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March 14, 2014

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

Via Agency Website

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

We thank you for allowing Alon USA Energy, Inc. ("Alon"), the opportunity to respond to the Board of Governors of the Federal Reserve System's (the "Fed") Advance Notice of Proposed Rulemaking regarding the activities of Financial Holding Companies ("FHCs") related to physical commodities (the "ANPRM"). We also appreciate the Fed analyzing this issue for the benefit of all market participants, including end-users like Alon. To that end, we submit this comment to assist the Fed and to make clear that any additional restrictions on FHCs' ability to trade in physical commodities will negatively impact end-users that rely upon the physical commodities markets to manage risk.

I. Background

Alon is an independent refiner and marketer of petroleum products, operating primarily in the South Central, Southwestern and Western regions of the United States. Together with our subsidiaries, we own crude oil refineries in Texas, Louisiana and California, with an aggregate crude oil throughput capacity of approximately 214,000 barrels per day.

In the process of our refining business, we transact in physical commodities and commodity derivatives. It is critical for our business to timely access these markets in order to hedge against normal and expected price volatilities while maintaining stable cash flows and serving our customers. For example, we hedge the margin between refined petroleum product prices and crude oil to mitigate our crack spread risk with respect to a portion of our expected gasoline and diesel production. We enter into these arrangements with the intent to secure a minimum fixed cash flow stream on the volume of products hedged during the hedge term, which is vital to the successful operation of our business in a volatile industry.

Accessing these markets, however, would be difficult without the presence of FHCs. Although the physical commodities marketplace contains a variety of market participants, generally speaking, the market is dominated by a relatively small number of participants in each commodity sector. FHCs provide our businesses with a well-regulated counterparty/market-maker with which we can efficiently transact at the appropriate points in time when such actions are needed to best manage our risk. Further, FHCs' ability to offer a suite of products in different asset classes provides us and other end-users with the ability to manage our business risks conveniently and cost-effectively.

In our experience, FHCs are credit-worthy counterparties with market experience and the ability to handle market volatility. The ANPRM states, "The fact that a FHC has not been involved in such an event to date does not reduce the probability that such an event may occur." But this assertion is not substantiated by empirical data and, in fact, the market events identified by the Fed in its ANPRM and that serve as a basis for the position that additional regulation may be necessary only underscore the ability of FHCs to properly manage these risks and reinforce the importance of FHCs in these markets, particularly to end-users.

II. Additional Regulation of FHCs' Physical Commodities Activities Could Result In These Entities Exiting the Marketplace, Negatively Affecting End-Users

A primary reason we transact with FHCs in physical commodities and related derivatives transactions is because FHCs are highly regulated. Under the broad purview of the Fed, FHCs are subject to minimum capital requirements and safety and soundness regulations, among other statutes and regulations. In addition, FHCs are subject to regulation and oversight by the Securities & Exchange Commission ("SEC"), the Commodity Futures Trading Commission ("CFTC"), and the Federal Energy Regulatory Commission ("FERC"). As end-users, we are confident that the current regulatory framework is sufficient to protect the financial system and to properly regulate FHC's physical commodities activities.

We fear that additional regulation of these activities, including, among other things, the imposition of increased capital requirements, will deter FHCs from participating in the physical commodities space. This fear is not without merit as some FHCs have already begun to withdraw from their physical commodities activities. It would only be reasonable to conclude that more FHCs, and their affiliates, will exit the marketplace if additional restrictions on their physical commodities activities are adopted, which will negatively impact liquidity and increase costs making it more difficult and expensive for end-users to transact in physical commodities activities necessary to run their businesses and serve their customers.

A. The Departure of FHCs From The Physical Commodities Marketplace Could Lead to Unregulated Entities Assuming A Larger Role

If FHCs exit the physical commodities markets, we and other end-users likely would be required to transact with an increased number of unregulated – or less regulated – entities in order to appropriately manage our risk. Engaging in transactions with unregulated entities would create a greater risk to the physical commodities markets than the potential tail risks identified by the Fed in the ANPRM. As end-users, Alon seeks to hedge or mitigate our risks in the physical commodities markets; however, transacting with unregulated or less regulated entities unnecessarily increases our counterparty risk.

As discussed above, the current regulatory framework instills confidence in end-users that we are protected when trading with FHCs. That confidence does not exist with respect to unregulated entities. They are not subject to the same regulatory restrictions as FHCs, and it is not clear the extent to which they would have sufficient capital to take on all of the physical commodities activities currently conducted by FHCs. It certainly is the case that these entities are not subject to the same oversight by regulators such as the Fed, SEC, CFTC and the FERC. Moreover, the countries in which certain of these unregulated entities operate are not as economically stable as the United States. Although it is not our preference to transact with unregulated market participants, we fear that additional regulation could leave us with no other choice. Transacting with unregulated entities could threaten credit, safety and soundness and pose other concrete economic risks that exceed in severity the potential tail risks referenced in the ANPRM.

B. The Departure of FHCs From The Physical Commodities Marketplace Could Lead to Market Illiquidity

If FHCs depart the commodities markets due to additional regulation, we and other end-users could suffer from reduced liquidity. This result has already begun to occur in certain physical commodity markets due to recent decisions by certain FHCs to exit such markets. For example, liquidity in California's wholesale electricity markets has diminished substantially over the last few years, as evidenced by a 36 percent reduction in total physical wholesale power sales at California's three main delivery points. The additional restrictions that the Fed is contemplating would only exacerbate this exodus and result in additional market harm.

Additionally, the presence of FHCs in the commodities markets allows us to enter into hedges for our crude supply and petroleum products at prices determined by the markets in which we are operating. If FHCs depart the commodities markets due to additional regulation, we believe that we would be either (i) forced to enter into hedges at prices determined by markets other than those in which we operate, such as New York Harbor prices, or (ii) prevented from hedging altogether, which may result in significant losses for our company. Hedging at prices determined by markets other than those in which we operate would entail significant additional basis risk for our company, which may also result in significant losses for us.

Increased concentration will assuredly have the effect of increasing costs to access these services, which we, as end-users (and ultimately, our customers), will be forced to bear. It is also possible that the hedging transactions we engage in with FHCs will simply be unavailable as a result of the lack of market participants with the relevant type of expertise in the marketplace. Further our profitability may be threatened to the extent we are unable to appropriately and efficiently manage risk.

III. Conclusion

For the foregoing reasons, we believe that the Fed should not impose additional restrictions on FHCs engaging in physical commodities activities. We and other end-users rely on FHCs as reliable, regulated counterparties for physical commodity activities and increased restrictions on FHCs in this space would likely negatively affect our ability to manage risks by unnecessarily increasing costs. Accordingly, we respectfully request that the Fed not proceed with any rulemaking in this area and instead that it continue its successful regulation of these entities within the current regulatory framework. We again appreciate the opportunity to comment and would be pleased to answer any questions the Fed staff may have for us as it continues to analyze these issues.

Yours sincerely,

ALON USA ENERGY, INC.

Shai Even

Shai Even
Senior Vice President and Chief Financial Officer