

December 22, 2016

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

Via Email

Re: Docket No. R-1547 and 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

Public Utility District No. 1 of Chelan County, Washington, appreciates the opportunity to respond to this Notice of Proposed Rulemaking regarding the activities of Financial Holding Companies (FHCs). Chelan PUD is a consumer-owned electric utility that generates electricity and transacts in power markets. On behalf of our customer-owners, we manage volatility and our exposure to price and volumetric risks by selling and buying wholesale power using short, mid, and long-term contracts. In order to provide our customers with reasonably low and stable rates, we must manage risks associated with the prices we pay and receive for physical commodities—the power bought and sold on the wholesale market. Chelan PUD, like most utilities, has limited options to manage price risk, and even fewer options to manage volumetric risk.

Chelan PUD reiterates the point it raised in response to the advanced notice of proposed rulemaking: market access could become more difficult, more expensive, and less efficient without sufficient FHC participation. FHCs provide liquidity in the forward markets that facilitate effective management of price volatility. FHCs also help to reduce concentration risk by diversifying the participant base by sector. As a consumer-owned utility, we are concerned that this rulemaking may deter FHCs from participating in the physical commodities space. This may also reduce liquidity in the financial commodities market, as physical and financial transactions are often used in tandem for hedging purposes. Ultimately, reduced FHC participation will increase the cost and difficulty for end-users like Chelan PUD to serve customers.

Chelan PUD supports appropriate market oversight and regulation. We ask that in this rulemaking you fully consider the affect such regulation has on end-users, and balance that impact against the risks you intend to mitigate.

Contact Information

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