April 16, 2014

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

Via Electronic Submission

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

Dear Mr. Frierson:

Delek US Holdings, Inc. ("Delek," "we," "us" or "our") appreciates the opportunity to 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 relating to physical commodity activities conducted by financial holding companies (the "ANPR"). In particular, we appreciate the opportunity to analyze certain issues raised by the ANPR from the perspective of an end-user, and we seek here to emphasize that any additional restrictions on the ability of financial holding companies ("FHCs") to participate in the physical commodities markets would negatively impact end-users such as us. We would be affected because we rely on FHCs to provide customized financing solutions, manage risk and provide the expertise and flexibility afforded by their unique combination of deep financial resources, pivotal market position and strong credibility as commodities counterparties due to their status as heavily regulated entities.

I. Background

Delek is an integrated energy business focused on petroleum refining, the transportation, storage and wholesaling of crude oil and intermediate and refined products and convenience store retailing. We are headquartered in Brentwood, Tennessee and employ more than 4,000 people across the Southeast and Southwest United States. Our business consists of the following three operating segments: refining, logistics and retail.

- Our refining segment operates independent refineries in Tyler, Texas and El Dorado, Arkansas with a combined design crude distillation capacity of 140,000 barrels per day. Our refining segment also owns and operates two biodiesel facilities involved in the production of biodiesel fuels and related activities. These refineries provide finished petroleum products, such as gasoline, diesel fuel, jet fuel and other vital products to customers throughout the portions of the country we serve.

- Our logistics segment gathers, transports and stores crude oil and markets, distributes, transports and stores refined petroleum products in select regions of the southeastern United States and west Texas for both our refining segment and third parties. The logistics segment owns approximately 400 miles of crude oil transportation pipelines, approximately 150 miles of refined product pipelines, an approximately 600-mile crude oil gathering system and associated crude oil storage tanks with an aggregate of approximately 7.6 million barrels of active shell capacity. Our logistics segment also owns and operates eight terminals in Texas, Arkansas and Tennessee and markets light products using third-party terminals.

- Our retail segment markets gasoline, diesel, other refined petroleum products and convenience merchandise through a network of approximately 360 company-operated retail fuel and convenience stores located in Alabama, Arkansas, Georgia, Kentucky, Mississippi, Tennessee and Virginia.

In order to serve its customers and to help manage its complex business, Delek depends upon the physical commodity and commodity derivatives markets. These markets not only play a critical role in assisting Delek with conducting its day-to-day business but also in managing commodity risk through various hedging activities. Even though Delek has assets totaling almost $2.8 billion and had net sales of approximately $8.7 billion in 2013, Delek is still a relatively small player in the very competitive and capital-intensive energy business and does not possess the same depth of certain resources as some of its larger competitors. Therefore, to efficiently access the physical commodity and commodity derivatives markets, Delek relies upon FHCs. We do so because FHCs are large, sophisticated, entities that offer both physically-settled and cash-settled alternatives and that assist Delek in a number of ways, including the following:

A. FHCs assist Delek in financing its inventory of both crude oil and refined products through a unique arrangement that provides Delek with a number of benefits.

Under a current arrangement at Delek's El Dorado refinery, FHCs assist in sourcing certain of the crude oil to be delivered to the refinery, purchase all of the crude oil either from the source or from Delek and hold title to such crude oil until its arrival at the refinery. Following Delek's refining of the crude oil, FHCs then repurchase the refined products and deliver them using Delek's logistics assets to the point of sale, where Delek then sells the refined products to its customers.

This arrangement is advantageous to Delek for a number of reasons. First, this arrangement obviates the need for Delek to arrange for separate financing of its inventory of both crude oil and refined products at the El Dorado refinery. Because FHCs hold title to the crude oil on its way to the refinery and to the refined products on their way from the refinery to the point of final sale, the only inventory required to be financed by Delek is the linefill within the refinery itself. Without this arrangement, Delek would have to finance approximately $300 million in working capital through an asset-based loan or other type of traditional financing, with the inventory of crude oil and refined products almost certainly required to serve as collateral. Such financing customarily involves a syndicate of multiple lenders and includes restrictive covenants and other provisions with respect to available borrowing base and other financial requirements, all of which would likely restrict Delek's flexibility to acquire feedstocks, manage its inventory or to make acquisitions and other capital investments in growing our business in comparison to our current arrangement with FHCs.

Second, because Delek only holds title to crude oil and finished product inventory only during the limited time such inventory is being processed at the refinery, this arrangement lessens the need for Delek to hedge its exposure to price fluctuations that affect the spread between prices at which Delek purchases crude oil inputs and sells refined product outputs. Without this arrangement whereby FHCs hold title to both crude oil prior to entering the refinery and refined products after leaving the processing units, the period of time for which a given quantity of Delek's inventory would be exposed to commodity price risk would be much longer, necessitating more expensive hedging instruments against the greater risk.

B. FHCs are knowledgeable, sophisticated and active market participants that are able to quickly provide Delek custom-tailored solutions, allowing it to efficiently hedge other risks that Delek may face.

FHCs provide flexibility to Delek by having the resources to fund the purchase of crude oil opportunistically at times when cost-advantaged refinery feedstocks are available and then store such feedstocks until Delek is able to process it—a benefit that we would not be able to realize without the support of an FHC. For example, during a recent periodic maintenance turnaround at our El Dorado refinery, FHCs continued purchasing crude oil for eventual processing at the refinery under Delek's current arrangement at lower local prices available at that time and then, using their and Delek's relationships, stored that crude oil for later use by the refinery following resumption of processing after the turnaround was complete. The FHCs' ability to continue purchasing at advantageous prices and store the crude oil until Delek's refinery was able to take delivery in effect preserved Delek's access to such favorably priced crude oil immediately upon refinery restart and for the long term. Without the participation of FHCs in the market and the flexibility provided thereby, Delek could otherwise have been forced out of the purchasing market while the refinery was in turnaround and could in consequence have lost its access to this favorably priced, locally sourced crude oil.

The flexibility and other benefits provided by FHCs' participation in the physical commodity markets, including unique financing arrangements that meet our needs and that also reduce our exposure to risk and the benefits provided by partnering with a knowledgeable, sophisticated and active market participant, would not otherwise be available to smaller market participants such as Delek from other potential traditional trading counterparties in the market.

II. Additional Restrictions on FHCs in This Area Will Likely Lead to a More Concentrated, Inefficient, Illiquid Marketplace, Which Will Hurt Our Business.

We appreciate the Board's examining the role of FHCs in the physical commodity and commodity derivatives markets but are concerned that additional regulations on their activities in this space could result in more FHCs exiting these markets, which would directly harm our ability to meet the energy needs of our customers in a cost-effective manner. As the ANPR notes, two of the 12 FHCs that currently conduct physical commodities activities have recently announced their intent to exit these markets entirely. Others have sold off portions of their physical commodities businesses. We fear that additional regulation in this space will lead further FHCs to scale back their commodity-related activities or exit the market entirely. The marketplace for petroleum feedstocks and refined products is already dominated by relatively few market participants and reducing the number of FHCs will only render it further concentrated.

Furthermore, as noted above, we do not believe that the remaining intermediaries that exist in or could be expected to enter the market would be able to service our physical commodity and commodity derivatives needs as well as FHCs currently do because of an FHC's unique combination of favorable characteristics. FHCs are sophisticated market participants that are in the business of making markets in physical commodities and related derivatives products. As noted above, they have the extensive market presence and knowledge to allow them to purchase and store crude oil and refined products in ways that are advantageous to end-users like Delek, obviating our need for alternative financing and risk mitigation with respect to those materials. Additionally, they are knowledgeable, sophisticated and active market participants that are able to customize creative solutions for our business's specific needs and to suggest transactions proactively that are beneficial and in which, otherwise, we would not have engaged.

While we acknowledge that we likely would be able to engage in certain financing and hedging transactions with other intermediaries, we think it would be highly unlikely that any single intermediary could or would be willing to offer us the combination of strong knowledge of the commodities markets themselves with the financial resources and credibility that FHCs alone offer together. It would therefore be more difficult and expensive for companies like Delek in a relatively illiquid marketplace to access the physical commodity markets as efficiently as we do with FHCs, and we would we likely not be able to obtain the customized solutions that FHCs currently provide us. Fewer market participants and reduced liquidity likely would increase our costs of participating in these markets, and we believe these increased costs would have an anticompetitive impact by exerting a disproportionately negative effect on smaller market participants like Delek than some of our larger competitors that could absorb these costs as a result of their scale and/or vertical integration.

III. Transacting with FHCs, as Opposed to Other Potential Market Participants, Provides Security Benefits.

Finally, we view FHCs as a strong counterparty to our commodities transactions because they are well regulated by various agencies, including the Board, the Securities and Exchange Commission, the Commodity Futures Trading Commission and the Federal Energy Regulatory

Commission. In addition, smaller market participants like Delek are often able to leverage the widely recognized credibility of FHC intermediaries as transaction partners to obtain more favorable transaction terms from other market participants than would be made available to market participants that are less well known. It is possible that, if further regulation causes FHCs to leave the commodity markets, less regulated or unregulated entities would step in to try to fill the void and replace the services that the FHCs currently provide. Unlike FHCs, however, these entities are unlikely to provide the same credibility benefits, as they almost certainly would not be subject to the same extensive regulation covering FHCs, nor would they be likely to have the same recognition and credibility with all participants across the marketplace. As such, transacting with such entities could pose additional risks to our business, such as counterparty risk, that we do not currently regard as significant. The current regulatory framework gives both us and our business partners confidence when transacting with and through the intermediation of FHCs, and the entities that might take their place would not engender the same confidence or, therefore, deliver the same benefits.

IV. Conclusion

For the foregoing reasons, we believe that the Board should not impose additional restrictions on FHCs that engage in physical commodities and commodity-related derivatives activities and believe that doing so would have the effect of harming end-users, especially smaller and/or regional market participants such as Delek. We again appreciate the opportunity to comment and are happy to answer any questions the Board may have as it continues to analyze these issues.

Very truly yours,

DELEK US HOLDINGS, INC.

Assaf Ginzburg
Executive Vice President and
Chief Financial Officer