3. CIBC states that the policy rationale underlying section 17(a) is the concern that an affiliated person of an investment company, by virtue of this relationship, could cause the investment company to purchase securities of poor quality from the affiliated person or to overpay for securities. CIBC argues that it is unlikely that it would be able to exercise any adverse influence over the Trusts with respect to purchases of Treasuries because Treasuries do not vary in quality and are traded in one of the most liquid markets in the world. Treasuries are available through both primary and secondary dealers, making the Treasury market very competitive. In addition, market prices on Treasuries can be confirmed on a number of commercially available information screens. CIBC argues that because it is one of a limited number of primary dealers in Treasuries, it will be able to offer the Trusts prompt execution of their Treasury purchases at very competitive prices.

4. CIBC states that it is only seeking relief from section 17(a) with respect to the initial purchase of the Treasuries and not with respect to an ongoing course of business. Consequently, investors will know before they purchase a Trust's Securities the Treasuries that will be owned by the Trust and the amount of the cash payments that will be provided periodically by the Treasuries to the Trust and distributed to Holders. CIBC also asserts that whatever risk there is of overpricing the Treasuries will be borne by the counterparties and not by the Holders because the cost of the Treasuries will be calculated into the amount paid on the Contracts. CIBC argues that, for this reason, the counterparties will have a strong incentive to monitor the price paid for the Treasuries, because any overpayment could result in a reduction in the amount that they would be paid on the Contracts.

5. CIBC believes that the terms of the proposed transaction are reasonable and fair and do not involve overreaching on the part of any person, that the proposed transaction is consistent with the policy of each of the Trusts, and that the requested exemption is appropriate in the public interest and consistent with the protection of investors and purposes fairly intended by the policies and provisions of the Act.

Applicant's Conditions

CIBC agrees that the order granting the requested relief will be subject to the following conditions:

1. Any investment company owning voting stock of any Trust in excess of the limits imposed by section 12(d)(1) of the Act will be required by the Trust's charter documents, or will undertake, to vote its Trust shares in proportion to the vote of all other Holders.

2. The trustees of each Trust, including a majority of the trustees who are not interested persons of the Trust, (1) will adopt procedures that are reasonably designed to provide that the conditions set forth below have been complied with; (ii) will make and approve such changes as are deemed necessary; and (iii) will determine that the transactions made pursuant to the order were effected in compliance with such procedures.

3. The Trusts (i) will maintain and preserve in an easily accessible place a written copy of the procedures (and any modifications to the procedures), and (ii) will maintain and preserve for the longer of (a) the life of the Trusts and (b) six years following the purchase of any Treasuries, the first two years in an easily accessible place, a written record of all Treasuries purchased, whether or not from CIBC, setting forth a description of the Treasuries purchased, the identity of the seller, the terms of the purchase, and the information or materials upon which the determinations described below were made.

4. The Treasuries to be purchased by each Trust will be sufficient to provide payments to Holders of Securities that are consistent with the investment objectives and policies of the Trust as recited in the Trust's registration statement and will be consistent with the interests of the Trust and the Holders of its Securities.

5. The terms of the transactions will be reasonable and fair to the Holders of the Securities issued by each Trust and will not involve overreaching of the Trust or the Holders of Securities of the Trust on the part of any person concerned.

6. The fee, spread, or other remuneration to be received by CIBC will be reasonable and fair compared to the fee, spread, or other remuneration received by dealers in connection with comparable transactions at such time, and will comply with section 17(e)(2)(C) of the Act.

7. Before any Treasuries are purchased by the Trust, the Trust must obtain such available market information as it deems necessary to determine that the price to be paid for, and the terms of, the transaction are at least as favorable as that available from other sources. This will include the Trust obtaining and documenting the competitive indications with respect to the specific proposed transaction from two other independent government securities dealers. Competitive quotation information must include price and settlement terms. These dealers must be those who, in the experience of the Trust's trustees, have demonstrated the consistent ability to provide professional execution of Treasury transactions at competitive market prices. They also must be those who are in a position to quote favorable prices.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 98–21593 Filed 8–11–98; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 23381, 812–10990]

Morgan Stanley, Dean Witter, Discover & Co., et al.; Notice of Application

August 6, 1998.

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

ACTION: Notice of application under (a) sections 6(c) and 17(b) of the Investment Company Act of 1940 (the ''Act'') requesting an exemption from section 17(a) of the Act; (b) section 6(c) of the Act requesting an exemption from section 17(e) of the Act and rule 17e–1 under the Act; and (c) section 10(f) of the Act requesting an exemption from section 10(f) and rule 10f–3 under the Act.

SUMMARY OF APPLICATION: Applicants request an order to permit registered open-end investment companies that have one or more investment advisers and for which Morgan Stanley Asset Management (''MSAM'') or Miller, Anderson & Sherred, LLP (''MA&S'') acts as an investment adviser, to engage in certain principal and brokerage transactions with Morgan Stanley, Dean Witter, Discover & Co. (''MSDWD'') and to purchase securities in certain underwritings. The transactions would be between MSDWD, or a member of an underwriting syndicate in which MSDWD is a participant, and those portions of the investment companies' portfolios that are not advised by MSAM or MA&S. The order also would permit the investment companies not to aggregate certain purchases from an underwriting syndicate in which MSDWD is a principal underwriter.

APPLICANTS: AMR Investment Services Trust (''AMR Trust''), Variable Annuity Portfolios, MSDWD, MSAM, and MA&S.

FILING DATE: The application was filed on February 3, 1998. Applicants have ageeed to file an amendment, the substance of which is incorporated in this notice, during the notice period.

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 p.m. on August 31, 1998, 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 may request notification of a hearing by writing to the SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Applicants: AMR Trust, 4333 Amon Carter Blvd., MD 5645, Fort Worth, Texas 76155; Variable Annuity Portfolios, 21 Milk Street, 5th Floor, Boston, Massachusetts 02109; MSDWD, 1585 Broadway, New York, New York 10036; MSAM, 1221 Avenue of the Americas, New York, New York 10020; and MA&S, One Tower Bridge, West Conshohocken, Pennsylvania 19428.

FOR FURTHER INFORMATION CONTACT: Elaine M. Boggs, Senior Counsel, at (202) 942–0572, or Christine Y. Greenlees, Branch Chief, at (202) 942–0564 (Office of Investment Company Regulation, Division of Investment Management).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee from the SEC's Public Reference Branch, 450 Fifth Street, N.W., Washington, DC 20549 (tel. 202–942–8090).

Applicants' Representations

1. MSDWD is registered as a broker-dealer under the Securities Exchange Act of 1934 and as an investment adviser under the Investment Advisers Act of 1940 (''Advisers Act''). MSAM and MA&S are controlled by MSDWD and are registered as investment advisers under the Advisers Act.

2. AMR Trust and Variable Annuity Portfolios are open-end investment companies registered under the Act and each consists of several portfolios. AMR Trust is advised by AMR Investment Services, Inc. and is a ''master fund'' with several feeder funds. Variable Annuity Portfolios is advised by Citibank, N.A. MSAM currently serves as a subadviser to a portion of one portfolio of AMR Trust and MA&S currently serves as a subadviser to a portion of several portfolios of the Variable Annuity Portfolios, each of which are otherwise unaffiliated with MSAM, MA&S, or MSDWD (the ''Portfolios''). In each case, the other portions are advised by investment subadvisers (''Subadvisers'') that are not affiliated persons, or affiliated persons of an affiliated person, of MSDWD (each, an ''Unaffiliated Subadviser,'' and each portion, an ''Unaffiliated Portion'').[1]

3. Applicants request that the relief apply to any registered open-end investment company for which MSAM, MA&S, or any entity controlled by, controlling, or under common control with MSDWD now or in the future acts as investment adviser (collectively with MSAM and MA&S, ''MSDWD Advisers'').[2] Applicants also request relief for any broker-dealer controlling, controlled by, or under common control with MSDWD (collectively with MSDWD, ''Affiliated Broker-Dealers'').

4. The Portfolios use a multi-manager structure in which separate Subadvisers, including MSDWD Advisers, are used to manage discrete portions of the Portfolio. Each Subadviser acts as if it were managing a separate investment company. The Subadvisers do not collaborate, and each is responsible for making independent investment and brokerage allocation decisions for its portion based on its own research and analysis. The Subadvisers do not receive information about investment or brokerage allocation decisions of another portion of the Portfolio before they are implemented. Each Subadviser is compensated based only on a percentage of the value of the Portfolio's assets allocated to it. Applicants state that MSDWD does not and will not control any Portfolio for which an MSDWD Adviser acts as Subadviser.

5. Applicants request relief to permit (a) Unaffiliated Portions to engage in principal transactions with Affiliated Broker-Dealers and to purchase securities in an underwriting in which an Affiliated Broker-Dealer acts as a principal underwriter. (b) Unaffiliated Portions to engage in brokerage transactions with Affiliated Broker-Dealers, when the Affiliated Broker-Dealer acts as broker in the ordinary course of business, without complying with subsections (b) and (c) of rule 17e-1 under the Act, and (c) portions of Portfolios advised by an MSDWD Adviser (''Affiliated Portions'') to purchase securities in an underwriting without aggregating that Portion's purchase with purchases of Unaffiliated Portions as required by rule 10f-3(b)(7) under the Act.

Applicants' Legal Analysis

A. Principal Transactions Between Unaffiliated Portions and Affiliated Broker-Dealers

1. Section 17(a) of the Act generally prohibits sales or purchases of securities between a registered investment company and an affiliated person, or an affiliated person of an affiliated person, of the company. Sections 2(a)(3)(C) and (E) of the Act define an ''affiliated person'' of another person to be any person controlling, controlled by, or under control with the person, and any investment adviser of an investment company, respectively. Applicants believe that an MSDWD Adviser acting as a Subadviser of a Portfolio would be an affiliated person of that Portfolio, and each Affiliated Broker-Dealer would be an affiliated person of the MSDWD Adviser and as affiliated person of an affiliated person (''second-tier affiliate'') of the Portfolio. As a result, applicants believe that any principal transaction between an Unaffiliated Portion and an Affiliated Broker-Dealer would be prohibited by section 17(a).

2. Applicants request relief from section 17(a) to permit principal transactions entered into in the ordinary course of business between the Unaffiliated Portion and an Affiliated Broker-Dealer. Applicants state that the relief would apply only when an Affiliated Broker-Dealer is deemed to be an affiliated person or a second-tier affiliate of a Portfolio solely because an MSDWD Adviser is the subadviser to another portion of the same Portfolio.

3. Section 6(c) permits the SEC to exempt any person or transaction from

[1] The term *Unaffiliated Subadviser* includes investment advisers that manage discrete portions of multi-managed Portfolios, whether or not the Portfolios have a primary adviser that is responsible for the overall investment performance of the fund and monitoring the Subadvisers. In addition, the term includes a primary adviser to the extent the primary adviser is responsible for a portion of a multi-managed Portfolio.

[2] All registered open-end investment companies that currently intend to rely on the order are named as applicants. Any other existing or future registered open-end investment company that relies on the order will comply with the terms and conditions of the application. Any registered open-end investment company for which an MSDWD Adviser may act as investment adviser is also a ''Portfolio.''

any provision of the Act, if the exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policies of the Act. Section 17(b) permits the SEC to grant an order permitting a transaction otherwise prohibited by section 17(a) if it finds that the terms of the proposed transaction are fair and reasonable 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 and the general purposes of the Act. For the reasons stated below, applicants believe that the proposed transactions meet the standards of sections 6(c) and 17(b).

4. Applicants contend that section 17(a) is intended to prevent persons who have the power to influence an investment company from using that influence to their own pecuniary advantage. Applicants assert that when a person acting on behalf of an investment company has no direct or indirect pecuniary interest in a party to a principal transaction, then the abuses that section 17(a) was designed to prevent are not present.

5. Applicants assert that each Subadviser's contract assigns it responsibility to manage a discrete portion of the Portfolio. Each Subadviser is responsible for making independent investment and brokerage allocation decisions based on its own research and credit evaluations. Applicants state that no MSDWD Adviser will serve as Subadviser to any Portfolio where the primary adviser to the Portfolio dictates or influences brokerage allocation or investment decisions, or has the contractual right to do so. Applicants submit that in managing a discrete portion of a Portfolio, each Subadviser acts for all practical purposes as though it is managing a separate investment company. Further, applicants state that, for each transaction for which relief is requested, the Unaffiliated Subadviser would be dealing with an Affiliated Broker-Dealer that is a competitor of that Subadviser. Applicants believe therefore, that each transaction would be the product of arm's length bargaining.

6. Applicants state that the proposed transactions will be consistent with the policies of the Portfolio, since each Unaffiliated Subadviser is required to manage the Unaffiliated Portion of the Portfolio in accordance with the investment objectives and related investment policies of the Portfolio as described in its registration statement. Applicants also assert that permitting the transactions will be consistent with the general purposes of the act and in the public interest because the ability to engage in the transactions will increase the likelihood of a Portfolio achieving best price and execution on its principal transactions while giving rise to none of the abuses that section 17(a) was designed to prevent.

B. Payment of Brokerage Compensation by Unaffiliated Portions to Affiliated Broker-Dealers

1. Section 17(e)(2) of the Act prohibits an affiliated person or a second-tier affiliate of a registered investment company from receiving compensation for acting as broker in connection with the sale of securities to or by the company if the compensation exceeds the limits prescribed by the section unless otherwise permitted by rule 17e–1 under the Act. Rule 17e–1(a) provides that brokerage compensation paid pursuant to the rule must be reasonable and fair compared with compensation paid in comparable transactions. Rule 17e–1(b) requires the investment company's board of directors, including a majority of the directors who are not interested persons under section 2(a)(19) of the act, to adopt procedures regarding brokerage compensation paid pursuant to the rule and to determine at least quarterly that all transactions effected in reliance on the rule complied with the procedures. Rule 17e-1(c) specifies the records that must be maintained by each investment company with respect to any transaction effected pursuant to rule 17e-1.

2. Applicants state that, for the reasons discussed above, Affiliated Broker-Dealers are second-tier affiliates of the Unaffiliated Portions and thus subject to section 17(e). Applicants request an exemption under section 6(c) from the provisions of section 17(e) and rule 17e–1 to the extent necessary to permit the Unaffiliated Portions to pay brokerage compensation to Affiliated Broker-Dealers, when the Affiliated Broker-Dealer acts as broker in the ordinary course of business, without complying with the requirements of rule 173–1(b) and (c). Applicants believe that the proposed brokerage transactions meet the standards of section (c) of the Act for the same reasons that the proposed principal transactions satisfy the standards. In addition, applicants state that the brokerage transactions will comply with the requirement of rule 17e–1(a) that the brokerage compensation be fair and reasonable. Applicants also note that the Unaffiliated Subadvisers will be subject to a fiduciary duty to obtain best execution for the Unaffiliated Portion. Applicants thus believe that an exemption from the requirements of rule 17e–1(b) and (c) would be appropriate.

C. Purchases of Certain Securities by Unaffiliated Portions

1. Section 10(f) of the Act, in relevant part, prohibits a registered investment company from knowingly purchasing or otherwise acquiring during the existence of any underwriting or selling syndicate, any security (except a security of which the company is the issuer) a principal underwriter of which is an officer, director, member of an advisory board, investment adviser, or employee of the company, or an affiliated person of any of the foregoing. Section 10(f) also provides that the SEC may exempt by order any transaction or classes of transactions from any of the provisions of section 10(f), if and to the extent that such exemption is consistent with the protection of investors. Rule 10f–3 exempts certain transactions from the prohibitions of section 10(f) if specified conditions are met. Paragraph (b)(7) of rule 10f–3 provides that the amount of securities of any class of an issue to be purchased by the investment company, or by two or more investment companies having the same investment adviser, shall not exceed certain percentages specified in the rule.

2. Applicants state that when an MSDWD Adviser acts as a Subadviser to a Portfolio, it is considered to be an investment adviser to the entire Portfolio. Applicants therefore believe that all purchases of securities by an Unaffiliated Portion from an underwriting syndicate a principal underwriter of which is an Affiliated Broker-Dealer would be subject to section 10(f).

3. Applicants request relief under section 10(f) from that section to permit Unaffiliated Portions to purchase securities during the existence of an underwriting or selling syndicate, a principal underwriter of which is an Affiliated Broker-Dealer. In addition, in the event an Affiliated Portion purchases securities in reliance on rule 10f–3, applicants request an exemption under section 10(f) from rule 10f–3 so that an MSDWD Adviser will not be required to aggregate those purchases with any purchases of the same security by Unaffiliated Portions. Applicants request relief only to the extent that section 10(f) applies because an MSDWD Adviser is an investment adviser to the Portfolio. Applicants believe that the proposed transactions meet the standards set forth in section 10(f).

4. Applicants state that section 10(f) was adopted in response to concerns about the ''dumping'' of otherwise unmarketable securities on investment companies, either by forcing the investment company to purchase unmarketable securities from its underwriting affiliate, or by forcing or encouraging the investment company to purchase the securities from another member of the syndicate. Applicants submit that these abuses are not present in the context of the Portfolios because, as discussed above, a decision by a Subadviser to one discrete portion of a Portfolio to purchase securities from an underwriting syndicate, a principal underwriter of which is an affiliated person of a Subadviser to a different portion of the same Portfolio, involves no potential for ''dumping.'' In addition, applicants assert that aggregating purchases would serve no purpose because any common purchases would be coincidence, and not the result of a decision by a single Subadviser, because there is no collaboration among Subadvisers.

Applicants' Conditions

Applicants agree that any order of the SEC granting the requested relief will be subject to the following conditions:

1. Each Portfolio will be advised by a MSDWD Adviser and at least one Unaffiliated Subadviser and will be operated consistent with the manner described in the application.

2. Neither the MSDWD Adviser (except by virtue of serving as Subadviser) nor the Affiliated Broker-Dealer will be an affiliated person or a second-tier affiliate of any Unaffiliated Subadviser or any officer, trustee or employee of the Portfolio engaging in the transaction.

3. No MSDWD Adviser will directly or indirectly consult with any unaffiliated Subadviser concerning allocation of principal or brokerage transactions.

4. No. MSDWD Adviser will participate in any arrangement under which the amount of its subadvisory fees will be affected by the investment performance of an Unaffiliated Subadviser.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 98–21594 Filed 8–11–98; 8:45 am]

BILLING CODE 8010–01–M

TENNESSEE VALLEY AUTHORITY

Environmental Impact Statement for Addition of Electric Generation Peaking Capacity

AGENCY: Tennessee Valley Authority.

ACTION: Notice of intent.

SUMMARY: The Tennessee Valley Authority (TVA) will prepare an environmental impact statement (EIS) for the proposed addition of peaking capacity to the TVA electric generation system. The EIS will evaluate the potential environmental impacts of installing and operating proposed simple cycle natural gas fired combustion turbines to provide the needed peaking capacity. TVA wants to use the EIS process to obtain the public's comments on this proposal.

DATES: Comments on the scope of the EIS must be postmarked no later than September 11, 1998. TVA will conduct public meetings on the scope of the EIS. The locations and times of these meetings are announced below.

ADDRESSES: Written comments should be sent to Greg Askew, P.E., Senior Specialist, National Environmental Policy Act, Tennessee Valley Authority, mail stop WT 8C, 400 West Summit Hill Drive, Knoxville, Tennessee 37902–1499. Comments may also be e-mailed to gaskew@tva.gov.

FOR FURTHER INFORMATION CONTACT: Roy V. Carter, P.E., EIS Project Manager, Environmental Research Center, Tennessee Valley Authority, mail stop CEB 4C, Muscle Shoals, Alabama 35662–1010. E-mail may be sent to rvcarter@tva.gov.

SUPPLEMENTARY INFORMATION:

Project Description

Construction and operation of simple cycle natural gas-fired combustion turbine units are proposed by TVA to meet up to 1,350 MW of peaking requirements with some capacity available as early as June 2000. Up to eight natural gas-fired combustion turbines would be installed at one, two or three existing TVA power plant sites.

The three TVA power plant sites under consideration are Johnsonville Fossil Plant in Humphreys County, Tennessee; Gallatin Fossil Plant in Sumner County, Tennessee; and Colbert Fossil Plant in Colbert County, Alabama. Each of these TVA plant sites have both coal-fired units and natural gas and/or fuel oil fired combustion turbines. These TVA plant sites offer potential advantages over greenfield sites. These advantages include use of existing plant infrastructure (water service, natural gas supply at two sites, transmission line access, combustion turbine maintenance and operating staff), existing land ownership, and an accelerated project schedule with reduced risk. Also, inherent in incremental development of industrial sites such as these is the potential for reduced environmental impacts.

Each site installation would consist of up to eight natural gas fired combustion turbine-generators. Fuel oil would be the secondary fuel. These combustion turbines would employ dry low-NO_x combustion chambers and/or water injection for NO_x control. Typical manufacturers and models of simple cycle combustion turbines for the proposed application are General Electric models GE 7001 EA and GE 7001 FA, and Westinghouse models WH 501D5A and WH 501 FA Other appurtenances and ancillary equipment would include step-up transformers for 161 kilovolt or 500 kilovolt service, transmission line connection equipment, demineralized water to supply the water injection NO_x control systems, and maintenance and operational support buildings or equipment.

Other actions necessary for operation of combustion turbines at the Colbert site would include one or more natural gas pipeline taps and conveyances.

TVA's Integrated Resource Plan

This EIS will tier from TVA's *Energy Vision 2020'An Integrated Resource Plan and Final Programmatic Environmental Impact Statement. Energy Vision 2020* was completed in December 1995 and a Record of Decision issued on February 28, 1996. Energy Vision 2020 analyzed a full range of supply-side and demand-side options to meet customer energy needs. These options were ranked using several criteria including environmental performance. Favorable options were formulated into strategies to effectively meet electric energy and peak capacity needs of TVA's customers for a range of postulated futures. A portfolio of options drawn from several robust strategies was chosen as TVA's preferred alternative. In this preferred alternative, three supply-side options selected to meet peak capacity needs were: (1) addition of combustion turbines to TVA's generation system, (2) purchase of market peaking capacity, and (3) call options on peaking capacity. The short-term action plan of *Energy Vision 2020* identified a need for 3,000 MW of baseload and peaking additions through the year 2002.

Because Energy Vision 2020 identified and evaluated alternative supply-side and demand-side energy