From: twalton@waltoninc.com
Sent: Wednesday, December 29, 2010 11:13 AM
To: dfarulemakings <dfarulemakings@CFTC.gov>
Subject: Businesses and Consumers Need Strong Energy Trading Rules and Speculation Limits

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David Stawick
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

Dear Mr. Stawick:

I am writing to urge the Commission and its staff to consider the following comments on several key areas requiring rulemakings under Title VII of the Dodd-Frank Wall Street Reform Act.

This legislation seeks to reverse irresponsible deregulation of the derivatives markets that has occurred over the past two decades. This deregulation has resulted in opaque markets that cater to the needs of financial speculators rather than bona-fide hedgers and consumers for which futures, options and swaps were created in the first place.

For energy companies like mine that serve thousands of consumers and play a vital role in the health and growth of the American economy, deregulation and the absence of transparency, oversight and accountability has resulted in diminished confidence in these markets. The resulting excess volatility and speculation in commodities, including energy (e.g., crude oil, gasoline and home heating fuels), skews the price discovery function of these markets, unhinges them from concrete economic fundamentals such as supply and demand, creates a difficult environment for hedgers seeking to manage price risk and subjects their consumers to erratic and unwarranted price spikes.

Robust implementation and vigorous enforcement of the regulatory initiatives under the Dodd-Frank Act is vital if the legislation is to have its desired effects, including increased confidence, security and

stability in the derivatives markets while preserving market liquidity, competition, and hedging and price discovery functions.

I. Definitions

1. Commercial Risk
The definition of commercial risk should be narrowly tailored to apply only to those entities whose business activities expose them to risk from physical commodity price fluctuations. Commercial risk should not include risks that are purely financial in nature, including balance sheet risk.

2. Major Swap Participant
It was the intent of Congress to require that only large market participants be captured under this definition. I am supportive of the exclusion for positions held for hedging or mitigating commercial risk, but again, this should not be defined so broadly as to create a new loophole for financial speculators to avoid requirements under the new law.

3. Captive Finance Affiliates
The major swap participant definition also includes an exception for captive finance affiliates. I similarly encourage the Commission not to allow the exception to be abused or too broadly interpreted.

4. Swap
The legislative definition excludes forward delivery contracts (and options on such contracts) for commodities that are intended to be physically settled. Any exemption for forward delivery contracts and options should be limited to benefit only bona fide commercial end-users.

II. Governance & Possible Limits on Ownership & Control - Swap Dealers

The CFTC must establish both a meaningful limit on individual ownership and a limit on collective ownership if the proposed rule is to have the intended effect of limiting conflict of interest, assuring transparency and open competition, and preventing clearinghouses and exchanges from catering to the interests of a few large participants in the financial community. This requires both a cap on ownership for individual entities as well as a sector-wide aggregate cap on banks.

III. End-User Exception

The end-user exception should remain narrowly tailored to those businesses that produce, refine, process, market or consume an underlying commodity and counter-parties buying or selling a position to an end-user. Purely financial risk, including broad terms such as balance sheet risk, should not be considered legitimate commercial risk.

Furthermore, for any entity that is not a legitimate end-user as described above, the exception should be limited so that it is in direct proportion with their physical holdings, i.e. an investment bank or hedge fund cannot claim to be an end-user and thereby obtain an exemption from speculative position limits or other requirements or restrictions merely because it holds a few hundred thousand barrels of inventory.

IV. New Registration Requirements for Foreign Boards of Trade (FBOTs)

I support the requirement that FBOTs register with the CFTC and make their trading data available as well as requiring that they adopt position limits and implement prohibitions on manipulation and excessive speculation. They should also be subject to ownership caps as described above.

V. Anti-Manipulation & Disruptive Trading Practices

I strongly support prohibitions on insider trading based on nonpublic information, strengthened prohibitions on manipulation, and new authority provided to the CFTC under the Act that allows them to identify swaps that are abusive by virtue of being potentially detrimental to either the stability of the market or its participants. I urge the CFTC to be thorough in its interpretation and enforcement of these new authorities.

I also encourage the Commission to scrutinize the use of computerized/algorithm-based trading programs to determine if their application and use in the commodities markets has a disruptive affect on market stability or function.

VI. Position Limits, Aggregate Position Limits & the Bona Fide Hedging Definition

I support the immediate imposition and enforcement of the strongest possible energy speculative position limits, as required (not made OPTIONAL) under the Dodd Frank Act. The law does not require the Commission to prove that speculation is excessive before imposing such limits, it again REQUIRES the Commission to impose limits in order to PREVENT the burdens of excessive speculation.

Further, the Act requires that such limits be established and enforced within 180 days from enactment for exempt commodities (including energy commodities), not simply that the commission promulgate formulae for such limits and then impose them at some later date, as has been suggested. Commodity-dependent businesses and consumers are already burdened by excessively volatile and unjustifiably high commodity market prices. The Commission must publish a rule for comment and enforce said rule as soon as possible.

Due to their passive approach to commodity trading, Exchange Traded Funds and Notes (including index funds) treat finite commodities such as energy as an asset class and a long-term investment rather than as vital resources to American industries, businesses and consumers. I believe the Commission should establish separate and more aggressive limits on the positions of Exchange Traded Funds and Notes, including index funds.

I also have concerns regarding the bona fide hedging exemption that are similar to my concerns regarding the definition of commercial risk and the end-user exemption. Too broad of a definition would allow continued watering down of the hedging exemption and provide additional incentives for financial speculators to enter the market under the guise of legitimate hedgers, thereby evading position limits and other requirements.

VI. Conclusion

American businesses and consumers are relying on CFTC Commissioners and their staffs to read and vigorously enforce these rules in such a manner

as to restore confidence, stability and transparency to the derivatives markets - especially in the energy commodities markets. Americans of all stripes are depending on you to protect energy consuming businesses and individuals, as well as the broader economy, from fraud, manipulation, and disruptive/abusive trading practices and from excessive volatility, speculation and unwarranted price spikes.

This legislation gives the Commission powerful tools in this regard, and I hope that you will use them to their fullest extent.

Thank you in advance for your consideration.

Sincerely,

Terry Walton
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