TENNESSEE ENERGY
ACQUISITION CORPORATION

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 The Tennessee Energy Acquisition Corporation ("Tennessee Energy"), a governmental natural gas joint action agency of which I am the President and General Manager (the chief executive officer).

Tennessee Energy is a public corporation and instrumentality of certain municipalities and of the State of Tennessee. Its principal offices are located in Clarksville, Tennessee. Tennessee Energy was initially formed by actions of two municipalities under the provisions of the Tennessee enabling law, the Energy Acquisition Corporations Act, § 7-39-101 et seq., Tennessee Code Annotated. The statutory term for a municipal member of an energy acquisition corporation formed under the provisions of that Act is "associated municipality". Tennessee Energy now has 22 associated municipalities located in West, Middle, and East Tennessee, all of which are Tennessee local governmental units created by, or pursuant to authority granted by, the Tennessee General Assembly. They are: the City of Clarksville; the City of Springfield; the West Tennessee Public Utility District; the Greater Dickson Gas Authority; the Town of Linden; the City of Waynesboro; the City of Savannah; the City of

Lexington; the City of Ridgetop; the City of Bolivar; the Bedford County Utility District; the Town of Selmer; the Town of Centerville; the City of Hohenwald; the Harriman Utility Board; the Natural Gas Utility District of Hawkins County; Marion Natural Gas System; Rockwood Water and Gas System; Oak Ridge Utility District; the City of Henderson; the Town of Collinwood; and Horton Highway Utility District.

Each of Tennessee Energy's associated municipalities is a local distributor of natural gas that makes retail sales to residential, commercial and industrial customers in its area of service. Tennessee Energy is a joint action gas supply agency that provides wholesale sales service to its associated municipalities, to other municipal gas systems, and to other joint action agencies, both within and outside the State of Tennessee. Tennessee Energy also provides natural gas supply, transportation and storage management services for many of its associated municipalities under contracts that provide for Tennessee Energy to serve their full requirements for natural gas delivered at their city gate stations.

Tennessee Energy is an active participant in the municipal gas marketplace, including the marketplace for long-term gas supplies as well as the spot market. Those long-term gas supplies are essential to enable Tennessee Energy 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 which Tennessee Energy has pursued since its formation in 1995, 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 this marketplace as gas suppliers.

Tennessee Energy is also an active participant in the commodity swap marketplace by providing hedging services requested by its members. FHCs are an essential part of the successful operation of that market.

Tennessee Energy has completed two successful 20-year gas prepayment transactions with J. Aron & Company, the wholly owned energy subsidiary of The Goldman Sachs Group, an

FHC. These transactions have saved our associated municipalities and other municipal customers millions of dollars in reduced natural gas commodity prices since the consummation of the transactions in 2006. 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 going on eight years without a hiccup. We are pursuing another such transaction, with the same FHC, and hope to close it in 2014.

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 customers we serve that Tennessee Energy 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 Tennessee Energy, 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 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. We have found them to be customer-oriented with a strong desire to be long-term business partners with us. Short-term benefit has never trumped the preservation of ong-term relationships in our experience with them.

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 Tennessee Energy, our associated municipalities, our other municipal distributor and joint action agency customers, and the consumers we all serve, along with harming similar systems and consumers nationwide.

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

Sincerely,

J. Mark McCutchen

J. Mark McCutchen

President and General Manager

The Tennessee Energy Acquisition Corporation
Clarksville, Tennessee