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

Via Agency Email

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

Chelan County Public Utility District, Clark Public Utilities, Cowlitz County Public Utility District, Public Utility District #2 of Grant County, Eugene Water and Electric Board, Klickitat County Public Utility District, Lewis County Public Utility District, Pend Oreille County Public Utility District #1, Snohomish County Public Utility District, and Tacoma Power appreciate this opportunity to respond to the Board of Governors of the Federal Reserve System's (the "Fed") Advance Notice of Proposed Rulemaking regarding the activities of Financial Holding Companies ("FHCs") in physical commodities markets (the "ANOPR"). As publicly-owned electric utilities that generate electricity and transact in power markets, we manage our exposure to price and volumetric risks by selling and buying wholesale power using short, mid and long-term contracts to manage volatility for customers. While we support and strongly urge continued actions to promote effective and appropriate market oversight and enforcement, the ANOPR is of interest to us to the extent that it may affect our ability to manage market volatility over time and better protect our customers from rate increases.

The Fed's ANOPR examines the participation of FHCs in physical commodities markets and considers new restrictions on their ability to transact in these markets. We are concerned about the implications for commercial counterparties to FHCs, such as electric utilities who rely on transparent, liquid electricity markets to manage their day-to-day physical commodity and related hedging needs. If the result of the ANOPR is to prompt the exit of well-regulated, well-capitalized FHCs from the physical commodity markets, we believe there will be fewer and thus more expensive options for us to manage our operational risks, which ultimately leads to higher retail rates for consumers.

I. Background

We are publicly-owned electric utilities that serve over 850,000 electric customers in Washington and about 50,000 electric customers in Oregon. We own generating resources, primarily hydropower and other renewable resources, and purchase power sold by the Bonneville

Power Administration (BPA). We have experience in all aspects of integrated electric utility operations and are active participants in western wholesale power markets. Chelan PUD, Grant PUD and Tacoma Power also operate Balancing Authority Areas.

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 – like fuel used to run power plants and the power that these facilities generate. Most utilities have limited options to manage price risk – and even fewer options to manage volumetric risk. Unlike typical financial transactions, physical energy transactions are often structured to mitigate both price and volume risk. Already, there is a shortage of creditworthy counterparties with which to conduct physical and financial energy transactions. Accessing these markets could be more difficult, more expensive and less efficient without the presence of FHCs.

II. Additional Regulation of FHCs' Physical Commodities Activities Could Result In These Entities Exiting the Marketplace, Negatively Affecting End-Users

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 publicly-owned utilities, we are concerned that the result of this ANOPR may deter FHCs from participating in the physical commodities space, which may in turn also reduce liquidity in the financial commodities market as physical and financial transactions are often used in tandem for hedging purposes. Some FHCs have begun to withdraw from their physical commodities activities in an environment where liquidity for financial commodity swaps already has declined for public power utilities ("special entities") due to recent Dodd-Frank regulations. It is reasonable to conclude that more FHCs, and their affiliates, will exit the marketplace if significant additional restrictions on their physical commodities activities are adopted. As end-users, we anticipate a negative impact on market liquidity, making it more difficult and expensive for our members to transact in physical commodities activities and efficiently serve the needs of our electric customers.

FHCs serve a very important intermediary role in the physical commodities sector that helps facilitate an efficient and more robust market for participants. Existing regulations and electricity market oversight are proving to be successful through recent enforcement actions, which in turn prompts internal reviews of oversight controls and discourages future prohibited activities. In short, if additional limitations on the participation of FHCs in physical energy markets prompt their exit from the marketplace, utilities and their customers will suffer through higher hedging costs and may ultimately be unable to adequately hedge price and volumetric exposures without undue credit concentration risk.

III. Conclusion

Physical energy transactions are critical risk management tools that ultimately help utilities manage the prices that residential and commercial consumers pay for energy. Before proceeding with a rulemaking, we urge the Fed to consider the significant benefits for electric consumers that currently exist because utilities are able to cost-effectively manage market price volatility and volumetric swings due to weather and other events in a robust physical energy market.

Again, we respectfully appreciate the opportunity to comment and would be pleased to respond to any questions the Fed staff may have for us as it continues to analyze and consider these issues.

Sincerely,

Chelan County Public Utility District
Clark Public Utilities
Cowlitz County Public Utility District
Public Utility District #2 of Grant County
Eugene Water and Electric Board
Klickitat County Public Utility District
Lewis County Public Utility District
Pend Oreille County Public Utility District #1
Snohomish County Public Utility District
Tacoma Power