

Congress of the United States
Washington, DC 20515

December 16, 2014

Mr. Scott G. Alvarez
General Counsel
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Advance Notice of Proposed Rulemaking by the Board of Governors of the Federal Reserve System Concerning Physical Commodities Trading Activities of Financial Holding Companies

Dear Mr. Alvarez,

In January 2014, the Board of Governors of the Federal Reserve System (the "Federal Reserve") issued an Advance Notice of Proposed Rulemaking ("ANPR") concerning the role of Financial Holding Companies ("FHCs") as participants in physical commodities trading. The ANPR discussed the potential removal by the Federal Reserve of existing authority under which FHCs participate in physical natural gas markets (and other physical commodities markets).

In the ANPR, the Federal Reserve described certain energy commodities, including natural gas, as "environmentally sensitive commodities". The Federal Reserve questioned whether FHCs could withstand environmental catastrophes such as the BP Macondo Gulf of Mexico oil disaster or the PG&E San Bruno pipeline explosion, and implied that any contact with natural gas and other "environmentally sensitive commodities" could expose the FHCs to unwarranted risks.

We have looked into this matter on behalf of the Clarke-Mobile Counties Gas District ("CMC"), the Black Belt Energy Gas District ("BBE"), The Southeast Alabama Gas District ("SEAGD"), their many municipalities and the natural gas consumers they serve in the State of Alabama, and have concerns. The removal of FHCs from the physical natural gas business would threaten the viability of natural gas prepayments as the most effective means available to them to acquire secure, reliable gas supply at a discounted price. Many Alabama municipal gas systems currently purchase gas from one of more gas prepayment transactions and intend to participate in future transactions. The economic benefits of these transactions are significant to Alabama municipalities and consumers and they serve an important, sometimes crucial, economic development purpose.

The FHCs are primary participants in the gas prepayment market, and it is unlikely that natural gas producers or energy marketing companies would step into the void created by the forced exit of FHCs from the gas prepayment business.

The FHCs also provide an important, and many think the safest, source of supplying fixed price gas. We are advised that many municipal gas systems hedge against the risk of rising gas prices through fixed price gas purchases.

The FHCs are a crucial part of the natural gas commodity swap markets. Their ability to efficiently price and enter into customized commodity swaps would be compromised by their forced exit from the physical natural gas markets. Many municipal gas systems depend on the use of commodity swaps to hedge against the risk of natural gas price spikes in the deregulated market.

The municipal group with whom you met on July 10, 2014, consisting of representatives of CMC and BBE, has been at the forefront of efforts to bring important facts to our attention including the reliance that municipal gas systems in Alabama, and indeed throughout the United States, have on the FHCs for gas prepayment transactions, and the importance of gas prepayment transactions to CMC, BBE, SEAGD, and their many member municipalities and the consumers they serve.

We ask that you take a close look at this issue in connection with the ongoing discussions that are taking place in connection with the role of the FHCs in physical commodities businesses. We understand that there are concerns that involve commodities other than natural gas. Our request to you is focused specifically on the natural gas commodities that so many of our constituents in Alabama depend on, and the ability of those FHCs that wish to continue in the business of buying and selling natural gas in the market to be able to do so. Our constituents depend on it. Thank you in advance for your consideration of this matter.

Sincerely,



Bradley Byrne
Member of Congress



Terri Sewell
Member of Congress