied, West Penn shall adjust the non-securitized elements of its generation charges, rather than the Intangible Transition Charges approved by this Qualified Rate Order, to bring the charges into compliance with the rate cap provisions of 66 Pa. C.S. Section 2804 (4) and the Joint Petition.

Initial QRO, p. 24, Paragraph 23 (emphasized order).

The emphasized language expressly permits West Penn to adjust other non-securitized elements of the generation component in order to recover costs associated with transition bonds. The shopping credit for consumers shopping for generation from other suppliers is undeniably an element of the generation component as it was carved out of this component in the Commission's May 29, 1998 Order on Joint

(1) In the West Penn Restructuring Petition for Settlement, the Parties agreed that the Commission's Restructuring Order dated May 29, 1998, the Reconsideration Order entered July 21, 1998 and Compliance Orders entered July 21, 1998 and September 17, 1998 should be controlling of any issue not specifically addressed in the settlement and related agreements. Joint Petition for Full Settlement of West Penn Power Company's Restructuring Plan and Related Court Proceedings, p. 41 Paragraph M.

Settlement of West Penn's Restructuring Plan. Specifically, the Commission determined that the shopping credit would be the remainder after the CTC was subtracted from the generation component of West Penn's rates. Final Order at pp. 168, and 170. Accordingly, the shopping credit, as a non-securitized element of the generation component, may be adjusted when circumstances warrant, and the combined total of West Penn's CTCs, ITCs and other generation charges will not exceed the rate cap specified in 66 Pa. C.S. Section 2804(4). The outstanding issue presented is thus answered in the affirmative.

Nevertheless, we agree that OCA, WPPII and MAPSA raise some valid concerns regarding the potential effect of securitizing 100% of West Penn stranded costs, particularly when a portion of the stranded costs has already

been recovered during 1999. While the Initial QRO and Joint Settlement do allow West Penn to securitize 100% of its stranded costs, the Commission urges that West Penn management exercise good judgment regarding its final plans for securitization so as to minimize the risk of jeopardizing the level of shopping credits and competitive alternatives for its customers. The Commission notes that neither PECO Energy, Inc. nor PP&L, Inc. securitized 100% of their stranded costs. In this way, PP&L and PECO left a CTC in place to act as a source of funds so that any underrecovery in ITC collections can be addressed through the remaining CTC and securitization savings before disturbing the level of shopping credits set forth in their settlements. In this fashion, the remaining CTC can act as a cushion such that the shopping credit would be used for reconciliation purposes only in extraordinary circumstances. The Commission believes that this approach better preserves the benefits of the Joint Settlement for all parties, especially for a company like West Penn where the shopping credits are already the lowest among the major electric utilities.

Conclusion

West Penn's Petition for a Supplemental QRO has undergone scrutiny of the intervenors and the Commission staff. The Parties and West Penn spent a great deal of time resolving some important issues, and then entered into the Settlement Agreement. This Order gives West Penn the authority it needs to take another step forward into the competitive energy industry.

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Upon full consideration of the instant Petition and the Settlement Agreement and appendices, we find that this approval is in the public interest;

THEREFORE,

IT IS ORDERED:

1. That the "Petition of West Penn Power Company for issuance of a Supplemental Qualified Rate Order under Sections 2808 and 2812 of the Public Utility Code" (Petition) as modified by the Settlement Agreement among the parties, and in accordance with Paragraph 22 of the Qualified Rate Order entered on November 19, 1998 by the Commission at Docket No. R-00973981 (Initial QRO) is hereby granted.

2. That the Petitions to Intervene filed by The Pennsylvania State University, Mid-Atlantic Power Supply Association, and West Penn Power Industrial Intervenors are hereby granted.

3. That this Commission hereby declares that the Supplemental Qualified Rate Order (Supplemental QRO) issued on behalf of West Penn Power Company (West Penn) shall be irrevocable for purposes of Section 2812 of the

Public Utility Code. Furthermore, this Commission agrees that it will not directly or indirectly, by any subsequent action, reduce, postpone, impair or terminate this Supplemental QRO or the Intangible Transition Charges (ITCs) authorized to be imposed or collected under this Supplemental QRO or the Initial QRO. This Commission further declares that Intangible Transition Property (ITP) includes the right, title, and interest of West Penn and any Assignee in this Supplemental QRO, the Initial QRO, the ITCs, the rates and other charges authorized hereby and thereby and all revenues, collections, claims, payments, moneys or proceeds of or arising from the same. West Penn and its Assignee shall have the right to issue or cause to be issued Transition Bonds in accordance with this Supplemental QRO and the Initial QRO, as clarified, supplemented, and further delineated hereby until December 31, 2008.

4. That the clarifications, supplements and further delineations contained herein are designed primarily to enhance the prospects that the Transition Bonds will be assigned a AAA-rating, or the highest possible comparable rating from one or more nationally recognized statistical rating agencies, with reasonable credit enhancements,

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and, thereby, maximize savings for the mutual benefit of West Penn and its customers which the Commission determines is just and reasonable and in the public interest.

5. That the transactions explained and proposed in Section B, Paragraphs 10 through 14 of the Petition, as modified by the Settlement Agreement among the parties, are hereby approved, and the results of the proposed transactions shall be reflected in calculations of West Penn's ITCs and in reconciliation adjustments to West Penn's ITCs in the manner and to the extent explained therein.

6. That savings derived from the issuance of Transition Bonds shall be calculated in the manner described in Section A, Paragraph 9 of the Petition.

7. That 75 percent of the net savings derived from the issuance of Transition Bonds, which constitutes the percentage to be flowed through to customers pursuant to the Final Order, shall be calculated in the manner described in Section A, Paragraphs 6 and 9 of the Petition.

8. That West Penn shall design ITCs and CTCs associated with the issuance of Transition Bonds using the methodology explained in Section C, Paragraphs 15 through 19 of the Petition, as modified by the Settlement Agreement among the parties.

9. That the reconciliation procedures for ITCs set forth in Section D, Paragraphs 20 through 34 of the Petition, as modified by the Settlement Agreement among the parties and resolution by the Commission set forth in

Paragraph 12 of the Settlement Agreement, are approved, and West Penn and any successor Servicer of the ITP shall follow these procedures in its periodic reconciliation filings to adjust the ITCs. These procedures shall be followed by West Penn in lieu of the less specific "Transition Bond Expense Adjustment" and "Net Securitization Adjustment" reconciliation procedures set forth in West Penn's Application for a QRO presented as Appendix E to the "Joint Petition for Full Settlement of West Penn Power's Restructuring Plan and Related Court Proceedings" that was filed with the Commission on November 3, 1998. Specifically, West Penn is authorized to file an ITC reconciliation filing on October 1 of each year. West Penn will thereafter file updates of its October 1 filing within 15 days

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following the conclusion of each calendar month until the Commission issues its order authorizing a change in rates to reflect the annual reconciliation, and West Penn will, in addition, file quarterly updates with the Bureau of Audits on each January 15, April 15, and July 15.

10. That West Penn is hereby authorized to file a tariff supplement which contains the reconciliation language set forth in Appendix B to the Petition, as modified by the Settlement Agreement among the parties, and includes the applicable ITCs and reduced CTCs, calculated on the basis of the methodology explained in Section C, Paragraphs 15 through 19 of the Petition, to become effective upon at least three days' notice based upon actual data to the extent that actual data are available. West Penn and any successor Servicer of the ITP shall reconcile any differences between estimated data used to calculate ITCs and CTCs set forth in the tariff supplement to be filed pursuant to the authority granted by this Ordering Paragraph in the first annual ITC reconciliation filed after such actual data become available.

11. That West Penn shall apply ITCs in the manner described in Section E, Paragraphs 36 through 38 of the Petition, as modified by the Settlement Agreement among the parties. If not terminated on an earlier date, ITCs may be charged for service rendered through December 31, 2008.

12. That the corporate structure set forth in Section B, Paragraph 10 and Section F) Paragraph 39 is approved, and a certificate of public convenience is hereby issued to West Penn authorizing it to establish or acquire a subsidiary or subsidiaries, direct and/or indirect, of West Penn, to serve as the issuer of the Transition Bonds (Issuer).

13. That the transfers of the ITP by West Penn to Newco, which will be a wholly-owned subsidiary of West Penn, and by Newco to the SPC (Issuer) constitute "transactions" and "true sales" as provided in section 2812(e) of the Competition Act. Such transfers of the ITP by West Penn to Newco and by Newco to the SPC shall be deemed perfected when the requirements set forth in Section 2812 of the Public Utility Code and any applicable Commission regulations are

14. That West Penn may apply to the Commission for supplements to this Supplemental QRO, not inconsistent with the terms and provisions hereof and the Settlement Agreement among the parties and the Initial QRO, as West Penn deems necessary to enable the issuance of Transition Bonds authorized hereunder and thereunder with a AAA-rating or the highest possible comparable rating from one or more nationally-recognized statistical rating agencies.

15. That the request that the Transition Bonds have a legal final maturity date of the earlier of ten years from the date of issuance or September 25, 2009 as set forth in Section E, Paragraph 37 of the Petition is approved.

16. That the procedure for issuance and treatment of Transition Bonds in the event of a merger with DQE, Inc. set forth in Section D, Paragraph 35, as modified by the Settlement Agreement among the parties, is approved.

17. That, with this Supplemental QRO and the approvals granted herein and heretofore in the Final Order, including the Initial QRO contained therein, West Penn has obtained all regulatory approvals required from this Commission for the issuance of Transition Bonds and all of the transactions explained in the Petition and in the Application for a QRO presented as Appendix E to the "Joint Petition for Full Settlement of West Penn Power Company's Restructuring Plan and Related Court Proceedings" that was filed with the Commission on November 3, 1998.

18. That this Commission concludes that it is in the public interest to, and authorizes West Penn and any Assignee to: (a) assign, sell, transfer, or pledge Intangible Transition Property (such term includes all right, title, and interest of West Penn or any Assignee in this Supplement QRO or the Initial QRO) in an amount sufficient to recover all Qualified Transition Expenses and in all revenues, collections, claims, payment, money, or proceeds arising from Intangible Transition Charges pursuant to this Supplemental QRO or the Initial QRO to the extent that this Supplemental QRO or the Initial QRO and the rates and other charges authorized hereunder are declared irrevocable and (b) issue, sell and refinance, in reliance on this supplemental QRO or the Initial QRO, one or more series of Transition Bonds, each series in one or more classes, secured by Intangible Transition Property created by this Supplemental QRO or the

Initial QRO; provided that the legal final maturity of any series of Transition Bonds shall not exceed 10 years from the date of issuance and in no event shall any Transition Bond have a legal final maturity date after the earlier of 10

years after the date of issuance or September 25, 2009. Notwithstanding the foregoing, West Penn retains sole discretion regarding whether to assign, sell, or otherwise transfer Intangible Transition Property created hereby or thereby or to issue or cause the Transition Bonds to be issued or refinanced.

19. That a copy of this Supplemental QRO shall be served on all parties of record and all active parties in West Penn's restructuring proceeding at Docket No. R-00973981.

BY THE COMMISSION,
James J. McNulty
Secretary

(SEAL)

ORDER ADOPTED: August 12, 1999

ORDER ENTERED: August 12, 1999

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of West Penn Power Company for
Issuance of a Supplemental Qualified Rate Order
under Sections 2808 and 2812 of the Public Utility
Code

Docket No. R-00994649

SETTLEMENT AGREEMENT

WHEREAS, on April 23, 1999, West Penn Power Company ("West Penn") filed with the Pennsylvania Public Utility Commission ("PUC" or the "Commission") a Petition for Issuance of a Supplemental Qualified Rate Order ("Petition") at the above-captioned docket; and

WHEREAS, on May 12, 1999, The Pennsylvania State University filed a Petition to Intervene in this proceeding; and

WHEREAS, on May 13, 1999, the Office of Consumer Advocate filed an Answer in this proceeding; and

WHEREAS, on May 14, 1999, the West Penn Power Industrial Intervenors filed a Petition to Intervene in this proceeding; and

WHEREAS, on May 17, 1999, the Mid-Atlantic Power Supply Association filed a Petition to Intervene in this proceeding; and

WHEREAS, on May 18, 1999, the Office of Small Business Advocate filed a Notice of Intervention in this proceeding; and

WHEREAS, the above parties, desiring to resolve their differences amicably, have discussed possible settlement of this proceeding; and

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WHEREAS, as a result of these discussions, the parties have reached a settlement of all but one of the issues which they now present for approval as part of the Commission's final order in this proceeding;

NOW THEREFORE, intending to be legally bound, the parties agree as follows:

1. With the modifications and revisions set forth below in this Settlement Agreement, West Penn's Petition should be approved, subject to the resolution of the outstanding issue set forth at Paragraph 12 hereof.

2. West Penn's request in Paragraph 24 of the Petition to reforecast deliveries should be approved; provided, however, that any reforecasting will comply with Section 2804(4) of the Electricity Generation Customer Choice and Competition Act (the "Act"), 66 Pa.C.S.A. Section 2804(4) and the Commission's final order approving the settlement in West Penn's restructuring proceeding at Docket No. R-00973981. Compliance with the above-referenced rate cap provision and Commission Order shall be subject to review by the parties, in accordance with the reconciliation procedures set forth in Paragraphs 20-38 of the Petition.

3. The parties agree that the principal amount of the Transition Bonds West Penn will issue will reflect a reduction for the amount of Competitive Transition Charges ("CTCs") collected between January 1, 1999 and the date the Intangible Transition Charges ("ITCs") associated with the Transition Bonds become effective; however, West Penn may include Qualified Transition Expenses ("QTEs") in the principal amount as permitted by the QRO.

4. In order to implement Paragraph 20 of the Petition that Competitive Transition Charge ("CTC") adjustments be implemented simultaneously with Intangible Transition Charge ("ITC") adjustments, West Penn proposes that it will file CTC reconciliation statements. based on reforecasts of deliveries as for the ITC, for the twelve months ended each July 31 with the Commission on or before each August 30, with public hearings to occur on or before each October 29 and a final order to be issued on or before each December 28. The parties agree that this procedure to establish a January 1 effective date for annual changes in both the ITC and the CTC should be approved.

5. West Penn's request in Paragraph 25 of the Petition to include a provision for uncollectible accounts in calculating ITCs should be approved; provided, however, that West Penn agrees to credit CTCs as part of the annual reconciliation of CTCs in an amount equal to any uncollectible accounts expense included in ITCs. In

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addition, West Penn will make monthly payments of ITCs collected to the Bond Trustee; however, West Penn agrees to credit CTCs as part of the annual reconciliation of CTCs in an amount appropriate to reflect payment lags.

6. In Paragraphs 28-32 of the Petition, West Penn proposes a schedule for filing of information to perform an annual ITC reconciliation. West Penn's proposal should be approved; provided, however, that West Penn will file monthly updates to its October 1 filing within 15 days following the conclusion of each calendar month until the Commission issues its order authorizing a change in rates to reflect the annual reconciliation. West Penn will also file quarterly updates with the Bureau of Audits on each January 15, April 15, and July 15.

7. Interest earned on the General Subaccount, discussed in Paragraph 13a of the Petition, shall be treated in the same fashion as interest on the Overcollateralization Subaccount, discussed in Paragraph 13b of the Petition.

8. West Penn's proposed allocation of ITCs to customer classes and rate schedules shall be approved; provided, however, the parties reserve the right to review the final ITCs when filed to determine that they in fact follow the methodology proposed by West Penn in the Petition. Any subsequent adjustment by the Commission shall be made in ITC reconciliation proceedings. Nothing in this paragraph or elsewhere in this Settlement Agreement is intended to limit the imposition of ITCs sufficient to recover all Qualified Transition Expenses on a timely basis.

9. Appendix A to the Petition sets forth a list of expenses associated with the issuance and maintenance of the Transition Bonds. Exhibit A to this Settlement Agreement revises the listed expenses as agreed by the parties. Each of these expense

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items will be based on actual experience. The parties agree that these categories of expense are reasonable and appropriately recovered from customers, but the parties reserve the right to review the actual amounts incurred for reasonableness. Any adjustment made by the Commission shall be reflected in the ITC reconciliation process.

10. West Penn's request in Paragraph 37 of the Petition to extend the legal final maturity date of the Transition Bonds to the earlier of ten years after the issuance date or September 25, 2009 should be approved in order to assure that all ITC charges will be taken into account by the rating agencies and any credit enhancers in determining the ratings of the Transition Bonds. The scheduled maturity date of the Transition Bonds will be prior to December 31, 2008 and will not be affected by the change in the legal final maturity date so as not to increase required credit enhancements.

11. Exhibit B to this Settlement Agreement sets forth several technical changes to the ITC tariff supplement (Appendix B to the Petition) and to the CTC tariff supplement (Original Page No. 5-4, Appendix B to the joint Petition). The parties agree that these changes are reasonable and should be approved by the Commission and reflected in the compliance tariff filed by West Penn when the Transition Bonds are issued.

12. The parties agree that the issue of adjustments to West Penn's generation rates in reconciliation of the ITC shall be separately submitted to the Commission for decision.

13. Paragraph 35 of the Petition addresses action to be taken with respect to the Transition Bonds if the proposed merger with DQE, Inc. is consummated. The procedure proposed by West Penn should be approved; provided, however, that any credit adjustment to rates necessary to reflect issuance of not more than \$630 million of Transition Bonds shall include a reduction for all associated costs, fees, and expenses attributable to the Transition Bonds issued in excess of \$630 million. These amounts as proposed by West Penn will be subject to review and concurrence by the parties and the Commission.

14. Appendix D of the Petition sets forth a Proposed Form of Order for the Supplemental Qualified Rate Order. The parties agree that this proposed order should be revised to reflect this Settlement Agreement and to provide additional "true sale" and third party interest findings for further transfers

of Intangible Transition Property. A proposed revised Supplemental Qualified Rate Order is provided as Exhibit C to this Settlement Agreement.

INTERNAL REVENUE SERVICE

Index Numbers:

61.00-00 61.03-00
 61.43-00 451.01-00

Regis F. Binder
 Treasurer
 West Penn Power Company
 800 Cabin Hill Drive
 Greensburg, PA 15601

Department of the Treasury
 Washington, DC 20224
 Person to Contact:
 Thomas M. Preston (ID No. 50-08511)
 Telephone Number:
 202-622-4443
 Refer Reply To:
 CC:DOM:FI&P:2/PLR-106944-99
 Date: JULY 23 1999

Legend

Parent	=	Allegheny Energy, Inc.
	=	EIN: 13-5531602
Company	=	West Penn Power Company
	=	EIN: 13-5480882
Issuer	=	Business Trust
State A	=	Pennsylvania
State B	=	Delaware
State C	=	Maryland
Statute	=	Title 66 Pa. Consolidated Statutes, Section 2801, Electricity Generation Customer Choice and Competition Act
Date 1	=	November 19, 1998
Date 2	=	December 31, 2008
Year 1	=	1996
a	=	\$670 million
b	=	.5%
c	=	2%

Dear Mr. Binder:

This letter is in reply to the letter dated April 6, 1999, requesting a ruling on the proposed transaction described below.

FACTS

Parent is a State C corporation that is the common parent of an affiliated group of corporations which includes Company and which files a consolidated return with Company. Company, an accrual based State A corporation, is an

investor-owned electric utility engaged in the generation, transmission, distribution and sale of electricity to residential, commercial, industrial, and governmental customers within all or part of 23 counties in State A. As such, Company is subject to regulation by both the Public Utility Commission (PUC) and the Federal Energy Regulatory Commission.

State A is deregulating its electric utility industry. As a result, Company's customers will be allowed to contract directly with alternative suppliers of electricity, and Company will compete with other parties to sell electricity. The Statute was enacted in December of year 1 to provide for the restructuring of the electric utility industry in State A through the unbundling of electric services into separate generation, transmission and distribution services with open retail competition for generation. Electric distribution and transmission services will remain regulated by the PUC.

The Statute requires utilities to submit to the PUC restructuring plans that address "stranded costs" resulting from competition. Stranded costs include regulatory assets, nuclear decommissioning costs and long-term purchased power commitments, for which full recovery is allowed, and other costs, including investment in generating plants, spent-fuel disposal, retirement costs and reorganization costs, for which an opportunity for recovery is allowed in an amount determined by the PUC as just and reasonable. These costs, after mitigation by the utility, are to be recovered through a competitive transition charge (CTC) approved by the PUC and collected from distribution customers for up to nine years, or for an alternate period determined by the PUC for good cause shown.

As a mechanism for the mitigation of CTCs and the reduction of customer rates, the Statute authorizes an electric utility to securitize its stranded costs through the issuance of bonds (Transition Bonds) either directly by the utility, or by a finance subsidiary or third party assignee of the utility. The Statute facilitates this securitization by creating, as security for the Transition Bonds, a property right designated intangible transition property (ITP), which represents the irrevocable right to recover from a utility's jurisdictional customers, amounts sufficient to recover the utility's stranded costs, as well as amounts to cover the expenses of issuing and servicing the Transition Bonds, and the funding of any necessary reserve accounts, which are collectively defined as qualified transition expenses (QTEs). ITP is created through the issuance of a qualified rate order (QRO) by the PUC that is declared irrevocable. Although the PUC may approve periodic adjustments to the ITC in accordance with the Statute and the QRO, once a QRO is declared irrevocable, it may not be modified by the Company,

the PUC, the State or any instrumentality thereof. The Statute provides that the transfer of ITP to a subsidiary or assignee of the utility pursuant to an irrevocable QRO shall be treated as an absolute transfer of the utility's right, title and interest as in a true sale, and not as a pledge or other financing

other than for state income and franchise tax purposes.

Transition Bonds will be repayable from intangible transition charges (ITCs). ITCs are non-bypassable charges imposed on a utility's jurisdictional customers to recover the utility's authorized QTEs. Jurisdictional customers are those located in the utility's certificated territory, whether or not the customers purchase electricity from the electric utility. The ITC will be calculated as a percentage of expected total base rate revenue to be collected by customer rate class, the collection of which will likely be dependent on, inter alia, a utility's ability to forecast the usage, delinquencies, charge-offs, and payment lags of customers in each rate class.

PROPOSED TRANSACTION

Company will form a wholly owned domestic corporation (Newco). Company will contribute the ITP to Newco in exchange for Newco stock. Newco will form the Issuer, as a remote, wholly owned State B limited liability company. The Issuer will not elect to be treated as an association taxable as a corporation under section 301.7701-3(b)(1) of the Procedure and Administration Regulations.

Newco will sell the ITP and associated ITC revenues created by the QRO adopted on Date 1 to the Issuer. The Issuer will issue Transition Bonds in the aggregate principal amount of up to a secured by the ITP and associated ITC revenues. The net proceeds from the issuance of the Transition Bonds will be transferred to Newco as payment for the ITP.

The ITC will be a specified dollar amount on each customer bill determined by applying certain rates per kilowatt hour of usage and, in some cases, per kilowatt hour of demand, to each customer's bill. The rates applicable to each will initially be based on various rate schedules that group customers into billing categories. Generally, it is anticipated that the ITC will be adjusted based on which of three classes (industrial, commercial or residential) the customer is in. The collection of the ITC will likely depend, inter alia, on the number of customers and/or usage, delinquencies and charge-offs and payments lags.

Newco will contribute as equity to the Issuer, cash equal to at least b of the initial aggregate principal amount of the Transition Bonds to be issued. The Issuer will deposit that amount into a Capital Subaccount and it will be invested in financial

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instruments that are issued by parties unaffiliated with Company and that can be readily converted into cash.

Additionally, the QTE's to be recovered through the ITC will include an additional amount intended as credit enhancement for the Transition Bonds. Collections of this additional amount will be deposited into an

Overcollateralization Subaccount. The balance in the Overcollateralization Subaccount will be expected eventually to reach at least b of the original principal amount of the Transition Bonds. ITC collections will be scheduled with the expectation that this balance will be collected ratably over the expected term of the Transition Bonds.

The issuer will issue Transition Bonds in the form of debt securities. The Transition Bonds may be issued in one or more series. Different series may have different maturities and coupon rates, and each series may have classes with different maturities and coupon rates. Each series will be entitled to recover, through the ITC approved by one or more QROs, the QTEs based upon a specified principal amount of Transition Bonds for such series, including interest at the coupon rate or rates applicable to such series. The Transition Bonds will be recourse to the Issuer and will be secured on a pari passu basis by the ITP, associated ITC revenues, the equity and all other assets of the Issuer.

Each of the Transition Bonds will have an expected maturity date by which principal is expected to have been repaid in full and a legal final maturity date by which it must be repaid in full. The legal final maturity date will be after the expected maturity date due to the lack of certainty concerning cash available for principal payments, and because the ITC is calculated based on estimates of variables such as levels of charge-offs, delinquencies and levels of usage. The legal final maturity date in each case will occur within three years after the expected maturity date. Under the QRO, the legal final maturity date may not be later than Date 2.

Interest on the Transition Bonds will be payable quarterly or semiannually at rates that are based on yields commensurate with similarly rated debt obligations of comparable weighted average lives. The Transition Bonds are expected to be sold at or near par value. Each class of Transition Bonds will have a schedule of principal payments to be made on the interest payment dates. Moreover, scheduled principal payment on any one class of Transition Bonds and in the aggregate may vary significantly from period to period.

The Transition Bonds may be subject to an optional clean-up call, i.e., early payment of all outstanding principal and accrued interest, when the outstanding principal of the series declines to a specified percentage of the original principal amount of the series.

Initially, the Company will service the consumer accounts that are subject to the ITCs under the Servicing Agreement between Company and the Issuer. As servicer, Company will bill and collect ITCs and retain all books and records regarding the ITCs subject to the Issuer's right of inspection. Company will, on at least a monthly basis, remit all collected ITCs to the Collection Account maintained by the indenture trustee for the benefit of the Transition

Bondholders. Only in the event that Company fails satisfactorily to perform its servicing functions or is subject to certain insolvency events will Company be subject to replacement as servicer. Company's ability to resign as servicer will be restricted; however, Company may subcontract with other companies to carry out some of its servicing responsibilities, so long as the rating of the Transition Bonds are neither reduced nor withdrawn. Company will be entitled to compensation, in the form of a servicing fee, for its servicing activities and reimbursement for certain of its expenses in the manner set forth in the documentation applicable to each series. The servicing fee will be set at an annual level of not more than c of the outstanding amount of Transition Bonds. As additional servicing compensation, Company will retain all investment income earned on the ITCs between the time they are collected and the time they are remitted to the Collection Account.

Either quarterly or semiannually, the Issuer will pay out of the Collection Account the Issuer's fees, trustee fees, servicing fees, administrative costs, operating expenses, accrued but unpaid interest on all classes of the Transition Bonds, and principal (to the extent scheduled) on the outstanding Transition Bonds. Any remaining balance in the Collection Account will be used to restore the Capital Subaccount, fund and replenish the Overcollateralization Subaccount (to the extent scheduled) and then be added to the Reserve Subaccount.

If the ITCs collected in any period are insufficient to satisfy the Issuer's payment obligations on the Transition Bonds, including operating expenses and fees, the Issuer may draw first on amounts in the Reserve Subaccount, next on the Overcollateralization Subaccount and finally on the Capital Subaccount (except for amounts set aside to ensure payments of the Issuer's expenses).

If the ITCs deposited in the Collection Account differ from the ITCs projected to be collected, Company, as servicer, will file for an adjustment with the PUC and the PUC will provide for such an adjustment at least annually. Adjustments during the final calendar year of the ITC collection for any series will occur quarterly, or as frequently as monthly, to ensure full recovery of the QTEs. All adjustments will be designed so that, at the end of the following period, the Capital Subaccount will (if necessary) be restored, the Overcollateralization Subaccount will be replenished (if necessary) and brought to its scheduled level, and the Reserve Subaccount will be zero.

Investment income earned on amounts in the Collection Account, the Capital Subaccount, the Overcollateralization Subaccount and the Reserve Subaccount will

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generally be treated in the same manner as current ITC collections. However, some of this investment income that is not needed for other purposes and would otherwise be deposited into the Reserve Subaccount will be released to the Issuer and may be distributed to Newco.

The Transition Bonds will provide for the following events of default: (1) a default of five days or more in the payment of accrued interest on any class of Transition Bonds; (2) a default in the payment of outstanding principal as of the legal final maturity date; (3) a default in payment of the redemption price following an optional clean-up call as of the redemption date; (4) certain breaches of covenants, representations or warranties by the Issuer in the indenture under which the Transition Bonds are issued; and (5) certain events of bankruptcy, insolvency, receivership or liquidation of the issuer. In the event of payment default, the indenture trustee or holders of a majority in principal amount of all series then outstanding may declare the principal of all classes of the Transition Bonds to be immediately due and payable.

Company expects virtually all of the Transition Bonds to receive a rating of AAA by at least two nationally recognized statistical rating agencies.

After repayment of any series of the Transition Bonds, any balances in the various accounts relating to that series will be released to the Issuer and may be distributed by the Issuer to Newco.

ISSUES

(1) Does the issuance of the QRO authorizing the collection of the CTC, or the issuance of Transition Bonds, result in gross income to Company or to Newco?

(2) Are the Transition Bonds obligations of Newco?

LAW

Section 61 of the Internal Revenue Code generally defines gross income as "income from whatever source derived", except as otherwise provided by law. Gross income includes income realized in any form, whether in money, property, or services. Section 1.61-1(a) of the Income Tax Regulations. This definition encompasses all "accessions to wealth, clearly realized, and over which the taxpayers have complete dominion" Commissioner v. Glenshaw Glass Co., 348 U.S. 426, 431 (1955), 1955-1 C.B. 207.

The right to collect the CTC is of significant value in producing income for Company, and State A's action in making the CTC rights transferable has enhanced

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that value. Generally, the granting of a transferable right by the government does not cause the realization of income. Rev. Rul. 92-16, 1992-1 C.B. 15 (allocation of air emission rights by the Environmental Protection Agency does not cause a utility to realize gross income); Rev. Rul. 67-135, 1967-1 C.B. 20 (fair market value of an oil and gas lease obtained from the government through a lottery is not includible in income).

The economic substance of a transaction generally governs its federal tax consequences. *Gregory v. Halvering*, 293 U.S. 465 (1935), XIV-1 C.B. 193. Affixing a label to an undertaking does not determine its character. Rev. Rul. 97-3, 1997-2 I.R.B. 5. An instrument secured by property may be an obligation of the taxpayer or, alternatively, may be a disposition of the underlying property by the taxpayer. Cf. *id.* (the Small Business Administration is the primary obligor of certain guaranteed payment rights that are created under its participating security program).

CONCLUSIONS

Based on the facts as represented, we rule as follows:

(1) Neither the issuance of the QRO financing order authorizing the collection of the CTC nor the issuance of Transition Bonds, result in gross income to Company or to Newco.

(2) The Transition Bonds are obligations of Newco.

Except as specifically ruled on above, no opinion is expressed or implied regarding the federal tax consequences of the transaction.

This ruling is directed only to Company. Under section 6110(k)(3) of the Code, this ruling may not be used or cited as precedent.

A copy of this letter should be attached to the federal income tax return of Company for the taxable years that include the transaction described in this letter.

Sincerely yours,
Assistant Chief Counsel
(Financial Institutions & Products)

By: /s/ Marshall Feiring

Marshall Feiring
Senior Technician Reviewer,
Branch 2