



AMERICAN PUBLIC GAS ASSOCIATION

February 20, 2017

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. R-1547; RIN 7100 AE-58, Risk-based Capital and Other Regulatory Requirements for Activities of Financial Holding Companies Related to Physical Commodities and Risk-based Capital Requirements for Merchant Banking Investments

The American Public Gas Association (APGA) appreciated this opportunity to submit comments in response to the Board of Governors of the Federal Reserve System Notice of Proposed Rulemaking (NOPR) addressing risk-based capital and other regulatory requirements for activities of financial holding companies related to physical commodities and risk-based capital requirements for merchant banking investments.

APGA is the national association for publicly-owned natural gas distribution systems. There are approximately 1,000 public gas systems in 37 states and over 700 of these systems are APGA members. Publicly-owned gas systems are not-for-profit, retail distribution entities owned by, and accountable to, the citizens they serve. They include municipal gas distribution systems, public utility districts, county districts, and other public agencies that have natural gas distribution facilities.

One of the tools available to public gas systems to meet their natural gas supply needs is a natural gas prepayment transaction. These natural gas prepayment transactions have provided significant benefits to public gas systems and their customers across the United States for over 20 years. APGA is very concerned regarding the impact the NOPR would have on natural gas prepayment transactions. In recognition of this, in 2014 the APGA Board of Directors adopted the following Resolution in response to the Federal Reserve's Advanced Notice of Proposed Rulemaking ("ANPR").

"Support for Financial Holding Companies Engaging in Physical Natural Gas Commodity Transactions"

There has been considerable focus within regulators and Congress in regard to the activities of large Wall Street banks in physical commodity transactions. Early in 2014, the Federal Reserve released an Advanced Notice of Proposed Rulemaking (ANPR) that addressed the activities of large banks (referred to as "Financial Holding Companies" in the ANPR) as it pertained to the trading of physical commodities, including natural gas. Specifically, the ANPR proposed to restrict banks activities in physical commodities.

Whereas, efforts are taking place to prohibit financial holding companies from engaging in activities associated with physical natural gas transactions; and,

Whereas, the Board of Governors of the Federal Reserve System is considering actions that would impact the activities of large banks (referred to as "Financial Holding Companies") as they pertain to the trading of physical commodities, including natural gas; and,

Whereas, the Board of Governors of the Federal Reserve System has described natural gas and other energy commodities as "environmentally sensitive commodities" and implied that contact with natural gas and other environmentally sensitive commodities could expose Financial Holding Companies to unwarranted risks; and,

Whereas, given that many public gas systems utilize financial holding companies as counterparties for a number of transactions, including prepays, unduly limiting or preventing these entities from engaging in the physical natural gas business would harm market liquidity for public gas systems, potentially increase physical transaction costs, and threaten the viability of natural gas prepayment transactions.

NOW, THEREFORE, BE IT RESOLVED: That APGA is opposed to the implementation of regulations that would prohibit, or inappropriately restrict, Financial Holding Companies from engaging in physical natural gas commodity transactions."

APGA believes that the NOPR, like the ANPR, inappropriately restricts FHCs by imposing additional capital requirements that are not uniform and are burdensome, leading to increased costs for natural gas consumers. We thank you in advance for your consideration.

Sincerely,

A handwritten signature in blue ink that reads "Dave Schryver". The signature is written in a cursive, flowing style.

Dave Schryver
Executive Vice President
American Public Gas Association