

rejection, identification of the guarantor, and whether the guarantor failed to meet the transfer agent's guarantee standard. These recordkeeping requirements assist the Commission and other regulatory agencies with monitoring transfer agents and ensuring compliance with the rule.

There are approximately 1,093 registered transfer agents. Of the 1,093 registered transfer agents, proximately 120 will receive fewer than 100 items for transfer. The staff expects that most small transfer agents will have few, if any, rejections. The staff estimates that every transfer agent will spend about 40 hours annually to comply with Rule 17Ad-15. The total annual burden for all transfer agents is 43,720 hours. The average cost per hour is approximately \$30. Therefore, the total cost of compliance for all transfer agents is \$1,311,600.

Please note that an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

Written comments are invited on: (a) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (b) the accuracy of the agency's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to Michael E. Bartell, Associate Executive Director, Office of Information Technology, Securities and Exchange Commission, 450 5th Street, NW, Washington, DC 20549.

Dated: May 1, 2000.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-24447; File No. 812-12006]

Allianz Life Insurance Company of North America, et al.; Notice of Application

May 8, 2000.

AGENCY: Securities and Exchange Commission ("SEC" or "Commission").

ACTION: Notice of application for an order under Section 6(c) of the Investment Company Act of 1940, as amended (the "1940 Act" or "Act") granting exemptions from the provisions of Sections 2(a)(32), 22(c), and 27(i)(2)(A) of the 1940 Act and Rule 22c-1 thereunder to permit the recapture of bonus amounts applied to purchase payments made under certain deferred variable annuity contracts.

Summary of Application. Applicants seek an order under Section 6(c) of the Act to the extent necessary to permit the issuance and, under specified circumstances, the subsequent recapture of unvested bonuses applied to purchase payment made under (i) certain deferred variable annuity contracts that Allianz Life Insurance Company of North America ("Allianz Life") will issue through Allianz Life Variable Account B ("Variable Account B") (the contracts, including certain contract data pages, endorsements and riders, are collectively referred to herein as the "Contracts"), and (ii) contracts that Allianz Life may issue in the future through Variable Account B or any Future Accounts that are substantially similar in all material respects to the Contracts (the "Future Contracts"). Applicants also request that the order being sought extend to any other National Association of Securities Dealers, Inc. ("NASD") member broker-dealer controlling or controlled by, or under common control with, Allianz Life, whether existing or created in the future, that serves as a distributor or principal underwriter for the Contracts or Future Contracts (collectively "Allianz Life Broker-Dealers").

Applicants: Allianz Life Insurance Company of North America, Allianz Life Variable Account B, any other separate account established by Allianz Life in the future to support certain deferred variable annuity contracts issued by Allianz Life ("Future Accounts") and USAllianz Investor Services, LLC ("USAIS") (collectively, "Applicants").

Filing Date: The application was filed on February 29, 2000.

Hearing or Notification of Hearing: An order granting the application will be issued unless the SEC orders a hearing.

Interested persons may request a hearing by writing to the SEC's Secretary and serving Applicants with a copy of the request, in person or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on June 2, 2000, and should be accompanied by proof of service on the Applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Secretary of the SEC.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Applicants, c/o Lynn Stone, Esq., Blazzard, Grodd & Hasenauer, P.C., 943 Post Road East, Westport, CT 06880.

FOR FURTHER INFORMATION CONTACT: Keith A. O'Connell, Senior Counsel, or Keith E. Carpenter, Branch Chief, Office of Insurance Products, Division of Investment Management, at (202) 942-0670.

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application is available for a fee from the SEC's Public Reference Branch, 450 Fifth St., NW, Washington, DC 20549-0102 (tel. (202) 942-8090).

Applicant's Representations

1. Allianz Life was organized under the laws of the state of Minnesota in 1896. Allianz Life offers fixed and variable life insurance and annuities and group life, accident and health insurance. Allianz Life is licensed to do business in 49 states and the District of Columbia. Allianz Life is a wholly-owned subsidiary of Allianz Verischerungs-AG Holding. Allianz Life serves as depositor for Variable Account B. Allianz Life may in the future establish one or more Future Accounts for which it will serve as depositor.

Variable Account B is a segregated asset account of Allianz Life. Variable Account B is registered with the Commission as a unit investment trust under the Act. Variable Account B filed a Form N-8A Notification of Registration under the 1940 Act on July 13, 1988. Variable Account B will fund the variable benefits available under the Contracts funded through it. Units of interest in Variable Account B will be registered under the Securities Act of 1933 (the "1933 Act"). In that regard, Variable Account B filed a Form N-4 Registration Statement on January 31, 2000 under the 1933 Act relating to the Contracts. Allianz Life may in the future

issue Future Contracts through Variable Account B or through Future Accounts. That portion of the assets of Variable Account B that is equal to the reserves and other Contract liabilities with respect to Variable Account B is not chargeable with liabilities arising out of any other business of Allianz Life. Any income, gains or losses, realized or unrealized, from assets allocated to Variable Account B are, in accordance with Variable Account B's Contracts, credited to or charged against Variable Account B, without regard to other income, gains or losses of Allianz Life.

3. USAIS (formerly NALAC Financial Plans, LLC) is a wholly-owned subsidiary of Allianz Life and will act as the distributor of the Contracts funded through Variable Account B. USAIS is registered with the Commission as a broker-dealer under the Securities Exchange Act of 1934 (the "1934 Act") and is a member of the NASD. The Contracts will be offered through unaffiliated broker-dealers who have entered into agreements with USAIS. All such unaffiliated broker-dealers will be registered broker-dealers under the 1934 Act and NASD members. USAIS, or any successor entity, may act as principal underwriter for any Future Accounts and distributor for any Future Contracts issued by Allianz Life.

4. The Contract is a flexible purchase payment variable deferred annuity contract with a fixed account option. The Contract may be issued under a qualified plan, or as a non-qualified contract. The Contract is designed to provide for the accumulation of assets during the accumulation phase through investment in various investment choices, and income during the payout phase. Contract Owners may make purchase payments at any time during the accumulation phase. The minimum initial purchase payment is \$15,000. The maximum amount of purchase payments that Allianz Life will accept from a Contract Owner without prior approval is \$1,000,000. Additional purchase payments of at least \$250 can be made (\$100 under the automatic investment plan).

5. The Contract provides that a Contract Owner may cancel the Contract within 10 days after receipt (or for a longer period in states where required). This is referred to as the "Free Look Period." Allianz Life will refund the Contract Owner's Contract value (less any Bonus payments) as of the date it receives the request for cancellation. In certain states, or if the Contract is purchased as an Individual Retirement Annuity, Allianz Life will refund

purchase payments made by the Contract Owner.

6. Contract owners can allocate purchase payments to sub-accounts of Variable Account B and to a fixed account ("Fix Account"), where available, offered by Allianz Life.

7. Contract owners can currently allocate money to 37 sub-accounts of Variable Account B. Each sub-account will invest in shares of a corresponding fund or portfolio of various underlying investment companies ("Funds"). The sub-accounts and the Fixed Account will comprise the initial investment options under the Contract.

8. The Variable Account B sub-accounts currently invest in shares of the following Funds: AIM Variable Insurance Funds, Inc., advised by A I M Advisors, Inc.; The Alger American Fund, advised by Fred Alger Management, Inc.; Davis Variable Account Fund, Inc., advised by Davis Selected Advisers, LP; Franklin Templeton Variable Insurance Products Trust, advised by Franklin Advisers Inc., Franklin Mutual Advisers, LLC, Franklin Advisory Services, LLC, Templeton Asset Management Ltd., and Templeton Global Advisors Limited (depending upon the portfolio); JP Morgan Series Trust II, advised by J.P. Morgan Investment Management Inc.; Oppenheimer Variable Account Funds, advised by Oppenheimer Funds, Inc.; PIMCO Variable Insurance Trust, advised by Pacific Investment Management Company; Seligman Portfolios, Inc., advised by J & W Seligman & Co. Incorporated; USAllianz Variable Insurance Products Trust, advised by Allianz of America, Inc.; and Van Kampen Life Investment Trust, advised by Van Kampen Asset Management Inc. The Funds are registered under the 1940 Act and the shares are registered under the 1933 Act. The Fixed Account is not registered with the Commission.

9. Allianz Life, at a later date, may determine to create additional sub-accounts of Variable Account B to invest in any additional underlying portfolios or other investments as may now or in the future be available. Similarly, sub-accounts of Variable Account B may be discontinued, combined or eliminated from time to time.

10. The Contract provides for transfer privileges among investment options, dollar cost averaging, flexible rebalancing, asset allocation and other features. The following charges are assessed under the Contract: (i) Annual asset-based charges as follows: 1.50% for mortality and expense risks if the Owner selects the traditional death benefit and 1.70% if the Owner selects

the enhanced death benefit, plus .15% for administration expenses; (ii) a contingent deferred sales charge with starts at 8.5% in the first year, and declines thereafter to 0% after 10 years with a 10% of purchase payments free surrender option; (iii) a \$40 contract maintenance charge; (iv) a transfer fee of \$25 for each transfer in excess of 12 in a Contract year; and (v) a commutation fee assessed against liquidations when certain annuity options are selected which starts at 7% in the first year following the income date and declines to 1% after 6 years following the income date. The Funds also impose management fees and operating expenses that vary depending upon which portfolio is selected.

11. The Contract offers a selection of death benefits—a Contract Owner can select the traditional death benefit or the enhanced death benefit. The traditional death benefit is equal to the greater of: (1) The Contract value determined as of the end of the business day on which due proof of death and an election of payment method is received by Allianz Life; or (2) the guaranteed minimum death benefit which is equal to the total of all purchase payments made reduced proportionately by the percentage of Contract value surrendered, including any contingent deferred sales charge. If selected, the enhanced death benefit is equal to the greater of: (1) The Contract value determined as of the end of the business day on which due proof of death and an election of payment method is received by Allianz Life; or (2) the guaranteed minimum death benefit which is equal to the greater of: (a) The total of all purchase payments made reduced proportionately by the percentage of the Contract value surrendered, including any contingent deferred sales charge assessed; or (b) the greatest anniversary value which is equal to the Contract value on a Contract anniversary, increased by additional purchase payments and reduced proportionately by the percentage of the Contract value surrendered, including any contingent deferred sales charge assessed, since that Contract anniversary. Contract anniversaries occurring on or after the Contract Owner's 81st birthday of date of death will not be taken into consideration in determining the enhanced death benefit.

12. Prior to the Contract Owner's/joint owner's 81st birthday, Allianz Life will credit each purchase payment made with a bonus ("Bonus"). The amount of the Bonus rate is based on the total amount of purchase payments made at the time of the contribution, less any surrenders and applicable contingent

deferred sales charges. The Bonus rates are: 4% of the purchase payment with total purchase payments (less surrenders and related contingent deferred sales charges) of less than \$25,000; 5% of the purchase payment with total purchase payments (less surrenders and related contingent deferred sales charges) of \$25,000–\$99,999; 6% of the purchase payment with total purchase payments (less surrenders and related contingent deferred sales charges) of \$100,000–\$999,999; 7% of the purchase payment with total purchase payments (less surrenders and related contingent deferred sales charges) of \$1,000,000–\$4,999,999; 8% of the purchase payment with total purchase payments (less surrenders and related contingent deferred sales charges) of \$5,000,000 or greater. Allianz Life will fund the Bonus from its general account assets and will allocate the Bonus to the Fixed Account and/or the sub-accounts of Variable Account B in the same proportion as the purchase payment. Allianz Life reserves the right to increase the Bonus rights, up to 10% of the purchase payment. In addition, Allianz Life reserves the right to vary the break points amounts relating to the Bonus rates.

13. A Contract Owner has access to funds by making either a partial or complete surrender, or by electing to receive annuity payments. A beneficiary will have access to the money in the Contract when a death benefit is paid. Any partial surrender must be for at least \$500 (except under the Minimum Distribution Program). A Contract Owner may elect to receive annuity payments under the six available annuity options. An Owner may not annuitize until three years after the issue date.

14. Bonus amounts are available for surrender, annuitization, payment of death benefits (which will never be less than the minimum guaranteed death benefit) only when such amounts become vested. Allianz Life will recapture any unvested Bonus upon surrender, annuitization or payment of a death benefit (if Contract value is the greater of the values). Bonuses vest as follows: 0%—up through 12 completed months from the date of purchase payment; 35%—at least 12 and through 24 completed months from date of purchase payment; 70%—at least 24 months and through 36 completed months from date of purchase payment; 100%—at least 36 completed months from date of purchase payment. Regardless of whether the Bonus is vested, all gains or losses attributable to such Bonus are part of the Owner's Contract value and are always 100%

vested. All Bonuses, and any gains or losses attributable to a Bonus are treated as earnings under the Contract for tax purposes.

15. Applicants seek exemption pursuant to Section 6(c) from Sections 2(a)(32), 22(c) and 27(i)(2)(A) of the Act and Rule 22c–1 thereunder to the extent necessary to permit Allianz Life to issue Contracts and Future Contracts that provide for the recapture of any unvested Bonus in the following instances: (i) When the Contract that provide for the recapture of any unvested Bonus in the following instances: (i) when the Contract Owner makes either a partial or full surrender (including during the Free-Lock Period) within 36 complete months after a purchase payment is made, Allianz Life will recapture the unvested Bonus (according to the vesting schedule set forth above); (ii) if an Owner annuitizes within 36 complete months after a purchase payment is made, Allianz Life will recapture the unvested Bonus (according to the vesting schedule set forth above) before the Contract value is applied to an annuity option; and (iii) when a death benefit becomes payable within 36 complete months of a purchase payment, Allianz Life will recapture the unvested Bonus (according to the vesting schedule set forth above) from the Contract value used in the death benefit calculation (in no event will the death benefit be less than the guaranteed minimum death benefit).

16. Partial surrenders in excess of the 10% of purchase payments free surrender option (“Partial Surrender Privilege”) will reduce unvested Bonuses by such excess amount's percentage of the Contract value at the time of the surrender. This percentage is determined by dividing the amount of the partial surrender (including any contingent deferred sales charge) in excess of the Partial Surrender Privilege amount by the Contract value. If there are multiple bonuses applied to a Contract, Allianz Life will reduce the oldest unvested bonus first.

Applicants' Legal Analysis

1. Section 6(c) of the Act authorizes the Commission to exempt any person, security or transaction, or any class or classes of persons, securities or transactions from the provisions of the Act and rules promulgated thereunder if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Applicants request that the Commission, pursuant

to Section 6(c) of the Act grant the exemptions requested below with respect to the Contract, and any Future Contracts funded by Variable Account B that are issued by Allianz Life and underwritten or distributed by USAIS or Allianz Life Broker-Dealers. Applicants undertake the Future Contracts funded by Variable Account B or any Future Account will be substantially similar in all material respects to the Contract. Applicants believe that the requested exemptions are appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

2. Applicants represent that it is not administratively feasible to track the Bonus in Variable Account B after the Bonus is applied. Accordingly, the asset-based charges applicable to Variable Account B will be assessed against the entire amount held in Variable Account B, including the Bonus during the 36-month period following a purchase payment preceding certain events (*i.e.*, surrender, annuitization and payment of a death benefit). As a result, the aggregate asset-based charges assessed will be higher than those that would be charged if the Contract Owner's Contract value did not include the Bonus.

3. Subsection (i) of Section 27 provides that Section 27 does not apply to any registered separate account funding variable insurance contracts, or to the sponsoring insurance company and principal underwriter of such account, except as provided in paragraph (2) of the subsection. Paragraph (2) provides that it shall be unlawful for such a separate account or sponsoring insurance company to sell a contract funded by the registered separate account unless “(A) such contract is a redeemable security.” Section 2(a)(32) defines “redeemable security” as any security, other than short-term paper, under the terms of which the holder, upon presentation to the issuer, is entitled to receive approximately his proportionate share of the issuer's current net assets, or the cash equivalent thereof.

4. Applicants submit that the Bonus recapture provisions described in this application would not deprive a Contract Owner of his or her proportionate share of the issuer's current net assets. A Contract Owner's interest in the Bonus allocated to his or her Contract value upon receipt of a purchase payment is not 100% vested until the completion of 36 months following a purchase payment. Until or unless the Bonus is vested, Allianz Life retains the right and interest in the

Bonus, although not in the earnings attributable to that amount. Thus, when Allianz Life recaptures any unvested Bonus it is simply retrieving its own assets, and because a Contract Owner's interest in the Bonus is not 100% vested until the completion of 36 months, the Contract Owner has not been deprived of a proportionate share of Variable Account B assets, *i.e.*, a share of Variable Account B's assets proportionate to the Contract Owner's Contract value (including the Bonus).

5. With respect to the recapture of the Bonus upon the exercise of the Free-Look privilege, it would be patently unfair to allow a Contract Owner exercising that privilege to retain the Bonus under a Contract that has been returned for a refund after a period of only a few days. If Allianz Life could not recapture the Bonus, individuals could purchase a Contract with no intention of retaining it, and simply return it for a quick profit. Furthermore, the recapture of the unvested Bonus relating to a surrender, annuitization or payment of a death benefit is designed to protect Allianz Life against Contract Owners making large purchase payments within 36 months of certain events. It would provide Allianz Life with insufficient time to recover the cost of the Bonus, to its financial detriment. Again, the amounts recaptured equal the unvested Bonus provided by Allianz Life from its own general account assets and any gain would remain part of the Contract value.

6. Applicants represent that the Bonus will be attractive to and in the interest of investors because it will permit Contract Owners to put between 104–108% of their purchase payments to work for them in the selected sub-accounts and the Fixed Account. Also, any earnings attributable to the Bonus will be retained by Contract Owners and the principal amount of the Bonus will be retained if the contingencies set forth in the application are satisfied.

7. Applicants state that Allianz Life's right to recapture unvested Bonus amounts applied to purchase payments made within 36 months of the payment of a surrender, annuitization or death benefit protects it against the risk that owners will contribute larger amounts as they approach certain events (if foreseeable) to obtain the Bonus, while avoiding Contract charges over the long terms. With respect to refunds paid upon the return of Contract within the Free-Look Period, the amount payable by Allianz Life must be reduced by the allocated Bonus payment. Otherwise, Applicants state that purchasers could apply for contracts for the sole purpose

of exercising the free-look provision and making a quick profit.

8. Applicants submit that the provisions for recapture of any applicable unvested Bonus under the Contracts do not, and any such Future Contract provisions will not, violate Section 2(a)(32) and 27(i)(2)(A) of the Act. Nevertheless, to avoid any uncertainties, Applicants request an exemption from those Sections, to the extent deemed necessary, to permit the recapture of any unvested Bonus under the circumstances summarized herein with respect to the Contracts and any Future Contracts, without the loss of the relief from Section 27 provided by Section 27(i).

9. Section 22(c) of the 1940 Act authorizes the Commission to make rules and regulations applicable to registered investment companies and to principal underwriters of, and dealers in, the redeemable securities of any registered investment company, whether or not members of any securities association, to the same extent, covering the same subject matter, and for the accomplishment of the same ends as prescribed in Section 22(a) in respect of the rules which may be made by a registered securities association governing its members. Rule 22c-1 thereunder prohibits a registered investment company issuing any redeemable security, a person designated in such issuer's prospectus as authorized to consummate transactions in any such security, and a principal underwriter of, or dealer in, such security, from selling, redeeming, or repurchasing any such security except at a price based on the current net asset value of such security which is next computed after receipt of a tender of such security for redemption or of an order to purchase or sell such security.

10. Arguably, Allianz Life's recapture of the unvested Bonus might be viewed as resulting in the redemption of redeemable securities for a price other than one based on the current net asset value of Variable Account B. Applicants contend, however, that recapture of the unvested Bonus is not violative of Section 22(c) and Rule 22c-1. Applicants argue that the recapture does not involve either of the evils that Rule 22c-1 was intended to eliminate or reduce, namely: (i) The dilution of the value of outstanding redeemable securities of registered investment companies through their sale at a price below net asset value or their redemption or repurchase at a price above it, and (ii) other unfair results including speculative trading practices. See Adoption of Rule 22c-1 under the

1940 Act, Investment Company Release No. 5519 (Oct. 16, 1968). To effect a recapture of an unvested Bonus, Allianz Life will redeem interests in an Owner's Contract value at a price determined on the basis of current net asset value of Variable Account.

B. The amount captured will equal the amount of the unvested Bonus that Allianz Life paid out of its general account assets. Although Owners will be entitled to retain any investment gain attributable to the Bonus, the amount of such gain will be determined on the basis of the current net asset value of Variable Account B. Thus, no dilution will occur upon the recapture of the unvested Bonus. Applicants also submit that the second harm that Rule 22c-1 was designed to address, namely, speculative trading practices calculated to take advantage of backward pricing, will not occur as a result of the recapture of the unvested Bonus. However, to avoid any uncertainty as to full compliance with the Act, Applicants request an exemption from the provisions of Section 22(c) and Rule 22c-1 to the extent deemed necessary to permit them to recapture the unvested Bonus under the Contracts and Future Contracts.

Conclusion

Applicants submit that their request for an order is appropriate in the public interest. Applicants state that such an order would promote competitiveness in the variable annuity market eliminating the need to file redundant exemptive applications, thereby reducing administrative expenses and maximizing the efficient use of Applicants' resources. Applicants argue that investors would not receive any benefit or additional protection by requiring Applicants to repeatedly seek exemptive relief that would present no issue under the Act that has not already been addressed in their application described herein. Applicants submit that having them file additional applications would impair their ability effectively to take advantage of business opportunities as they arise. Further, Applicants state that if they were required repeatedly to seek exemptive relief with respect to the same issues addressed in the application described herein, investors would not receive any benefit or additional protection thereby.

Applicants submit, based on the grounds summarized above, that their exemptive request meets the standards set out in Section 6(c) of the Act, namely, that the exemptions requested are necessary or appropriate in the public interest and consistent with the protection of investors and the purposes

fairly intended by the policy and provisions of the Act, and that, therefore, the Commission should grant the requested order.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 00-11959 Filed 5-11-00; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 35-27174]

Filings Under the Public Utility Holding Company Act of 1935, As Amended ("Act")

May 5, 2000.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendment(s) is/are available for public inspection through the Commission's Branch of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by May 30, 2000, to the Secretary, Securities and Exchange Commission, Washington, DC 20549-0609, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in the case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of facts or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After May 30, 2000, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

Conectiv, et al. (70-9655)

Conectiv, a registered public utility holding company; Atlantic City Electric Company ("ACE"), and Delmarva Power & Light Company ("Delmarva"), each a public utility subsidiary of Conectiv; ACE-REIT, Inc. ("ACE-REIT"), Conectiv Atlantic Generation, LLC ("CAG"), nonutility subsidiaries of ACE;

and Conectiv Delmarva Generation, Inc. ("CDG"), a nonutility subsidiary of Delmarva (collectively, "Applicants"), all located at 800 King Street, Wilmington, Delaware 19899, have filed an application-declaration under sections 6(a), 7, 9(a), 10, 12(c), 12(d) and 32 of the Act and rules 43, 45, 46 and 54 under the Act.

Applicants state that Conectiv intends to convert Delmarva and ACE into subsidiaries that provide only regulated electric transmission and distribution services and, in the case of Delmarva, regulated gas distribution services. As part of this plan, Conectiv is implementing a strategy of divesting baseload generating facilities and retaining "mid-merit" facilities, *e.g.*, those facilities that can quickly increase or decrease their KW per hour output level on an economic basis. In connection with this strategy, Delmarva and ACE intend to transfer ownership of certain generating facilities to a special purpose holding company, Conectiv Energy Holding Company ("CEH"), that Conectiv proposes to establish and own, to hold these facilities. The Delmarva facilities have approximately 1,364 MW of net generating capacity, with an approximate value of \$301.4 million net of deferred taxes ("Delmarva Generation Assets").¹ The ACE facilities have approximately 502 MW of net generating capacity valued at approximately \$77.2 million net of deferred taxes ("ACE Generation Assets"). Applicants request several authorizations to accomplish this transfer and for other related matters.

Transfer of ACE and Delmarva Generation Assets

ACE proposes to acquire additional ownership interests in its subsidiary, CAG, which is currently inactive, and to transfer the ACE Generation Assets to CAG, in exchange for those interests. ACE also requests authority to acquire additional common stock of its subsidiary, ACE-REIT, which is also inactive, and to transfer to ACE-REIT its ownership interest in CAG in exchange for that common stock.² ACE proposes

¹ These assets include approximately 127 MW of net generating capacity (with book value of \$26 million net of deferred taxes) to be transferred by Delmarva to CDG that may be transferred to a nonassociate exempt wholesale generator ("EWG") in exchange for like-kind assets under a like-kind exchange agreement. In addition, ACE and Delmarva intend to transfer certain other generating assets to EWGs and propose in another filing, S.E.C. File NO. 70-9607, to transfer certain generating assets to nonassociate non-EWGs.

² Applicants propose to use ACE-REIT as an intermediate holding company over the ACE Generation Assets in order to minimize the tax consequences of the transfer.

to issue a dividend to Conectiv of ACE-REIT's common stock.

Similarly, Delmarva proposes to acquire additional common stock of its subsidiary, CDG, which is currently inactive, and to transfer the Delmarva Generation Assets to CDG in exchange for that common stock. Delmarva proposes to issue a dividend to Conectiv of CDG's common stock. In accordance with generally accepted accounting principles: The dividends by ACE of ACE-REIT common stock and by Delmarva of CDG common stock will be treated as dividends out of capital surplus.³

In addition, Conectiv requests authority to establish and acquire all of the common shares of CEH⁴ as an intermediate holding company that would hold the equity securities of CDG, ACE-REIT and indirectly, CAG.⁵ Accordingly, Applicants request authority for Conectiv to contribute the equity securities of CDG and ACE-REIT and, indirectly, CAG to CEH. These transactions would make CDG and ACE-REIT direct subsidiaries and CAG an indirect subsidiary of CEH. Applicants also request that the Commission deem ACE-REIT not to be a utility holding company solely for purposes of section 11(b)(2) of the Act.

Financings

Applicants request authority for CEH, ACE-REIT, CAG and CDG to engage in certain financings until such time as CAG and CDG qualify as EWGs and the financing of the companies can be accomplished through rule 52 or until March 31, 2000, whichever first occurs ("Authorized Period"). Specifically, CEH requests authority to issue equity or long- or short-term debt securities to

³ Applicants note that the capital dividend by Delmarva of the CDG common stock will cause its common equity to total capitalization ratio to fall below 30% until the sale of other generation assets to third parties is completed. The closing of this sale is scheduled for September 1, 2000 subject to the prior receipt of certain state regulatory approvals. The capital dividend by ACE will also cause the common equity to total capitalization ratio for ACE to fall below 30%.

⁴ CEH will not be an operating company, will have no employees and will function as an intermediary holding company that will be a utility holding company until such time as CDG and CAG are qualified as EWGs. Applicants state that following authorization by the Commission, CEH will issue a nominal number of shares of equity to Conectiv in exchange for a nominal amount of cash not to exceed \$1000.

⁵ Conectiv intends for CEH to invest in one or more EWGs and to consolidate or dispose of ownership interests in any such EWG so long as the aggregate limitation on such investments, imposed by rule 53 or other applicable order, is not exceeded. Separately, Conectiv intends to contribute to CEH the equity securities of a rule 58 company engaged in energy marketing, Conectiv Energy Supply, Inc.