April 15, 2014

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Via E-mail

Re: Docket No. 1479 and RIN 7100 AE-10: Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies Related to Physical Commodities, Advance Notice of Proposed Rulemaking

I submit this letter in response to the request for comments by the Board of Governors of the Federal Reserve System (the "Board") in its Advance Notice of Proposed Rulemaking (the "ANPR") relating to the physical commodity activities of financial holding companies ("FHCs"). These comments are filed on behalf of Central Plains Energy Project ("CPEP"), a governmental natural gas joint action agency of which I am the Chairman of the Board and the Project Manager.

CPEP is a separate legal entity and a public body corporate and politic (including a not-for-profit corporation) organized under the laws of the State of Nebraska and an instrumentality of its members pursuant to the provisions of the Nebraska Interlocal Cooperation Act (Chapter 13, Article 8, Reissue Revised Statutes of Nebraska, as amended). Its members are: Metropolitan Utilities District of Omaha, Nebraska; Municipal Gas Utility of Cedar Falls, Iowa; and City of Hastings, Nebraska, d/b/a Hastings Utilities. Its principal offices are located in Omaha, Nebraska.

CPEP is a natural gas joint action supply agency. Its primary purpose is to acquire long-term gas supplies to serve portions of the requirements of its members, at their request. Each of CPEP's members is municipal distributor of natural gas that makes retail sales to residential, commercial and industrial customers in its area of service. CPEP provides wholesale sales service to its members and other municipal gas distribution systems.

CPEP is an active participant in the municipal gas marketplace for long-term gas supplies. Those long-term gas supplies are essential to enable CPEP to meet the needs of its members and other customers for reliable, secure, firm natural gas deliveries at reasonable and competitive prices. One of the primary strategies to meet these needs that CPEP has pursued since its formation, and which it is pursuing today and intends to pursue in the years to come, is the purchase of long-term natural gas supplies through gas prepayment transactions. FHCs are among the primary participants in the prepayment marketplace as gas suppliers.

CPEP has completed two 30-year gas prepayment transactions and one 20-year gas prepayment transaction. Two of those transactions are with J. Aron & Company, the wholly owned energy subsidiary of The Goldman Sachs Group, an FHC. These transactions have saved the members and other municipal customers millions of dollars in reduced natural gas commodity prices since the consummation of the transactions in 2007. All of those savings are for the benefit of the gas consuming public and flow through to them in the form of lower gas rates. Our projects have operated successfully for seven years. We are hopeful of pursuing another transaction in the near future, very likely with an FHC.

The FHCs provide an essential service to the municipal gas industry, one that we believe could not and would not be replicated or replaced by other industry participants, at least not under market conditions that have prevailed over at least the past eight years. It is essential to the health of our member systems and the retail customers they serve that CPEP and other municipal gas systems and joint action agencies have the option available to them to purchase long-term natural gas supplies through gas prepayment transactions. Accordingly, any governmental steps, including those contemplated in the ANPR, that would lead to the inability of FHCs to participate in that marketplace would be adverse to the interests of CPEP, our member municipalities, and all of the consumers they serve – residential, commercial, institutional and industrial. Our interests are consistent with the interests of the natural gas consuming public that we serve.

Not only would the departure of FHCs from the physical commodity marketplace be highly adverse to the interests of municipal natural gas systems and gas consumers, it would serve no countervailing public purpose. Our experience is that FHCs are the most creditworthy counterparties with which we have an opportunity to transact business. Our experience is that FHCs are more efficient and operate in a regulated environment, one that results in them taking a cautious, businesslike approach to their commercial obligations and strict adherence to the requirements of their contracts. They are experienced participants in the natural gas commodities markets and have developed an increasingly sophisticated understanding of the specific markets in which they operate.

The natural gas commodities marketplace has only been deregulated for a couple of decades. We have already seen significant changes in the structure of that industry in those two decades. We strongly believe that changes brought about by regulatory fiat would not be in the public interest and would cause significant upheaval, particularly in the long-term gas supply marketplace.

The ANPR expresses concern about the impact that catastrophic losses, exemplified by the Macondo disaster in the Gulf of Mexico and the San Bruno pipeline rupture in California, could have on FHCs as a result of their participation in the physical commodities markets. This fear, in our view, is inapplicable and misplaced, because we are talking about the purchase and sale of natural gas by FHCs in the market, not the purchase and operation of assets that are subject to physical risks. The commercial activities that the FHCs undertake in the gas commodity markets do not involve the ownership of oil and gas producing infrastructure or gas or oil transmission pipelines, or anything comparable to them that poses the risk of catastrophic loss. And, tellingly, none of the disasters pointed to in the ANPR as subjecting the FHCs to potential risk if they are permitted to remain in the physical commodities business had any such effect on them when those disasters occurred, when the FHCs were participants in the physical commodities markets.

Accordingly, it is our view that those FHCs that wish to should be permitted to continue to play the roles in the physical gas commodity marketplace that they have come to play in recent years. We believe the Board should not impose additional restrictions on FHCs that are participants in the physical commodity industry and believe that doing so would have the effect of harming CPEP, our members, our other municipal distribution customers, and the consumers they all serve, along with harming similar systems and consumers nationwide.

CPEP appreciates the opportunity to comment and would be pleased to answer any questions the Board may have as it analyzes these issues.

Sincerely,

Jim Knight
Chairman of the Board and Project Manager

Central Plains Energy Project
Omaha, Nebraska