April 16, 2014

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

<u>Via Email</u>

Re: Docket No. 1479 and RIN 7100 AE-10: Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities, Advance Notice of Proposed Rulemaking

The Interstate Natural Gas Association of America ("INGAA") appreciates the opportunity to respond to the request for comments by the Board of Governors of the Federal Reserve System (the "Board") in its Advance Notice of Proposed Rulemaking ("ANPR") relating to the physical commodities activities conducted by financial holding companies.

INGAA is a trade organization that advocates regulatory and legislative positions of importance to the natural gas pipeline industry in North America. INGAA is comprised of 25 members, representing the vast majority of the interstate natural gas transmission pipeline companies in the U.S. and comparable companies in Canada. INGAA's members operate approximately 200,000 miles of pipelines.

Interstate pipelines are transporters of natural gas and operators of storage facilities. INGAA's members provide such service to local gas utilities, large end-users of natural gas, and other shippers such as natural gas producers and marketers. INGAA's members do not sell natural gas, yet they purchase natural gas, when necessary, in order to operate their systems. Interstate natural gas pipelines serve as an indispensable link between natural gas producers and natural gas consumers in the residential, commercial, industrial and electric power sectors.

The ANPR raises questions about whether commodities activities still should be permissible for financial holding companies ("FHCs") and whether the conditions that have been imposed on FHCs that conduct such activities remain sufficient to protect the safety and soundness of FHCs and their subsidiary banks or thrifts. While INGAA appreciates that the Federal Reserve has chosen a formal notice and comment process to gather information from the public on this important subject, INGAA is concerned that the ANPR and its 24 questions do not provide sufficient consideration to the potential downstream impacts on the longstanding customers of, and commercial counterparties to, FHCs, including INGAA members' customers.

The proposed new restrictions on FHCs' ability to transact in the physical commodities markets could negatively impact non-financial companies' ability to access efficient, transparent, liquid markets for managing their day-to-day physical commodity and related operational needs. Such a result would lead to greater systemic and commercial risk concentration and less liquidity in physical commodities and commodity derivatives markets. These results could lead to serious, unintended consequences for commercial market participants, giving them fewer and more expensive options for purchasing physical commodities and mitigating commercial risk. INGAA does not believe the Federal Reserve intended these results.

The natural gas commodity market is dynamic and competitive. Limiting the ability of FHCs to participate in physical commodities markets will artificially restrict competition in these markets. Reduced competition could result in lessened market liquidity and inefficient pricing for the commodities on which INGAA's members and INGAA members' customers depend. Each physical commodity sector generally is comprised of a finite number of dealers or market makers. For regional and specialty markets, the number of participating dealers or market makers is smaller still. Because FHCs tend to be large market participants and market makers in specific physical commodities and commodity derivatives markets, a wholesale, forced FHC exit from all such markets could well result in a diminution of liquidity. Commercial businesses operating in specific commodity sectors rely on FHC participation in these markets to serve their complex and ever-changing business needs. Eliminating even one dealer in a particular commodity market could reduce competition and increase costs.

INGAA believes that imposing additional restrictions or limitations on the physical commodities activities of FHC affiliates is unnecessary at this time and could harm the natural gas market. INGAA urges the Board not to proceed with further rulemaking and to maintain the conditions that currently apply to FHC commodity activities.

Respectfully submitted,

Donald F. Santa, Jr.
President & CEO