

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

We 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 jointly on behalf of the Clarke-Mobile Counties Gas District ("CMC") and The Black Belt Energy Gas District ("Black Belt"), which we sometimes refer to in this letter as the "Districts".

CMC is a public corporation formed by three member municipalities under the provisions of the Alabama Gas Districts Act, § 11-50-390, *et seq.*, Alabama Code (1975). Black Belt is also a public corporation formed under the same Act by the same three member municipalities. The member municipalities of each of the Districts are the City of Jackson, Alabama; the Town of Grove Hill, Alabama; and the City of Thomasville, Alabama.

CMC is a municipal gas distribution system that provides natural gas transportation and sales service to retail gas customers and to wholesale municipal customers in geographic areas authorized under its certificate of incorporation. CMC owns and operates 172 miles of transmission lines as well as 452 miles of distribution lines. CMC has a 150,000 MMBtu position with Bay Gas Storage located in McIntosh, Alabama. Currently, CMC serves approximately 6,500 customers located in 8 counties in southwest Alabama. CMC's stations in

Alabama include: Boise Cascade Station in Jackson, Winfield Resort in Orange Beach, and the Florida Gas Station in Mt. Vernon. Black Belt is a joint action gas supply agency that provides wholesale sales service to CMC and to other municipal gas systems both within and outside the State of Alabama. Black Belt also provides natural gas supply, transportation and storage management services for other municipal gas systems and joint action agencies.

Black Belt and CMC are participants in the municipal gas marketplace, including the marketplace for long-term gas supplies. These gas supplies are essential to enable the Districts to meet the needs of their customers for reliable, secure, firm natural gas deliveries at reasonable and competitive prices. One of the primary strategies to meet these needs which the Districts have pursued in recent years, are pursuing today, and intend to pursue in the years to come is the purchase of natural gas supplies through gas prepayment transactions. FHCs are among the primary participants in this marketplace as gas suppliers. As such they 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 systems and the customers we serve that the Districts and other municipal gas systems 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 the Districts, our member municipalities, and all of the consumers we serve – residential, commercial, institutional and industrial. The Districts' 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 long-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 entirely inapplicable and misplaced, because we are talking about the purchase and sale of natural gas by FHCs in the market. Such commercial activities 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. Neither of these two incidents cited by the Board in the ANPR resulted, and to our knowledge no comparable incident ever has resulted, in exposure to FHCs in their physical commodities business.

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 our Districts and the consumers we serve and similar systems and consumers nationwide.

We appreciate the opportunity to comment and would be pleased to answer any questions the Board may have of us as it continues to analyze these important issues.

Sincerely,



C.J. Arnold



Al Bean

Co-General Managers
Clark Mobile Counties Gas District
The Black Belt Energy Gas District