



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SEP 29 2006

David R. Sahr, Esq.
Mayer, Brown, Rowe & Maw LLP
1909 K Street, NW
Washington, D.C. 20006

Dear Mr. Sahr:

The Director of the Division of Banking Supervision and Regulation, with the concurrence of the General Counsel, pursuant to authority delegated by the Board of Governors, has approved the notice under section 4 of the Bank Holding Company Act (12 U.S.C. § 1843) ("BHC Act") by Fortis S.A./N.V., Fortis N.V., Fortis Brussels S.A./N.V., and Fortis Bank S.A./N.V. (collectively, "Fortis"), all of Brussels, Belgium, to engage on a limited basis in physical commodity trading activities.¹ In approving the notice, the Director has determined that the proposed activities are complementary to a financial activity, do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally, and can reasonably be expected to produce benefits to the public that outweigh any potential adverse effects.²

¹ Fortis proposes to engage in these activities in the United States by acquiring all of the partnership interests of Cinergy Marketing & Trading, LP ("CMT") from a subsidiary of Duke Energy Corporation, Cinergy Capital & Trading, Inc.

² CMT is also party to energy management agreements ("EMAs") with several power generators. The permissibility of EMAs is under review at the Board, and this letter does not constitute a determination that the EMAs are permissible for Fortis under the physical commodity trading authority granted by this letter or the BHC Act and the Board's Regulation Y (12 CFR Part 225). Fortis has committed to modify, unwind, or divest itself of the EMAs, as necessary, if the Board concludes that they are not permissible activities. Fortis also has committed not to enter into additional EMAs while the agreements are under the Board's review.

In making this determination, the Director relied on all the information, representations, and commitments provided by Fortis to the Board in connection with the notice. This determination is subject to all the conditions set forth in Regulation Y, including those in section 225.7 (12 CFR 225.7), and to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder.

This approval is specifically conditioned on Fortis's compliance with all the commitments it made to the Board in connection with the proposal, which are set forth in the attached appendix. These commitments and conditions shall be deemed to be conditions imposed in writing by the Board in connection with the notice and this approval and, as such, may be enforced in proceedings under applicable law.

Sincerely yours,

(signed)  Robert deV. Frierson

Robert deV. Frierson
Deputy Secretary of the Board

Attachment

cc: Federal Reserve Bank of New York

Appendix

Commitments

1. Fortis S.A./N.V., Fortis N.V., Fortis Brussels S.A./N.V., and Fortis Bank S.A./N.V. (collectively, "Fortis") commit to the Board of Governors of the Federal Reserve System ("Board") that Fortis will limit the aggregate market value of physical commodities that it and any of its subsidiaries hold at any one time to 5 percent of Fortis' tier 1 capital. Fortis will include in this 5 percent limit the market value of any physical commodities they hold as a result of a failure of reasonable efforts to avoid taking delivery in commodities transactions conducted pursuant to section 225.28(b)(8)(ii)(B) of Regulation Y. In addition, Fortis agrees to notify the Federal Reserve Bank of New York if the aggregate market value of commodities held by them under the approval exceeds 4 percent of Fortis' tier 1 capital.
2. Fortis commits to the Board that it will take and make physical delivery only of physical commodities for which derivative contracts have been authorized for trading on U.S. futures exchanges by the Commodity Futures Trading Commission or other commodities that have been specifically authorized by the Board.
3. Fortis commits to the Board that it will not own, invest in, or operate facilities for the extraction, transportation, storage, or distribution of commodities.
4. Fortis commits to the Board that it will act solely as financial intermediaries in the physical commodities market and will not process, refine, or otherwise alter a physical commodity itself. Fortis will contract with a third party for any services that they need in connection with the handling of any commodity.
5. Fortis commits to the Board that it will not store or transport physical commodities on its own but will only use storage and transportation facilities owned and operated by third parties. Fortis will enter into service agreements only with accredited, reputable independent third party facilities.
6. Fortis commits to the Board that it will assure proper risk management and controls over the physical commodity trading activities and integrate the risk management strategies, controls, and systems developed by CMT, wherever appropriate.

Fortis agrees that the foregoing commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision on the notice filed by Fortis to engage in physical commodity trading activities under section 225.89 of Regulation Y and, as such, may be enforced in proceedings under applicable law.