mentioned above, unless the Commission determines to order a hearing on the matter.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[5]

Jonathan G. Katz,

Secretary.

[FR Doc. 03–28890 Filed 11–18–03; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. IC–26253; File No. 812–12962]

Principal Life Insurance Company, et al., Notice of Application

November 13, 2003.

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

ACTION: Notice of application for an order pursuant to section 26(c) of the Investment Company Act of 1940 (the ''Act'') approving the substitution of securities.

APPLICANTS: Principal Life Insurance Company (''Principal Life''), Principal Life Insurance Company Variable Life VL Separate Account (''VL Separate Account''), and Principal Life Insurance Company Separate Account B (''Separate Account B'').

SUMMARY OF APPLICATION: Applicants seek an order to permit, under the specific circumstances identified in the application, the substitution of shares of the LargeCap Growth Equity Account of Principal Variable Contracts Fund, Inc. (''Principal Fund'') for shares of the LargeCap Growth Account of Principal Fund; shares of the LargeCap Stock Index Account of Principal Fund for shares of the Blue Chip Account of Principal Fund; shares of the MidCap Growth Account of Principal Fund for shares of the MidCap Growth Equity Account of Principal Fund; shares of the Asset Allocation Account of Principal Fund for shares of the Putnam VT Global Asset Allocation Fund of Putnam Variable Trust (''Putnam Trust''); and shares of the Equity Growth Account of Principal Fund for shares of the Putnam VT Vista Fund of Putnam Trust. The shares are currently held by VL Separate Account and Separate Account B.

FILING DATE: The application was filed on April 18, 2003, and amended on November 10, 2003.

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, personally or by mail. Hearing requests should be received by the SEC by 5:30 on December 4, 2003 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 SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 5th Street, NW., Washington, DC 20549. Applicants, c/o John W. Blouch, Esq., Jones & Blouch LLP, 1025 Thomas Jefferson Street, NW., Washington, DC 20007–5254; copy to Michael D. Roughton, Esq., Principal Financial Group, Inc., 711 High Street, Des Moines, Iowa 50392–0200.

FOR FURTHER INFORMATION CONTACT: Rebecca A. Marquigny, Senior Counsel, or Zandra Y. Bailes, Branch Chief, Office of Insurance Products, Division of Investment Management, at (202) 942–0670.

SUPPLEMENTARY INFORMATION: Following is a summary of the application; the complete application is available for a fee from the SEC's Public Reference Branch, 450 Fifth Street, NW., Washington, DC 20549–0102 (telephone (202) 942–8090).

Applicants' Representations

1. Principal Life is a stock life insurance company organized under the laws of Iowa in 1879. It is authorized to transact life insurance and annuity business in all of the United States and the District of Columbia.

2. VL Separate Account was established in 1987 by Principal Life as a separate account under Iowa law for the purpose of funding variable life contracts issued by Principal Life (File No. 811–05118). Separate Account B was established in 1970 by Principal Life as a separate account under Iowa law for the purpose of funding variable annuity contracts issued by Principal Life (File No. 811–02091).

3. There are nine variable insurance contracts affected by the application (the ''Contracts''). Six of the Contracts are flexible premium variable life insurance policies (collectively, the ''VL Contracts''); three are variable annuity contracts, two individual deferred contracts and one group annuity contract (collectively, the ''VA Contracts''). Purchase payments for the VL Contracts are allocated to VL Separate Account. Purchase payments for the VA Contracts are allocated to Separate Account B.

4. Purchase payments for the Contracts are allocated to one or more subaccounts (''Divisions'') of VL Separate Account or Separate Account B. Each Division invests in shares of an underlying mutual fund (''Underlying Fund''), including Principal Fund, an open-end management investment company registered under the Act (File Nos. 811–1944 and 002–35570), and Putnam Trust, an open-end management investment company registered under the Act (File Nos. 811–05346 and 033–17486). The Contracts permit transfers of accumulated value from one Division to another.

5. The following table (i) identifies each Contract affected by the application, (ii) sets forth the total number of Divisions available under each Contract and the number of those Divisions that invest in either the Principal Fund or the Putnam Trust, and (iii) summarizes the transfer rights under each Contract.

Contracts/File Nos.	Total	Divisions		Transfers	
		Principal fund	Putnam trust	Minimum amount	Fee
VL Contracts:					
Flex Variable Life (File No. 33–13481)	49	27	3	$250	[1] $25
Prinflex Life (File No. 333–00101)	49	27	3	100	None
Survivorship Variable Life (File No. 333–71521)	49	27	3	100	None
Principal Variable Universal Life Accumulator (File No. 333–65690)	49	27	3	100	None
Principal Executive Variable Universal Minimum Life (File No. 333–81714)	73	21	0	([3])	None
Principal Benefit Variable Universal Minimum Life (File No. 333–89446)	73	21	0	([3])	None

[5] 17 CFR 200.30–3(a)(1).

Contracts/File Nos.	Total	Divisions		Transfers	
		Principal fund	Putnam trust	Minimum amount	Fee
VA Contracts:					
Flexible Variable Annuity (File No. 33–74232)	42	27	0	100	[2] 30
Freedom Variable Annuity (File No. 333–63401)	17	15	0	50	None
Premier Variable Annuity (File No. 33–44670)	25	25	0	([3])	None

[1] Imposed on each transfer exceeding four per policy year.
[2] Imposed on each transfer exceeding twelve per policy year.
[3] No minimum.

6. The only Divisions affected by the application are those identified in the following table. Each of those Divisions invests solely in the Principal Fund Account or the Putnam Trust Fund as indicated in this table.

Division of each of VL separate account and separate account B	Principal fund
LargeCap Growth	LargeCap Growth Account
LargeCap Growth Equity	LargeCap Growth Equity Account
Blue Chip [4]	Blue Chip Account
LargeCap Stock Index	LargeCap Stock Index Account
MidCap Growth Equity	MidCap Growth Equity Account
MidCap Growth	MidCap Growth Account
Asset Allocation	Asset Allocation Account
Equity Growth	Equity Growth Account
	Putnam Trust
Putnam VT Global Asset Allocation	Putnam VT Global Asset Allocation Fund
Putnam VT Vista	Putnam VT Vista Fund

[4] Separate Account B has a Blue Chip Division; VL Separate Account does not have a Blue Chip Division.

The Principal Fund Accounts and the Putnam Trust Funds indicated in the table above are referred to herein collectively as the "Principal Funds" and the "Putnam Funds," respectively. Principal Funds and Putnam Funds are referred to herein collectively as the "Funds."

7. Principal Funds are managed by Principal Management Corporation ("PMC"), a registered investment adviser under the Investment Advisers Act of 1940, as amended ("Advisers Act") and an indirect, wholly-owned subsidiary of Principal Financial Group, Inc. The following table identifies the sub-adviser for each of the Principal Funds and indicates its affiliation, if any, with Principal Financial Group, Inc.

Fund	Sub-adviser
LargeCap Growth Account	Janus Capital Management LLC ("Janus"), a registered investment adviser under the Advisers Act (File No. 801–13991).
LargeCap Growth Equity Account	Putnam Investment Management LLC ("Putnam"), a registered investment adviser under the Advisers Act (File No. 801–7974).
Blue Chip Account	Principal Global Investors, LLC ("PGI"), an indirect, wholly-owned subsidiary of Principal Life and a registered investment adviser under the Advisers Act (File No. 801–55959)
LargeCap Stock Index Account	PGI.
MidCap Growth Equity Account	Turner Investment Partners, Inc. ("Turner"), a registered investment adviser under the Advisers Act (File No. 801–36220).
MidCap Growth Account	The Dreyfus Service Corporation ("Dreyfus"), a registered investment adviser under the Advisers Act (File No. 801–54739).
Asset Allocation Account	Morgan Stanley Investment Management, Inc. ("Morgan Stanley"), a registered investment adviser under the Advisers Act (File No. 801–15757).
Equity Growth Account	Morgan Stanley.

8. Putnam Funds are managed by Putnam.

9. Applicants seek an order permitting each the following substitutions ("Substitutions"):

Substitution	Replaced fund/sub-adviser	Substituted fund/sub-adviser
One	LargeCap Growth Account (Janus)	LargeCap Growth Equity Account (Putnam).
Two	Blue Chip Account (PGI)	LargeCap Stock Index Account (PGI).
Three	MidCap Growth Equity Account (Turner)	MidCap Growth Account (Dreyfus).
Four	Putnam VT Global Asset Allocation Fund Account (Putnam).	Asset Allocation (Morgan Stanley).

Substitution	Replaced fund/sub-adviser	Substituted fund/sub-adviser
Five	Putnam VT Vista Fund (Putnam)	Equity Growth Account (Morgan Stanley)

10. The investment objective of LargeCap Growth Account (''LargeCap Growth'') is to seek long-term growth of capital. It invests primarily in equity securities of growth companies. Under normal market conditions, LargeCap Growth invests at least 80% of its assets in equity securities of companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000 Growth Index) at the time of purchase. (The market capitalization of companies included in the Russell 1000 Growth Index as of June 30, 2003, ranged approximately from $1.3 billion to $310 billion.) The Account may invest up to 25% of its assets in securities of foreign companies. The investment objective of LargeCap Growth Equity Account (''LCGE'') is to seek long-term growth of capital. It invests primarily in common stocks of U.S. companies, with a focus on growth stocks. Under normal market conditions, LCGE invests at least 80% of its assets in common stocks of companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000 Growth Index) at the time of purchase. LCGE may invest up to 25% of its assets in securities of foreign issuers. Applicants believe that the substitution will serve the interests of the owners of the contracts because it will permit them to continue to pursue their current investment objective (long-term growth of capital) through investments in the same kinds of securities while paying a lower advisory fee and lower overall expense ratio.

11. The investment objective of Blue Chip Account (''BC Account'') is to seek long-term growth of capital. BC Account invests primarily by investing in common stocks of well-established large capitalization companies. Under normal market conditions, BC Account invests at least 80% of its assets in common stocks of companies with large market capitalizations (similar to companies in the S&P 500 Index) at the time of purchase. Blue chip companies have market capitalizations of at least $1 billion. BC Account may invest up to 20% of its Account assets in foreign securities. The investment objective of LargeCap Stock Index Account (''LCSI'') is to seek long-term growth of capital. Under normal market conditions, LCSI invests at least 80% of its assets in common stocks of companies that compose the S&P 500 Index, an unmanaged index of 500 common stocks chosen to reflect the industries of the U.S. economy. Applicants believe that the substitution will serve the interest of owners of the contracts because it will provide those owners with an investment option that is comparable in terms of pursuing long-term investment goals and has a lower expense ratio.

12. The investment objective of MidCap Growth Equity Account (''MCGE'') is to seek long-term growth of capital by investing primarily in medium capitalization U.S. companies with strong earnings growth potential. Under normal market conditions, MCGE invests at least 80% of its assets in common stocks of companies with medium market capitalizations (those with market capitalizations similar to companies in the Russell MidCap Growth Index) at the time of purchase. (The market capitalization of companies included in the Russell MidCap Growth Index as of June 30, 2003 ranged approximately from $1.3 billion to $10.8 billion.) MCGE may invest up to 10% of its assets in securities of foreign issuers. The investment objective of MidCap Growth Account (''MidCap Growth'') is to seek long-term growth of capital. Under normal market conditions, MidCap Growth invests at least 80% of its assets in common stocks of companies with medium market capitalizations (those with market capitalizations similar to companies in the Russell MidCap Growth Index) at the time of purchase. MidCap Growth may invest up to 10% of its assets in securities of foreign issuers. Applicants believe that the substitution will serve the interests of owners of the contracts because it will provide those owners with an investment option that is comparable in terms of pursuing long-term investment goals and has a lower expense ratio.

13. The investment objective of Putnam VT Global Asset Allocation Fund (''Putnam GAAF'') is to seek a high level of long-term total return consistent with preservation of capital. Putnam GAAF invests in a wide variety of equity and fixed-income securities of both U.S. and foreign issuers of any size. Putnam GAAF invests in growth and value stocks of domestic and foreign corporations and in domestic and foreign fixed income securities. The investment objective of Asset Allocation Account (''AAA'') is to generate a total investment return consistent with preservation of capital. AAA invests in a wide variety of equity and fixed-income securities of both U.S. and foreign issuers of any size. AAA invests in growth and value stocks of domestic and foreign corporations and in domestic fixed-income securities and may invest in foreign fixed-income securities. Applicants believe that the substitution will serve the interest of owners of the contracts because it will provide those owners with an investment option that is comparable in terms of pursuing long-term investment goals and has a lower expense ratio.

14. The investment objective of Putnam VT Vista Fund (''Vista'') is to seek capital appreciation. Vista invests mainly in common stocks of U.S. companies, with a focus on growth stocks. Vista invests mainly in mid-sized companies. The Fund uses the Russell MidCap Growth Index for comparison purposes. The investment objective of Equity Growth Account (''Equity Growth'') is to provide long-term capital appreciation by investing primarily in equity securities. Equity Growth seeks to maximize long-term capital appreciation by investing primarily in growth-oriented equity securities of U.S. and, to a limited extent, foreign companies that are listed on U.S. exchanges or traded in U.S. markets. It invests at least 80% of its assets in equity securities and invests primarily in companies with market capitalizations of $10 billion or more. Although Equity Growth may invest up to 25% of its assets in investments in foreign companies that are traded in foreign markets, it is considered to be a domestic stock fund and, therefore, will generally limit its foreign stock holdings to 10% of its assets and generally invests only in securities of foreign companies that are traded in the U.S. Applicants represent that the substitution will serve the interest of owners of the contracts because it will provide those owners with an investment option that is comparable in terms of pursuing long-term investment goals and has a lower expense ratio.

15. The annual operating expenses of each replaced fund and each substituting fund as a percentage of average daily net assets are as follows:

[In percent]

	Management fee	Distribution and service fee (12b–1)	Other expenses	Total expenses (before reimbursement and/or fee waivers if applicable)	Total expenses (after fee waivers and/or reimbursement if applicable)
Replaced Fund: LargeCap Growth	1.10	N/A	0.04	1.14	1.14
Substituting Fund: LCGE	1.00	N/A	0.09	1.09	1.09
Replaced Fund: BC Account	0.60	N/A	0.23	0.83	0.83
Substituting Fund: LCSI	0.35	N/A	0.04	0.39	0.39
Replaced Fund: MCGE	1.00	N/A	0.13	1.13	1.10
Substituting Fund: MidCap Growth	0.90	N/A	0.02	0.92	0.92
Replaced Fund: Putnam GAAF	0.67	0.25	0.17	1.09	1.09
Substituting Fund: AAA	0.80	N/A	0.04	0.84	0.84
Replaced Fund: Vista	0.61	0.25	0.06	0.92	0.92
Substituting Fund: Equity Growth	0.75	N/A	0.02	0.77	0.77

Note: The expenses shown above are for the year ended December 31, 2002.

16. Applicants represent that the Substitutions will take place at the relative net asset values determined on the date of the Substitution in accordance with section 22 of the Act and Rule 22c–1 thereunder. Applicants represent that there will be no financial impact to any contractowner.

17. Each of the Substitutions will be effected by having each Division that invests in a Replaced Fund redeem its shares of that fund for cash at the net asset value calculated on the date of the Substitution and purchase shares of the Substituted Fund for cash at net asset value on the same date. In connection with the completion of each of the Substitutions, Principal Life will withdraw its seed money from each of the Principal Funds in which it has seed money (LargeCap Growth, BC Account, and MCGE) and terminate those funds. In addition, Principal Life will combine each Division of each of the Separate Accounts that invests in a Replaced Fund with the Division of that Separate Account that invests in the Substituted Fund.

18. Applicants agree that: (a) For each fiscal period (not to exceed a fiscal quarter) during the 24 months following the date of Substitution into LCSI, AAA and Equity Growth, Principal Life will adjust the Contract values invested in the Substituted Fund as a result of the Substitution, to the extent necessary to effectively reimburse the affected owners for their proportionate share of any amount by which the annual rate of the Substituted Fund's total operating expenses (after any expense waivers or reimbursements) for that fiscal period, as a percentage of the Fund's average daily net assets, plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under the terms of the owner's Contract for that fiscal period, exceed the sum of: the annualized rate of the corresponding Replaced Fund's total operating expenses, as a percentage of such replaced Fund's average daily net assets, for the twelve months ended December 31, 2002; plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under that Contract for such twelve months; and (b) for each fiscal period (not to exceed a fiscal quarter) during the 24 months following the date of Substitution into LCGE and MidCap Growth, Principal Life will, with respect to all Contracts outstanding on the date of the Substitution, adjust the Contract values invested in the Substituted Fund, to the extent necessary to effectively reimburse the owners of those Contracts for their proportionate share of any amount by which the annual rate of the Substituted Fund's total operating expenses (after any expense waivers or reimbursements) for that fiscal period, as a percentage of the Fund's average daily net assets, plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under the terms of the owner's Contract for that fiscal period, exceed the sum of: the annualized rate of the corresponding Replaced Fund's total operating expenses, as a percentage of such replaced Fund's average daily net assets, for the twelve months ended December 31, 2002; plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under that Contract for such twelve months.

19. Applicants represent that each of the Substitutions has been described in the annual post-effective amendments to the registration statements for the Contracts which became effective on May 1, 2003. The post-effective amendments mailed to contractowners gave them notice of each of the Substitutions and described the reasons for engaging in each of the Substitutions. The post-effective amendments also informed existing contractowners that no amounts may be transferred to the Replaced Funds on or after May 19, 2003. In addition, the post-effective amendments informed affected contractowners that they will have an opportunity to reallocate accumulation value prior to each Substitution or for 60 days after each Substitution (''Free Transfer Right'') from each Division investing in a Replaced Fund to another Division available under the Contracts, without the imposition of any transfer charge or limitation and without counting the transfer as one of the annual free transfers.

20. Each contractowner has been provided a prospectus for each of the Substituted Funds. Applicants represent that, within five days after a Substitution, Principal Life will send to affected contractowners written confirmation that the Substitution has occurred.

21. Applicants represent that the cost of each of the Substitutions, including legal, accounting, brokerage commissions and other fees and expenses, will be borne by Principal Life and will not be borne by the Funds or the contractowners either directly or indirectly. Applicants represent that each of the Substitutions will have no impact on the insurance benefits that Principal Life is obligated to provide under the Contracts or on the other rights of contractowners and other obligations of Principal Life under the Contracts. Applicants represent that each of the Substitutions will not cause

the fees and charges under the Contracts currently being paid by contractowners to be greater after the Substitution than before the Substitution. Applicants also represent that each of the Substitutions will not have a tax impact on contractowners.

Applicants' Legal Analysis

1. Applicants request an order pursuant to section 26(c) of the Act approving each of the Substitutions. Section 26(c) of the Act makes it unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission approves the substitution. The Commission will approve such a substitution if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

2. Applicants assert that the purposes, terms and conditions of each of the Substitutions are consistent with the principles and purposes of section 26(c) and do not entail any of the abuses that section 26(c) is designed to prevent. Substitution is an appropriate solution to the lack of contractowner interest in and higher relative expense of the Replaced Funds. Applicants represent that they do not expect that any Substitution will have a significant impact on the expense ratio of the Substituted Fund and believe that because of lower expense ratios each Substituted Fund will serve contractowner interests better than the current fund Applicants seek to replace. Moreover, Principal Life has reserved the right to effect substitutions in the Contracts and disclosed this reserved right in the prospectuses for the Contracts.

3. Applicants represent that each of the Substitutions will not result in the type of costly forced redemption that section 26(c) was intended to guard against and, for the following reasons, is consistent with the protection of investors and the purposes fairly intended by the Act:

(a) Each of the proposed Substitutions permits contractowners continuity of investment objectives and expectations.

(1) Both LCGE and LargeCap Growth seek long term growth of capital primarily by investing in common stocks of companies with large market capitalizations. LCGE, with its emphasis on investing in companies with large market capitalizations, will afford shareholders of LargeCap Growth an opportunity for continued investment exposure to companies with market capitalizations within an equivalent large market capitalization range.

(2) BC Account seeks long-term growth of capital and growth of income primarily by investing in common stocks of well established large capitalization companies (similar to companies in the S&P 500 Index), and LCSI seeks long-term growth of capital by investing primarily in common stocks of companies that compose the S&P 500 Index. LCSI, with its emphasis of investing in companies that are components of the S&P 500 Index, will afford shareholders of BC Account an opportunity for continued investment exposure to the kinds of companies in which BC Account may invest.

(3) Both MidCap Growth and MCGE seek long-term growth of capital primarily by investing in common stocks of companies with medium market capitalizations. MidCap Growth, with its emphasis on investing in companies with medium market capitalizations, will afford shareholders of MCGE an opportunity for continued investment exposure to companies within the same medium market capitalization range.

(4) Both AAA and Putnam GAAF seek a high long-term return consistent with preservation of capital. AAA, with its emphasis on investing in equity and fixed-income securities of domestic and foreign issuers, will afford shareholders of Putnam GAAF an opportunity for continued investment exposure to equity and fixed-income securities of domestic and foreign issuers.

(5) Both Equity Growth and Vista seek capital appreciation by investing primarily in growth stocks of U.S. companies. Equity Growth, with its emphasis on investing in growth-oriented equity securities of U.S. companies, will afford shareholders of Vista an opportunity for continued investment exposure to growth stocks of domestic corporations.

(b) The contractowners will have ample opportunity to consider their investment options because they will be given notice prior to the Substitutions and will have an opportunity to reallocate accumulation value among other available Divisions without the imposition of any transfer charge or limitation as a result of the Free Transfer Right.

(c) The costs of each of the Substitutions, including legal, accounting, brokerage commissions and other fees and expenses, will be borne by Principal Life and will not be borne by the Funds or the contractowners directly or indirectly.

(d) Each Substitution will be at net asset values of the respective shares, without the imposition of any transfer or similar charge and with no change in the amount of any contractowner's accumulation value under the Contracts.

(e) The Substitutions will not cause the fees and charges under the Contracts currently being paid by contractowners to be greater after the Substitutions than before the Substitutions.

(f) Within five days after a Substitution, Principal Life will send to contractowners written confirmation that the Substitution has occurred.

(g) The Substitutions will have no impact on the insurance benefits that Principal Life is obligated to provide under the Contracts or on the other rights of contractowners and other obligations of Principal Life under the Contracts.

(h) The Substitutions will in no way alter the tax benefits to contractowners.

(j) For each fiscal period (not to exceed a fiscal quarter) during the 24 months following the date of Substitution into LCSI, AAA and Equity Growth, Principal Life will adjust the Contract values invested in the Substituted Fund as a result of the Substitution, to the extent necessary to effectively reimburse the affected owners for their proportionate share of any amount by which the annual rate of the Substituted Fund's total operating expenses (after any expense waivers or reimbursements) for that fiscal period, as a percentage of the Fund's average daily net assets, plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under the terms of the owner's Contract for that fiscal period, exceed the sum of: The annualized rate of the corresponding Replaced Fund's total operating expenses, as a percentage of such Replaced Fund's average daily net assets, for the twelve months ended December 31, 2002; plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under that Contract for such twelve months; and

(k) For each fiscal period (not to exceed a fiscal quarter) during the 24 months following the date of Substitution into LCGE and MidCap Growth, Principal Life will, with respect to all Contracts outstanding on the date of the Substitution, adjust the Contract values invested in the Substituted Fund, to the extent necessary to effectively reimburse the owners of those Contracts for their proportionate share of any amount by which the annual rate of the Substituted Fund's total operating expenses (after any expense waivers or reimbursements) for that fiscal period, as a percentage of the Fund's average daily net assets, plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under the terms of the owner's Contract for that fiscal period, exceed the sum of: The annualized rate of the corresponding Replaced Fund's total operating expenses, as a percentage of such replaced Fund's average daily net assets, for the twelve months ended December 31, 2002; plus the annual rate of any asset-based charges (excluding any such charges that are for premium taxes) deducted under that Contract for such twelve months.

4. Applicants request an order of the Commission pursuant to section 26(c) of the Act approving each of the Substitutions. Section 26(c), in pertinent part, provides that the Commission shall issue an order approving a substitution of securities if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

Conclusion

Section 6(c) of the Act, in pertinent part, provides that the Commission, by order upon application, may conditionally or unconditionally exempt any persons, security or transaction, or any class or classes of persons, securities or transactions, from any provision or provisions of the Act, or any rule or regulation thereunder, 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 submit that, for the reasons stated in the application, their exemptive requests meet the standards set out in Section 6(c) and that an order should, therefore, be granted.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 03–28849 Filed 11–18–03; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 35–27760]

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

November 13, 2003.

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 December 8, 2003, 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 December 8, 2003, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

Allegheny Energy, Inc. (70–10179)

Allegheny Energy, Inc. (''Allegheny''), a registered holding company, 10435 Downsville Pike, Hagerstown, Maryland 21740, has filed an application-declaration (''Application'') under sections 6(a), 7, 9, and 12(e) of the Act and rule 54 under the Act.

Allegheny seeks authority to issue common stock and options to purchase common stock under Allegheny's Long-Term Incentive Plan (''LTIP''). Allegheny was previously authorized by order dated May 29, 1998 (Holding Co. Act Release No. 26879), (''LTIP Order'') to issue and sell, through December 31, 2010, up to 10 million shares of its common stock, par value $1.25 per share (''Common Stock''), under the LTIP.

Although the LTIP has not materially changed since it was approved by the Commission,[1] the authorization to issue stock under the Plan has been undermined by Allegheny's current financial status. At the time of the LTIP Order, the criteria of rule 53 under the Act were satisfied by Allegheny, and, therefore, the Commission did not consider the effect of capitalization or earnings of any Allegheny exempt wholesale generator (''EWG'') or foreign utility company (''FUCO'') in granting its authorization. Allegheny no longer satisfies certain of the standards set forth in rule 53. Specifically, Allegheny's increased level of investments in EWGs and FUCOs, as described below, was conditioned on compliance with certain financing requirements that are currently not satisfied. Also, Allegheny's consolidated retained earnings have decreased over the four most recent quarterly periods, and Allegheny has reported operating losses attributable to EWG and FUCO investments in excess of the limitations set forth in rule 53(b).

Allegheny, therefore, seeks authority to continue issuing Common Stock under the LTIP. Allegheny requests that the Commission authorize it to issue up to 8 million shares of Common Stock (decreased from 10 million) under the LTIP through December 31, 2010. The stock would be issued according to the same terms and conditions set forth in the LTIP Order. As explained in that order, the LTIP was adopted by Allegheny in 1998 to attract and retain key employees and directors and motivate performance.

I. Description of the LTIP

The LTIP is administered by the Management Compensation and Development Committee (''Committee''), which may delegate to an executive officer the power to determine the employees (other than himself or herself) eligible to receive awards. The Committee may from time to time designate key employees and directors to participate in the LTIP for a particular year. As approved in the LTIP Order, the LTIP authorizes Allegheny to issue up to 10 million shares of Common Stock, subject to adjustments for recapitalizations or other changes to Allegheny's common shares. In this Application, Allegheny requests authority to issue up to 8 million shares of Common Stock under the LTIP. No participant in the LTIP may be granted more than 600,000 shares (or rights or options in respect of more than 600,000 shares) in any calendar year. For purposes of this limit, shares subject to an award that is to be earned over a period of more than one calendar year will be allocated to the first calendar year in which these shares may be earned.

[1] Allegheny amended the LTIP in September 1998 to allow for the issuance of stock options as payments for Performance Awards in addition to payments in Common Stock and cash. Although the original LTIP provided for the issuance of stock options as payment for other awards, payments for Performance Awards were more limited. The LTIP Order, however, generally authorized Allegheny to issue both stock and stock options as payments for all awards under the LTIP. Allegheny, therefore, subsequently amended the LTIP to provide for the issuance of stock options as Performance Awards.