

Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549. Comments must be submitted to OMB within 30 days of this notice.

Dated: January 31, 2002.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 02-7752 Filed 3-29-02; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 35-27511]

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

March 26, 2002.

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 April 16, 2002 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 April 16, 2002, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

Pepco Holdings Inc., et al. (70-9913)

Pepco Holdings, Inc. ("PHI"), a Delaware corporation and its parent company, Potomac Electric Power Company ("Pepco"), a public utility company; POM Holdings, Inc. ("POM"), a holding company subsidiary of Pepco; Pepco Energy Services, a service company subsidiary of Pepco; Pepco's direct and indirect nonutility subsidiaries ("Pepco Nonutilities"), all

located at 1900 Pennsylvania Avenue NW, Washington, DC 20068; and Conectiv, a Delaware corporation and a registered public utility holding company, Conectiv Resource Partners, Inc. ("CRP"), a service company subsidiary of Conectiv and Conectiv's direct and indirect nonutility subsidiaries ("Conectiv Nonutilities") located at 800 King Street, Wilmington, Delaware 19801, (collectively, "Applicants"), have filed a joint application-declaration ("Application") under sections 5, 6(a), 7, 9(a), 10, 12(b), 12(c), 13(b), 32 and 33 of the Act, and rules 42, 43, 45, 46, 52, 53, 54, 80-88, 90 and 91.

I. Introduction

Applicants request authority for transactions associated with the acquisition of Conectiv and Pepco by PHI ("Transaction"). Applicants propose that upon the satisfaction of certain conditions, including receipt of all necessary regulatory approvals, Pepco and Conectiv will become subsidiaries of PHI. PHI was incorporated under the laws of Delaware on February 9, 2001, as a direct, wholly owned subsidiary of Pepco to become the parent company of Pepco and Conectiv. After consummation of the Transaction, PHI will register as a public utility holding company under section 5 of the Act and maintain its headquarters in Washington, DC.

II. Summary of Requests

Applicants request authorization in the Merger Application for PHI to form two wholly owned subsidiaries that will merge with and into Pepco and Conectiv ("Mergers"). Pepco stockholders will receive one share of PHI's common stock for each share of Pepco common stock held prior to the Mergers. Conectiv common stockholders and Class A common stockholders will receive either cash or PHI common stock, subject to proration, in order that the aggregate consideration paid to all Conectiv stockholders will be fifty percent cash and fifty percent stock. As a result of the Transaction, all of the outstanding shares of common stock of PHI will be held by the former stockholders of Conectiv and Pepco and each share of each other class of capital stock of Conectiv and Pepco shall be unaffected and remain outstanding.

Upon completion of the Merger, PHI will own, directly or indirectly, all of the issued and outstanding common stock of six public utility subsidiary companies: Pepco, Atlantic City Electric Company ("ACE"), Delmarva Power & Light Company ("Delmarva"), Conectiv

Delmarva Generation, Inc. ("CDG"), Conectiv Pennsylvania Generation, Inc. ("CPGI") and Conectiv Atlantic Generation, LLC ("CAG"). PHI also will hold, directly or indirectly, all of the nonutility subsidiaries and investments currently owned by Pepco and Conectiv ("PHI Nonutilities").

In addition, Applicants request: (i) To retain the nonutility businesses and subsidiaries of Pepco and Conectiv; (ii) to retain Conectiv's gas operations ("Conectiv Gas System"); (iii) following a transition period, to either (a) extend the role of CRP as a system service company to provide services to all associate companies in the PHI system or (b) form a new system service company as a direct subsidiary of PHI; (iv) to deviate from the "at cost" standards of the Act with respect to services provided to certain subsidiaries; (v) to reorganize PHI's direct and indirect, wholly owned, nonutility subsidiaries without the need to seek further Commission authorization, (vi) to enter into a tax allocation agreement and (vii) to engage in energy-related activities outside of the United States.

III. Parties to the Transaction

A. Pepco

Pepco is a public utility company within the meaning of the Act. Pepco transmits and distributes electric energy to 1.9 million people in Washington DC and major portions of Prince George's and Montgomery counties in suburban Maryland. Pepco is regulated as a public utility in Washington DC, Maryland, and, to a limited extent, in Pennsylvania and Virginia where it owns transmission lines and other jurisdictional assets.

Pepco's transmission facilities are interconnected with those of other transmission owners that are members of PJM, an Independent System Operator ("ISO") approved by the Federal Energy Regulatory Commission ("FERC"). PJM administers all transmission service within the PJM region. Pepco has an investment in the Keystone-Conemaugh 500kV system ("EHV") that traverses most of Pennsylvania.

Pepco is also engaged in the sale of electricity, natural gas and telecommunications in markets throughout the mid-Atlantic region through its wholly owned nonutility subsidiary, POM. In May 1999, Pepco reorganized its nonutility subsidiaries into two major operating groups to compete for market share in deregulated markets. As part of the reorganization, POM was created as the parent company of its two wholly owned subsidiaries,

Potomac Capital Investment Corporation ("PCI") and Pepco Energy Services, Inc. ("Energy Services").

Potomac Electric Power Company Trust I ("Trust"), a Delaware statutory business trust, and Edison Capital Reserves Corporation ("Edison"), a Delaware investment holding company, are also wholly owned subsidiaries of Pepco.¹

For its utility operations, Pepco reported total assets of \$5,010.0 million, utility operating revenues of \$1,723.5 million (excluding \$29.3 million gain on divestiture of generation assets during the year) and net income of \$194.2 million for the year ended December 31, 2001. PCI reported total assets of \$1,298.8 million, operating revenues of \$112.2 million and net loss of \$(36.1) million for the year ended December 31, 2001. Energy Services reported total assets of \$211.8 million, operating revenues of \$643.9 million and net income of \$10.3 million for the year ended December 31, 2001.

B. Conectiv

Conectiv is a registered holding company under the Act and a Delaware corporation.² Conectiv owns all of the outstanding common stock of Delmarva, a Delaware and Virginia corporation, and of ACE, a New Jersey corporation. Delmarva and ACE are Conectiv's largest public utility subsidiaries and deliver electricity to customers under the trade name Conectiv Power Delivery. Delmarva provides electric service in Delaware, Maryland, and Virginia and natural gas service in northern Delaware. Delmarva's regulated electric service area has a population of approximately 1.2 million and covers an area of about 6,000 square miles on the Delmarva Peninsula. Delmarva delivers natural gas through its gas transmission and distribution systems to approximately 110,800

customers in a service territory that covers about 275 square miles in northern Delaware and has a population of approximately 500,000. ACE provides regulated electric service in an area in the southern one-third of New Jersey, which covers approximately 2,700 square miles and has a population of approximately 900,000. Delmarva and ACE deliver electricity within their service areas to approximately 973,600 customers through their respective transmission and distribution systems and also supply electricity to most of their electricity delivery customers.

ACE is subject to regulation as a public utility in New Jersey and Delmarva is subject to regulation as a public utility in Delaware, Maryland, and Virginia. Pennsylvania has jurisdiction over both ACE and Delmarva to a limited extent.

Conectiv formed Conectiv Energy Holding Company ("CEH") in 2000. CEH and its subsidiaries are engaged in electricity production and sales, energy trading, and marketing. CEH owns 100 percent of the stock of ACE REIT, Inc. ("ACE REIT"), CESI, CPGI and CDG. ACE REIT owns 100 percent of the interests in CAG, a generation company. CDG, CAG and CPGI are utilities within the meaning of the Act.

In addition, Conectiv is changing the types of electric generation plants it owns by selling the majority of its baseload plants and increasing its mid-merit generation portfolio. Based on megawatts of generating capacity, approximately twenty-five percent (739.70 MW) of the electric generating plants owned by Conectiv as of December 31, 2001 (2,963.70 MW) were under agreements for sale. Conectiv is building new mid-merit electric generating plants, which Conectiv's management expects will provide a better strategic fit with Conectiv's

energy trading activities and have more profitable operating characteristics than the plants to be sold.

In addition, as of December 31, 2001, Conectiv's subsidiaries had long-term purchased power contracts which provided 3,100 MW of capacity and varying amounts of firm electricity per hour during each month of a given year. Also, Delmarva agreed to purchase back 500 MW/hr of firm electricity per hour from the buyer of its generating plants beginning upon completion of the sale and continuing through December 31, 2005.

As a member of PJM, the generation and transmission facilities of Conectiv are operated on an integrated basis with other electricity suppliers and transmission owners in Pennsylvania, New Jersey, Maryland and the District of Columbia, and are interconnected with other major utilities in the eastern half of the United States. In addition to having an investment in EHV, ACE and Delmarva each have investments in two other 500kV systems in the PJM region.

In addition, Conectiv owns interests in various nonutility companies authorized by rule 58 under the Act or Commission order.

C. PHI

PHI was incorporated under the laws of Delaware on February 9, 2001, as a direct, wholly owned subsidiary of Pepco. PHI has issued 100 shares of common stock, all of which are owned by Pepco. PHI was created to become the parent company of Pepco and Conectiv and after the consummation of the Transaction, will register as a public utility holding company under section 5 of the Act.

For the year ended December 31, 2001, Pepco and Conectiv had the following financial results individually, and on a pro forma combined basis:³

	Pepco (\$ millions)	Conectiv (\$ millions)	Pro forma combined (\$ millions)
Total assets	5,285.9	6,280.7	12,289.8
Total operating revenues	2,502.9	5,790.0	8,292.9
Operating income	366.4	759.2	1,125.6
Net income	168.4	382.9	551.3

¹ Trust was established in April 1998 and exists for the exclusive purposes of (i) issuing Trust securities representing undivided beneficial interests in the assets of the Trust; (ii) investing the gross proceeds from the sale of Trust securities in junior subordinated deferrable interest debentures issued by Pepco and (iii) engaging only in other

activities as necessary or incidental to the foregoing. Edison was established in 2000 and exists for the purposes of managing and investing a significant portion of the proceeds received from the divestiture of certain of Pepco's generation assets.

² Conectiv was formed on March 1, 1998, through a series of merger transactions and an exchange of

common stock with Delmarva and Atlantic Energy, Inc. See HCAR No. 26832 (February 25, 1998) ("Conectiv Merger Order").

³ In December 2000, Pepco divested substantially all of its generation assets. This divestiture resulted in the recognition of a pre-tax gain of approximately \$423.8 million (\$182 million net of income taxes).

D. The Mergers

Under the merger agreement ("Merger Agreement"), PHI will form two new wholly owned subsidiaries ("Merger Sub A" and "Merger Sub B," and together, "Merger Subs"). Merger Sub A will be a corporation organized under the laws of the District of Columbia and Virginia. Merger Sub B will be a corporation organized under the laws of Delaware. PHI will designate the officers of Merger Sub A and Merger Sub B. After the formation, the Merger Subs will become parties to the Merger Agreement. Merger Sub A will merge with and into Pepco, in accordance with the applicable provisions of the laws of Virginia and the District of Columbia ("Pepco Merger"). Pepco will be the surviving corporation and will continue its existence under the laws of the District of Columbia and Virginia. As a result of the Pepco Merger, Pepco will become a subsidiary of PHI. The parties currently intend that shortly after the consummation of the Transaction, Pepco will dividend the stock of POM to PHI so that POM will become a first tier subsidiary of PHI.

Merger Sub B will merge with and into Conectiv, in accordance with the laws of Delaware ("Conectiv Merger"). Conectiv will be the surviving corporation in the Conectiv Merger and will continue its existence under the laws of Delaware. As a result of the Conectiv Merger, Conectiv will become a subsidiary of PHI. The officers of Merger Sub A and Merger Sub B will become, respectively, the officers of Pepco and Conectiv.

By virtue of the Mergers, each share of common stock, par value \$1.00 per share of Pepco ("Pepco Common Stock"), each share of common stock, par value \$.01 per share, of Conectiv ("Conectiv Common Stock"), and each share of class A common stock, par value \$.01 per share of Conectiv ("Conectiv Class A Stock" and together with the Conectiv Common Stock, "Conectiv Stock") that are owned by Pepco, Conectiv, or any of their subsidiaries, will be canceled and no consideration will be delivered in exchange ("Canceled Stock"). Shares of Pepco Common Stock (other than the Canceled Stock and shares with respect to which the owner duly exercises the right to dissent under applicable law) will be converted into the right to receive one share of common stock, par value \$.01 per share, of PHI ("PHI Common Stock" or "Pepco Merger Consideration").

Shares of Conectiv Common Stock (other than the Canceled Stock and shares with respect to which the owner

duly exercises the right to dissent under applicable law) will be converted into the right to receive: (a) \$25 in cash ("Conectiv Common Stock Cash Consideration") or (b) the number of validly issued, fully paid and nonassessable shares of PHI Common Stock ("Conectiv Common Stock Share Consideration") determined by dividing \$25 by the average final price⁴ ("Conectiv Common Stock Exchange Ratio"). The Conectiv Common Stock Exchange Ratio may vary in accordance with the Average Final Price within minimum and maximum exchange ratios established in the Merger Agreement. Shares of Conectiv Class A Stock other than Canceled Stock and shares with respect to which the owner duly exercises the right to dissent under applicable law will be converted into the right to receive (a) \$21.69 in cash ("Class A Cash Consideration" and together with the Conectiv Common Stock Cash Consideration, "Conectiv Cash Consideration") or (b) the number of validly issued, fully paid and nonassessable shares of PHI Common Stock ("Class A Share Consideration" and together with the Conectiv Common Stock Share Consideration, "Conectiv Share Consideration") determined by dividing \$21.69 by the Average Final Price ("Class A Stock Exchange Ratio"). The Class A Stock Exchange Ratio may also vary in accordance with the Average Final Price within minimum and maximum exchange ratios established in the Merger Agreement.

Each record holder of Conectiv Stock immediately prior to the consummation of the Transaction will be entitled to elect to receive shares of PHI Common Stock or cash for all or any part of that holder's shares of Conectiv Stock. As described in the Merger Agreement, this election is subject to the requirement that, in the aggregate, fifty percent of the consideration to be paid to Conectiv stockholders consists of cash and fifty percent consists of PHI common stock. Each share of common stock, without par value, of Merger Sub A that is issued and outstanding immediately prior to the consummation of the Transaction will be converted into one share of common stock, without par value, of Pepco. Each share of common stock, par value \$.01 per share, of Merger Sub B that is issued and outstanding immediately prior to the consummation of the Transaction will be converted

⁴ The average final price ("Average Final Price") consists of a volume-weighted average of the closing trading prices of Pepco common stock during a certain period of time prior to the closing of the Transaction.

into one share of common stock, par value \$.01 per share, of Conectiv.

PHI will account for the Transaction as an acquisition of Conectiv by Pepco using the purchase method of accounting for a business combination in accordance with generally accepted accounting principles ("GAAP"). Under GAAP, the assets and liabilities of Conectiv will be recorded at their fair values and, if necessary, any excess of the merger consideration over those amounts will be recorded as goodwill. The results of operations and cash flows of Conectiv will be included in PHI's financial statements prospectively as of the effective time of the transaction. Staff Accounting Bulletin No. 54 ("SAB 54"), generally requires that the premium paid in an acquisition using the purchase method of accounting be "pushed down" to the books of the acquired company, which in this case would be Conectiv. However, Applicants state that, under applicable exceptions to the general rule, the premium paid in the Transaction is not required to be "pushed down" to Conectiv. Specifically under SAB 54, application of push down accounting is not required when the acquired company will continue to have public debt after a merger. Conectiv has and will have publicly held debt in the form of medium-term notes after the Transaction.

Before completing the Transaction, the management of Pepco and PHI will evaluate various sources and methods of financing the amount necessary to fund a portion of the cash consideration to be paid (the total amount of cash consideration is approximately \$1.098 billion). Applicants may use up to approximately \$400 million of the proceeds that Pepco has received from the recent sale of its generation assets to fund a portion of the Conectiv Cash Consideration, and anticipate that all other funds required for the Transaction will be financed at the PHI level through external sources. Sources of financing that PHI is arranging include commercial and investment banks, institutional lenders and public securities markets. Methods of financing initially will include commercial paper and bank lines of credit, which will be refinanced following completion of the Transaction in the public and/or private markets with debt and preferred securities of various maturities and types to be determined after the closing of the Transaction. The financing for the Transaction by PHI will not be recourse to any system companies other than PHI.

IV. Intrasystem Provision of Services

After consummation of the Transaction, and during the transition period described below, both CRP and Pepco will provide Pepco Holdings, Conectiv, Pepco and other system companies with certain system wide administrative, management and support services. All services provided to Pepco Holdings or to both Pepco or any of its current subsidiaries ("Pepco Subsidiaries") and Conectiv or any of its current subsidiaries ("Conectiv Subsidiaries") by either CRP or Pepco will be billed and allocated through CRP in accordance with a revised service agreement ("CRP Service Agreement").⁵ As a result, during the transition period not all services will be provided on a system-wide basis and CRP will continue to provide certain services solely to Conectiv companies, while Pepco companies will continue to provide services solely to Pepco companies. The Applicants have not yet completed their analysis of how best to accomplish the goal of centralizing the service functions in the combined company. Once this analysis is completed, Pepco Holdings will consolidate the provision of services in a first tier system service company as appropriate and subject to Commission approval.

Applicants propose to have CRP function as an interim service company through January 1, 2003 ("Transition Period"). CRP will provide services to PHI as well as both Pepco Subsidiaries and Conectiv Subsidiaries and these services will be allocated and billed in accordance with the CRP Service Agreement. In addition, Applicants propose that some Pepco employees provide services to PHI, Pepco Subsidiaries and Conectiv Subsidiaries. Pepco will bill these services to CRP at cost, determined in accordance with rules 90 and 91 under the Act, and CRP will then allocate and bill the costs to the appropriate system companies in accordance with the CRP Service Agreement. During the transition period, CRP will either be a direct or indirect subsidiary of PHI.

Applicants commit to file, within six months of the consummation of the Transaction, a revised service agreement, service company policy and procedures that address the final service company arrangements to be proposed. At this time, Applicants state that any new service company will have been formed.

Applicants request an exemption from the at-cost requirements of rules 90 and

91 for services rendered by PHI's nonutility subsidiaries to certain other PHI nonutility subsidiaries, if one or more of the following conditions apply:

(i) The purchasing nonutility subsidiary is a FUCO or an EWG that derives no part of its income, directly or indirectly, from the generation and sale of electric energy within the United States;

(ii) The purchasing nonutility subsidiary is an EWG that sells electricity at market-based rates that have been approved by the FERC or the relevant state public utility commission, provided that the purchaser is not one of PHI's regulated public utility subsidiaries;

(iii) The purchasing nonutility subsidiary is a "qualifying facility" ("QF") under the Public Utility Regulatory Policies Act of 1978, as amended ("PURPA"), that sells electricity exclusively at rates negotiated at arm's length to one or more industrial or commercial customers purchasing the electricity for their own use and not for resale, or to an electric utility company (other than one of PHI's regulated public utility subsidiaries) at the purchaser's "avoided costs" as determined under the regulations under PURPA; and

(iv) The purchasing nonutility subsidiary is an EWG or QF that sells electricity at rates based upon its cost of service, as approved by the FERC or any state public utility commission having jurisdiction, provided that the purchaser of the electricity is not one of PHI's regulated public utility subsidiaries.

The nonutility subsidiaries described in clauses (i)-(iv) are referred to collectively below as "Exempt Nonutility Companies." To the extent not exempt or otherwise authorized, Applicants request an exemption from the at-cost requirements of rules 90 and 91 for services rendered to any Exempt Nonutility Company that (a) is partially owned, provided that the ultimate purchaser of the services is not a regulated public utility subsidiary of PHI, (b) is engaged solely in the business of developing, owning, operating and/or providing services to Exempt Nonutility Companies or (c) does not derive, directly or indirectly, any material part of its income from sources within the United States and is not a public-utility company operating within the United States.

Pepco's indirect wholly owned subsidiaries W.A. Chester LLC and W.A. Chester Corporation are in the business of installing and maintaining utility cable systems. These companies currently provide services to Pepco at market rates under contracts entered

into before they became part of a registered system and Applicants request that they continue to operate under these contracts for the existing term of the contracts. Upon consummation of the Transaction, Applicants commit that any new service arrangements between these companies and Pepco will be priced at cost.

Pepco entered into a lease arrangement with Edison Place, LLC ("Edison Place"), a subsidiary of Pepco, under which it will rent office space in the new headquarters building from Edison Place. This fifteen year lease was entered into before Pepco and Edison Place were part of a registered system and contains rent arrangements that Pepco believes are more favorable to it than other available options in the market. The rent arrangements were not determined in accordance with the provisions of rules 90 and 91 of the Act but were an integral part of the property sale between Pepco and Edison Place. Pepco and Edison Place request authorization to leave the existing lease in place until the expiration of its terms.

V. Nonutility Subsidiary Reorganizations

Applicants propose to restructure the PHI Nonutilities from time to time as may be necessary or appropriate in the furtherance of the PHI authorized nonutility activities. PHI requests authorization to acquire, directly or indirectly, the equity securities of one or more intermediate subsidiaries ("Intermediate Subsidiaries") organized exclusively for the purpose of acquiring, financing, and holding the securities of one or more existing or future nonutility subsidiaries. Intermediate Subsidiaries may also provide management, administrative, project development and operating services to future PHI Nonutilities.

Reorganizations could involve the acquisition of one or more new subsidiaries formed to acquire and hold direct or indirect interests in any or all of PHI's existing or future authorized nonutility businesses. Restructuring could also involve the transfer of existing subsidiaries, or portions of existing businesses, to PHI or among the PHI Nonutilities and/or the re-incorporation of existing PHI Nonutilities in a different jurisdiction. Following any reorganization, PHI will continue to hold, directly or indirectly, the same interest in the voting securities of any PHI Nonutility as immediately prior to the reorganization. This would enable PHI to consolidate similar businesses and to participate effectively in authorized nonutility activities,

⁵ The CRP Service Agreement is filed as an exhibit to this Application.

without the need to apply for or receive additional Commission approval.

The direct or indirect newly created nonutility holding company subsidiaries referred to above might be corporations, partnerships, limited liability companies or other entities in which PHI, directly or indirectly, will have a 100 percent voting equity interest. These subsidiaries would engage only in businesses to the extent PHI is authorized to engage in those businesses by statute, rule, regulation or order. Applicants state that reorganizations will not result in PHI entering into any new, unauthorized line of business.

VI. Energy Related Activities

Applicants request authority for PHI existing and future nonutility subsidiaries to engage in certain "energy-related" activities outside the United States. These activities may include:

(i) The brokering and marketing of electricity, natural gas and other energy commodities ("Energy Marketing");

(ii) Energy management services ("Energy Management Services"), including the marketing, sale, installation, operation, and maintenance of various products and services related to energy management and demand-side management, including energy and efficiency audits; facility design and process control and enhancements; construction, installation, testing, sales, and maintenance of (and training client personnel to operate) energy conservation equipment; design, implementation, monitoring, and evaluation of energy conservation programs; development and review of architectural, structural, and engineering drawings for energy efficiencies, design and specification of energy consuming equipment; general advice on programs; the design, construction, installation, testing, sales and maintenance of new and retrofit heating, ventilating, and air conditioning; electrical and power systems; alarm and warning systems; motors, pumps, lighting, water, water-purification and plumbing systems, and related structures, in connection with energy-related needs; and the provision of services and products designed to prevent, control, or mitigate adverse effects of power disturbances on a customer's electrical systems; and

(iii) Engineering, consulting, and other technical support services ("Consulting Services") with respect to energy-related businesses, as well as for individuals. Consulting Services would include technology assessments, power factor correction, and harmonics

mitigation analysis; meter reading and repair; rate schedule design and analysis; environmental, engineering, risk management, and billing services (including consolidation billing and bill disaggregation tools); communications and information systems/data processing; system and strategic planning; finance; feasibility studies; and other similar services.

Applicants request that the Commission (i) authorize nonutility subsidiaries to engage in Energy Marketing activities in Canada and reserve jurisdiction over Energy Marketing activities outside of Canada pending completion of the record in this proceeding; (ii) authorize nonutility subsidiaries to provide Energy Management Services and Consulting Services anywhere outside the United States and (iii) reserve jurisdiction over other activities of nonutility subsidiaries outside the United States, pending completion of the record.

Applicants note that the Commission has previously granted or reserved jurisdiction over Conectiv Nonutilities' provision of the type of services described above through its Rule 58 Subsidiaries.⁶ Applicants request that this authorization and reservation of jurisdiction be extended to the Pepco Nonutilities as well.

VII. Tax Allocation Agreement

Applicants propose to enter into an agreement for the allocation of consolidated tax among the companies within the PHI system ("Tax Allocation Agreement"). The Tax Allocation Agreement provides for the retention by PHI of payments for tax losses that it will incur in connection with financing or refinancing approximately \$700 million of the cash consideration to be paid in the Transaction, rather than the allocation of these losses to its subsidiaries without payment as would otherwise be required by rule 45(c)(5).

VIII. Retention of Nonutility Subsidiaries and Additional Gas System

Applicants request that PHI be authorized to retain the Pepco Nonutilities, specifically listed in Appendix A to this notice.⁷ Additionally, Applicants request that PHI be authorized to retain the Conectiv Gas System, which was found retainable in the Conectiv Merger Order.

⁶ See HCAR No. 27464 (November 8, 2001).

⁷ The Commission found the Conectiv Nonutilities to be retainable in the Conectiv Merger Order.

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-25500; File No. 812-12630]

Northbrook Life Insurance Company, et al.; Notice of Application

March 26, 2002.

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

ACTION: Notice of application for an amended order pursuant to section 11(a) of the Investment Company Act of 1940, as amended (the "Act") approving the proposed offer of a new Longevity Reward Rider ("new LRR"), as set forth below.

Applicants: Northbrook Life Insurance Company ("Northbrook"), Northbrook Variable Annuity Account II ("Account II"), Allstate Life Insurance Company of New York ("Allstate New York"), Allstate Life of New York Variable Annuity Account II ("ALNY Account II") and Morgan Stanley DW Inc. (formerly known as Dean Witter Reynolds Inc.) ("Morgan Stanley") (collectively, the "Applicants").

Summary of Application: Applicants seek an order to amend an Existing Order (described below) approving the offer by the Applicants of the new LRR upon the terms and subject to the conditions described herein and in the Prior Application (described below).

Filing Date: The application was filed on September 4, 2001, amended on January 23, 2002, and amended and restated on March 19, 2002.

Hearing or Notification of Hearing: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Secretary of the Commission and serving Applicants with a copy of the request, personally or by mail. Hearing requests must be received by the Commission by 5:30 p.m. on April 22, 2002, and should be accompanied by proof of service on Applicants in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the requester'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 Commission.