

February 21, 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, Notice of Proposed Rulemaking

The Tennessee Energy Acquisition Corporation ("Tennessee Energy") submits this letter in response to the request for comments by the Board of Governors of the Federal Reserve System (the "Board") in its Notice of Proposed Rulemaking (the "Proposed Rule") relating to the physical commodities activities of financial holding companies ("FHCs").

Tennessee Energy is an instrumentality of the State of Tennessee and certain Tennessee municipalities, a public corporation initially formed by actions of the governing bodies of the City of Clarksville and the City of Springfield in 1996, and since that time joined by 21 other Tennessee municipalities, utility districts and authorities, pursuant to the provisions of Section 7-39-101 *et seq.*, Tennessee Code, as amended. In the words of the enabling statute, Tennessee Energy's members are its "associated municipalities". Tennessee Energy's Associated Municipalities are listed on Attachment A to these comments.

Tennessee Energy is a joint action natural gas supply agency that provides wholesale sales service to municipal gas distribution systems and to other joint action agencies that serve municipal gas systems both within and outside the State of Tennessee. Tennessee Energy also provides natural gas supply, transportation and storage management services for other municipal gas systems and joint action agencies, and supplies price hedging services for its Associated Municipalities and others to whom it sells long-term gas supplies as part of its sales

service to them.

Tennessee Energy is a participant in the municipal gas marketplace, including the marketplace for long-term gas supplies and the marketplace for spot market supplies. These gas supplies enable Tennessee Energy to meet the needs of its customers for reliable, secure, firm natural gas deliveries at reasonable and competitive prices. One of the primary strategies to meet these needs, which Tennessee Energy has pursued in recent years, is pursuing today, and intends 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 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 ten years.

Tennessee Energy has entered into two long-term natural gas prepayment transactions with an FHC, and is in the process of completing a third. It is essential to the health of our Associated Municipalities' systems and the systems of the other governmental participants in our long-term supply projects, and essential to the natural gas consuming public that they serve, that Tennessee Energy 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 Proposed Rule, that would lead to the inability of FHCs to participate in that marketplace or would increase the cost of doing so would be adverse to Tennessee Energy's interests, those of our Associated Municipalities and other governmental customers, and those of the consumers we serve – residential, commercial, institutional, and industrial.

It is important to stress that Tennessee Energy's interests are consistent with the interests of the natural gas consuming public that our Associated Municipalities and other governmental customers serve. Tennessee Energy and its Associated Municipalities are in this business on a not-for-profit basis, with the mission of providing heating, cooking, and water

heating fuel to our consumers and fuel for industrial applications, on a secure, reliable basis at the lowest cost possible.

Tennessee Energy filed comments on the Advance Notice of Proposed Rulemaking ("ANPR") on April 15, 2014. We recognize and appreciate the fact that the Proposed Rule retreats from the proposed prohibition on FHCs remaining in the physical natural gas business that was contemplated in the ANPR. However, we believe the Proposed Rule nonetheless overreaches. This is an area of the commodities world that is not broken and it does not need fixing. We urge you to heed the admonishment of the medical profession to first do no harm, and to leave well enough alone here.

The Proposed Rule proposes increases in capitalization requirements that will increase the cost of doing business for FHCs participating in the natural gas markets. This could have the result of increasing the cost of natural gas prepayments and hedging services for Tennessee Energy and therefore for consumers served by our municipal gas system customers. Capitalization requirements on holding inventory provide a disincentive for FHCs to be physical gas suppliers in prepayment transactions other than as suppliers taking transitory or flash title to gas and relying on others as upstream physical commodity suppliers, or to provide the kind of customized hedging services that are so important to us. The Proposed Rule could convince some FHCs (in addition to those that already have) to withdraw from the physical gas markets as it becomes more difficult to operate profitably. A reduction in the number of prepaid gas suppliers in the market would be detrimental to municipal gas systems.

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, in our view, 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, reliable approach to their commercial obligations with 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. For over ten years of day to day experience 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 expressed, and in turn the Proposed Rule 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 in connection with 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.

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 without additional regulatory restrictions. We believe the Board should not impose additional restrictions, operational or financial, on FHCs that are participants in the physical natural gas commodity industry and believe that doing so would have the effect of harming Tennessee Energy and the consumers we serve and similar systems and consumers nationwide.

Tennessee Energy appreciates 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,



J. Mark McCutchen

President and General Manager

The Tennessee Energy Acquisition Corporation

An instrumentality of the State of Tennessee and of its Associated Municipalities, headquartered in Clarksville, Tennessee

Tennessee Energy's Associated Municipalities

ASSOCIATED MUNICIPALITY	MEMBER SINCE
City of Clarksville	1996
City of Springfield	1996
Greater Dickson Gas Authority	1998
Town of Linden	1998
West Tennessee Public Utility District	1998
City of Lexington	1999
City of Ridgetop	1999
City of Savannah	1999
City of Waynesboro	1999
City of Bolivar	2000
Bedford County Utility District	2001
Town of Centerville	2001
Town of Selmer	2001
City of Hohenwald	2004
Harriman Utility Board	2005
Marion Natural Gas System	2006
Natural Gas Utility District of Hawkins County	2006
Oak Ridge Utility District	2006
Rockwood Water and Gas System	2006
City of Henderson	2008
City of Collinwood	2010
Horton Highway Utility District	2013
Town of Somerville	2015