

("Energy Related Asset Subsidiaries") to declare and pay dividends to their parent companies from time to time out of capital and unearned surplus to the extent permitted by applicable law.

Allegheny Energy, Inc. (70-8893)

Allegheny Energy, Inc. ("Allegheny"), 10435 Downsville Pike, Hagerstown, Maryland 21740, a registered public utility holding company; its direct wholly owned public utility company subsidiaries Monongahela Power Company ("Monongahela Power"), 1310 Fairmont Avenue, Fairmont, West Virginia 26554, and Allegheny Energy Supply Company, LLC ("Supply"), 10435 Downsville Pike, Hagerstown, Maryland 21740; and its indirect wholly owned public utility company subsidiary Allegheny Generating Company ("AGC"), 10435 Downsville Pike, Hagerstown, Maryland 21740, have filed a post-effective amendment to a declaration ("Declaration") under section 12(c) of the Act and rules 46 and 54 under the Act.

AGC is a single asset company that owns a 40% undivided interest in a 2100-megawatt hydroelectric station located in Bath County, Virginia.⁴ By order dated September 19, 1996 (HCAR No. 26579), the Commission authorized AGC to pay dividends from capital surplus through December 31, 2001. AGC continues to have declining capital needs and its retained earnings are insufficient to pay common stock dividends. As a result, AGC requests authorization to continue to pay dividends from capital surplus through December 31, 2005.

AGC's current earnings are determined in accordance with a Federal Energy Regulatory Commission ("FERC") approved cost of service formula. Under that formula, available cash flow from operations is applied first to the minimal capital expenditure requirements for AGC's existing single asset, and next to the pay down of debt and to the payment of dividends in a proportion that maintains debt at about 60% and equity at about 40% of total capitalization.

AGC's current and proposed dividend payment policy remains unchanged since AGC's operations commenced in 1985. Prior to 1985, AGC paid no dividends but accrued retained earnings as a result of recording allowance for funds used during construction in accordance with the FERC uniform system of accounts. From 1985 to 1996, AGC paid dividends from current earnings and accrued retained earnings.

⁴ AGC is jointly owned by Monongahela Power (27%) and Supply (73%).

Dominion Resources, Inc. (70-10037)

Dominion Resources, Inc. ("Dominion"), a registered holding company, 120 Tredegar Street, Richmond, Virginia 23219, and Dominion Oklahoma Texas Exploration & Production, Inc. ("DOTEPI"), a nonutility subsidiary company of Dominion, Four Greenspoint Plaza, 16945 Northchase Drive, Suite 1750, Houston, Texas 77060, have filed a declaration under section 12(c) and rules 46, 53, and 54 under the Act.

On November 2, 2001, Consolidated Natural Gas Company ("CNG"), a wholly owned registered holding company subsidiary of Dominion, acquired in a merger transaction Louis Dreyfus Natural Gas Corp. ("LD"), a company engaged in natural gas exploration and production in the United States. Under the merger agreement, LD was merged with and into DOTEPI, a newly formed subsidiary of Dominion.⁵ All of DOTEPI's shares were contributed by Dominion to CNG immediately following the merger. The acquisition was financed in part through the issuance of long-term debt and trust-preferred securities by CNG.

The acquisition was accounted for by the purchase method of accounting. As a result, the retained earnings of LD were recharacterized as paid-in-capital on DOTEPI's books. DOTEPI now requests authorization to pay dividends to CNG out of its capital surplus to compensate for the accounting treatment. The amount of dividends will be limited to the amount of LD's retained earnings immediately prior to the merger.⁶ Dominion states that the payment of dividends to CNG will allow CNG to service the acquisition debt incurred in connection with the merger.

Dominion also requests authorization for any nonutility company in the Dominion system to declare and pay dividends out of capital surplus to its immediate parent companies, subject to applicable corporate law and any applicable financing agreement that restricts distributions to shareholders. Dominion states that the payment of dividends will benefit the system by enabling the parent companies to reduce or refinance borrowings and to fund operations of the system companies.

⁵ The common stock of DOTEPI was acquired by CNG under rule 58.

⁶ The amount of LD's retained earnings as of October 31, 2001 was \$302.7 million.

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

Margaret H. McFarland,
Deputy Secretary.

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BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-25650; 812-12789]

Banknorth Funds, et al.; Notice of Application

July 8, 2002.

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

ACTION: Notice of application for an order under section 17(b) of the Investment Company Act of 1940 (the "Act") for an exemption from section 17(a) of the Act.

Summary of Application: Applicants request an order to permit a certain series of a registered open-end management investment company to acquire all of the assets and liabilities of certain other series of the same registered open-end management investment company. Because of certain affiliations, applicants may not rely on rule 17a-8 under the Act.

Applicants: Banknorth Funds, Banknorth, N.A., and Banknorth Investment Advisors ("BIA").

Filing Dates: The application was filed on February 27, 2002 and amended on July 1, 2002.

Hearing or Notification of Hearing: An order granting the requested relief will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on August 2, 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 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 Commission's Secretary.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Applicants, c/o Banknorth Investment Management Group, 111 Main Street, Burlington, VT 05402-0409.

FOR FURTHER INFORMATION CONTACT: Julia Kim Gilmer, Senior Counsel, at (202)

942-0528, or Todd F. Kuehl, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the Commission's Public Reference Branch, 450 Fifth Street, NW, Washington, DC 20549-0102 (tel. 202-942-8090).

Applicants' Representations

1. Banknorth Funds is a Delaware business trust registered under the Act as an open-end management investment company and currently consists of six series. Two of the series, the Banknorth Large Cap Growth Fund and the Banknorth Value Fund are the "Acquired Funds," and a third series, the Banknorth Large Cap Core Fund, is the "Acquiring Fund" (each series a "Fund" and collectively, the "Funds").

2. BIA, a division of Banknorth Investment Management Group, which is a division of Banknorth N.A., is registered under the Investment Advisers Act of 1940 ("Advisers Act") and serves as the investment adviser to each of the Funds. As of May 20, 2002, Banknorth N.A., in a fiduciary capacity, owned more than 5% (and more than 25%) of the outstanding voting securities of each of the Funds.

3. On November 15, 2001, the Funds' board of trustees ("Board"), including all of the trustees who are not "interested persons" of the Funds as defined in section 2(a)(19) of the Act ("Disinterested Trustees"), unanimously approved the proposed reorganizations and agreements and plans of reorganization of the respective Funds ("Reorganization Agreements"). Under the Reorganization Agreements, the Acquiring Fund will acquire all of the assets, subject to the liabilities, of each of the Acquired Funds in exchange for shares of the Acquiring Fund (the "Reorganizations"). Shareholders of each Acquired Fund will receive Acquiring Fund shares having an aggregate net asset value equal to the aggregate net asset value of each Acquired Fund determined as of the close of the New York Stock Exchange (normally 4:00 p.m. Eastern time) on the day of closing of each Reorganization. The net asset value of the Acquiring Fund's shares and the Acquired Funds' net asset values will be determined according to each Fund's then-current prospectus and statement of additional information. As soon as reasonably practical after the closing of each Reorganization, the Acquired Funds will distribute the shares of the Acquiring Fund pro rata to their

shareholders in complete liquidation and dissolution of the Acquired Funds.

4. Applicants state that the investment objectives of each Acquired Fund and the Acquiring Fund are identical. In seeking its objective, the Acquiring Fund employs a blended style of investing, using both growth-based and value-based strategies. One of the Acquired Funds seeks to achieve its investment objective by investing primarily in the growth-oriented stocks of large-capitalization companies, and the other Acquired Fund invests primarily in value-oriented stocks of large-capitalization companies. Applicants state that the rights and obligations of the Acquired Funds' shareholders are identical to those of the Acquiring Fund's shareholders. Shares of the Acquiring Fund and the Acquired Funds are subject to a maximum front-end sales charge of 5.50%, a rule 12b-1 fee of 0.25% and shareholder service fees of 0.25%. No sales charge or exchange fee will be imposed in connection with the Reorganizations. Banknorth N.A. will bear the costs of each Reorganization.

5. The Board, including all of the Disinterested Trustees, unanimously determined that each Reorganization was in the best interest of each Fund and its shareholders, and that the interests of each Fund's existing shareholders will not be diluted as a result of the Reorganizations. In approving the Reorganizations, the Board considered various factors, including, among other things: (a) The terms and conditions of the Reorganizations, including any changes in services to be provided to shareholders of each Fund; (b) the respective expense ratios of the Funds; (c) the investment objectives, management policies and investment restrictions of the Funds; (d) the potential economies of scale that are likely to result from the larger asset base of the combined Funds; (e) the anticipated tax-free nature of the Reorganizations; (f) the fact that the costs of each Reorganization will be borne by Banknorth, N.A.; and (g) the relative performance of each Fund.

6. The Reorganizations are subject to a number of conditions precedent, including that: (a) The shareholders of each Acquired Fund shall have approved their respective Reorganization; (b) applicants will have received from the Commission an exemption from section 17(a) of the Act for the Reorganizations; (c) a registration statement on Form N-14 under the Act and the Securities Act of 1933 relating to the Acquiring Fund will have become

effective; (d) the receipt of an opinion of counsel that the Reorganizations will be tax-free for the Funds and their shareholders; and (e) each Acquired Fund shall have declared and paid dividend(s) which shall have the effect of distributing to its shareholders all net investment company taxable income for all taxable periods, if any, and all of its net realized capital gains. The Reorganization Agreements may be terminated by the Board or may be abandoned at any time prior to the closing date of the Reorganizations. Applicants agree not to make any material changes to the Reorganization Agreements without prior Commission approval.

7. The registration statement on Form N-14 for the Reorganization of each Acquired Fund containing a combined prospectus/proxy statement was filed with the Commission on June 4, 2002. It is expected that the combined prospectus/proxy statement will be mailed to shareholders of each Acquired Fund in July 2002. Shareholder meetings for the Acquired Funds' shareholders to consider the Reorganizations have been scheduled for August 9, 2002.

Applicants' Legal Analysis

1. Section 17(a) of the Act prohibits any affiliated person of a registered investment company, or any affiliated person of that person, acting as principal, from selling to or purchasing from the registered investment company any security or other property. Section 2(a)(3) of the Act defines an "affiliated person" of another person to include: (a) Any person directly or indirectly owning, controlling, or holding with power to vote 5% or more of the outstanding voting securities of the other person; (b) any person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote by the other person; (c) any person directly or indirectly controlling, controlled by, or under common control with the other person; and (d) if the other person is an investment company, any investment adviser of that company.

2. Rule 17a-8 under the Act exempts certain mergers, consolidations, and sales of substantially all of the assets of registered investment companies that are affiliated persons, or affiliated persons of an affiliated person ("Second-Tier Affiliates"), solely by reason of having a common investment adviser, common directors, and/or common officers, provided, that certain conditions are satisfied. Applicants believe that rule 17a-8 may not be available to exempt the Reorganizations

because the Funds may be deemed to be affiliated persons by reasons other than having a common investment adviser, common directors, and/or common officers. Applicants state that Banknorth N.A., an affiliated person of BIA, owns as a fiduciary and has the power to vote more than 5% (and more than 25%) of the outstanding voting securities of each of the Funds. Therefore, the Acquiring Fund may be deemed a Second-Tier Affiliate of each Acquired Fund.

3. Section 17(b) of the Act provides, in relevant part, that the Commission may exempt a transaction from the provisions of section 17(a) if evidence establishes that the terms of the proposed transaction, including the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned, and the proposed transaction is consistent with the policy of each registered investment company concerned and the general purposes of the Act.

4. Applicants request an order under section 17(b) of the Act exempting them from section 17(a) to the extent necessary to consummate each Reorganization. Applicants submit that the Reorganizations satisfy the conditions of section 17(b) of the Act. Applicants also state that the Board, including all of the Disinterested Trustees, has found the participation of the Funds in the Reorganizations to be in the best interests of each Fund and its shareholders and that such participation will not dilute the interests of existing shareholders of each Fund. Applicants also state that the Reorganizations will be effected on the basis of relative net asset value.

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

Margaret H. McFarland,
Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 25651; 812-12811]

Principal Bond Fund, Inc., et al.; Notice of Application

July 8, 2002.

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

ACTION: Notice of an application under section 17(b) of the Investment Company Act of 1940 (the "Act") for an exemption from section 17(a) of the Act.

SUMMARY OF APPLICATION: Applicants request an order to permit a registered open-end management investment company to acquire all of the assets and assume all of the liabilities of another registered open-end management investment company. Because of certain affiliations, applicants may not rely on rule 17a-8 under the Act.

APPLICANTS: Principal Bond Fund, Inc. (the "Bond Fund"), Principal High Yield Fund, Inc. (the "High Yield Fund"), and Principal Management Corporation (the "Adviser").

FILING DATES: The application was filed on April 18, 2002. Applicants have agreed to file an amendment during the notice period, the substance of which is reflected in this notice.

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 Commission's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on July 30, 2002, 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 Commission's Secretary.

ADDRESSES: Secretary, Commission, 450 Fifth Street, NW, Washington, DC 20549-0609; Applicants, c/o The Principal Financial Group, 711 High Street, Des Moines, Iowa 50392-0200.

FOR FURTHER INFORMATION CONTACT: Bruce R. MacNeil, Senior Counsel, at (202) 942-0634, or Todd Kuehl, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the Commission's Public Reference Branch, 450 Fifth Street, NW, Washington, DC 20549-0102 (telephone (202) 942-8090).

Applicants' Representations:

1. The Bond Fund (the "Acquiring Fund") and the High Yield Fund (the "Acquired Fund," together with the Acquiring Fund, the "Funds") are Maryland corporations and are registered under the Act as open-end management investment companies. The Adviser serves as the investment adviser to each Fund and is registered

under the Investment Advisers Act of 1940. The Adviser is an indirect wholly-owned subsidiary of Principal Financial Group, Inc. ("Principal Financial"). Principal Life Insurance Company ("Principal Life") is also an indirect wholly-owned subsidiary of Principal Financial. Principal Life, for its own account, owns more than 5% of the outstanding voting securities of the Acquired Fund.

2. On March 11, 2002, the board of directors of each Fund (each a "Board," together, the "Boards"), including in each case all of the directors who are not "interested persons," as defined in section 2(a)(19) of the Act ("Independent Directors"), approved an Agreement and Plan of Reorganization (the "Plan"). Under the Plan, the Acquiring Fund will acquire all of the assets and assume all of the liabilities of the Acquired Fund in exchange for shares of the designated class of the Acquiring Fund (the "Reorganization"). The closing of the Reorganization ("Closing") is expected to occur on July 31, 2002, (the "Closing Date"). The shares of the Acquiring Fund exchanged will have an aggregate net asset value equal to the aggregate net asset value of the Acquired Fund's shares determined as of the close of regular trading on the New York Stock Exchange on the Closing Date. The value of assets of the Funds will be determined in accordance with the Acquiring Fund's then current prospectus and statement of additional information (whose valuation procedures are identical to the Acquired Fund's). As soon as practicable after the Closing, the Acquired Fund will distribute pro rata to its shareholders of record, determined as of the close of business on the Closing Date, its shares of the Acquiring Fund received at the Closing and will be liquidated.

3. Each Fund offers Class A and Class B shares. Class A shares are subject to a front-end sales charge, rule 12b-1 distribution fees, service fees, and in some cases, a contingent deferred sales charge ("CDSC") and Class B shares are subject to rule 12b-1 distribution fees, service fees and a CDSC. Applicants state that the rights and obligations of each class of the Acquiring Fund are identical to those of the corresponding share class of the Acquired Fund. Shareholders of each class of the Acquired Fund will receive shares of the corresponding class of the Acquiring Fund. No sales charges or other fees will be imposed in connection with the Reorganization. For purposes of calculating any CDSC on shares of the Acquiring Fund, shareholders of the Acquired Fund will be deemed to have held the shares of the Acquiring Fund