

*United States Senate*

**PERMANENT SUBCOMMITTEE ON INVESTIGATIONS**

*Committee on Homeland Security and Governmental Affairs*

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*Carl Levin, Chairman*

*John McCain, Ranking Minority Member*

# **E X H I B I T S**

**EXHIBITS 45-63 (Part 3 of 4)**

Hearing On

***Wall Street Bank Involvement With  
Physical Commodities***

**November 20 and 21, 2014**

**EXHIBIT LIST**

**Hearing On**

***WALL STREET BANK INVOLVEMENT WITH  
PHYSICAL COMMODITIES***

**November 20 and 21, 2014**

1. a. *LME Aluminum Stocks*, chart prepared by the Permanent Subcommittee on Investigations.
- b. *Metro Freight Incentives*, chart prepared by Goldman Sachs. [Source: Goldman Sachs Counsel letter to the Permanent Subcommittee on Investigations, GSPSICOMMODS00046232, included in Exhibit 39.]
- c. *Aluminum Tonnage Shipped (Metro Warehouse (Detroit) to Metro Warehouse (Detroit))*, chart prepared by Goldman Sachs. [Source: Goldman Sachs Counsel letter to the Permanent Subcommittee on Investigations, PSI-GoldmanSachs-20-000002.]
- d. *Goldman Employees Who Served As Metro Board Members, 2009 to 2014*, chart prepared by the Permanent Subcommittee on Investigations.
- e. *Aluminum Merry Go Round Transactions*, chart prepared by the Permanent Subcommittee on Investigations.
- f. *Detroit Queue and Platts MW Aluminum Premium*, chart prepared by the Permanent Subcommittee on Investigations.
- g. *Wentworth Ownership Structure*, chart prepared by the Permanent Subcommittee on Investigations.
- h. *Overview of North America Gas, Power and PI Assets, as of 03/31/2011*, chart prepared by J.P. Morgan. [FRB-PSI-623097, included in Exhibit 58]
- i. JPMorgan internal email, dated October 2010, re: *Please sir! mor BCR!!!!*
- j. *Excerpts from 2013 CNR Financial Statement*, prepared by CNR. [GSPSICOMMODS00046374, included in Exhibit 17]
- k. *Queue Length*, chart prepared by the Permanent Subcommittee on Investigations.

**Documents Related to Goldman Sachs/General:**

2. Excerpts of Goldman Sachs *responses to questions from the Federal Reserve on 4(o) Commodities Activities*, dated May 26, 2011, re: 1997 v. 2010 physical commodity activities. [FRB-PSI-200600-6021, 608-610]
3. Excerpt from Goldman Sachs Presentation, *Federal Reserve Bank of New York Discovery Review: Global Commodities - US Natural Gas & Power*, dated March 2010, (*Financial vs. Physical Trades FY 2009*). [FRB-PSI-400006, 008]

4. Goldman Sachs Presentation, *Global Commodities, Presentation to the Board of Directors of The Goldman Sachs Group, Inc.*, dated October 2011, including Metro, CNR and Cogentrix highlights. [FRB-PSI-700011-030]
5. Excerpts from Goldman Sachs Memorandum, dated July 2012, re: *Firmwide Client and Business Standards Committee Meeting, (...Merchant Banking include CNR, Metro and Vale.... \*\*\* ...Nufcor - treated as part of firm's own activities)*. [FRB-PSI-200984, 995-996, 1000-001]
6. Goldman Sachs Memorandum to the Federal Reserve, dated July 2013, re: commodity-related activities, including environmental/catastrophic risk. [FRB-PSI-201245-268]
7. Goldman Sachs Presentation, *Global Commodities & Global Special Situations Group, Presentation to the Board of Directors of The Goldman Sachs Group, Inc.*, dated September 2013, including Metro and CNR (short coal hedge) highlights. [FRB-PSI-400077-098]
8. *Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies - FR Y-12*, dated June 30, 2014, prepared by The Goldman Sachs Group, regarding its merchant banking investments. [FRB-PSI-800013-016]

**Documents Related to Goldman Sachs Involvement with Uranium:**

9. Goldman Sachs *New Product Memorandum*, dated December 2008, re: *Uranium Trading*. [FRB-PSI-400039-052]
10. Goldman Sachs *Physical Commodity Review Committee: Meeting Minutes*, dated May 2013, re: enriched uranium (UF6). [FRB-PSI-400053-055]
11. Nufcor Organization Chart, prepared by Goldman Sachs. [GSPSICOMMODS00046240]
12. Excerpts from Goldman Sachs' counsel letter to the Subcommittee, dated October 2014, re: Nufcor, attached chart, *Nufcor Uranium Utility Supply Contracts at the time of the Nufcor Acquisition (June 30, 2009)*. [PSI-GoldmanSachs-21-000001, 004 and GSPSICOMMODS00046532-533]

**Documents Related to Goldman Sachs Involvement with Coal:**

13. CNR Organization Chart, prepared by Goldman Sachs. [GSPSICOMMODS00046318]

14. Excerpt from *Coalcorp Mining Inc., Notice of Special Meeting of Shareholders to be Held on February 11, 2010 and Management Information Circular*. [PSI-CI-01-000001-003]
15. Goldman Sachs submission to the Federal Reserve, *Report of Changes in Organizational Structure - FR Y-10*, dated April 2010, re: CNR. [GSPSICOMMODS00046301-303]
16. Excerpt from *C.I. Colombian Natural Resources I SAS and J. Aron & Company Marketing Agreement*, dated September 2011. [GSPSICOMMODS00046496-501, 509]
17. Excerpt from *C.I. Colombian Natural Resources I S.A.S, Financial Statements for the years ended on the 31<sup>st</sup> of December of 2013 and 2012 and Statutory Auditor's Report*, dated March 2014. [GSPSICOMMODS00046366-367, 373-376]
18. Excerpts from Goldman Sachs counsel letter to the Subcommittee, dated October 2014, re: CNR. [PSI-GoldmanSachs-19-000001, 004-005]
19. Goldman Sachs counsel letter to the Subcommittee, dated November 2014 (*...J. Aron acted as the exclusive marketing and sales agent for CNR....*). [PSI-GoldmanSachs-25-000001-003]
20. Goldman Sachs *Metals & Mining, Background to Environmental and Social Due Diligence*, updated 2012. [FRB-PSI-300221-230]

**Documents Related to Goldman Sachs Involvement with Aluminum:**

21. Excerpt from Goldman Sachs counsel letter to the Subcommittee, dated October 2014, including chart, *Aluminum Tonnage Shipped*. [PSI-GoldmanSachs-20-000001-002]
22.
  - a. Invoice List of Glencore Ltd. and Red Kite Master Fund Limited. [GSPSICOMMODS00046871-872]
  - b. Glencore Ltd. invoice to Metro International Trade, dated June 21, 2013, in the amount of \$9,909,280.66. [GSPSICOMMODS46873]
  - c. Glencore Ltd. invoice to Metro International Trade, dated June 21, 2013, in the amount of \$402,190.77. [GSPSICOMMODS46874]
  - d. Glencore Ltd. invoice to Metro International Trade, dated September 24, 2013, in the amount of \$321,105.33. [GSPSICOMMODS46875]
  - e. Red Kite Master Fund Limited invoice to Metro International Trade, dated November 13, 2012, in the amount of \$5,735,700. [GSPSICOMMODS46876]
  - f. Red Kite Master Fund Limited invoice to Metro International Trade, dated December 20, 2012, in the amount of \$632,720. [GSPSICOMMODS46877]

- g. Red Kite Master Fund Limited invoice to Metro International Trade, dated January 28, 2014, in the amount of \$2,932,731.43. [GSPSICOMMODS46878]
  - h. Red Kite Master Fund Limited invoice to Metro International Trade, dated November 13, 2013, in the amount of \$14,084,401.27. [GSPSICOMMODS46879]
23. *Warrant Finance Agreement, DB Energy Trading LLC and Metro International Trading Services, LLC*, dated September 2010. [GSPSICOMMODS00047434-447]
  24. Excerpt from Goldman Sachs Presentation, *MITSI Holdings LLC, Board of Directors Meeting*, dated December 2012, slide entitled *Overview Off-warrant Deals* re: Red Kite deals. [GSPSICOMMODS00009348]
  25. Metro internal email, dated November 2012, re: Detroit Ali - off warrant storage deal. [GSPSICOMMODS00046684-686]
  26. Glencore/Metro email exchange, dated April 2013, re: *New Deal - Glencore Detroit (,,all 91,000 mt for Glencore scheduled to ship outbound in May/June will do so as scheduled but will go to other Metro locations in Detroit (we of course decide) and remain off warrant until June/July 2013 at which point the material will be rewarranted.)*. [GSPSICOMMODS00046687-691]
  27. Charts related to last Red Kite deal and Glencore deal, prepared by Metro for LME in 2014. [GSPSICOMMODS00046666-683]
  28. Metro internal email, dated December 2010, re: *Montreal (...blocking others. \*\*\* ...Q management...)*. [GSPSICOMMODS00047422]
  29. Metro internal email, dated February 2012, re: *Stemcor 12 Kt to Detroit (...queue management...)*. [GSPSICOMMODS00047423-429]
  30. Metro internal email, Michael Whelan, Metro, email, dated June 2013, re: *Resignation (I have some questions and concerns regarding the Chinese Wall Policy that is in place which regulates the interaction between Metro International, its customers, and J. Aron. This morning's confrontation was extremely questionable.)* [GSPSICOMMODS00047430]
  31. *Metro International Trade Services (2011-2013)*, chart regarding agreements of sharing physical premiums. [GSPSICOMMODS00046531, 46630]
  32. *Goldman Sachs/Metro International Trade Services, Management Brief, June 2011 (Extraordinary income from counterparties sharing physical premium with Metro...)*. [GSPSICOMMODS00009668]

33. LME counsel letter to the Subcommittee, dated November 2014 (*...while the LME would view such behavior as a contravention of the “spirit” of the relevant requirements, it may be difficult to argue that it constituted a contravention of the “letter” of those requirements.*). [LME\_PSI0002459-462]
34. Aluminum Users Group Memorandum, dated October 2012 (*The LME’s terminal market model ... is broken.*). [PSI-AlumUsersGroup-01-000010-012]
35. Goldman Sachs Presentation to Firmwide Client and Business Standards Committee, Metro International Trade Services, dated August 2011, including slide entitled, *Metro Financial Summary*. [FRB-PSI-707486-500]
36.
  - a. Excerpt from Goldman Sachs Presentation, *MITSI Holdings LLC, Board of Directors Meeting*, dated December 2011, including slide entitled *Current Deal Pipeline*. [GSPSICOMMODS00009287, 296]
  - b. Excerpts from Goldman Sachs Presentation, *MITSI Holdings LLC, Board of Directors Meeting*, dated March 2012, including slides entitled *Current Deal Pipeline* and *Overview Off-warrant Deals*. [GSPSICOMMODS00009423, 433, 437]
  - c. Excerpts from Goldman Sachs Presentation, *MITSI Holdings LLC, Board of Directors Meeting*, dated December 2012, including slides entitled *Current Deal Pipeline* and *Overview Off-warrant Deals*. [GSPSICOMMODS00009332, 343, 348]
  - d. Excerpts from Goldman Sachs Presentation, *MITSI Holdings LLC, Board of Directors Meeting*, dated March 2013, including slides entitled *Current Deal Pipeline* and *Metro’s Annual Financial Performance*. [GSPSICOMMODS00009355, 364, 370]
37. London Metal Exchange (LME) document listing *terms and conditions applicable to all LME listed warehouse companies*, dated April 2014. [LME\_PSI0001406-427]
38.
  - a. *Conflict Management Procedures Between Metro and Other GS Businesses and Personnel, Policy Issued To: Global Commodities Sales and Trading, Global Commodities Principal Investment, Metro Board Members, Metro Management and Staff*, dated February 2010. [FRB-PSI-602457]
  - b. *Information Barrier Policy: Metro and other GS Businesses and Personnel; For: Global Commodities Sales and Trading, Global Commodities Principal Investment, Metro Board Members, Metro Management and Staff*, dated March 2014. [GSPSICOMMODS00004059-076]
39. Excerpt from Goldman Sachs counsel letter to the Subcommittee, dated September 2014, including table listing *Total Annual Freight Allowance Paid by Metro and Annual Freight Allowance Paid by Metro to J. Aron*. [PSI-GoldmanSachs-15-000001 and GSPSICOMMODS00046232]

40. Excerpts from Goldman Sachs counsel letter to the Subcommittee, dated August 2014, including list of authorized Goldman Sachs employees given access to confidential information. [PSI-GoldmanSachs-17-000001 and GSPSICOMMODS00046225-226]

**Documents Related to Morgan Stanley/General:**

41. Morgan Stanley Presentation, *Global Commodities Overview*, dated May 2009. [FRB-PSI-618889-908]
42. Morgan Stanley Presentation, *Morgan Stanley Commodities, Business Overview*, dated February 2013, prepared for the Permanent Subcommittee on Investigations. [PSI-MorganStanley-01-000001-027]
43. *Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies - FR Y-12*, dated June 30, 2014, prepared by Morgan Stanley, regarding its merchant banking investments. [FRB-PSI-800009-012]

**Documents Related to Morgan Stanley Involvement with Natural Gas:**

44. Excerpt from Morgan Stanley Presentation, *Federal Reserve Bank of New York, Morgan Stanley Infrastructure Platform Review*, prepared by Morgan Stanley, dated September 2013. [FRB-PSI-400321-329, 331-333, 341, 351-352, 365-366]
45. a. *Application of Wentworth Gas Marketing LLC for Long-Term Authorization to Export Compressed Natural Gas*, submitted to the Department of Energy, Office of Fossil Energy, dated May 2014.  
b. *Department of Energy, Office of Fossil Energy, In re Wentworth Gas Marketing LLC, Order Granting Long-term Authorization To Export Compressed Natural Gas*, dated October 2014. [PSI-DOE-01-000004-016]
46. Excerpt from Morgan Stanley Presentation, *Morgan Stanley Infrastructure Partners, Overview of Southern Star*, dated August 2014. [MS-PSI-00000001-016, 019-020. 023-027, 035, 037]
47. Morgan Stanley counsel letter to the Subcommittee, dated September 2014, re: *Morgan Stanley's purchase of the Deutsche Bank natural portfolio and involvement with Wentworth Holdings LLC*. [PSI-MorganStanley-13-000001-009]
48. Excerpt from Morgan Stanley Presentation, *Morgan Stanley Infrastructure Partners, Southern Star Followup Questions*, dated October 2014. [MS-PSI-00000455-460, 465-469, 472-475]

**Documents Related to Morgan Stanley Involvement with Crude Oil:**

49. Excerpts from Morgan Stanley counsel letter to the Subcommittee, dated October 2014, re: early New York oil storage. [PSI-MorganStanley-17-000001-002]
50. Excerpts from Morgan Stanley counsel letter to the Subcommittee, dated June 2013, re: TransMontaigne. [PSI-MorganStanley-06-000001-004]
51. Excerpts from Morgan Stanley counsel letter to the Subcommittee, dated October 2014, re: oil storage data, revenue, and Olco Petroleum Group. [PSI-MorganStanley-19-000001-003]

**Documents Related to Morgan Stanley Involvement with Jet Fuel:**

52. Excerpts from *Jet Fuel Supply Agreement between Morgan Stanley Capital Group Inc. and United Airlines, Inc. and United Aviation Fuels Corporation*, dated September 2003. [PSI-UnitedAirlines-01-000003, 013, 016, 020-022]
53. Morgan Stanley counsel letter to the Subcommittee, dated September 2014, re: Emirates. [PSI-MorganStanley-15-000001-004]
54. Emirates counsel letter to the Subcommittee, dated October 2014, re: jet fuel purchases and hedges. [PSI-Emirates-01-000001-004]
55. Emirates counsel letter to the Subcommittee, dated October 2014, re: jet fuel purchases and hedges. [PSI-Emirates-02-000001-007]

**Documents Related to JPMorgan Chase/General:**

56.
  - a. *Notice to the Board of Governors of the Federal Reserve System by JPMorgan Chase & Co.*, submitted July 21, 2005, requesting complementary authority for physical commodity activities. [PSI-FederalReserve-01-000004-028]
  - b. *Notice to the Board of Governors of the Federal Reserve System by JPMorgan Chase & Co.*, submitted November 25, 2008, requesting complementary authority for refining activities. [PSI-Federal Reserve-01-000553-558]
57. Federal Reserve letter to JPMorgan Chase, dated April 9, 2009, granting complementary authority re: refining activities. [PSI-FRB-11-000001-002]
58. JPMorgan Presentation, *Global Commodities – Operating Risk*, dated April 2011. [FRB-PSI-623086-127]
59. JPMorgan Chase physical inventory positions, 2008-2012. [JPM-COMM-PSI-000015-016]

60. *Merchant Banking Investment in Henry Bath*, undated, prepared by JPMorgan. [FRB-PSI-000580-582]
61. Excerpt from JPMorgan Presentation, *Commodities Physical Operating Risk, Update to CIBRC*, dated January 2013, with slide entitled *Physical Operating Risk Review of Project Liberty*. [FRB-PSI-301379, 381]
62. *Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies - FR Y-12*, dated June 30, 2014, prepared by JPMorgan, regarding its merchant banking investments. [FRB-PSI-800005-008]
63. Excerpts from *Global & Regional Investment Bank League Tables – 1H2014*, dated September 2014, prepared by Coalition Analytics Intelligence. [PSI-Coalition-01-000019-021]
64. JPMorgan Chase counsel letter to the Subcommittee, dated June 2014, re: J.P.Morgan Ventures Energy Corporation (JPMVEC). [PSI-JPMC-11-000001-002]
65. JPMorgan Chase counsel letter to the Subcommittee, dated October 2014, re: JPMVEC and Project Liberty. [PSI-JPMorganChase-14-000001-009]
66. JPMorgan Chase counsel letter to the Subcommittee, dated October 2014, re: various commodity issues. [PSI-JPMorgan-15-000001-008]

**Documents Related to JPMorgan Chase Involvement with Electricity:**

67. *Power Plans Owned or Controlled via Tolling Agreements, 2008 to present*, chart prepared by JPMorgan. [JPM-COMM-PSI-000022-025]
68. Federal Reserve Bank of New York letter to JPMorgan, dated March 2008, granting 2-year grace period for power plants and other assets acquired from The Bear Stearns Companies Inc. [FRB-PSI-900001-003]
69. Excerpts from JPMorgan Presentation, *Global Commodities Deep Dive Risk Review*, dated October 2009. [FRB-PSI-200634-638, 640-642, 644-645, 649-655]
70. a. *Notice to the Board of Governors of the Federal Reserve System by JPMorgan Chase & Co.*, submitted December 30, 2009, requesting complementary authority for energy management activities. [PSI-FederalReserve-01-000561-567]  
b. *Notice to the Board of Governors of the Federal Reserve System by JPMorgan Chase & Co.*, submitted December 30, 2009, requesting complementary authority for tolling activities. [PSI-FederalReserve-02-000012-059]

71. JPMorgan letter to the Federal Reserve, dated February 2010, requesting extension and additional complementary authority. [FRB-PSI-300286-290]
72. Federal Reserve letter to JPMorgan, dated June 2010, granting complementary authority regarding power plants. [FRB-PSI-302571-580]
73. JPMorgan *Transaction Overview*, dated August, 2010, regarding purchase of Kinder Morgan Power Plant. [FRB-PSI-300066]
74. Undated document prepared by JPMorgan regarding power plant restructuring. [FRB-PSI-300352-353]
75. JPMorgan Presentation, *Commodities Operational Risk Capital*, dated May 2011. [FRB-PSI-300727-736]
76. JPMorgan internal email, dated April 2010, re: *Resume for Power*, attaching resume of John Howard Bartholomew (*Identified a flaw in the market mechanism Bid Cost Recovery that is causing the CAISO to misallocate millions of dollars.*). [PSI-FERC-02-000009-010]
77. JPMorgan internal email, dated October 2010, re: *Please sir! mor BCR!!!!* [PSI-FERC-02-000042]
78. JPMorgan internal email from Francis Dunleavy to Blythe Masters, dated March 2011, re: *CAISO update (I will handle it but it may not be pretty.)*. [PSI-FERC-02-000067]

**Documents Related to JPMorgan Chase Involvement with Copper:**

79. JPMorgan Presentation, *JPM Commodity Capabilities*, dated January 2012. [FRB-PSI-200832-865]
80. Excerpt from JPMorgan Presentation, *FED/OCC Quarterly Meeting*, dated February 2013, including slide entitled, *Physical Inventory Limits from FED & OCC*. [FRB-PSI-301443, 447]
81. Federal Reserve email to the Subcommittee, dated October 2014, re: treating copper as “bullion.” [PSI-FRB-16-000001]
82. JPMorgan counsel email to the Subcommittee, dated October 2014, re: metals trading desk. [PSI-JPMorgan-16-000001]
83. JPMorgan counsel letter to the Subcommittee, dated October 2014, re: JPMorgan copper activities. [PSI-JPMorgan-18-000001-008 and JPM-COMM-PSI-000064-066]

84. OCC Interpretive Letter No. 553, dated May 1991, re: treating platinum as bullion. [PSI-OCC-01-000112-113]
85. OCC Interpretive Letter No. 693, dated November 1995, re: treating copper bullion. [PSI-OCC-01-000135-141]
86. a. Comment Letter of Senator Carl Levin to the Securities and Exchange Commission, dated, July 2012, re: *JPM XF Physical Copper Trust Pursuant to NYSE Area Equities Rule 8.201*.  
b. Comment Letter of Senator Carl Levin to the Securities and Exchange Commission, dated, March 2013, re: *JPM XF Physical Copper Trust, Form S-1 Registration Statement*.
87. Comment Letter of law firm representing cooper fabricating companies to the Securities and Exchange Commission, dated July 2012, re: rule change allowing copper ETF. [PSI-VandenbergFeliu\_to\_SEC(July2012)-000001-005]
88. LME email to the Subcommittee, dated November 2014: re: LME's public Warrant Banding Report dated December 15, 2010. [PSI-LME-06-000001]

**Documents Related to JPMorgan Chase Involvement with Size Limits:**

89. *Methodology for Calculating Capacity Payments for Purposes of 5% Limit*, undated, prepared by JPMorgan. [FRB-PSI-300345-347]
90. Excerpt from JPMorgan Presentation, *FED/OCC/FDIC Quarterly Meeting*, dated September 2013, *Physical Inventory Limits from FED & OCC*. [FRB-PSI-301383, 387]
91. Excerpt from JPMorgan Chase counsel letter to the Subcommittee, dated October 2014, including chart with inventory levels for copper, platinum, and paladium as of September 28, 2012 held by JPMorgan Chase Bank. [PSI-JPMorgan-15-000001 and JPM-COMM-PSI-000049]
92. JPMorgan internal email, dated January 2012, re: *Consolidated OCC Summary 10 Jan 2012*, providing inventory levels for metals held by JPMorgan Chase Bank. [OCC-PSI-00000336]
93. JPMorgan internal email, dated January 2012, re: *Consolidated OCC Summary 19 Jan 2012 (...took further action yesterday to lend 100k tonnes of materials to the market as well as sell 400k tonnes of material to JPMVEC)*. [OCC-PSI-00000344]

94. JPMorgan internal email, dated January 2012, re: *Consolidated OCC Summary 19 Jan 2012 (It will not happen again that you learn about it after the fact when it is an issue within our control.)*. [OCC-PSI-00000340]
95. JPMorgan internal email, dated February 2012, re: *5% Limit Calculation (Following are our current and proposed methodologies for calculating the [OCC] 5% limit.)*. [OCC-PSI-00000324]
96. JPMorgan Chase counsel email to the Subcommittee, dated November 2014: re: *JPMCB's daily aluminum inventory values and the corresponding LME cash price for aluminum*. [PSI-JPMorgan-23-000001]
97. Excerpt from JPMorgan Chase counsel letter to the Subcommittee, dated October 2014, re: aluminum trades and 5% limit. [PSI-JPMorgan-17-000001-002]
98. Excerpt from JPMorgan Chase counsel letter to the Subcommittee, dated November 2014: re: JPMCB aluminum holdings. [PSI-JPMorgan-19-000001-003]
99.
  - a. Metro legal counsel letter to LME, dated January 27, 2014. [GSPSICOMMODS00046661-665]
  - b. Metro legal counsel letter to LME, date April 15, 2014. [GSPSICOMMODS00046834-848]

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**RECEIVED**

*By Docket Room at* 8:00am, May 13, 2014

**UNITED STATES OF AMERICA  
BEFORE THE DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY**

**WENTWORTH GAS  
MARKETING LLC**

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**FE Docket No. 14-63-CNG**

**APPLICATION OF  
WENTWORTH GAS MARKETING LLC  
FOR LONG-TERM AUTHORIZATION TO  
EXPORT COMPRESSED NATURAL GAS**

Pursuant to Section 3 of the Natural Gas Act (“NGA”)<sup>1</sup> and Part 590 of the Department of Energy’s (“DOE”) regulations,<sup>2</sup> Wentworth Gas Marketing LLC (“Wentworth Gas”) hereby submits this application with the DOE, Office of Fossil Energy (“DOE/FE”) for long-term authorization for Wentworth Gas to export up to approximately 60 billion cubic feet (“Bcf”) per annum (60 trillion Btu/year) (equivalent to approximately 5.0 Bcf per month (5.0 trillion Btu/month) or 0.166 Bcf per day (0.166 trillion Btu/day)) of domestically produced compressed natural gas (“CNG”) for a 20-year period, commencing on the earlier of the date of first export or five (5) years from the date the requested authorization is granted (the “Application”). Wentworth Gas seeks authorization to export CNG using intermodal transportation containers via truck and ocean-going carrier from the State of Texas to any country with which the United States currently has, or in the future may enter into, a free trade agreement (“FTA”) requiring national treatment for trade in natural gas.

Wentworth Compression LLC (“Wentworth Compression”), an affiliate of Wentworth Gas, intends to construct, own and operate a CNG compression and container loading facility (the “Facility”) near the Port of Freeport, Texas, off Brazoria Interconnector Gas Pipeline

<sup>1</sup> 15 U.S.C. § 717b (2013).

<sup>2</sup> 10 C.F.R. Pt. 590 (2013).

("BIG"), an intrastate pipeline performing natural gas transportation within Texas. Wentworth Compression will receive gas from the BIG system via a third-party, intrastate lateral pipeline, approximately eleven miles in length. Wentworth Compression will compress and containerize the natural gas, and sell up to 60 Bcf per year (0.166 Bcf per day) of containerized CNG to Wentworth Gas. Wentworth Compression will ensure that all requisite regulatory approvals are obtained for the CNG compression and loading facilities contemplated in this Application. The timing for completion of the Wentworth Compression Facility is approximately 12 months from the date that final regulatory approvals are obtained.

Wentworth Gas, in turn, will make both domestic and export sales of the containerized CNG purchased from Wentworth Compression. At this time, potential domestic markets include vessel fuel sales, enhanced oil recovery applications, and local CNG fueling stations. It currently is contemplated that all containerized CNG sold by Wentworth Gas for export will be sold to entities located in FTA countries. Wentworth Gas will act as export agent for these CNG sales to entities in FTA countries. Wentworth Gas reserves its right to seek an export authorization to countries with which the United States does not have a Free Trade Agreement (non-FTA) in the future, should appropriate market opportunities present themselves in such jurisdictions.

Wentworth Gas's authorization as described herein is consistent with the public interest and should be granted by DOE/FE under the applicable statutory provisions governing the exportation of natural gas to FTA countries.<sup>3</sup> Wentworth Gas requests this authorization both on its own behalf and as agent for others for up to approximately 5.0 Bcf/month of CNG to any permitted destination. In the near term, the project intends to sell domestically produced CNG to entities in the Dominican Republic, Panama, Guatemala, El Salvador, Honduras and Costa Rica (each an FTA country).

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<sup>3</sup> 15 U.S.C. § 717b.

In support of this Application, Wentworth Gas respectfully states the following:

**I. COMMUNICATIONS AND CORRESPONDENCE**

All communications and correspondence regarding this Application should be directed to the following persons:

Deborah Hart  
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[michael.stosser@sutherland.com](mailto:michael.stosser@sutherland.com)

**II. DESCRIPTION OF THE APPLICANT**

The exact legal name of the applicant is Wentworth Gas Marketing LLC, a Delaware limited liability company with its principal place of business at 2000 Westchester Avenue, Purchase, New York 10577. Wentworth Gas is a wholly owned subsidiary of Wentworth Holdings LLC, a limited liability company organized under the laws of Delaware, which in turn is indirectly owned by Morgan Stanley, a corporation formed under the laws of Delaware, with its principal place of business at 1585 Broadway, New York, New York. Wentworth Holdings LLC also wholly owns Wentworth Compression LLC, a Delaware limited liability company with its principal place of business at 2000 Westchester Avenue, Purchase, New York 10577, which will construct, own and operate the Facility. Upon completion of the Facility and the initiation of service by Wentworth Compression, Wentworth Gas will engage in the business of natural gas sales through the sale of CNG produced at the Facility. The gas sold by Wentworth Gas will be consumed in both domestic and export markets, and Wentworth Gas also will act as export agent for sales of CNG to entities in FTA countries.

### III. DESCRIPTION OF THE PROPOSED EXPORT ACTIVITY

Wentworth Gas seeks long-term, multi-contract authorization to export domestically produced CNG obtained from the natural gas compression and container loading facility to be constructed, owned and operated by its affiliate Wentworth Compression. Wentworth Compression intends to construct the Facility on a 50-acre site near the Port of Freeport, Texas. The parcel where the Facility will be built will be leased from the Port of Freeport. The Facility will have the capacity to load up to 270 Department of Transportation-approved International Organization for Standardization (“ISO”) containers of CNG per day. Wentworth Compression will sell up to 60 Bcf per year (0.166 Bcf per day) of containerized CNG to Wentworth Gas. All of the Facility’s output would be sold to Wentworth Gas.

Once sourced, CNG will be compressed and stored in ISO containers, staged temporarily and transported from the Facility via truck approximately one mile to the Port of Freeport, and shipped on vessels chartered by Wentworth Gas to various destinations. There will be no facilities for permanent or long-term gas storage at the Facility, nor will there be a warehouse to store the ISO containers. Of course, Wentworth Compression will comply with all of the Port of Freeport’s regulations relating to container storage, as will be set forth in the lease agreement between Wentworth Compression and the Port of Freeport.

As contemplated, the Facility would comprise a “mixed use” CNG project. As described above, Wentworth Gas anticipates selling CNG to be consumed in both domestic markets and export markets in FTA countries located in the Caribbean and Central America regions. Wentworth Gas has not yet entered into any long-term supply agreements with entities in the Caribbean, Central America or elsewhere. As described in Section IV of this Application, Wentworth Gas commits to filing with DOE/FE copies of any future executed agreements. As

indicated in the attached letter, Wentworth Compression has entered into a letter of intent regarding CNG supply with Wentworth Gas, and Wentworth Compression has entered into (i) as indicated in the attached letter, Wentworth Compression has entered into an engineering, procurement and construction (“EPC”) contract for construction of the Facility and (ii) Wentworth Compression’s EPC contractor has entered into an access agreement with the Port of Freeport regarding the site for the Facility, a copy of which is attached. In addition, Wentworth Compression anticipates executing additional agreements to purchase containers and to finalize arrangements with the Port of Freeport regarding the loading of containerized CNG onto ships for export.

#### IV. AUTHORIZATION REQUESTED

Wentworth Gas requests authorization to export up to approximately 60 Bcf per year (0.166 Bcf per day) of domestically produced CNG, via truck and ocean-going carrier for export from Texas to any country with which the United States currently has, or in the future will have, an FTA requiring national treatment for trade in natural gas. Wentworth Gas requests this long-term authorization for a 20-year period, commencing on the earlier of the date of first export or five (5) years from the date the requested authorization is granted. Wentworth Gas requests this authorization both on its own behalf and as agent for others.

DOE/FE’s regulations require applicants to submit information regarding the terms of the transaction, including long-term supply agreements and long-term export agreements.<sup>4</sup> DOE/FE has found that an applicant need not submit this information at the time of its original application if such transaction-specific information is not available because the contracts have not yet been executed.<sup>5</sup> In such instances, DOE/FE has permitted applicants to submit such information

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<sup>4</sup> 10 C.F.R. § 590.202(b)(4).

<sup>5</sup> See, e.g., *Jordan Cove Energy Project, L.P.*, DOE/FE Order No. 3413 (Mar. 24, 2014).

within 30 days of contract execution, which DOE/FE has found conforms to the requirement in its regulations that such information be submitted “to the extent practicable.”<sup>6</sup> Wentworth Gas requests that DOE/FE make the same finding in this proceeding and commits that it will file within 30 days of execution, a copy (both a confidential, non-redacted version and a publically available, redacted version) of any long-term agreement entered into between Wentworth Gas and an entity for the export and sale of CNG.<sup>7</sup>

#### V. PUBLIC INTEREST

Wentworth Gas’s authorization as described herein is consistent with the public interest and should be granted by DOE/FE under the applicable statutory provisions governing the exportation of natural gas to FTA countries.<sup>8</sup> NGA Section 3(c), as amended by Section 201 of the Energy Policy Act of 1992 (Pub. L. 102-486), provides that:

[T]he exportation of natural gas to a nation with which there is in effect a free trade agreement requiring national treatment for trade in natural gas, shall be deemed to be consistent with the public interest, and applications for such importation or exportation shall be granted without modification or delay.<sup>9</sup>

Under this statutory presumption, this Application to export CNG to nations with which the United States currently has, or in the future may enter into, a FTA requiring national treatment for trade in natural gas, shall be deemed consistent with the public interest and should be granted by DOE/FE without modification or delay. Consistent with this statutory provision, Wentworth Gas requests that DOE/FE promptly grant its request to export CNG to FTA countries.

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<sup>6</sup> *Id.*

<sup>7</sup> *See, e.g., Dominion Cove Point LNG, LP*, DOE/FE Order No. 3331 (Sept. 11, 2013).

<sup>8</sup> 15 U.S.C. § 717b.

<sup>9</sup> 15 U.S.C. § 717b(c).

## **VI. EXPORT SOURCES**

Wentworth Gas seeks authorization to export natural gas available from the United States natural gas pipeline supply and transmission system. The Wentworth Compression Facility will interconnect with the BIG system via a third-party, intrastate pipeline approximately eleven miles in length. Through this interconnection with BIG, Wentworth Compression will be able to indirectly access the national natural gas pipeline grid, providing Wentworth Gas and its potential customers with a variety of stable and economical supply options.

## **VII. APPENDICES**

The following appendices are included with this Application:

Appendix A	Opinion of Counsel
Appendix B	Verification
Appendix C	Letter of Intent and Access Agreement
Appendix D	Letter of Intent

## **CONCLUSION**

For the reasons set forth above, Wentworth Gas respectfully requests that the DOE issue an order granting Wentworth Gas long-term authorization to export up to approximately 60 Bcf per annum (approximately 0.166 Bcf per day) of CNG for a 20-year term to any country with which the United States currently has, or in the future may enter into, an FTA requiring national treatment for trade in natural gas. Wentworth Gas requests this authorization on its own behalf and as agent for others. As demonstrated herein, the authorization requested is consistent with the public interest and, accordingly, should be granted pursuant to Section 3 of the NGA without modification or delay.

Respectfully submitted,



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Michael A. Stosser  
Paul F. Forshay  
Sutherland Asbill & Brennan LLP  
700 Sixth Street, N.W., Suite 700  
Washington, D.C. 20001-3980  
Tel.: 202-383-0100  
Fax: 202-637-3593  
Email: [michael.stosser@sutherland.com](mailto:michael.stosser@sutherland.com)  
[paul.forshay@sutherland.com](mailto:paul.forshay@sutherland.com)

*Counsel for  
Wentworth Gas Marketing LLC*

Dated: May 12, 2014

**APPENDIX A**  
**OPINION OF COUNSEL**

**SUTHERLAND**

SUTHERLAND ASBILL & BRENNAN LLP  
First City Tower  
1001 Fannin, Suite 3700  
Houston, TX 77002-6760  
713.470.6100 Fax 713.654.1301  
www.sutherland.com

CHAD E. MILLS  
DIRECT LINE: 713.470.6167  
E-mail: chad.mills@sutherland.com

May 12, 2014

Mr. John Anderson  
Office of Fuels Programs, Fossil Energy  
U.S. Department of Energy  
Docket Room 3F-056, FE-50  
Forrestal Building  
1000 Independence Avenue, S.W.  
Washington, D.C. 20585

Re: Wentworth Gas Marketing LLC  
Application for Long-Term Authorization to Export Compressed Natural Gas (FE  
Docket No. 14 - \_\_\_\_\_-CNG)

Dear Mr. Anderson:

This opinion is furnished to you pursuant to Section 590.202(c) of the Department of Energy's Regulations, 10 C.F.R. § 590.202(c) and in connection with the application of Wentworth Gas Marketing LLC (Wentworth Gas) for long-term authorization to export compressed natural gas. I am counsel for Wentworth Gas, a limited liability company organized under the laws of the State of Delaware. I have reviewed and relied upon the corporation formation documents of Wentworth Gas and information provided to me by its upstream parent company Morgan Stanley Capital Group Inc. Based on the foregoing, and for the purposes of Wentworth Gas's application to the Office of Fossil Energy, I am of the opinion that the proposed exports as described in the application are within the corporate powers of Wentworth Gas.

Respectfully submitted,



Chad E. Mills, Partner  
Sutherland Asbill & Brennan LLP  
1001 Fannin Street, Suite 3700  
Houston, TX 77002-6760  
Tel.: 713-470-6100  
Fax: 713-654-1301  
Email: chad.mills@sutherland.com

*Counsel for Wentworth Gas Marketing LLC*

**APPENDIX B  
VERIFICATION**

UNITED STATES OF AMERICA  
BEFORE THE DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY

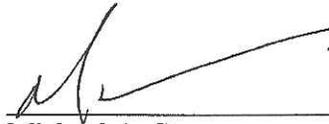
WENTWORTH GAS  
MARKETING LLC

)  
)  
)

FE Docket No. 14-\_\_\_\_-CNG

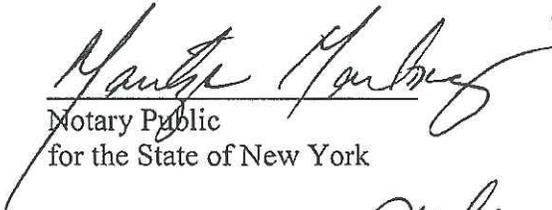
VERIFICATION

The undersigned, being duly sworn, states that I am the authorized representative of Wentworth Gas Marketing LLC; that I am duly authorized to make this Verification; that I have read the foregoing application and am familiar with the contents therein; that all the statements and matters contained therein are true and correct to the best of my information, knowledge and belief; and that I am authorized to execute and file this application with the United States Department of Energy.



Michael A. Stosser  
Of Counsel  
Sutherland Asbill & Brennan LLP

Subscribed and sworn to before me  
this 12th day of May 2014.

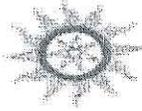


Notary Public  
for the State of New York

My commission expires: July 21, 2015

MARITZA MARTINEZ  
Notary Public, State of New York  
No. 01MA6096008  
Qualified in Kings County  
Commission Expires July 21, 2015

**APPENDIX C**  
**LETTER AND ACCESS AGREEMENT**



# HP

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## Industries, LLC

111 West Olmos San Antonio TX 78212

PO Box 436317 Louisville KY 40253

9 May 2014

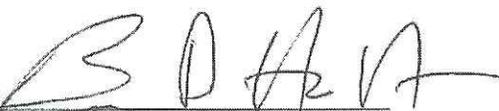
Wentworth Compression LLC  
2000 Westchester Avenue  
Purchase, NY 10577  
USA

Re: EPC Contract and Access Agreement - CNG Project

Ladies and Gentlemen:

This letter confirms that HP Industries, LLC ("Holt") and Wentworth Compression LLC ("Wentworth") are parties to an Engineering, Procurement, and Construction Contract, dated April 2, 2014 (the "EPC Contract") pursuant to which Holt has agreed to construct a facility for the compression of natural gas to be owned by Wentworth (the "CNG Facility"). In connection with the EPC Contract, Holt has entered into an [Access Agreement] with the Port Freeport dated [5-12-14] for purposes of obtaining rights to access the real property on which the CNG Facility will be located, a copy of which is attached.

Very truly yours,

By:   
Name: Benjamin D. Holt  
Title: President

Access Agreement

May 12, 2014

H.P. Industries LLC  
111 W Olmos Drive  
San Antonio Texas 78212  
Attention : Ben Holt - 502-724-7225

Re: Request H.P. Industries LLP ("*Licensee*") for authorization to conduct environmental studies, surveying and geotechnical investigations on property belonging to Port Freeport (the "*Port*")

Inspection Authorization and Hold Harmless Agreement

Dear Mr. : Ben Holt

You have requested that the Port allow H.P. Industries LLP access to certain tracts of land owned by the Port for the purpose of conducting surveying, geotechnical studies, environmental studies and other investigations ("*Inspections*"). We understand that this request is being made for the purpose of evaluating the property's suitability for development of your project. This letter sets forth the terms on which the Port will allow Licensee, its surveyors, agents, contractors, subcontractors and employees (collectively, the "*Authorized Persons*") access to property owned by the Port for such purposes of performing the Inspections you deem necessary. This letter does not constitute a lease or an easement or an agreement to grant a lease or an easement.

1. License. Subject to the terms and provisions set forth herein, the Port hereby grants Licensee a limited, non-exclusive and non-transferable license to enter upon the property more particularly described as Parcel 19 as shown on the Port Property map attached hereto (the "*Property*") for the sole purpose of the Inspections. The foregoing license shall automatically terminate on the earlier to occur of (i) completion of the fieldwork required for the Inspections, or (ii) [insert Dates please]. 12-31-14 BDA

2. Rules and Regulations. At all times while on the Property, Licensee will and will cause all Authorized Persons to comply with all state and federal safety rules and regulations now in effect or hereafter promulgated by the Port and governing activities on Port lands. In addition, Licensee will identify to the Port, in a manner satisfactory to the Port, all employees, agents, contractors, subcontractors and surveyors of Licensee who are to enter upon the Property. The Port shall have the absolute right to refuse entry upon the Property to any person (a) who fails to comply with the Port's safety rules and regulations, or (b) to whom the Port has a reasonable objection.

3. Insurance Requirements. Licensee agrees that all contracts entered into by and between Licensee and a third party (including but not limited to surveyors, contractors and subcontractors) for the work relating to the Inspections and all contracts providing for the use of the Port's land for ingress and egress to other areas, shall contain a clause requiring such third party to assume liability for loss to the Port's property, facilities, and its operations, and loss to property of third parties, and for injury to or death of the Port's employees, agents or any other persons caused by or arising from the work performed by such third party on the Property. Such clause shall also require the third party to furnish and maintain in force throughout the time that work is being performed, a general comprehensive liability insurance

policy (in the case of a contractor a comprehensive Commercial General Liability Insurance Policy), the limits of the liability of such policy to be not less than \$500,000.00 per person and \$1,000,000.00 per accident for bodily injury or death, but not limited as to the number of accidents and in an amount of not less than \$500,000.00 for property loss or damage. Such clause will further provide that prior to commencement of any work the third party will tender to the Port a certificate or written statement from the insurance carrier evidencing the above required insurance, and showing the Port as an additional insured party. The policies evidencing the required insurance will contain an endorsement to the effect that cancellation or any material change in the policies adversely affecting the interests of the Port in such insurance shall not be effective until 20 days after written notice thereof to the Port. Licensee will carry and maintain similar coverage with similar endorsements in favor of the Port (and shall furnish copies of same to the Port before any fieldwork relating to the Inspections begins).

4. Indemnity. Licensee hereby assumes all liability for, and agrees to defend, indemnify and hold the Port, its commissioners, directors, employees, attorneys, agents, successors and assigns (collectively, the "Indemnified Parties"), harmless from all claims, demands, fines, damages, liabilities, losses, costs, expenses (including without limitation reasonable attorneys' fees and court costs), penalties, assessments, environmental response costs, and/or injunctive obligations, which may be suffered or incurred at any time by the Indemnified Parties, on account of injuries to or death of any persons, damage to or destruction of any property, and/or any violation of any applicable law, rule, regulation, or order of any governmental entity, caused by, resulting from, or arising out of the entry upon the Property by any of the Authorized Persons and the fieldwork relating to the Inspections to be performed hereunder or the rights granted herein.

It is the intention of the Port and Licensee that the indemnity obligations of Licensee are without regard to whether the strict liability, fault, concurrent or contributory negligence of any of the Indemnified Parties is a factor and such obligations are intended to protect the Indemnified Parties against the consequences of their own strict liability, fault, concurrent or contributory negligence. Only those matters which are determined to be a result of the sole negligence of any of the Indemnified Parties not caused or contributed to by the negligence or fault of Licensee, its employees, agents, contractors, subcontractors, surveyors or other third parties, shall be excluded from Licensee's obligations to indemnify. The obligations of this paragraph shall survive the cancellation, expiration, or termination of this letter agreement and shall be binding upon Licensee, its successors and assigns.

5. Delivery of Reports. Licensee will deliver to the Port (on or before thirty (30) days following the expiration date of this authorization) a copy of all surveys, studies, investigations, tests, test results, reports or other work product produced by any of the Authorized Persons with respect to any of the samples taken. As to each of the Authorized Persons performing physical work to the Property, prior to the commencement of any such work, Licensee shall:

- (a) give written notice to the Port listing the work to be performed and the name, address, telephone number and the individual responsible for the work;
- (b) obtain and deliver to the Port the written agreement of the Contractor that a copy of any survey, study, investigation, test, report or other work product will be delivered to the Port at the same time that it is delivered to Licensee, and confirming that the Port is a named indirect beneficiary of the written product of the work without any obligation to pay any related fees or expenses and that the Port is entitled freely to the use and benefit of the written product of the work and to rely on any express and all usual and customary implied warranties.

In addition, upon request of the Port, Licensee will return all soil samples taken pursuant to this authorization (to the extent that same were not destroyed in the course of testing). It is understood and

agreed that all such soil samples shall be and remain the sole property of the Port.

6. Property Conditions. Licensee will promptly repair and restore all damage to the Property arising out of or in connection with any entry upon the Property by Licensee or any of the Authorized Persons.

7. Confidentiality. Licensee shall keep, and shall cause all of its agents, employees, and consultants to keep, all information or data obtained from any review of the records, inspection, test, or report confidential, except for disclosures required by law. The provisions of this subsection shall survive termination of this Agreement.

8. Port Representative; Reimbursement of Expenses. The Port shall have the right, but shall not be obligated, to have a representative present during the inspection work. Although the representative shall have the right to stop work at any time, the representative is present at the site solely for the benefit of the Port and is not responsible for the safety of work crews. If the Port requires a representative to be present, Licensee agrees to pay the Port a reasonable fee in an amount to be established by the Port from time to time (subject to such documentation as Licensee may reasonably request), which fee covers reimbursement of the cost of the representative and related administrative costs. The fee for this representative will be billed when the work has been completed and is to be paid within thirty (30) days of invoice.

Please evidence your acceptance of and agreement to the foregoing terms by signing in the space provided below and returning a copy of this letter to me at your earliest convenience. Work related to the inspections can begin once we have received a signed copy of this letter along with the insurance certificates described above. If you have any questions, please let me know.

Port Freeport



Glenn Carlson  
CEO/Executive Port Director  
Port Freeport

AGREED TO and ACCEPTED on this

the 12 day of May, 2014.

H.P. Industries LLP

By: 

Name: Benjamin D. Holt

Title: President

**APPENDIX D**  
**LETTER OF INTENT**

*WENTWORTH COMPRESSION LLC  
2000 WESTCHESTER AVENUE | FLOOR 01  
PURCHASE, NEW YORK 10577-2530*

May 12, 2014

Wentworth Gas Marketing LLC  
2000 Westchester Avenue  
Purchase, New York 10577

*Re: CNG Sales Transaction*

Dear Sirs:

This letter ("Letter") confirms the intent, subject to Paragraph 1 below, of the undersigned, Wentworth Compression, LLC (the "Seller") and Wentworth Gas Marketing LLC (the "Buyer") to engage in discussions with the objective of Seller and Buyer entering into a definitive agreement or agreements (collectively, and together with any related or supporting documents, the "Definitive Agreement") regarding the sale of compressed natural gas to Buyer (the "Transaction"). Seller and Buyer may each be referred to in this Letter as a "Party" and, collectively, as the "Parties".

1. Obligations of the Parties. The terms and conditions of the Definitive Agreement and the rights and obligations of each party with respect to the Transaction would be governed by the terms set forth on the term sheet attached as Exhibit A to this Letter (the "Term Sheet"). The Parties acknowledge and agree that (i) essential terms required to be addressed in the Definitive Agreements have not been agreed as of the date hereof and (ii) without prejudice the provisions of this Letter.
2. Announcements. There will be no public announcement made relating to the proposed transaction unless agreed to in writing by Seller and Buyer.
3. Expenses. Each Party shall pay its respective costs for all consulting, legal, accounting fees and other expenses incurred by it in connection with the preparation, negotiation, execution and delivery of the Definitive Agreement and with respect to the Transaction, unless otherwise specified in the Definitive Agreement. In the event the Parties are unable to conclude the Definitive Agreement for any reason, no Party shall be required to reimburse any other Party for any losses, foregone profits, expenses or any other damages associated with such unsuccessful conclusion.
4. Assignment. Any assignment of this Letter by either Party shall be null and void without the express written consent of the other Party.

5. Third Party Compensation. No Party has been contacted by or negotiated with any finder, broker or other intermediary in connection with the Transactions who is entitled to any compensation with respect thereto.
6. Governing Law, Jurisdiction and Waiver of Jury Trial. This Letter shall be governed by, construed and enforced under the laws of New York. Each Party hereby irrevocably submits to the exclusive jurisdiction of any federal court of competent jurisdiction situated in New York, New York, or, if any federal court declines to exercise or does not have jurisdiction, in any New York state court in New York, New York, and to service of process by certified mail. Each Party hereby irrevocably waives, to the fullest extent permitted by law, any objection to personal jurisdiction, whether on grounds of venue, residence or domicile. Each Party waives, to the fullest extent permitted by law, any right it may have to a trial by jury in respect of any proceedings relating to this Letter.
7. Entire Agreement. This Letter constitutes the entire agreement of the Parties regarding the matters contemplated herein or related thereto, and supersedes any prior agreement or understanding between the Parties, whether written or oral. No representations or warranties shall be implied or provisions added hereto in the absence of a written agreement to such effect between the Parties after the date of this Letter.
8. Invalidity. If any provision of this Letter is determined to be null and void, voidable or invalid by a court of competent jurisdiction, then for such period that the same is void or invalid, it shall be deemed to be deleted from this Letter and the remaining portions of this Letter shall remain in full force and effect.
9. Interpretation. All headings herein are intended solely for convenience of reference and shall not affect the meaning or interpretation of the provisions of this Letter. Unless expressly provided otherwise, the word "including" as used herein does not limit the preceding words or terms.
10. Counterparts. This Letter may be executed by the Parties in separate counterparts and initially delivered by facsimile transmission or otherwise, with original signature pages to follow, and all such counterparts shall together constitute one and the same instrument.

[Signature Page Follows]

Please indicate your agreement to the terms of this Letter by signing and returning a copy of this Letter to the undersigned. We look forward to working with you towards execution of Definitive Agreements.

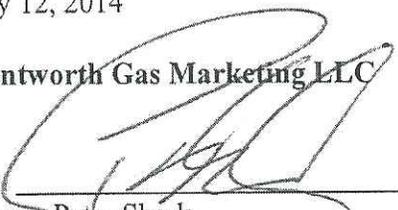
Sincerely,

**Wentworth Compression LLC**

By:   
Name: Deborah L. Hart  
Title: Vice President

Accepted and agreed as of  
May 12, 2014

**Wentworth Gas Marketing LLC**

By:   
Name: Peter Sherk  
Title: Vice President

**EXHIBIT A**

**Indicative Terms for CNG Sales Agreement**

*THESE INDICATIVE TERMS ARE FOR DISCUSSION ONLY. THE SUMMARY THAT FOLLOWS IS SUBJECT TO INTERNAL APPROVAL AND SATISFACTORY DUE DILIGENCE AND DOES NOT CONSTITUTE AN OFFER OR COMMITMENT TO ENTER ANY TRANSACTION.*

<b>Buyer</b>	Wentworth Gas Marketing LLC
<b>Seller</b>	Wentworth Compression LLC
<b>General</b>	Seller will sell and Buyer will purchase containerized compressed natural gas ("CNG") on terms consistent with the terms set forth in this Term Sheet and pursuant to a sales agreement ("Sales Agreement").
<b>Monthly Volume</b>	To be agreed.
<b>Term</b>	Twenty (20) years, subject to extensions.
<b>Price</b>	Buyer will purchase CNG at prevailing market prices in accordance with a mutually acceptable gas pricing index.
<b>Force Majeure</b>	The Sales Agreement will include customary force majeure provisions.
<b>Payment Terms</b>	Net 15 days.
<b>Conditions Precedent</b>	Seller's obligations will be subject to the satisfaction or waiver of certain conditions precedent to be specified separately in the Sales Agreement, including Seller having made a final investment decision to construct its CNG project. Such final investment decision will be dependent upon: (a) arrangement of logistics and construction arrangements with third parties on terms that are acceptable to Seller, including, without limitation, with respect to the construction of compression facilities, transportation of natural gas to the compression facilities, rail transportation, acquisition or leasing of containers, and chartering of vessels; and (b) receipt by Seller of necessary governmental approvals, including, without limitation, the export authorization required from the US Department of Energy.

<b>Governing Law</b>	New York
<b>Additional Terms</b>	The Sales Agreement would include, numerous essential terms not detailed herein, including: (a) customary representations, warranties and covenants, and (b) customary indemnification provisions.

UNITED STATES OF AMERICA  
DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY

WENTWORTH GAS MARKETING LLC

FE DOCKET NO. 14-63-CNG

ORDER GRANTING LONG-TERM AUTHORIZATION  
TO EXPORT COMPRESSED NATURAL GAS BY VESSEL  
FROM A PROPOSED CNG COMPRESSION AND LOADING FACILITY  
AT THE PORT OF FREEPORT, TEXAS,  
TO FREE TRADE AGREEMENT NATIONS

DOE/FE ORDER NO. 3515

OCTOBER 7, 2014

**Permanent Subcommittee on Investigations**

**EXHIBIT #45b**

PSI-DOE-01-000004

## I. DESCRIPTION OF REQUEST

On May 13, 2014, Wentworth Gas Marketing LLC (Wentworth Gas) filed an application (Application) with the Office of Fossil Energy (FE) of the Department of Energy (DOE) under section 3 of the Natural Gas Act (NGA)<sup>1</sup> for long-term, multi-contract authorization to export compressed natural gas (CNG) produced from domestic sources in a volume equivalent to approximately 60 billion cubic feet per year (Bcf/yr) of natural gas, or 0.166 Bcf per day (Bcf/d). Wentworth Gas seeks authorization to export the CNG for a 20-year term from a proposed CNG compression and loading facility (Facility) to be constructed, owned, and operated near the Port of Freeport, Texas, by its affiliate, Wentworth Compression LLC, to any country with which the United States has, or in the future will have, a free trade agreement (FTA) requiring national treatment for trade in natural gas, and with which trade is not prohibited by U.S. law or policy (FTA countries).<sup>2</sup> Wentworth Gas seeks to export this CNG on its own behalf and as agent for other entities who hold title to the CNG at the time of export. Wentworth Gas requests that this authorization commence on the earlier of the date of first export or five years from the date the authorization is issued (*i.e.*, October 7, 2019).

## II. BACKGROUND

**Description of Applicant.** Wentworth Gas is a Delaware limited liability company with its principal place of business in Purchase, New York. Wentworth Gas is a wholly owned subsidiary of Wentworth Holdings, LLC (Wentworth Holdings), a limited liability company organized under the laws of Delaware. Wentworth Gas states that Wentworth Holdings is

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<sup>1</sup> The authority to regulate the imports and exports of natural gas, including liquefied natural gas, under section 3 of the NGA (15 U.S.C. § 717b) has been delegated to the Assistant Secretary for FE in Redelegation Order No. 00-002.04F, issued on July 11, 2013.

<sup>2</sup> The United States currently has FTAs requiring national treatment for trade in natural gas with Australia, Bahrain, Canada, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea, and Singapore. FTAs with Israel and Costa Rica do not require national treatment for trade in natural gas.

indirectly owned by Morgan Stanley, a corporation formed under the laws of Delaware with its principal place of business in New York, New York.

Wentworth Holdings also wholly owns Wentworth Compression LLC (Wentworth Compression), a Delaware limited liability company with its principal place of business in Purchase, New York. Wentworth Gas states that Wentworth Compression will construct, own, and operate the Facility. Upon completion of the Facility and the initiation of service by Wentworth Compression, Wentworth Gas intends to engage in the business of natural gas sales by selling CNG produced at the Facility for both domestic and export markets and by acting as export agent for the sale of CNG, as described below.

**CNG Export Project.** Wentworth Gas states that Wentworth Compression intends to construct the Facility on a 50-acre site near the Port of Freeport, Texas, which it will lease from the Port of Freeport. According to Wentworth Gas, the Facility is anticipated to be completed approximately 12 months from the date that final regulatory approvals are obtained.

Wentworth Gas asserts that the Facility will be located off of the Brazoria Interconnector Gas Pipeline (BIG), an intrastate pipeline providing natural gas transportation within Texas. According to Wentworth Gas, Wentworth Compression will receive gas from the BIG system via a third-party, intrastate lateral pipeline approximately 11 miles in length. Wentworth Compression will sell up to the requested volume of CNG (60 Bcf/yr)—all of the Facility's output—to Wentworth Gas. Once sourced, Wentworth Compression will compress the CNG, store it in ISO containers staged temporarily at the Facility, then transport the ISO containers approximately one mile via truck to the Port of Freeport, where it will be shipped to various destinations on vessels chartered by Wentworth Gas.

Wentworth Gas notes that the Facility will have the capacity to load up to 270 ISO containers of CNG per day. According to Wentworth Gas, there will be no facilities for permanent or long-term gas storage at the Facility, nor will there be a warehouse at the Facility to store the ISO containers. Wentworth Gas states that Wentworth Compression will comply with all of the Port of Freeport's regulations relating to container storage, which will be set forth in the lease agreement between Wentworth Compression and the Port of Freeport.

**Source of Natural Gas.** Wentworth Gas states that it seeks to export natural gas available from the U.S. natural gas pipeline supply and transmission system. As noted above, the Facility will interconnect with the BIG system via an intrastate pipeline approximately 11 miles in length. Wentworth Gas asserts that, through the interconnection with BIG, Wentworth Compression will be able to indirectly access the natural gas pipeline grid, which will provide Wentworth Gas and its potential customers a variety of stable and economical supply options.

**Business Model.** Wentworth Gas states that the Facility will comprise a "mixed use" CNG project. Wentworth Gas anticipates selling CNG to be consumed in domestic and export markets in FTA countries located in the Caribbean and Central America regions, and acting as export agent for sales of CNG to entities in those regions.<sup>3</sup>

Wentworth Gas notes that it has not yet entered into any long-term supply agreements with other entities for the export and sale of CNG. Wentworth Gas commits to observing all DOE/FE reporting requirements for exports. Citing DOE/FE precedent,<sup>4</sup> Wentworth Gas commits to filing a copy of any relevant long-term commercial agreement entered into between

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<sup>33</sup> Wentworth Gas states that, in the near term, the project intends to sell CNG to entities in the Dominican Republic, Panama, Guatemala, El Salvador, Honduras, and Costa Rica, which it states are "each an FTA country." Application at 2. As noted above in footnote 2, however, Costa Rica is not considered a FTA country for purposes of this authorization. See also *infra* at 9 (Ordering Para. B) (listing FTA countries).

<sup>4</sup> See, e.g., *Dominion Cove Point, LNG, LP*, DOE/FE Order No. 3331, FE Docket No. 11-128-LNG, Order Conditionally Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas by Vessel from the Cove Point LNG Terminal to Non-Free Trade Agreement Nations (Sept. 11, 2013).

Wentworth Gas and an entity for the sale and export of CNG within 30 days of the agreement(s) being executed, including both a confidential, non-redacted version and a publicly available, redacted version.

As Appendix D to its Application, Wentworth Gas submits a signed letter of intent between Wentworth Compression and Wentworth Gas, dated May 12, 2014, regarding the sale of CNG. As Appendix C to its Application, Wentworth Gas submits additional documents purporting to show that: (i) Wentworth Compression has entered into an engineering, procurement and construction (EPC) contract for construction of the Facility, and ii) Wentworth Compression's EPC contractor has entered into an access agreement with the Port of Freeport regarding the site for the Facility. Wentworth Gas further asserts that Wentworth Compression plans to execute additional agreements to purchase containers for the Facility and to finalize arrangements with the Port of Freeport regarding the loading of containerized CNG onto ships for export.

### **III. FINDINGS**

(1) Section 3(c) of the NGA was amended by section 201 of the Energy Policy Act of 1992 (Pub. L. 102-486) to require that applications authorizing (a) the import and export of natural gas, which includes CNG, from and to a nation with which there is in effect a FTA requiring national treatment for trade in natural gas, and (b) the import of LNG from other international sources, be deemed consistent with the public interest and granted without modification or delay. This Application falls within section 3(c), as amended, and therefore, DOE/FE is charged with granting the Application without modification or delay.<sup>5</sup>

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<sup>5</sup> DOE further finds that the requirement for public notice of applications and other hearing-type procedures in 10 C.F.R. Part 590, are applicable only to applications seeking to export natural gas, including LNG, to countries with which the United States does not have a FTA requiring national treatment for trade in natural gas.

(2) In light of DOE/FE's statutory obligation to grant the FTA portion of the Application without modification or delay, there is no need for DOE/FE to review other arguments asserted by Wentworth Gas in support of the Application. The instant grant of authority should not be read to indicate DOE's views on those arguments.

(3) The countries with which the United States has an FTA requiring national treatment for trade in natural gas currently are: Australia, Bahrain, Canada, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea, and Singapore.

(4) As described above, Wentworth Gas requests authorization to export CNG on its own behalf and as agent for other entities who hold title to the CNG at the time of export. DOE/FE previously addressed the issue of Agency Rights in DOE/FE Order No. 2913,<sup>6</sup> which granted Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC (collectively, FLEX) authority to export LNG to FTA countries. In that order, DOE/FE approved a proposal by FLEX to register each LNG title holder for whom FLEX sought to export LNG as agent. DOE/FE found that this proposal was an acceptable alternative to the non-binding policy adopted by DOE/FE in *The Dow Chemical Company*,<sup>7</sup> which established that the title for all LNG authorized for export must be held by the authorization holder at the point of export. We find that the same policy considerations that supported DOE/FE's acceptance of the alternative registration proposal in DOE/FE Order No. 2913 apply here as well.

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<sup>6</sup> *Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC*, DOE/FE Order No. 2913, FE Docket No. 10-160-LNG, Order Granting Long-Term Authorization to Export Liquefied Natural Gas from Freeport LNG Terminal to Free Trade Nations (Feb. 10, 2011).

<sup>7</sup> *The Dow Chemical Company*, DOE/FE Order No. 2859, FE Docket No. 10-57-LNG, Order Granting Blanket Authorization to Export Liquefied Natural Gas (Oct. 5, 2010), at 7-8, discussed in *Freeport LNG*, DOE/FE Order No. 2913, at 7-8.

DOE/FE reiterated its policy on Agency Rights procedures in *Gulf Coast LNG Export, LLC*.<sup>8</sup> In *Gulf Coast*, DOE/FE confirmed that, in LNG export orders in which Agency Rights have been granted, DOE/FE shall require registration materials filed for, or by, an LNG titleholder (Registrant) to include the same company identification information and long-term contract information of the Registrant as if the Registrant had filed an application to export LNG on its own behalf.<sup>9</sup>

To ensure that the public interest is served, the authorization granted herein shall be conditioned to require that where Wentworth Gas proposes to export CNG as agent for other entities who hold title to the CNG (Registrants), Wentworth Gas must register with DOE/FE those entities on whose behalf it will export CNG in accordance with the procedures and requirements described herein.

(5) Section 590.202(b) of DOE's regulations requires applicants to supply transaction specific factual information "to the extent practicable."<sup>10</sup> Additionally, DOE regulations at 10 C.F.R. Part 590.202(e) allow confidential treatment of the information supplied in support of or in opposition to an application if the submitting party requests such treatment, shows why the information should be exempted from public disclosure, and DOE determines it will be afforded confidential treatment in accordance with 10 C.F.R. § 1004.11.<sup>11</sup>

(6) DOE/FE will require that Wentworth Gas file or cause to be filed with DOE/FE any relevant long-term commercial agreements (contracts) pursuant to which Wentworth Gas exports CNG as agent for a Registrant once they have been executed. DOE/FE finds that the submission

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<sup>8</sup> *Gulf Coast LNG Export, LLC*, DOE/FE Order No. 3163, FE Docket No. 12-05-LNG, Order Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas By Vessel from the Proposed Brownsville Terminal to Free Trade Agreement Nations (Oct. 16, 2012).

<sup>9</sup> *See id.* at 7-8.

<sup>10</sup> 10 C.F.R. § 590.202(b).

<sup>11</sup> *Id.* § 590.202(e).

of all such agreements or contracts within 30 days of their execution using the procedures described below will be consistent with the “to the extent practicable” requirement of section 590.202(b). By way of example and without limitation, a “relevant long-term commercial agreement” would include an agreement with a minimum term of two years, such as a long-term contract involving CNG stored or compressed at the Facility.

(7) DOE/FE also will require Wentworth Gas to file any long-term contracts Wentworth Gas enters into providing for the long-term export of CNG on its own behalf from the Facility. DOE/FE finds that the submission of these contracts within 30 days of their execution using the procedures described below will be consistent with the “to the extent practicable” requirement of section 590.202(b).

(8) DOE/FE finds that section 590.202(c) of DOE/FE’s regulations<sup>12</sup> requires that Wentworth Gas file, or cause to be filed, all long-term contracts associated with the long-term supply of natural gas to the Facility within 30 days of their execution that either Wentworth Gas or the Registrant enters into.

(9) DOE/FE recognizes that some information in Wentworth Gas’s or a Registrant’s long-term commercial agreements associated with the export of CNG, and/or long-term contracts associated with the long-term supply of natural gas to the Facility, may be commercially sensitive. DOE/FE therefore will provide Wentworth Gas the option to file or cause to be filed either unredacted contracts, or in the alternative: (A) Wentworth Gas may file or cause to be filed, long-term contracts under seal, but it also will file either: i) a copy of each long-term contract with commercially sensitive information redacted, or ii) a summary of all major provisions of the contract(s) including, but not limited to, the parties to each contract, contract term, quantity, any take or pay or equivalent provisions/conditions, destinations, re-sale

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<sup>12</sup> *Id.* § 590.202(c).

provisions, and other relevant provisions; and (B) the filing must demonstrate why the redacted information should be exempted from public disclosure.

To ensure that DOE/FE destination and reporting requirements included in the Order are conveyed to subsequent title holders, DOE/FE will include as a condition of this authorization that future contracts for the sale or transfer of CNG exported pursuant to the Order shall include an acknowledgement of these requirements.

### **ORDER**

Pursuant to section 3 of the NGA, it is ordered that:

A. Wentworth Gas is authorized to export domestically produced CNG by vessel from a proposed CNG compression and loading facility to be located at the Port of Freeport, Texas. The volume of CNG authorized in this Order is equivalent to approximately 60 Bcf/yr of natural gas for a 20-year term, beginning on the earlier of the date of first export or five years from the date the authorization is issued (*i.e.*, October 7, 2019). Wentworth Gas is authorized to export this CNG on its own behalf and as agent for other entities who hold title to the natural gas, pursuant to one or more long-term contracts (a contract greater than two years).

B. This CNG may be exported to Australia, Bahrain, Canada, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea, and Singapore, and to any nation with which the United States subsequently enters into a FTA requiring national treatment for trade in natural gas, provided that the destination nation has the capacity to import CNG via ocean going vessels.

FTA countries are currently identified by DOE/FE at:

<http://www.fossil.energy.gov/programs/gasregulation/index.html>.

C. Wentworth Gas shall ensure that all transactions authorized by this Order are permitted and lawful under U.S. laws and policies, including the rules, regulations, orders, policies, and other determinations of the Office of Foreign Assets Control of the United States Department of the Treasury. Failure to comply with this requirement could result in rescission of this authorization and/or other civil or criminal remedies.

D. (i) Wentworth Gas shall file with the Office of Oil and Gas Global Security and Supply a non-redacted copy of all executed long-term contracts associated with the long-term export of CNG from the Facility. The non-redacted copies may be filed under seal and must be filed within 30 days of their execution. Additionally, if Wentworth Gas has filed the contracts described in the preceding sentence under seal or subject to a claim of confidentiality or privilege, within 30 days of their execution, Wentworth Gas shall also file for public posting either: i) a redacted version of the contracts described in the preceding sentence, or ii) major provisions of the contracts. In these filings, Wentworth Gas shall state why the redacted or non-disclosed information should be exempted from public disclosure.

(ii) Wentworth Gas shall file with the Office of Oil and Gas Global Security and Supply a non-redacted copy of all executed long-term contracts associated with the long-term supply of natural gas to the Facility. The non-redacted copies may be filed under seal and must be filed within 30 days of their execution. Additionally, if Wentworth Gas has filed the contracts described in the preceding sentence under seal or subject to a claim of confidentiality or privilege, within 30 days of their execution, Wentworth Gas shall also file for public posting either: i) a redacted version of the contracts described in the preceding sentence, or ii) major provisions of the contracts. In these filings, Wentworth Gas shall state why the redacted or non-disclosed information should be exempted from public disclosure.

E. Wentworth Gas shall include the following provision in any agreement or other contract for the sale or transfer of CNG exported pursuant to this Order:

Customer or purchaser acknowledges and agrees that it will resell or transfer CNG purchased hereunder for delivery only to countries identified in Ordering Paragraph B of DOE/FE Order No. 3515, issued October 7, 2014, in FE Docket No. 14-63-CNG, and/or to purchasers that have agreed in writing to limit their direct or indirect resale or transfer of such CNG to such countries. Customer or purchaser further commits to cause a report to be provided to Wentworth Gas Marketing LLC that identifies the country of destination, upon delivery, into which the exported CNG was actually delivered, and to include in any resale contract for such CNG the necessary conditions to ensure that Wentworth Gas Marketing LLC is made aware of all such actual destination countries.

F. Within two weeks after the first export of domestically produced CNG occurs from the Facility, Wentworth Gas shall provide written notification of the date that the first export of CNG authorized in Ordering Paragraph A above occurred.

G. Wentworth Gas shall file with the Office of Oil and Gas Global Security and Supply, on a semi-annual basis, written reports describing the progress of the Facility. The reports shall be filed on or by April 1 and October 1 of each year, and shall include information on the progress of the Facility, the date the Facility is expected to be operational, and the status of the long-term contracts associated with the long-term export of CNG and any long-term supply contracts.

H. Prior to any change in control of the authorization holder, Wentworth Gas must obtain the approval of the Assistant Secretary for Fossil Energy. For purposes of this Ordering Paragraph, a "change in control" shall include any change, directly or indirectly, of the power to direct the management or policies of Wentworth Gas, whether such power is exercised through one or more intermediary companies or pursuant to an agreement, written or oral, and whether such power is established through ownership or voting of securities, or common directors, officers, or stockholders, or voting trusts, holding trusts, or debt holdings, or contract, or any

other direct or indirect means. Wentworth Gas may submit a statement of change in control to DOE using one of the three methods set forth below. Upon receipt of the statement, DOE will give immediate effect to the change in control and take no further action. Three methods to submit a statement of change in control to DOE: (1) e-mailing the filing to [fergas@hq.doe.gov](mailto:fergas@hq.doe.gov) with CIC and the FE Docket No. in the title line; (2) mailing an original and three paper copies of the filing to U.S. Department of Energy (FE-34), Office of Oil and Gas Global Security and Supply, P.O. Box 44375, Washington, DC 20026-4375; or (3) hand delivering an original and three paper copies of the filing to U.S. Department of Energy (FE-34), Office of Oil and Gas Global Security and Supply, Office of Fossil Energy, Forrestal Building, Room 3E-042, 1000 Independence Avenue, SW, Washington, DC 20585.

I. Monthly Reports: With respect to the CNG exports authorized by this Order, Wentworth Gas shall file with the Office of Oil and Gas Global Security and Supply, within 30 days following the last day of each calendar month, a report indicating whether exports of CNG have been made. The first monthly report required by this Order is due not later than the 30<sup>th</sup> day of the month following the month of first export. In subsequent months, if exports have not occurred, a report of “no activity” for that month must be filed. If exports of CNG have occurred, the report must give the following details of each CNG cargo: (1) the name(s) of the authorized exporter registered with DOE/FE; (2) the date of departure from the U.S. export port or terminal; (3) the country (or countries) of destination into which the exported CNG was actually delivered; (4) the name of the supplier/seller; (5) the volume in thousand cubic feet (Mcf); (6) the CNG container loading facility and location; (7) the mode(s) of transport from the CNG container loading facility to the U.S. export port or terminal; (8) the name of the U.S. export port or terminal; (9) the price at the point of export in U.S. dollars per million British

thermal units (MMBtu); (10) the name of the ocean going vessel; (11) the name(s) of the purchaser(s); and (12) the duration of the supply agreement.

(Approved by the Office of Management and Budget under OMB Control No. 1901-0294)

J. All monthly report filings shall be made to U.S. Department of Energy (FE-34), Office of Fossil Energy, Office of Oil and Gas Global Security and Supply, P.O. Box 44375, Washington, D.C. 20026-4375, Attention: Natural Gas Reports. Alternatively, reports may be e-mailed to [ngreports@hq.doe.gov](mailto:ngreports@hq.doe.gov), or may be faxed to Natural Gas Reports at (202) 586-6050.

Issued in Washington, D.C., on October 7, 2014.



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John A. Anderson  
Director, Division of Natural Gas Regulatory Activities  
Office of Oil and Gas Global Security and Supply  
Office of Oil and Natural Gas

Morgan Stanley Infrastructure Partners

# Overview of Southern Star

August 29, 2014

EXCERPT

BACKGROUND

## Overview

- Morgan Stanley (through its subsidiaries) is the General Partner and an investor in Morgan Stanley Infrastructure Partners LP (“MSIP” or the “Fund”), which holds an interest in MSIP-SSCC Holdings LLC (“MSIP-SSCC”), which owns 100% of Southern Star Central Corp. (“Southern Star”)
  - By virtue of that investment, Morgan Stanley has an indirect ownership interest of 10.74% in Southern Star
  - The interest held by the Fund has no overlap or business interaction with Morgan Stanley’s commodities division
- The investors in MSIP are predominantly pension funds and other institutional investors
  - See answer to Question 6 for additional detail
- MSIP seeks core infrastructure investment opportunities that do not involve significant risks related to fluctuations in commodity prices
- Southern Star is independently managed by an executive team comprised of non-Morgan Stanley employees with decades of experience in the interstate natural gas pipeline industry
- Southern Star has a strong safety record and has had no material safety incidents over the past ten years
- Morgan Stanley has robust risk management and due diligence controls
- Morgan Stanley is required, in accordance with its obligations under the Bank Holding Company Act, to divest its interest in Southern Star by 2020 (10 years from the date of initial acquisition)

RESPONSES TO QUESTIONS

## Answer to Question 1

Question 1:  
Morgan Stanley's purchase of Southern Star – the timing, mechanics, legal authority, ownership structure, voting and equity rights acquired, business units involved, and any regulatory input

### Timing:

- Morgan Stanley Infrastructure Partners LP acquired its interest in MSIP-SSCC, which owns 100% of Southern Star in two separate transactions: March 2010 (40% equity interest) and September 2012 (remaining 60% equity interest)

### Mechanics:

- Southern Star's ownership structure is a typical Holding Company, Operating Company ownership structure commonly used for regulated pipelines under Federal Energy Regulatory Agency ("FERC") oversight
- Morgan Stanley Infrastructure Inc. ("MSI"), the manager of MSIP, formed two intermediate holding companies: MSIP Southern Star, LLC (March 2010) and MSIP Southern Star II, LLC (September 2012) to acquire and hold its interests in Southern Star. These two entities wholly own MSIP-SSCC
- MSIP Southern Star I, LLC and MSIP Southern Star II, LLC are owned by 3 master limited partnerships within MSIP, which in turn, are owned by the Limited Partners and General Partner of MSIP
- By virtue of being an investor in MSIP through its GP and LP Capital Commitments, Morgan Stanley has an indirect ownership interest in Southern Star of 10.74%

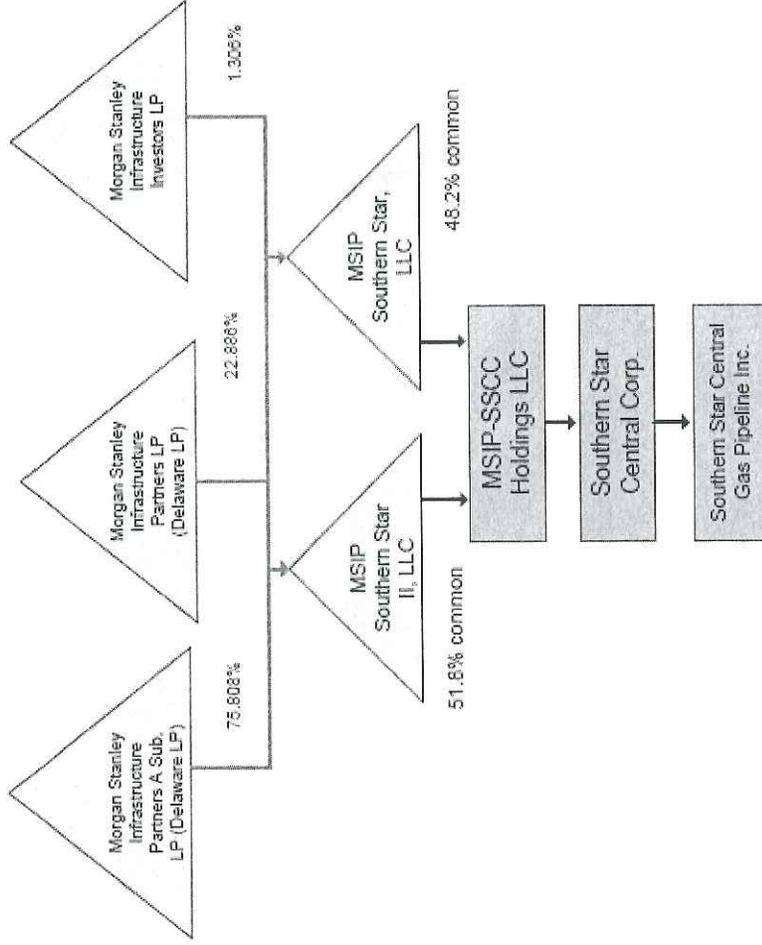
### Legal Authority:

- MSIP's investment in Southern Star was made pursuant to its merchant banking authority set forth in Section 4(k)(4)(H) of the Bank Holding Company Act and Subpart J of the Federal Reserve Board's Regulation Y (collectively, the "Merchant Banking Authority")

RESPONSES TO QUESTIONS

# Answer to Question 1 (Cont'd)

## MSIP Ownership Structure of Southern Star:



### Voting and Equity Rights Acquired:

- March 2010 acquisition
- September 2012 acquisition and consolidation of equity ownership

RESPONSES TO QUESTIONS

## Answer to Question 1 (Cont'd)

**Business Units Involved:**

- MSI, through MSIP, was responsible for the acquisition of Southern Star
- MSI is a business unit of Merchant Banking and Real Estate Investing (“MB & REI”) – MB & REI, in turn, is a component of Morgan Stanley’s Investment Management division (“Investment Management”)
  - MSIP, a Fund managed by MSI, is a \$4.0 billion private infrastructure investment closed end fund
- MSIP, MB & REI, and Investment Management are managed independently of the Morgan Stanley Institutional Securities Group (“ISG”), within which Morgan Stanley’s commodities business is managed
- Please see answer to Question 2 for additional organizational information
- Please see answer to Question 6 for a summary of the investment decision making process used by MSIP

**Regulatory Input:**

- FERC
- Hart Scott Rodino (“HSR”)
- State public utility commissions in Missouri and Kansas

RESPONSES TO QUESTIONS

## Answer to Question 2

Question 2:  
Role of Morgan Stanley Infrastructure Partners (MSIP) in the purchase of Southern Star, as well as MSIP's history, ownership, and relationship to Morgan Stanley Investment Management (MSIM) and MS holding company

### Role of MSIP in the Purchase of Southern Star:

- Please see answer to Question 1

### MSIP's History, Ownership and Relationship to Morgan Stanley Investment Management and MS Holding Company:

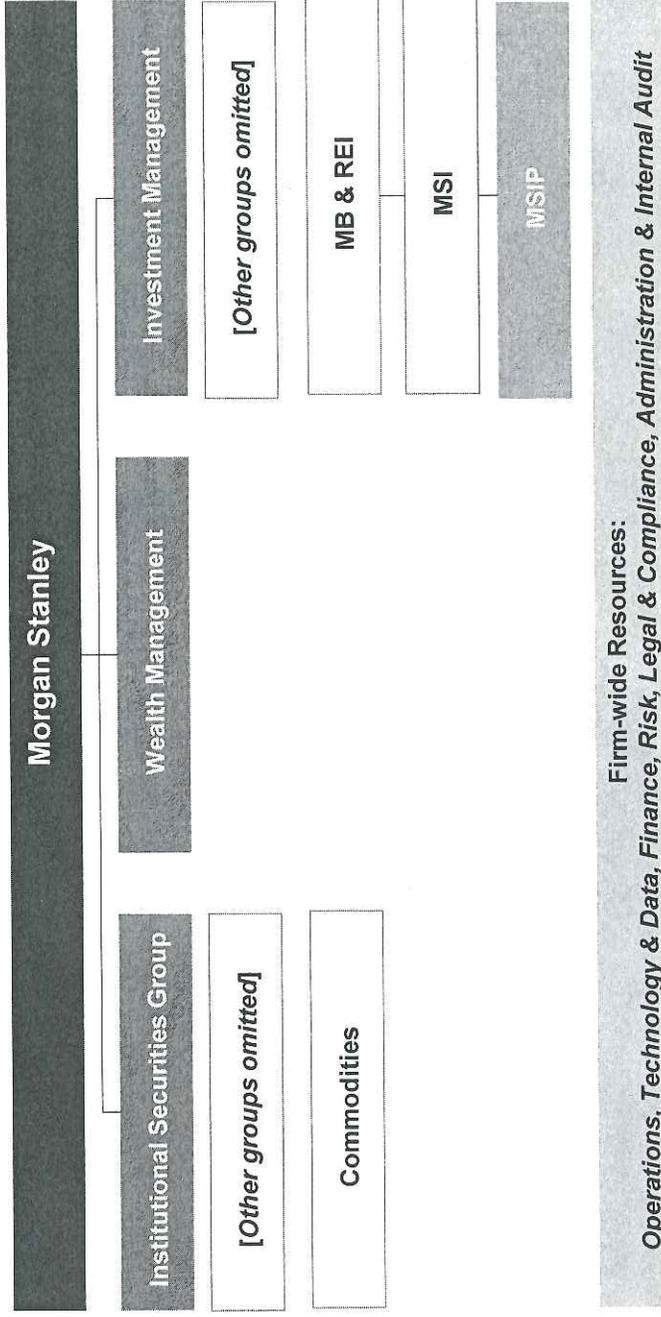
- MSIP completed its first close in May 2007 and final close in May 2008
- MSIP's capital is primarily sourced from 3<sup>rd</sup> party limited partners (primarily pension funds and other long-term institutional investors), which represent approximately 90% (approximately \$3.6 billion) of MSIP's total capital; the remaining portion is from Morgan Stanley
- MSIP has a 15-year fund life, which takes the maturity of the partnership through May 2022
- MSIP is managed by MSI, which acts as the General Partner of Morgan Stanley Infrastructure GP LP, the General Partner of MSIP
- MSI is indirectly wholly owned by Morgan Stanley and is responsible for the identification, due diligence, acquisition, management (strategic and board of directors level) and disposition of investments on behalf of MSIP
- MSI is a registered investment adviser (subject to the Investment Advisers Act of 1940)
- MSI and its private equity infrastructure fund, MSIP, are operated within the MB & REI group within Investment Management

RESPONSES TO QUESTIONS

## Answer to Question 2 (Cont'd)

**Organizational Structure Chart:**

- MSIP sits within the Merchant Banking & Real Estate Investing group in Investment Management



RESPONSES TO QUESTIONS

### Answer to Question 3

**MSIP's Current Management Structure:**

- MSI has 37 dedicated and full-time employees
- MSIP related decisions are made by Senior Professionals
- For additional discussion, please see the answer to Question 6 - Investment Evaluation Process

Question 3:  
MSIP's management structure,  
decision making process, and  
employees

Senior Professionals

Redacted By

Permanent Subcommittee on Investigations

Investment Team

Americas  
15 employees

Europe  
6 employees

Asia-Pacific  
8 employees

Partner Capital Group

2 employees

RESPONSES TO QUESTIONS

# Answer to Question 4

## MSIP I's Investors:

- MSIP I has 380 investors
- The charts below summarize those investors by region and type based on commitment size

Investors by Region <sup>(1)</sup>

Investors by Type <sup>(1)</sup>

**Redacted By**

**Permanent Subcommittee on Investigations**

## MSIP's Funds:

- MSIP I: \$4 billion fund that began investing in 2007 and has reached the end of its investment period
- MSIP II: Currently in the process of raising funds, with \$1.5 billion raised to date; MSIP II has not yet made any investments

## Notes

1. Excludes Morgan Stanley commitment of approximately \$430 MM to MSIP I
2. Private investors that invested in MSIP through Morgan Stanley's Wealth Management business

**Contains Competitively Sensitive Information**

Question 4:  
MSIP's investors and funds

RESPONSES TO QUESTIONS

## Answer to Question 5

Question 5:  
MSIP's overall revenues,  
distributions, and returns

### MSIP's Distributions and Returns from inception of MSIP through March 31, 2014:

- MSIP has received total cash distributions of \$2.0 billion from its portfolio companies, which includes distributions from operating income, returns of capital from refinancing activities and gross sale proceeds from dispositions of investments
- MSIP has a gross Internal Rate of Return ("IRR") of 12.9%
- MSIP revenues over the past 3 years<sup>1</sup>

Redacted by the  
Permanent Subcommittee  
on Investigations

#### Notes

1. MSIP revenues include (i) dividends from investments, (ii) realized gains / losses on investments, (iii) realized gains / losses on derivatives associated with investments, (iv) net change in unrealized value of investments, and (v) net change in unrealized derivatives associated with investments, net of expenses, such as management fees and deal expenses.

## RESPONSES TO QUESTIONS

**Answer to Question 6**

**Question 6:**  
**MSIP's overall commodities investments, investment evaluation process, and typical investment turnover**

**MSIP's Overall Commodities Investments:**

- MSIP does not have any investments that derive revenue directly from physical commodity trading, energy tolling or energy management services
- MSIP does own energy generation and distribution assets consistent with its investment thesis (e.g. utilities)

**Investment Evaluation Process:**

- MSI is responsible for the identification, due diligence, acquisition, management (strategic and board of directors level), and disposition of investments conducted on behalf of the infrastructure funds it manages, such as MSIP
- Investment opportunities identified by MSI are reviewed based on preliminary discussions with the seller, industry experts and consultants, prospective partners, and lenders to determine the key parameters of the opportunity, the value drivers of the asset or company, its competitive strengths, and an understanding of the overall industry dynamics and the competitive positioning of the opportunity
  - MSI seeks core infrastructure investment opportunities that do not involve significant risks related to fluctuations in commodity prices
- Once an opportunity passes this initial review, MSI constructs business and financial scenarios that test operating and capital structure assumptions and then estimates potential returns from the investment
  - MSI also draws on 3<sup>rd</sup> party experts to enhance its understanding of the investment opportunity and its prospects, including economic environment, business and market conditions, competition, physical and environmental concerns, and other factors.
- As part of its evaluation of potential investments, MSI undertakes an internal review process designed to ensure a high level of scrutiny and due diligence prior to consummating an investment
- MSI, guided by its Global Head of Investment Strategy and the relevant regional head, selects a review team normally consisting of three MSI professionals—often including a team member who is primarily focused on operational aspects—who are not working on the particular investment opportunity on a day-to-day basis but who possess experience in the relevant sector, and who are typically based in locations different from the target asset
- The Senior Professionals of MSI meet at least weekly, and as necessary, to discuss prospective deal opportunities
  - The group assesses each deal for its fit in the scope of MSIP's investment mandate and strategy, as well as how it will affect overall portfolio construction targets
  - Proposals are reviewed by the Senior Professionals before presentation to the Investment Committee

RESPONSES TO QUESTIONS

## Answer to Question 6 (Cont'd)

### **Investment Evaluation Process (Cont'd):**

- The Investment Committee, comprised of Managing Directors of MSI and senior Morgan Stanley employees from Investment Management, Risk Management, and Firm Management, is involved throughout the investment process, including initial review and evaluation of potential investments, consideration of applicable industry dynamics, and approval of MSIP investments, and is responsible for making final investment and divestment decisions
  - Each deal is typically brought to the Investment Committee several times before an investment approval decision is taken
  - The Investment Committee brings to bear the combined global investment experience and expertise of MSI and Morgan Stanley to ensure that each investment meets MSIP's defined investment criteria
  - No members of the Morgan Stanley Commodities Division sit on the Investment Committee or participate in Investment Committee meetings

### **Typical Investment Turnover:**

- MSIP is a closed end fund structure with a 15 year life that commenced in May 2007 and will reach the end of its term in May 2022
- MSIP, pursuant to its Limited Partnership Agreement ("LPA"), was required to invest its Limited Partner Capital within a 6 year Commitment Period, which ended on May 2013
- MSIP seeks to hold investments for a period of 4 to 8 years from the date of original acquisition
- MSIP executed 17 investments during the Commitment Period
- To date, MSIP has consummated three investment realizations

## RESPONSES TO QUESTIONS

## Answer to Question 7

**Question 7:**  
How MSIP views Southern Star as an investment and MSIP's plans for Southern Star over the next ten years

**How MSIP views Southern Star as an Investment:**

- MSIP views Southern Star as an investment within its portfolio that is consistent with its investment strategy
- **Stable and Predictable Revenue Stream**
  - Long-term contracts with high quality customers, primarily Local Distribution Companies (LDCs)
  - Substantially all system capacity fully subscribed with ~95% of revenues provided through fixed reservation charges
  - FERC regulated tariffs with minimal commodity price risk
- **Minimal Customer Credit Risk**
  - Top 10 corporate customers are utility/energy companies and top 10 corporate customers account for 90% of revenues
  - Seven of top 10 corporate customers have investment grade ratings
- **Exceptionally Strong Competitive Position with Strategically Located Storage Facilities**
  - Only service provider in the region offering flexible storage capabilities and no-notice transportation
  - Web-like system configuration provides customers with multiple gas receipt and delivery options
  - Among the lowest rates in the region
- **Abundant Gas Supply**
  - Access to diverse, long-lived natural gas supplies with multiple receipt points with other major natural gas pipelines
- **Experienced Management Team, with Proven Record**
  - Average of over 30 years of service in pipeline industry
- **Workforce dedicated to Quality, Reliability and Compliance**
  - Stable, experienced workforce with strong safety performance
- **Prudent Risk Management**
  - Industry-leading Pipeline Safety and Integrity Management Programs
  - In compliance with all Pipeline Safety regulations and requirements
  - Robust insurance program covering all aspects of organization, including liability and property

RESPONSES TO QUESTIONS

## Answer to Question 7 (Cont'd)

Question 7:  
How MSIP views Southern Star as  
an investment and MSIP's plans for  
Southern Star over the next ten  
years

### MSIP's Plans for Southern Star Over the Next Ten Years:

- MSIP anticipates continuing to work with Southern Star's management team to identify strategic growth opportunities in relation to the transportation and storage of natural gas
- MSI's management philosophy for Southern Star has been to focus on making the company a best-in-class operator, with primary focus on pipeline integrity and safety and customer satisfaction. Since MSIP became an owner of Southern Star in 2010, over \$280MM (2010 through 2013) has been spent on capital investment programs focused on pipeline integrity and safety and system expansion and replacement. In addition, MSI has retained existing management who on average have over 30 years of pipeline experience. In February 2014, Southern Star was ranked #2 in MASTIO's 2014 Customer Satisfaction Index for Major Pipelines
- MSIP continually evaluates potential opportunities to sell investments in its portfolio, particularly those that it has held for several years, in order to achieve optimal returns for its investors
- Morgan Stanley is required, in accordance with its obligations under the Bank Holding Company Act, to divest its interest in Southern Star by 2020 (10 years from the date of initial acquisition)

RESPONSES TO QUESTIONS

## Answer to Question 8

Question 8:  
Southern Star Central Corp. and Southern Star Central Gas Pipeline Inc.'s ownership, management, key subsidiaries, and employees

### SSCC and SSCGP's Ownership:

- Please see answer to Question 1

### Management and Employees:

- Southern Star has a well-established management team that is responsible for the day to day operations of the business
- Southern Star had 498 full time employees as of December 31, 2013
- The management team includes Jerry L. Morris, President and Chief Executive Officer of both Southern Star Central Corp. and Southern Star Central Gas Pipeline, Inc.
  - Morris has 35 years of experience in the interstate natural gas pipeline industry and is active in several industry organizations
- Southern Star Central Gas Pipeline, Inc.'s management team also includes Robert W. Carlton, Vice President and Chief Compliance Officer, and Phillip A. Rullman, Vice President and Chief Commercial Services Officer
  - Carlton has 29 years of experience in the interstate natural gas pipeline industry and is a member of the Interstate Natural Gas Association of America's Operations, Safety, and Environmental Committee
  - Rullman has 33 years of experience in the interstate natural gas pipeline industry

### Key Subsidiaries:

- The key subsidiary for Southern Star Central Corp. is Southern Star Central Gas Pipeline Inc., which holds the operating assets of the business
- Please see the answer to Question 1 for the legal entity structure of Southern Star

RESPONSES TO QUESTIONS

## Answer to Question 9

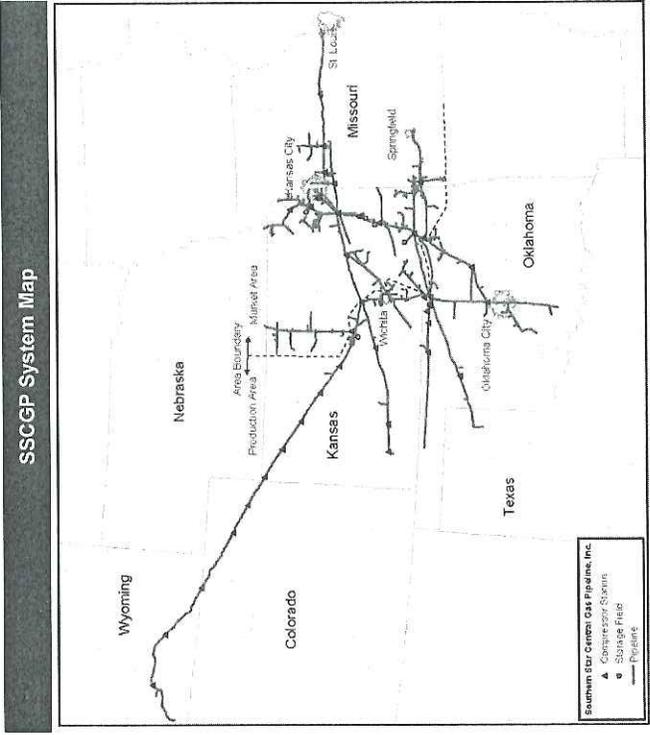
### Southern Star's Major Business Activities, Including its Pipelines, Storage Facilities<sup>1</sup>:

- FERC regulated interstate Natural Gas Pipeline
- Safety regulated by U.S. DOT/PHMSA
- System Capacity: 2.4 Bcf/day
- Storage Working Gas Capacity: 47 Bcf
- Supply Basins:
  - Anadarko, Rockies, Hugoton
- Pipeline Interconnects: 23
- Operating Locations: CO, KS, MO, NE, OK, TX, WY
- Compressor Stations: 41
- Certificated horsepower:
  - Approx. 206,000
- Miles of Pipeline:
  - Approx. 6,000
- SSCGP owns 8 storage fields with aggregate delivery capacity of 1.258 Bcf/day and aggregate working gas capacity of 46.7 Bcf @ 14.73 PSIA and 60o F

### Southern Star's Service Area and Markets Served

- SSCGP divides its service territory into two discrete areas for rate purposes – the Production Area and the Market Area
  - Production Area is generally located in Wyoming, Colorado, Texas, Oklahoma and western Kansas
  - Market Area is generally located in Missouri, Nebraska and eastern Kansas
- SSCGP serves several major metropolitan areas including Kansas City, Springfield, St. Louis, St. Joseph and Joplin, Missouri; and Kansas City, Wichita, Topeka and Lawrence, Kansas as well as power generation facilities in those market areas
- As of December 31, 2013 ~96% of the Company's firm contracted market area capacity, ~96% firm contracted production area capacity and 100% of firm contracted storage capacity were under long-term contracts (terms longer than 1-year)

Question 9:  
Southern Star's major business activities, including its pipelines, storage facilities, customer base, major customers, and major contracts



Notes

1. Sources include publicly available information and company information.

RESPONSES TO QUESTIONS

## Answer to Question 10

Question 10:  
Any involvement with natural gas  
production, refining, or LNG

**Any Involvement With Natural Gas Production, Refining or LNG:**

- Southern Star does not have any businesses activities involved in natural gas production, refining or LNG.

RESPONSES TO QUESTIONS

## Answer to Question 11

Question 11:  
Any non-U.S. business activities

**Any Non-U.S. Business Activities:**

- Southern Star does not have any non-U.S. business activities

## RESPONSES TO QUESTIONS

## Answer to Question 13

Question 13:  
How Southern Star Central Corp.  
and Southern Star Central Gas  
Pipeline Inc. interact with MSIP,  
MSIM, and MS

**Summary of Interactions:****MSIP:**

- On behalf of MSIP, senior professionals of MSI comprise the Board of Directors of Southern Star
- Consistent with their fiduciary duties as directors and the requirements of the Merchant Banking Authority under the Bank Holding Company Act, such senior professionals frequently interact with the senior management team of SSCC, focusing on:
  - Business performance
  - Discussion of strategic initiatives with a focus on the strategic growth and direction of SSCC and SSCGP
  - Data requests on behalf of MSIP for use solely by MSI and MSIP

**MB & REI:**

- MSI is supported by a number of value added shared services provided by MB & REI on behalf of the investments held within MSIP, including legal support
  - Insurance – Members of the MB & REI insurance team, in conjunction with MSI, provide advice and guidance in relation to the structuring, solicitation and placement of insurance for SSCC and SSCGP
  - Tax – SSCC is responsible for tax filings for SSCC and SSCGP. SSCC also provides information to assist Morgan Stanley in the filing of tax returns for MSIP, as well as all other entities involved in the ownership chain

**MSIM:**

- SSCC and SSCGP do not have interactions with other areas of MSIM

**MS:**

- SSCC and SSCGP do not have interactions with other areas of Morgan Stanley, including the commodities divisions

RESPONSES TO QUESTIONS

## Answer to Question 14

Question 14:  
Nature of any banking, financing, trading, derivative, administrative, or other services provided by MS or an MS subsidiary to Southern Star

**Nature of Banking, Financing, Trading, Derivative, Administrative or Other Services Provided by MS or an MS Subsidiary to Southern Star:**

- Morgan Stanley does not provide banking, financing, trading or derivative services to Southern Star Central Corp. or Southern Star Central Gas Pipeline, Inc.
- As it relates to administrative services, please see the answer to Question 13

RESPONSES TO QUESTIONS

## Answer to Question 15

Question 15:  
Any natural gas or related services provided by Southern Star to MS or any MS subsidiary or client

**Any Natural Gas or Related Services Provided by Southern Star:**

- Southern Star does not provide natural gas or related services to Morgan Stanley, including the Morgan Stanley commodities division
- MSIM is subject to informational barriers with regard to other firm clients and does not have knowledge about whether Southern Star provides services to clients of other Morgan Stanley divisions

RESPONSES TO QUESTIONS

## Answer to Question 16

Question 16:  
Southern Star's safety and environmental record, including any industrial accidents or incidents over the past ten years

**Southern Star's Safety and Environmental Record, Including any Industrial Accidents or Incidents Over the Past Ten Years:**

- Southern Star has a strong safety and environmental record
- Over the past ten years, Southern Star has not experienced any incidents that were material or caused significant damage, nor has it had any incidents that posed any risk of leading to a catastrophic event
- Southern Star tracks natural gas release incidents as required by 49 CFR 191.3

RESPONSES TO QUESTIONS

## Answer to Question 17

Question 17:  
How Southern Star maintains,  
inspects, and ensures the safety of  
its pipelines and storage facilities

### How Southern Star Maintains, Inspects and Ensures the Safety of its Pipelines and Storage Facilities<sup>(1)</sup>:

- Integrity Management Plan:
  - As required by the Pipeline and Hazardous Materials Safety Administration (“PHMSA”), Southern Star has developed an Integrity Management Plan with detailed policies and procedures based on the Code of Federal Regulations Title 49 Part 192 Subpart O, which addresses the identification and remediation of High Consequence Area (“HCA”) pipe segments
  - HCAs are determined by validating the number of structures intended for human occupancy (e.g., houses, apartments) and identified sites (e.g., hospitals, day cares, nursing homes) within the Potential Impact Radius (“PIR”) of the pipeline segments on an annual basis
  - The assessment plan identifies the threats associated with each segment and the corresponding assessment method(s). Initial assessments are scheduled based on RISK model and follow up reassessments are scheduled in accordance with criteria provided in the American Society of Mechanical Engineers (“ASME”) document B31.8S
  - Remediations are completed as required based on the outcome of the assessments. The methods used to remediate the various conditions are outlined in Southern Star Central Gas Pipeline (“SSCGP”) Operations and Maintenance Manual. The methods are based on the Pipeline Research Council International (“PRCI”) Pipeline Repair Manual as well as ASME B31.8S

#### Notes

1. Sources include publicly available information and company information.

RESPONSES TO QUESTIONS

## Answer to Question 22

**Question 22:**  
MS natural gas trading – nature of its natural gas trading desk, financial instruments used, trading volumes, financing activities, any physical holdings at or apart from Southern Star

- Morgan Stanley's Commodities Division executes transactions in North American natural gas markets principally through "Morgan Stanley Capital Group Inc." ("MSCG"), a Delaware corporation and a direct, wholly-owned subsidiary of Morgan Stanley
  - MSCG transacts natural gas through a variety of instruments, including listed derivatives (e.g., futures and options on futures), over-the-counter derivatives (e.g., swaps, cash-settled options and options on swaps), and physically-settled forwards
  - MSCG also reserves transportation capacity on certain natural gas pipelines and leases rights to store natural gas at various storage facilities
  - Neither MSCG, nor any of its subsidiaries possesses any ownership of any interstate natural gas pipelines or storage facilities, including Southern Star
- MSCG undertakes these activities primarily in connection with its provision of risk management services to its clients and its management of the commercial risk associated with those client transactions
- In 2013, MSCG reported to the Federal Energy Regulatory Commission an aggregate total of physical natural gas transactions of 61.1 trillion British thermal units (TBtus) and 38.2 TBtus in sales
  - During that period, MSCG also reported swap agreement transactions to swap data repositories (SDRs) pursuant to Commodity Futures Trading Commission regulations
  - None of these reported transactions were with Southern Star

## RESPONSES TO QUESTIONS

## Answer to Question 24

Question 24:  
MS access to information from Southern Star about natural gas activities, including volumes, prices, transport, storage, supplies, refining issues, or client activities

**MS Access to Information from Southern Star:**

- Morgan Stanley business units, outside of MB & REI, are subject to informational barriers to prevent access to information from Southern Star, outside of what resides in the public domain and within Southern Star's SEC filings (10-K, 10-Q, 8-K, etc.) as a result of Southern Star's registered debt<sup>(1)</sup>
- MSI, on behalf of MSIP, receives the following information from Southern Star:
  - Board of Director presentations – Quarterly
  - Management Reports – Monthly
  - Responses to ad hoc requests
  - The Board of Directors presentations and monthly reports include information pertaining to:
    - Financial performance
    - Business development projects
    - Operational statistics
    - Volume throughput
    - Storage levels
    - Operations and engineering reports
    - Compliance
    - Employee safety
    - Environmental
    - Capital expenditure
    - Construction / capital budgeting summaries

**Notes**

1. Such debt was refinanced in June 2013. Southern Star will not be a public filer or SEC registrant going forward.

September 19, 2014

Reginald J. Brown

By E-Mail

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Hon. Carl Levin, Chairman  
Hon. John McCain, Ranking Minority Member  
Permanent Subcommittee on Investigations  
Committee on Homeland Security and Governmental Affairs  
United States Senate  
SR-199 Russell Senate Office Building  
Washington, DC 20510

Dear Chairman Levin and Ranking Member McCain:

We submit this letter on behalf of Morgan Stanley Capital Group Inc. ("MSCG") in response to follow-up questions e-mailed by staff on September 10, 2014 regarding Morgan Stanley's purchase of the Deutsche Bank natural gas portfolio and involvement with Wentworth Holdings, LLC. Your staff has asked for information and documents on a rolling basis. Accordingly, Morgan Stanley today is producing additional preliminary information in response to staff's questions. As a courtesy, the letter also contains all previously submitted responses. Morgan Stanley anticipates providing responses to the remainder of your staff's questions under separate cover.

We have responded to staff's questions in good faith to the best of our ability based on readily accessible data and information. Should additional or revised data or information responsive to the questions come to light, we respectfully request, as we become aware of a need, an opportunity to supplement or amend our response.

Responses to questions outlined in your staff's September 10, 2014 e-mail follow.

\* \* \* \*

***Question 1: Morgan Stanley's purchase of the natural gas trading book from Deutsche Bank, including:***

***A. a list of the categories of assets purchased, including any futures, swaps, options, forward contracts, physical inventory, or physical facilities involving natural gas;***

On August 15, 2014, MSCG executed definitive agreements to acquire from Deutsche Bank ("DB") its North American natural gas portfolio, held by three DB subsidiaries (the "DB Portfolio"). The DB Portfolio did not include physical natural gas inventory, storage agreements, transportation agreements, or other ancillary agreements.

The DB Portfolio overwhelmingly consisted of financially-settled, as opposed to physically-settled, contractual assets. To illustrate, the DB Portfolio consisted of approximately 13,200 discrete transactions, of which only 24 were physically-settled forward transactions. Specifically, the DB Portfolio included:

- listed commodity futures contracts and options on commodity futures contracts;
- cash-settled over-the-counter swap and swap option agreements; and
- physical forward agreements.

***B. a description of any natural gas supply contracts or other arrangements, including the key terms, counterparties, and volumes of natural gas involved;***

With regard to physical natural gas forward agreements, MSCG acquired from DB approximately 22 fixed price forward agreements, and 2 basis transactions. These agreements average a daily volume for 2014 of 55,363 gigajoules (“GJ”), and are projected to decrease to 5,138 GJ by 2017. All of the delivery obligations with these transactions occur at the AECO pricing and delivery hub in Alberta, Canada. The duration of these transactions vary; the latest delivery date for two of the transactions is October 31, 2014, and the latest delivery date among the remaining transactions is October 31, 2017. These transactions originally were executed between DB and approximately five middle-market Canadian gas marketers and Natural Gas Exchange, Inc., as counterparties.

***C. where the assets are located, including the extent to which they involve the United States;***

MSCG did not acquire any physical commodity infrastructure assets as part of the DB Portfolio transaction and, apart from the physical natural gas forward agreements described above in the response to Question 1(B), MSCG acquired no other physical North American natural gas-related assets from DB.

***D. the dollar value of each category of assets as well as the overall purchase price;***

The value MSCG will pay to DB for the portfolio will be finalized at the conclusion of the transaction (i.e., when all transactions are novated to MSCG), but MSCG estimates that the mark-to-market value of the portfolio at the time of acquisition was approximately U.S. [REDACTED] million. The purchase price has not been further apportioned among the asset classes comprising the portfolio.

***E. the timing and mechanics of the purchase and how and when the asset transfer will take or has taken place;***

Upon execution of the definitive Master Transaction Agreement, MSCG and DB entered simultaneously into a total return swap and related Transition Services Agreement with each of

the three DB entities. Under the terms of the total return swaps, MSCG agreed to take both the future commodity price and credit risk of the DB contracts being sold. Following execution of the total return swap, MSCG and DB agreed to cooperate in seeking consents from DB's counterparties to novate the transactions from DB to MSCG. As each of DB, MSCG, and DB's counterparties agrees to novate their transactions (which may consist of physically-settled forward agreements and/or over-the-counter cash-settled derivatives) from DB to MSCG, MSCG and DB will adjust the terms of their total return swap to reflect the novated transactions. As of September 11, 2014, approximately six counterparties have agreed to novate their transactions from DB to MSCG and MSCG anticipates that the remainder of the DB portfolio should be novated to MSCG by the end of March 2015.

***F. why Morgan Stanley made the purchase when it told the Subcommittee it was winding down its involvement with physical commodities; and***

In a conversation with Subcommittee staff on September 11, 2014, counsel for Morgan Stanley clarified the scope of this question and Morgan Stanley's statements in its February 2014 briefing to the Subcommittee, as set forth herein.

Morgan Stanley has decided to exit certain of its physical commodities business lines, including its global physical oil merchanting business and its investment in TransMontaigne, Inc.

Morgan Stanley plans to realign its commodities business to be more client focused. It plans to continue developing its global commodities business, which is focused on providing risk management and financing services to its clients across the commodities space, including risk intermediation, liquidity provision, lending and investor business, as well as providing supply solutions to its clients. MSCG's acquisition of the DB Portfolio is consistent with its role as a registered swap dealer that also has the ability to make markets in certain physical commodities. As noted above in the response to Question 1(A), the DB Portfolio consisted of approximately 13,200 discrete transactions, of which only 24 were physically-settled forward transactions

***G. any interactions with the Federal Reserve related to the purchase.***

MSCG participates in competitive bidding processes for transaction portfolios in the ordinary course of its business, and did not discuss the acquisition of DB's North American natural gas portfolio with the Federal Reserve.

***Question 2: Morgan Stanley's involvement with Wentworth Holdings LLC and its related entities, including:***

***A. when Wentworth Holdings LLC and related entities were incorporated, with copies of their incorporation papers;***

Wentworth Holdings LLC ("Holdings") was incorporated on April 1, 2014. Its two operating subsidiaries, Wentworth Gas Marketing LLC ("Marketing") and Wentworth Compression LLC

("Compression," and together with Holding and Marketing "Wentworth"), were incorporated on October 21, 2013. Copies of each of their respective Wentworth entities' certificates of formation are attached at MS-COM-0001 – MS-COM-0006.

***B. why the Wentworth name was selected;***

Since the early phases of the project, MSCG has considered locating a CNG compression facility near the Port of Savannah in the City of Port Wentworth.

***C. an organizational chart showing all Wentworth entities, including Wentworth Holdings LLC, Wentworth Gas Marketing LLC, and Wentworth Compression LLC;***

The organizational structure of the Wentworth entities is as follows:

- Wentworth Gas Compression LLC and Wentworth Gas Marketing LLC are wholly-owned subsidiaries of Wentworth Holdings LLC;
- Wentworth Holdings LLC is, in turn, a wholly-owned subsidiary of MSDW Power Development Corp.;
- MSDW Power Development Corp. is a wholly-owned subsidiary of MSCG, which is wholly owned by Morgan Stanley.

***D. a chart showing the ownership structure of the Wentworth entities, including any ownership interest held by any Morgan Stanley entity, and the dollar value of any investments made by third parties unrelated to Morgan Stanley;***

As stated in the response to Question 2(C), each of the Wentworth entities is a subsidiary of Morgan Stanley and its affiliates. There is no third-party equity or debt.

***E. the legal authority relied on by Morgan Stanley to incorporate these companies, construct a compressed natural gas (CNG) facility, and market the compressed gas, including whether Morgan Stanley is relying on grandfathering authority or merchant banking authority;***

MSCG's participation in CNG (including the formation of the Wentworth entities, the contemplated construction of a compression facility and subsequent marketing of CNG) does not rely on merchant banking authority, but rather on section 4(o).

***F. any interactions with the Federal Reserve related to the Wentworth entities and the CNG facility;***

Although Morgan Stanley is not required to obtain formal approval for this investment, it has engaged in discussions with the Federal Reserve at various levels of the firm to explain the investment and Morgan Stanley's reasons for pursuing it.

**G. whether the Wentworth entities' principal place of business is at the Morgan Stanley offices in Purchase, New York, where the Commodities group is located;**

The principal administrative business for each of the Wentworth entities is conducted within the Commodities group at Morgan Stanley's offices located in Purchase, New York.

**H. whether any employees of the Morgan Stanley Commodities group are directors, officers, or employees of any of the Wentworth entities;**

**I. the name of the Chairman and Board of Directors members for each Wentworth entity and, if they are Morgan Stanley employees, their Morgan Stanley job titles;**

**J. the name of the president of each of the Wentworth entities and, if he or she is a Morgan Stanley employee, his or her Morgan Stanley job title;**

**K. the positions held by Deborah L. Hart and Peter Sherk at each of the Wentworth entities, including whether they are officers or managers of the companies;**

**L. the total number of Wentworth employees and whether all of Wentworth's employees are also employees of Morgan Stanley;**

Question 2(H)-(L) are answered as follows:

None of the Wentworth entities have any employees at present and a number of MSCG employees are directors and officers of certain Wentworth entities. It is MSCG's practice to use Senior Managers as Board of Managers members and officers of its wholly-owned subsidiaries in order to assure standardized practices. Set forth below are the Board of Managers members for the Wentworth entities.

**Table 1: Board Members of the Wentworth Entities**

Name	Wentworth Entity Position	Employed By	MSCG Title
Simon T.W. Greenshields	Manager, Board of Managers; President	MSCG	President, and Global Co-Head of Commodities
Deborah Lynn Hart	Manager, Board of Managers; Vice President, Commodities	MSCG	Vice President, COO of North American Power and Gas
Nancy A. King	Manager, Board of Managers; Vice President, Commodities	MSCG	Vice President, Global Head of Oil Liquids Flow
Peter Sherk	Manager, Board of Managers; Vice President, Commodities	MSCG	Vice President, Head of North American Power & Gas

***M. the management structure and decisionmaking process at the Wentworth entities and how they interact with Morgan Stanley, including the Commodities group;***

As evidenced by the response to Question 2(H)-(L), strategic management and operational decision-making at the Wentworth entities at present is made by MSCG employees. Ongoing operations, logistics, and maintenance of the proposed compression facilities will be outsourced to qualified third parties.

***N. a financial statement for the Wentworth entities for each year they have been in existence;***

In the normal course of business, stand-alone financial statements are not prepared for this consolidated entity.

***O. the current status of the 4/2/2014 Engineering, Procurement, and Construction Contract between Wentworth Compression LLC and H.P. Industries to construct a CNG facility, including***

The Engineering, Procurement, and Construction ("EPC") Agreement with H.P. Industries was executed on April 2, 2014.

***i. what steps have been taken to survey or evaluate tracts of land for the CNG facility;***

After evaluating the Port of Freeport parcel, a professional consulting firm based in Houston, Texas, has been engaged by H.P. Industries to provide the required site assessment to satisfy Wentworth that the Parcel 19 location is suitable for the location of the compression facility.

***ii. what steps have been taken to draw plans for the design the CNG facility;***

Wentworth contracted with a specialized engineering firm to provide the initial site design.

***iii. what steps have been taken to construct the CNG facility;***

Construction of the facility is dependent upon the receipt of the necessary regulatory approvals, including DOE export authority. Currently H.P. Industries has contracted with a third party for the facility design, commenced the Phase I environmental review, and has placed an order for compressors (which are considered long lead items for the facility). Wentworth continues to negotiate the final terms of the lease for the Parcel 19 at Port Freeport; and is engaged in discussions to connect with a provider of electrical service to the facility; and is engaged in negotiations with various pipeline companies to obtain firm delivery of natural gas to the compressor site.

*iv. what steps have been taken to procure insurance in connection with the CNG facility; and*

Wentworth worked closely with the Morgan Stanley internal risk management team to identify the appropriate insurance coverage required for the facility. As the facility is not under construction at this time no insurance has been procured, but will be required upon signing of the final lease with Port Freeport. H.P. Industries has provided the insurance certificate required under the access agreement that was signed with Port Freeport. Additionally, H.P. Industries has provided a certificate of insurance in the form and amounts required under the EPC Agreement.

*v. the total dollar value of the contract and the total projected cost to construct the facility;*

Wentworth has budgeted up to \$55 million for the development and construction of the CNG facility in Port Freeport. It is anticipated that the development costs would be equivalent for a second facility near the City of Port Wentworth, Georgia.

*P. the current status of the license obtained by H.P. Industries LLP from Port Freeport in Texas related to Parcel 19 in connection with the CNG facility;*

A May 12, 2014 access agreement granted H.P. Industries a license to access Parcel 19 to inspect the site. Field work is ongoing, and the site license remains in effect until either the completion of the field work or December 31, 2014.

*Q. the current status of the DOE application filed by Wentworth seeking authorization to export compressed natural gas, and an estimate of the costs incurred to date in connection with drafting and filing of that application;*

The DOE application filed by Wentworth seeking authorization to export compressed natural gas to free trade agreement countries is pending. The costs incurred to date in connection with drafting and filing the application are approximately \$23,000.

*R. the current status of any actions taken under the National Environmental Policy Act (NEPA) to obtain an environmental assessment (EA) or environmental impact statement (EIS) in connection with the CNG facility, including who is involved with that effort, what steps have been taken to date, and the estimated total cost incurred to date;*

We are undertaking a Phase 1 environmental review of the Freeport site. To date, no action has been taken under the National Environmental Policy Act.

*S. Morgan Stanley's projected total cost to construct the CNG facility and the total approximate amount of money expended to date on the project;*

Morgan Stanley anticipates that the Freeport natural gas compression facility will cost up to \$55 million to construct, including gas pipeline and power transmission line interconnections. Upon obtaining all needed approvals and permits, construction will require approximately three months. In addition to the facility, Wentworth also will purchase ISO containers in quantities sufficient to serve all offtake agreements. Based upon initial sales estimates, Wentworth will make an initial investment of up to \$300 million for ISO containers.

***T. Morgan Stanley's plans for the Wentworth entities and the CNG facility over the next ten years;***

The CNG business is being developed in order to deliver a cheaper and cleaner source of fuel to power generators and other commercial end users who need access to reliable natural gas supplies. It is our plan to assure long term delivery of this fuel source to those parties who contract for this supply.

***U. whether Morgan Stanley has provided any banking, financing, legal, insurance, administrative, or other services to the Wentworth entities and, if so, a brief description of those services;***

As with other affiliated entities of Morgan Stanley, the Wentworth companies rely upon the expertise and day-to-day involvement of employees of Morgan Stanley. This includes the breadth of the firm, including support in legal, tax, risk management and many other areas.

***V. any Morgan Stanley capital requirements or charges related to the Wentworth entities;***

[Response to follow under separate cover.]

***W. the name and location of any other companies operating CNG facilities in the United States.***

Public source documents<sup>1</sup> indicate that there are 1,200 natural gas compression stations located on the U.S. interstate natural gas pipeline network. In addition to these facilities, there are multiple compressed natural gas facilities that fuel municipal and commercial vehicles.

While Wentworth's proposal to construct and operate a CNG container filling station is unique in its planned output, there are other facilities in existence that both fill ISO containers and export these containers from the United States. These companies include, among others:

- Xpress Natural Gas
- Emera

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<sup>1</sup> See, e.g., Natural Gas Compressor Stations on the Interstate Pipeline Network, Energy Information Administration, Office of Oil and Gas (Nov. 2007), available at [http://www.eia.gov/pub/oil\\_gas/natural\\_gas/analysis\\_publications/ngcompressor/ngcompressor.pdf](http://www.eia.gov/pub/oil_gas/natural_gas/analysis_publications/ngcompressor/ngcompressor.pdf).

Hon. Carl Levin, Chairman  
Hon. John McCain, Ranking Minority Member  
September 19, 2014  
Page 9

WILMERHALE

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Redacted By  
Permanent Subcommittee on Investigations

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Thank you for the opportunity to provide this response.

Sincerely,

A handwritten signature in black ink that reads "Reginald Brown / AHD". The signature is written in a cursive, slightly slanted style.

Reginald J. Brown  
Alyssa DaCunha

Morgan Stanley Infrastructure Partners

# Southern Star Follow Up Questions

October 24, 2014

**EXCERPT**

Morgan Stanley



RESPONSES TO QUESTIONS

## Answer to Question 2

### MS Partnership Structure

- Please refer to the legal entity structure chart provided in the answer to Question 1.
- Morgan Stanley owns 100% of MS Holdings Inc., which in turn owns 100% of Morgan Stanley Infrastructure Inc. (“MSI”).
- Morgan Stanley also owns approximately 80.1% of MSI German Investors LP.
- MSI is the general partner of Morgan Stanley Infrastructure GP LP, which also has as limited partners Morgan Stanley Infrastructure SLP, L.L.C. and individual limited partners. On average, MSI has an ownership interest of 0.22% amongst MSIP I Portfolio companies. Morgan Stanley Infrastructure GP LP is in turn the general partner of Morgan Stanley Infrastructure Partners LP (“MSIP”).

Question 2:  
General partnership and limited partnership through which MS holds ownership interests in MSIP, indicating the percentage of their respective ownership interests, and how they fit in the ownership chart above.

Morgan Stanley

Contains Competitively Sensitive Information

RESPONSES TO QUESTIONS

## Answer to Question 3

### MSI Ownership Structure and Employees

- Please refer to the legal entity structure chart provided in the answer to Question 1.
  - MS Infrastructure, Inc. (“MSI”) is wholly-owned by MS Holdings Inc., which is wholly-owned by Morgan Stanley.
  - MSI is the general partner and manager of Morgan Stanley Infrastructure GP LP and registered investment adviser for MSIP.
  - The 37 MSI employees indicated on page 7 of the August 29, 2014 presentation are all Morgan Stanley employees. However, they are dedicated to the management and operation of MSI and its related infrastructure funds.
- MSIP holds investments through a subset of the 5 main Master Limited Partnerships in the MSIP structure:
  - *MSIP U.S. Investments are owned by:*
    - Morgan Stanley Infrastructure Partners LP
    - Morgan Stanley Infrastructure Partners A Sub LP
    - Morgan Stanley Infrastructure Investors LP
  - *MSIP Non U.S. Investments will be owned by:*
    - Morgan Stanley Offshore Infrastructure Partners LP
    - Morgan Stanley Infrastructure Partners A Sub II L.P.
    - Morgan Stanley Infrastructure Investors LP
- These Master Limited Partnerships are owned by the Limited Partners of MSIP and are used to own and hold investments on behalf of MSIP. They are not used to hold investments for any other Morgan Stanley Merchant Banking & Real Estate Investing Funds.

Question 3:  
Where MS Infrastructure, Inc. fits in the ownership structure, as well as MSI's role as key manager and registered investment adviser for MSIP, and its employees' positions in MSIP.

Morgan Stanley

**Question 4:**  
Ownership structure of Morgan Stanley Global Private Equity and its funds.

Morgan Stanley Global Private Equity is a business unit in Merchant Banking & Real Estate Investing which currently has one active fund, Morgan Stanley Capital Partners V (its four predecessor funds have either been fully realized or are in liquidation). This chart indicates its structure.

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**Morgan Stanley**

RESPONSES TO QUESTIONS

Answer to Question 4 (cont'd)

Question 4:  
Ownership structure of Morgan Stanley Global Private Equity and its funds.

Morgan Stanley Global Private Equity is a business unit in Merchant Banking & Real Estate Investing which currently has one active fund, Morgan Stanley Capital Partners V (its four predecessor funds have either been fully realized or are in liquidation). This chart indicates its structure.

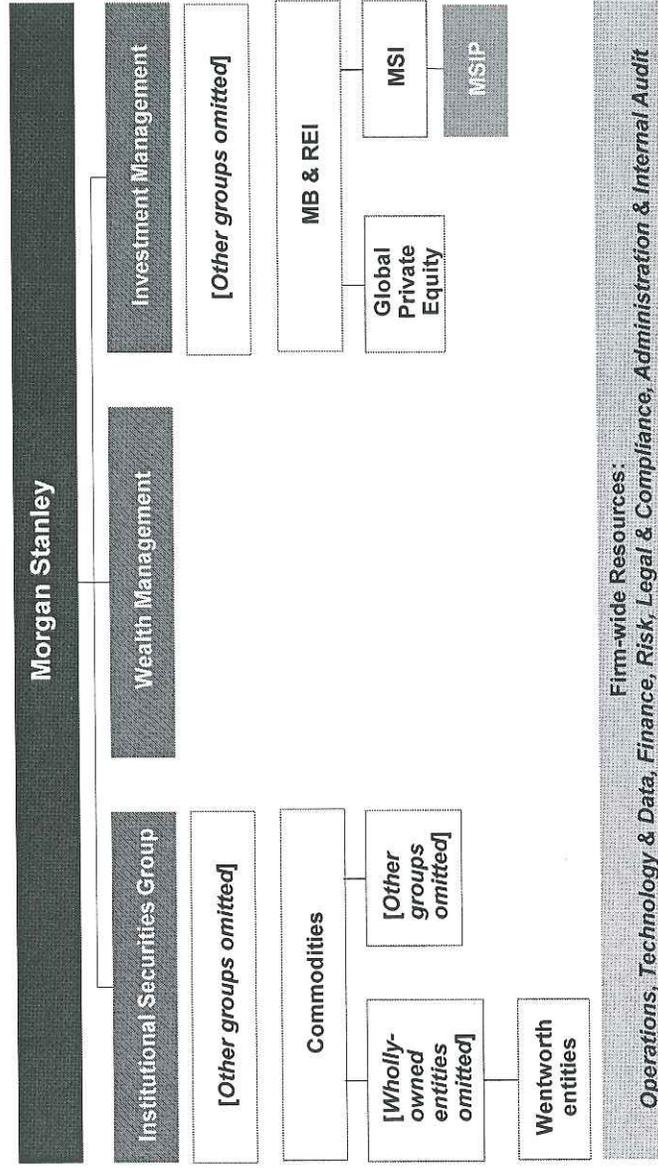
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RESPONSES TO QUESTIONS

Answer to Question 6

Organizational Structure Chart



Question 6:  
Expanded organizational chart, showing both MSIP and Morgan Stanley Global Private Equity under MB & REI, and Wentworth Holdings LLC and its subsidiaries under the Commodity Division.

RESPONSES TO QUESTIONS

## Answer to Question 7

### Interaction of MSIP, MS Global Private Equity, and Wentworth

- MSIP and MS Global Private Equity are part of the Morgan Stanley Investment Management Division; they do not share employees, but do have common senior leadership.
- There is no commercial interaction between the Morgan Stanley Investment Management Division (which includes MSIP and MS Global Private Equity) and the Commodities Division (which includes Wentworth).

Question 7:  
How MSIP, MS Global Private Equity, and Wentworth interact or overlap.

Morgan Stanley

RESPONSES TO QUESTIONS

## Answer to Question 8

**Question 8:**  
All investments under MSIP I involving commodities other than Southern Star, including any power plants, natural gas facilities, pipelines, storage facilities, or commodity transportation facilities.

### MSIP I Commodity Investments

- Asian Genco: Holding company for clean power and infrastructure development company in India.
- Continuum Wind Energy: Holding company for wind power developer and operator in India.
- Madrilena Red de Gas: Holding company for natural gas distribution company operating in Madrid, Spain.
- Medical Area Total Energy Plant: Holding company for Boston area tri-generation facility providing heating, cooling, and electricity to area hospitals.
- Zhaoheng Hydropower Holdings Limited: Holding company for consolidator, developer, and operator of hydropower generation facilities in Southern China.

Morgan Stanley

Question 9:  
Southern Star Board of  
Directors members.

RESPONSES TO QUESTIONS

## Answer to Question 9

### Southern Star Board of Directors

- John Veech – a Managing Director and head of the Americas region for MSIP;
- John Watt – a Managing Director and Head of Asset Management for MSIP; and
- Thomas Gray – a Managing Director and a senior manager within MSI's Asset Management team.

Morgan Stanley

Question 10:  
Southern Star Compliance  
Officer.

RESPONSES TO QUESTIONS

## Answer to Question 10

### Chief Compliance Officer

- Southern Star has always dedicated employees to compliance, regulatory, and physical safety issues. In order to advance Southern Star's holistic and focused approach to these closely related areas, while continuing to improve systems and communications to support compliance efforts, these responsibilities were consolidated in a new Vice-President and Chief Compliance Officer position in late 2010 as part of an overall organizational realignment.
  - The Southern Star Vice-President and Chief Compliance Officer reports directly to the Southern Star President and Chief Executive Officer.
  - Although the major functions had previously existed elsewhere in the organization, the position's areas of responsibility and reporting structure are new. The position, which became effective in 2011, was created to focus solely on regulatory and physical system compliance.
- The following areas report to the Chief Compliance Officer:
  - Environmental, Health and Safety ("EHS"), which includes OSHA Safety, Environmental, and Land; Pipeline Safety, which includes Corrosion Services, Integrity Services, and Pipeline Compliance, the latter being the direct conduit to the Pipeline and Hazardous Materials Safety Administration ("PHMSA");
  - Regulatory Compliance, which includes commercial activities regulated by the Federal Energy Regulatory Commission ("FERC") as well as the activities related to the North American Energy Standards Board ("NAESB");
  - Legal, including the office of the General Counsel and Corporate Secretary which has oversight for the Insurance and Risk Management function, Regulatory Affairs at the Federal and State levels, as well as Records and Information Management ("RIM").
- The Internal Audit department reports directly to the Board of Directors with a dotted-line to the Chief Compliance Officer.

Morgan Stanley

**Question 12:**  
Please describe and, if possible, quantify how capital requirements related to Morgan Stanley's investment in Southern Star have changed from Basel I to Basel III.

**RESPONSES TO QUESTIONS**

## Answer to Question 12

- For investments in funds that have underlying holdings such as Southern Star, Morgan Stanley is subject to capital deductions as well as risk weighted assets, based on the investment criteria. However, the capital deductions and risk weighted assets are computed at the fund level and are not allocated to its individual holdings. Morgan Stanley's aggregate capital requirements have increased from Basel I to Basel III as a result of the change in regulatory capital rules under Basel III.

Morgan Stanley

Question 13:  
Southern Star liability in connection with 2006 pipeline rupture incident.

RESPONSES TO QUESTIONS

## Answer to Question 13

### Southern Star Liability

- Southern Star was named as a Defendant in a wrongful death case filed against Double J Pipeline Construction (see *Oneta Foran vs. Double J Pipeline Construction, L.L.C., et al.*)
- The case was settled and dismissed as the result of a Settlement Agreement and Indemnifying Release executed on March 6, 2009.
- Southern Star incurred no direct financial liability. The incident was covered by Southern Star's insurance carrier, including both legal fees and the resulting settlement amount.

Morgan Stanley

RESPONSES TO QUESTIONS

## Answer to Question 15

Question 15:  
Confirmation that Southern Star documents prepared for the Board of Directors are not shared outside of Infrastructure.

- Morgan Stanley has not identified any presentations or reports prepared by Southern Star for the Board of Directors that have been shared with any officer or employee of the Morgan Stanley Commodities division. Moreover, Morgan Stanley's policies bar the sharing of material, non-public information between the Infrastructure and Commodities divisions.

Morgan Stanley

October 10, 2014

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Hon. Carl Levin, Chairman  
Hon. John McCain, Ranking Minority Member  
Permanent Subcommittee on Investigations  
Committee on Homeland Security and Governmental Affairs  
United States Senate  
SR-199 Russell Senate Office Building  
Washington, DC 20510

Dear Chairman Levin and Ranking Member McCain:

We are writing on behalf of Morgan Stanley in response to questions e-mailed by staff on September 26, 2014. Morgan Stanley today is producing preliminary information in response to staff's questions. Morgan Stanley anticipates providing additional responses to staff's questions under separate cover. We have responded to staff's questions in good faith to the best of our ability based on readily accessible data and information. Given that some of staff's questions relate to events that occurred in the 1980s and 1990s, some responses are based solely on the general recollection of Morgan Stanley employees. Additionally, the responses focus on the activities of the Morgan Stanley Commodities business unit ("Morgan Stanley Commodities"). Should additional or revised data or information responsive to the questions come to light, we respectfully request an opportunity to supplement or amend our response as needed.

Below are responses to questions outlined in your staff's September 26, 2014 e-mail.

\* \* \* \*

- 2. *Please provide a brief history of Morgan Stanley's involvement with oil storage facilities in New York, New Jersey, and Connecticut since the 1980s. Please indicate whether Morgan Stanley helped finance the construction of oil storage facilities in New York in or around 1993, and briefly describe the extent to which Morgan Stanley has financed other oil storage facilities in New York, New Jersey and Connecticut since then.*

Morgan Stanley entered the physical oil business in the mid-1980s. In the late 1980s or early 1990s, Morgan Stanley entered its first storage agreement in the New York/New Jersey/Connecticut region with Wyatt, Inc. By 1994, Morgan Stanley had entered storage agreements with IMTT-Bayonne in New Jersey and GATX Terminal Corporation in Staten Island, New York. From time to time, Morgan Stanley also entered agreements with other storage facilities in the New York/New Jersey/Connecticut region.

Hon. Carl Levin, Chairman  
Hon. John McCain, Ranking Minority Member  
October 10, 2014  
Page 2

WILMERHALE

We have not been able to identify any instances in which Morgan Stanley Commodities has provided financing in the form of direct loans. However, Morgan Stanley Commodities has agreed to fee schedules that have supported leasehold improvements, including enhancement of oil storage facilities in New York/New Jersey/Connecticut.

**Redacted By**  
**Permanent Subcommittee on Investigations**

June 21, 2013

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 Permanent Subcommittee on Investigations  
 Committee on Homeland Security and Governmental Affairs  
 United States Senate  
 SR-199 Russell Senate Office Building  
 Washington, DC 20510

Dear Chairman Levin and Ranking Member McCain:

We submit this letter on behalf of Morgan Stanley in further response to your January 11, 2013 letter and questionnaire regarding the nature and scope of activities of U.S. banks in physical commodities. This letter supplements our February 11, March 4, April 12, and May 21, 2013 responses. Morgan Stanley conducts trading in physical commodities within the Morgan Stanley Commodities division. While there may be limited exposure to financial commodities elsewhere in the Firm, the overwhelming majority of business in physical commodities resides in Morgan Stanley Commodities, therefore, unless otherwise noted, answers to the Subcommittee's questions are drawn from that unit of the company. We will continue, on a rolling basis, to respond to the January 11, 2013 inquiry.

Responses to questions 12, 13, 17, 18, and 19 in the questionnaire follow...

\* \* \* \*

***Question 12: For each entity identified in response to Question 11 which your company controls, or in which it directly or indirectly owns at least 20 percent, please also provide the following information.***

- a) *the date on which each such entity was formed, the jurisdiction where it was formed, and the location of its headquarters;*
- b) *the nature and extent of your ownership interest in each such entity, when it was acquired, and the name and job title of the most senior executive in charge of each entity;*
- c) *the nature of the storage facility (e.g., metals warehouse, storage tank, grain elevator) where each physical commodity was held and its approximate capacity;*
- d) *the number of employees that your company employs, or contracts to employ, permanently or temporarily, at each such entity;*
- e) *the nature of the services performed by each such entity, including whether it stores, processes, produces, buys, sells, delivers, trades, hedges, or transports the commodity; and*

*f) the approximate yearly revenues and profit or loss generated by each such facility for each fiscal year from 2008 to 2012.*

The Firm has been sole owner of TransMontaigne, Inc. ("TransMontaigne"), a Denver, Colorado-based energy services company, since September 2006. In February 2005, TransMontaigne formed TransMontaigne Partners L.P. ("TLP"), a publicly traded Delaware limited partnership that provides integrated terminaling, storage, transportation, and related services for customers engaged in the distribution and marketing of light refined petroleum products (such as gasolines, diesel fuels, heating oil, and jet fuels), heavy refined petroleum products (such as residual fuel oils and asphalt), crude oil, chemicals, fertilizers, and other liquid products. TLP does not purchase or market products that it handles or transports. Morgan Stanley holds a minority interest in TLP. TransMontaigne GP L.L.C., a wholly owned subsidiary of TransMontaigne, is TLP's general partner and controls its operations.

TLP has no officers or employees; all of its management and operational activities are provided by officers and employees of TransMontaigne. TransMontaigne GP L.L.C.'s board of directors oversees TLP's operations. Charles L. Dunlap is its Chief Executive Officer. Morgan Stanley currently employs no one permanently or temporarily at TransMontaigne. One Morgan Stanley Commodities employee was based at TransMontaigne during some of the relevant time period and worked from the TransMontaigne offices during that time.

TLP's existing facilities are located in five geographic regions, which TLP refers to as its Gulf Coast, Midwest, River, Southeast, and Brownsville facilities:

- The Gulf Coast facilities consist of eight refined product terminals, all in Florida, which currently have approximately 6.9 million barrels of aggregate active storage capacity.
- The Midwest facilities include a 67-mile refined product pipeline between Missouri and Arkansas, three refined product terminals, and one crude oil terminal with approximately 1.6 million barrels of aggregate active storage capacity.
- The River facilities are composed of 12 refined product terminals located along the Mississippi and Ohio Rivers with approximately 2.8 million barrels of aggregate active storage capacity. The River facilities also include a pipeline-connected dock facility in Baton Rouge, Louisiana.
- The Southeast facilities are comprised of 22 refined product terminals located along pipelines in Alabama, Georgia, Mississippi, North Carolina, South Carolina, and Virginia with an aggregate active storage capacity of approximately 10 million barrels.
- The Brownsville facilities consist, in large part, of those related to an April 2011 joint venture with P.M.I. Services North America Inc. ("PMI"), an indirect subsidiary of a

Mexican state-owned petroleum company, at TLP's Brownsville, Texas terminal. TLP contributed approximately 1.4 million barrels of light petroleum product storage capacity, as well as related ancillary facilities, to the joint venture, also known as Frontera Brownsville LLC ("Frontera"), in exchange for a cash payment and a 50% ownership interest. TLP continues to own and operate approximately 0.9 million barrels of additional tankage in Brownsville, independent of Frontera, including a liquefied petroleum gas ("LPG") terminaling facility with aggregate active storage capacity of approximately 33,000 barrels. TLP also owns and operates a LPG pipeline running from its Brownsville facilities to a terminal in Mexico, which has approximately 7,000 barrels of aggregate active LPG storage capacity. And TLP operates a bi-directional refined product pipeline for PMI for deliveries to and from Brownsville and terminals in Mexico.

For year-end book values associated with TransMontaigne from 2008 to 2012, please see our response to Question 6. TLP is a publicly traded company, listed on the New York Stock Exchange, and additional information concerning that entity is available in the company's public filings.

In addition to TLP, TransMontaigne wholly owns three additional storage facilities:

- Canterm Canadian Terminals Inc., which is wholly owned by TransMontaigne subsidiary TransMontaigne Canada Holdings Inc., operates storage terminals in Quebec, Canada with a storage capacity of approximately three million barrels. These terminals store gasoline, diesel, ethanol, heavy fuel oil, marine diesel oil, HCB oil, red dye, DCA gas additive, asphalt, jet, and bio diesel. Canterm Canadian was formed in December 1999 and acquired by TransMontaigne in December 2006. Charles L. Dunap is its President.
- TransMontaigne Product Services Inc., based in Denver, owns a Baytown, Texas terminal with a storage capacity of approximately 127,000 barrels that holds environmental/oily water. Most of this facility was put out of service by Hurricane Ike in September 2008. The entity was formed in October 1998 by Houston Marine Services, Inc., which was owned by Heidmar Group Inc. and a third party. Morgan Stanley Capital Group Inc. acquired Heidmar in September 2006, and Houston Marine Services was acquired by TransMontaigne and merged into TransMontaigne Product Services in December 2008. Charles L. Dunlap is TransMontaigne Product Services' President and CEO.
- TransMontaigne Product Services also operates the Norfolk Drybulk Terminal in Chesapeake, Virginia. The terminal has a storage capacity of 50,000 short tons, and it stores granular fertilizer.

**Question 13:** *For each entity identified in response to Question 11 which your company does not control or own at least 20 percent, please also provide the following information:*

- a) the nature, extent, and initial date of any investment in or contractual relationship with each such entity, including any "supply-and-offtake" arrangement, energy management or energy tolling agreement, lease agreement, or agreement functionally similar to a lease, pursuant to which your company or any affiliate or fund has access to or use of any facilities for production, processing, storage, transportation, or distribution of any physical commodity listed in Question 2;*
- b) the name and job title of the most senior executive at each entity that entered into such an investment or agreement;*
- c) the nature of the services performed by each such entity, including whether it stores, processes, produces, buys, sells, delivers, trades, hedges, or transports the commodity; and*
- d) if relevant, the approximate yearly revenues and profit or loss generated for your company by each such facility for each fiscal year from 2008 to 2012.*

As noted in response to Question 12, the Firm owns at least 20 percent of only one entity identified in response to Question 11: TransMontaigne. All remaining storage facilities listed in response to Question 11 are third-party facilities in which the Morgan Stanley Commodities division has no ownership interest. There are over 170 such entities included in our April 12, 2013 response. With no ownership interest in these facilities, Morgan Stanley's ability to obtain information concerning their operations and revenues is limited.

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**Redacted By**  
**Permanent Subcommittee on Investigations**

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October 17, 2014

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Hon. Carl Levin, Chairman  
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Committee on Homeland Security and Governmental Affairs  
United States Senate  
SR-199 Russell Senate Office Building  
Washington, DC 20510

Dear Chairman Levin and Ranking Member McCain:

We are writing on behalf of Morgan Stanley in response to questions e-mailed by staff on September 26, 2014. Morgan Stanley today is producing additional information in response to staff's questions. Morgan Stanley anticipates providing additional responses to staff's questions under separate cover. We have responded to staff's questions in good faith to the best of our ability based on readily accessible data and information. Given that some of staff's questions relate to events that occurred in the 1980s and 1990s, some responses are based solely on the general recollection of Morgan Stanley employees. Additionally, the responses focus on the activities of the Morgan Stanley Commodities business unit ("Morgan Stanley Commodities"). Should additional or revised data or information responsive to the questions come to light, we respectfully request an opportunity to supplement or amend our response as needed.

Below are responses to questions outlined in your staff's September 26, 2014 e-mail.

\* \* \* \*

1. *Exhibit 1 of an April 12, 2013 letter from Morgan Stanley to the Subcommittee identifies 20 oil storage facilities used by Morgan Stanley and its affiliates in New York, New Jersey, and Connecticut. For each year in the ten year period from 2003 through 2013, please provide the approximate maximum aggregate volume of oil storage capacity provided by the listed storage facilities to Morgan Stanley and its affiliates in New York, New Jersey, and Connecticut. Please indicate, during that same ten-year period, to what extent jet fuel was stored at those facilities.*

Morgan Stanley Commodities began tracking certain aspects of its storage agreements beginning in 2011. Based on these readily accessible but limited records, Morgan Stanley Commodities' approximate maximum aggregate volume of oil liquids storage capacity in New York, New Jersey, and Connecticut was as follows (amounts shown are shell storage capacity):

- 8.2 million barrels in 2011, of which 430,000 barrels were jet fuel shell storage capacity;

- 9.1 million barrels in 2012, of which 630,000 barrels were jet fuel shell storage capacity; and
- 7.7 million barrels in 2013, of which 877,000 barrels were jet fuel shell storage capacity.

While Morgan Stanley Commodities does not have readily accessible records reflecting the aggregate volume of oil storage capacity for 2003 through 2010, we believe that Morgan Stanley Commodities maintained similar storage agreements for refined products in New York, New Jersey, and Connecticut during much of that period. Two specific examples are: (1) agreements to store a maximum of approximately 3.5 million barrels of distillate and gasoline-related products in New Haven, Connecticut, from 2009 to present; and (2) agreements to store a maximum of approximately 2.5 million barrels of distillate and gasoline-related products in Bayonne, New Jersey, from 2009 to present.

3. ***Please confirm that, by 2009, Morgan Stanley owned 100% of the stock of Olco Petroleum Group; from 2009 until 2012, Olco operated as a wholly-owned subsidiary of TransMontaigne; and in 2012, TransMontaigne caused Olco to merge with Canterm Canadian Terminals Inc. so that Olco lost its identity as an independent company and instead operated as part of Canterm. Please confirm that Morgan Stanley's involvement with Canterm Canadian Terminals Inc., which was wholly owned by TransMontaigne Canada Holdings, ended when TransMontaigne was sold in 2014. If any part of these statements is inaccurate, please provide the correct information.***

In December 2006, Morgan Stanley Capital Group Inc., through its wholly-owned subsidiary, TransMontaigne Inc. ("TransMontaigne"), acquired 60% of Olco Petroleum Group, Inc. ("Olco"). At approximately the same time, Olco acquired Canterm Canadian Terminals Inc. ("Canterm"). In September 2008, TransMontaigne acquired the remaining 40% of Olco. By September 2010, TransMontaigne had restructured its Canadian holdings and formed a new holding company, TransMontaigne Canada Holdings Inc. ("TCH"), which directly owned 100% of Canterm and TMG Canadian Holdings L.L.C. ("TMGCH"). TMGCH became the direct owner of 100% of Olco's successor entity, the newly reorganized Olco Petroleum Group ULC. In March 2014, TCH sold Canterm to Vopak Terminals QC Inc. In July 2014, Morgan Stanley Capital Group Inc. sold its interest in TransMontaigne to NGL Energy Partners LP but retained certain assets, including TransMontaigne's interest in TCH. Thus, Morgan Stanley's indirect ownership of Canterm ended approximately four months prior to the sale of TransMontaigne, although Morgan Stanley continues to maintain a storage agreement with Canterm.

4. *Please confirm the accuracy of these revenue and profit figures for the oil liquids desk, which were provided by Morgan Stanley to the Federal Reserve, and add the comparable figures for 2013.*

<b>Fiscal Year</b>	<b>Net revenues*</b>	<b>Profit before tax</b>
2009	1,198	560
2010	822	298
2011	677	173
2012	676	168
2013	<b>503</b>	<b>27</b>

All figures are approximate.

All figures in USD millions.

\*The figures in the "Net revenues" column were provided by Morgan Stanley in Table 3 of a July 16, 2013 letter to the Subcommittee.

\*\* Profit before tax totals do not include compensation deferral impact as required under U.S. Generally Accepted Accounting Principles ("U.S. GAAP").

The revenue and profit figures in the chart above are accurate. Please note, however, that (1) relatively small amounts were reclassified as discontinued operations under U.S. GAAP and (2) multiple commodity interests (*i.e.*, not just oil liquids) were reallocated for internal management reporting purposes from the oil liquids business to other commodities businesses. Additionally, beginning in 2014, the oil liquids business, which previously was recorded as a single entry, was reorganized as the following three business segments: the global oil merchanting unit, Transmontaigne, and the oil liquids client facilitation business. As such, historical information may be presented differently going forward.

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**Redacted By**  
**Permanent Subcommittee on Investigations**

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**Jet Fuel Supply Agreement**

**between**

**Morgan Stanley Capital Group Inc.**

**and**

**United Air Lines, Inc. and  
United Aviation Fuels Corporation**

This Jet Fuel Supply Agreement (this "**Agreement**") is entered into effective as of September, \_\_, 2003, among Morgan Stanley Capital Group Inc. ("**MSCG**"), a Delaware corporation, United Air Lines, Inc. ("**United Airlines**"), a Delaware corporation, and United Aviation Fuels Corporation ("**UAFC**"), a Delaware corporation (United Airlines and UAFC referred to collectively as "**United**" and each of the foregoing referred to individually as a "**Party**" or collectively as "**Parties**").

**WHEREAS**, United desires to have MSCG supply Jet Fuel and maintain Minimum Inventory Levels for United at the Airports and provide other Services beginning on the Commencement Date and throughout the Term of this Agreement;

**WHEREAS**, United desires to sublease to MSCG certain United Infrastructure Agreements, including terminaling and throughput agreements for storage of Jet Fuel at the Airports, and to transfer to MSCG its historical capacity on common carrier pipelines by means of an agency agreement, and MSCG agrees to assume and accept the sublease of such agreements and transfer of pipeline capacity as specified herein;

**WHEREAS**, United desires to have MSCG engage in Third-Party Sales;

**WHEREAS**, [REDACTED]; and

**WHEREAS**, MSCG is willing to supply Jet Fuel and render the foregoing Services to United, pursuant to the terms and conditions contained herein;

**NOW, THEREFORE**, in consideration of the premises and the respective promises, conditions and agreements contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties hereby agree as follows:

**ARTICLE 1**  
**DEFINITIONS AND CONSTRUCTION**

**1.1 Definitions.**

For purposes of this Agreement, including the foregoing Recitals, the following terms shall have the meanings indicated below:

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1.7 The Parties acknowledge that they and their counsel have reviewed and revised this Agreement and that no presumption of contract interpretation or construction shall apply to the advantage or disadvantage of the drafter of this Agreement.

**ARTICLE 2**  
**JET FUEL SALES AND SUPPLIES TO UNITED**

2.1 Sales Generally and Sources of Supply. Subject to the terms and conditions contained herein, commencing on the Commencement Date as to the Airport Locations marked as Phase I Locations on Exhibit 1 and commencing on such later date that is mutually agreeable to the Parties for the Airport Locations marked as Phase II or Phase III on Exhibit 1, and in each case then continuing during the Term of this Agreement, MSCG shall sell and deliver to United to the Airport Locations all of United's (and, to the extent provided in Section 2.1(e), UAX's) actual Jet Fuel requirements and shall maintain the Minimum Inventory Levels at the applicable Airport Locations, and United (and UAX) shall purchase such Jet Fuel. At United's request, MSCG shall sell and invoice any quantity of Jet Fuel to UAFC for resale to United Airlines.

(a) MSCG shall sell the Jet Fuel to United on a daily or on an as-needed basis as it is withdrawn from tankage at the Airport Locations. Except as mutually agreed by the Parties, MSCG shall be responsible only for arranging transportation and delivery of the Jet Fuel into the storage facilities at the Airport Locations, and United shall bear sole responsibility for arranging for transport of the Jet Fuel from the Airport storage facility to the aircraft wing and for aircraft refueling.

(b) MSCG shall work with United to develop and maintain a long-term supply plan designed to minimize the cost of Jet Fuel to United (subject to and consistent with the terms and provisions of Article 5 and Article 7) and to optimize reliable and efficient supply of Jet Fuel to United over the Term of this Agreement.

(c) MSCG shall arrange for the Jet Fuel delivered to an Airport Location to be discharged into (i) tankage covered by a United Infrastructure Agreement or by agreements that MSCG may enter into relating to storage of Jet Fuel or (ii) commingled tankage operated by fuel consortia or an airport authority to which MSCG is granted open access rights.

(d) [REDACTED].

(e) If UAFC so elects in writing, MSCG shall supply Jet Fuel requirements to carriers that operate under the designation "United Express" ("UAX") at all Airport Locations. At any time after the date that is 60 days after the Commencement Date (or such earlier or later date as the Parties may mutually agree), on UAFC's written instruction, MSCG shall make sales at Bulk Supply Locations pursuant to this Section 2.1(e) directly to the applicable UAX carriers on the same terms and conditions as contained in this Agreement, and shall invoice and collect monies owed with respect to such sales directly from each applicable UAX carrier.

(f) [REDACTED].

**Redacted By**  
**Permanent Subcommittee on Investigations**

2.8 Title and Risk of Loss. Title and risk of loss to the Jet Fuel delivered to United at an Airport Location shall pass from MSCG to United when the Jet Fuel is removed from the storage facility at the Airport Location.

2.9 Warranty. MSCG hereby warrants that the Jet Fuel delivered pursuant to this Agreement shall, at the time of delivery to any storage facility located at an Airport Location Infrastructure Agreements, meet the Specifications. MSCG further warrants that it shall convey good title to all Jet Fuel sold hereunder and that such Jet Fuel shall be delivered to United free and clear of any Lien.

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**Permanent Subcommittee on Investigations**

**Redacted By**  
**Permanent Subcommittee on Investigations**

5.5 Spot Local Supply Agreements. MSCG shall negotiate and perform all Spot Local Supply Agreements as may be necessary to meet United's Operating Fuel Requirements at an Airport Location, taking into consideration the volume of Term Local Supply, if any, at such Airport Location.

5.6 Resale of Term Local Supply. Subject to United's consent, MSCG may sell any Jet Fuel that MSCG is required to purchase under a Term Local Supply Agreement in excess of United's Operating Fuel Requirements to a third party, on such terms and at a price within its sole discretion. Any such resale of Term Local Supply shall be considered to be a Trading Transaction subject to the provisions of Article 4. [REDACTED]

**Redacted By**  
**Permanent Subcommittee on Investigations**

6.2 Transfer of Historical Pipeline Capacity. Pursuant to Section 365 of the Bankruptcy Code, United shall transfer to MSCG, by means of agency agreements, its historical pipeline capacity on certain pipelines, as identified in Exhibit 18, and shall provide MSCG with evidence of each pipeline company's consent. Upon the termination of this Agreement, MSCG shall return to United, through a termination of the agency agreements, the pipeline capacity history on such pipelines that it received from United in the amount originally transferred, adjusted for (i) any actual increases in historical pipeline capacities on such pipelines since the Assumption Date that result from MSCG utilizing such pipelines to supply any increases in the United's Jet Fuel requirements or Minimum Inventory Levels served by such pipelines or the addition of Airport Locations under Section 2.3 and (ii) any decreases due to deletions of Airport Locations under Section 2.3 or decreases in United's Jet Fuel requirements at any Airport Location.

**ARTICLE 7**  
**[REDACTED]**.

7.1 **[REDACTED]**.

7.2 **[REDACTED]**.

7.3 **[REDACTED]**.

7.4 **[REDACTED]**.

7.5 **[REDACTED]**.

7.6 **[REDACTED]**.

**ARTICLE 8**  
**[REDACTED]**.

8.1 **[REDACTED]**.

8.2 **[REDACTED]**.

8.3 **[REDACTED]**.

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**Redacted By**  
**Permanent Subcommittee on Investigations**

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Redacted By  
Permanent Subcommittee on Investigations

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ARTICLE 10  
TERM OF AGREEMENT

10.1 Initial Term. This Agreement shall become effective on the Effective Date and shall continue for three years from the Commencement Date (“**Initial Term**”).

10.2 Renewal. Unless either Party provides notice to the other Party not later than six months prior to the expiration of the Initial Term of its intention to terminate this Agreement, the Agreement shall be automatically renewed at the end of the Initial Term for an indefinite term (the “**Renewal Term**”). At any time during the Renewal Term, either Party may terminate this Agreement by providing notice to the other Party, such termination to be effective on the date that is two years following receipt of notice thereof. Following any termination pursuant to this Section 10.2, the Parties shall perform their obligations relating to termination pursuant to Article 19. The Initial Term together with the Renewal Term shall be the “**Term**.”

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Permanent Subcommittee on Investigations

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September 29, 2014

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Hon. Carl Levin, Chairman  
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United States Senate  
SR-199 Russell Senate Office Building  
Washington, DC 20510

Dear Chairman Levin and Ranking Member McCain:

We are writing on behalf of Morgan Stanley in response to questions e-mailed by staff on September 16, 2014 and September 23, 2014. Morgan Stanley anticipates providing additional responses to staff's questions under separate cover. We have responded to staff's questions in good faith to the best of our ability based on readily accessible data and information. Should additional or revised data or information responsive to the questions come to light, we respectfully request an opportunity to supplement or amend our response as needed.

Below are responses to questions outlined in your staff's September 16, 2014, and September 23, 2014 e-mails for which Morgan Stanley has relevant information.

For approximately the last 15 years, Morgan Stanley has served Emirates Group ("Emirates") by providing a range of banking services to assist in the operation of its successful global airline. One core service provided was financially-settled commodity hedges to provide security against disruptive price movements in the markets. Emirates is a sophisticated market participant that, over the course of its relationship with Morgan Stanley, has worked with the firm to design customized financial products to help it manage complex commodity market risks. Throughout this process, Morgan Stanley operated prudently to manage its risk and conform with all legal and regulatory obligations. After reviewing the available market participants to determine who could meet its needs, Emirates chose to work with Morgan Stanley to manage critical commodity risk exposure.

\* \* \* \*

- *Is it accurate that Morgan Stanley's commodities division participated in a series of crude oil hedges with the Emirates Airline from the United Arab Emirates (UAE), to manage the airline's jet fuel price risk?*

Yes.

- *The hedges were designed and executed by Morgan Stanley's London energy options trading desk.*

Traders based in London and New York offered the product to meet Emirates' views that prices would move within a certain range.

- *The hedges were called "cap-swap double-down extendable" hedges. They involved put and call options as well as other financial instruments.*

The hedges consisted of put options, call options, contracts for differences, and a financial transaction sometimes called a "capped double-down swap" that upon exercise resulted in a combination of a swap and two option positions. Other terms may have been used informally.

- *The hedges were used by the airline for a number of years, from at least 2004 to 2008.*

Yes.

- *The hedges used a set of option contracts to set the expectation that crude oil would trade within a \$30 price range, with the exact prices varying from year to year based on crude oil market prices. If crude oil prices stayed within the specified dollar range, the airline achieved significant cost savings on crude.*

Morgan Stanley agreed on a range with Emirates in line with Emirates' view as to likely oil price movements.

- *At some point, another set of options contracts widened the price range to about \$50.*

The maximum option contract price range between December 2006 and January 2008 was \$39.20.

- *Can you provide a better description of the series of hedges and their component options and swaps?*

Following discussions between Morgan Stanley and Emirates regarding their view on the market and hedging requirements, the entities entered into a financial transaction called a "capped double-down swap." This is a combination of a swap and two option positions where Emirates would buy the swap and sell both a call option and a put option. The effect of selling the call option at a higher strike price would be that the swap protection would then be limited to the difference between the swap price and the call strike price, when prices move above the call strike. The strike price of the put option that is sold is set at the same level as the swap price. The effect of this is that Emirates would be paying out on double the volume hedged when market prices are below the swap price. The premiums generated from the sale of both the call and put options would be embedded into the swap to give a significantly lower swap price than would

otherwise be achieved. The swap price was further reduced in return for Morgan Stanley having the right to extend the structure for an additional one or two years.

- *Each year the hedge was rolled into the new year and reinstated with new price targets.*

No.

- *In 2008, crude oil prices suddenly increased and exceeded the \$120 upper price limit specified in the 2008 hedge.*

The highest price for financially-settled 2008 commodity hedges with Emirates was \$110.

- *Crude oil prices peaked in July 2008 at \$147 and then, over five months, plunged to less than \$70, the lower price limit specified in the 2008 hedge.*

The lowest price for financially-settled commodity hedges with Emirates was \$27.85 for trades initiated between 2004 and 2008 and priced in 2008.

- *At that point, in November 2008, under the hedge, the airline was obligated to buy crude oil from Morgan Stanley at \$70 per barrel, when it was selling in the market for about \$50 per barrel.*

The hedge contracts enabled Emirates to purchase jet fuel from any counterparty, at the prevailing market price. Emirates had an obligation to Morgan Stanley to make cash settlements when the market price of crude oil was below the fixed/strike prices in the various hedge contracts.

- *In early 2009, with crude oil prices in the \$40 range, John Mack and two Morgan Stanley employees flew to Dubai to meet with Emirates Airline management. They met with Sheikh Mohammed bin Rashid, the ruler of UAE, and his uncle Sheikh Ahmed bin Saeed Al Maktoum, head of the airlines. Who were the other two MS employees who flew to Dubai?*

A meeting took place in November 2008 between Sheikh Ahmed bin Saeed Al Maktoum, John Mack, George Makhoul, and Marc Mourre.

- *The UAE ruler told the Morgan Stanley representatives that the state would provide financial assistance to the airlines if necessary.*

The Investment Company of Dubai provided a credit guarantee in January 2009.

- *The airline reported fuel-hedging losses of \$428 million in the latter half of 2008 and first half of 2009. Did the airline pay \$428 million to Morgan Stanley? What was the total it paid to Morgan Stanley under the 2008 hedge?*

Emirates paid Morgan Stanley a net of approximately \$440 million for crude oil hedges settled between July 1, 2008, and June 30, 2009. Emirates paid Morgan Stanley a net of approximately \$330 million for the crude oil hedges priced between January 1, 2008 and December 31, 2008.

- *Did the airline stop using the hedge in 2009?*

Hedging activity was reduced in 2009, but some hedges involving financially-settled products continued until 2012.

- *Did Morgan Stanley ever supply the Emirates Airline with jet fuel? If so, please provide details.*

Since 2010, Morgan Stanley has supplied Emirates with physical jet fuel at some U.S. airports.

- *Does Morgan Stanley still enter into hedges with the Emirates Airline to reduce its price risk for jet fuel? If not, when did the relationship end?*

The last hedge trades involving financially-settled products were executed in September 2011, and the last pricing period was March 2012.

\* \* \* \*

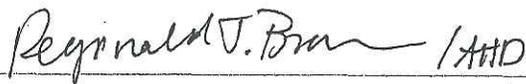
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Redacted By  
Permanent Subcommittee on Investigations

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Thank you for the opportunity to provide this response.

Sincerely,



Reginald J. Brown  
Alyssa DaCunha

October 9, 2014

Via Email

The Honorable Carl Levin  
Chairman  
Permanent Subcommittee on Investigations  
SR-199 Russell Senate Office Building  
Washington, DC 201510

The Honorable John McCain  
Ranking Member  
Permanent Subcommittee on Investigations  
SR-199 Russell Senate Office Building  
Washington, DC 201510

Dear Chairman Levin and Ranking Member McCain:

On behalf of our client, Emirates, we are providing additional information as a follow up to our meeting with your staff on October 1, 2014 and in response to the additional questions we received after that meeting.

Given the breadth of the questions and the length of time they cover, our client is still in the process of collecting relevant information to provide to the Subcommittee. We set forth below answers to questions about jet fuel purchases. By early next week, we anticipate having more detailed information about our client's hedging operations.

***Jet Fuel Purchases***

As we confirmed for your staff in our meeting on October 1, jet fuel is the biggest single operational expense for the company. Emirates maintains flight operations at nine U.S. airports, including Washington Dulles (IAD), Los Angeles International (LAX), and San Francisco International (SFO). Last financial year, for example, the company purchased approximately \$US 8.53 billion of jet fuel around the world.

October 9, 2014

In our meeting and through a series of emails, we were asked about the extent to which our client purchases jet fuel from Morgan Stanley and the nature of that relationship. We hope the following answers are helpful in putting the issue in context.

- How did Morgan Stanley get started supplying jet fuel to the airline? Did Morgan Stanley propose it?

Morgan Stanley participated in a competitive tender for the supply of jet fuel to Emirates at LAX in 2010 and was awarded the contract. Emirates approached Morgan Stanley to participate in that tender as Emirates was aware that Morgan Stanley already was a physical supplier of jet fuel at the airport.

- Of the ten or so US airports used by your airline, how many get jet fuel delivered by Morgan Stanley?

Morgan Stanley currently provides jet fuel to Emirates at LAX, SFO, and IAD. The supply contracts at all three airports are due to expire on October 31, 2014.

- Does the airline have other suppliers of jet fuel in the US?
  - If so, who?
  - If not, who were its key suppliers in the US before Morgan Stanley?

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**Permanent Subcommittee on Investigations**

- Does your airline have a long-term supply contract with Morgan Stanley?
  - If so, please describe its major features.
  - If not, please describe what contractual or other arrangements you use to obtain jet fuel from Morgan Stanley?

Emirates' current agreements with Morgan Stanley for the physical supply of jet fuel at each of the three airports are for two-year terms, all due to expire on October 31, 2014. The contracts cover specific terms as to location, duration, estimated volumes, and price. The contracts are based on a combination of the Morgan Stanley General Terms and Conditions and the Emirates General Terms and Conditions, which is standard practice in the industry.

October 9, 2014

- Does Morgan Stanley deliver the jet fuel to particular airports for your airline?
  - If so, which airports?
  - If not, where does it deliver the jet fuel?

Yes, Morgan Stanley supplies jet fuel at the three airports referred to above: LAX, SFO, and IAD. Delivery of the jet fuel is undertaken from the airport storage tanks, through each airport's hydrant system, directly into the aircraft.

- Our understanding is that Morgan Stanley has been providing physical jet fuel to the Emirates Airline in the United States since 2010. Can you confirm?
  - To the extent you are able to provide written information on that issue, it will shorten the call.
  - About how much fuel per year from 2010 to 2013 did your airline obtain from Morgan Stanley?

Morgan Stanley has been supplying jet fuel to Emirates at LAX since 2010 and at SFO and IAD since 2012. Morgan Stanley supplies approximately 15 million gallons per annum at LAX, approximately 15 million gallons per annum at SFO, and approximately 12 million gallons per annum at IAD.

- What are the insurance arrangements for the jet fuel while in transport?

The point of purchase of jet fuel by Emirates is at the airport fuel facility. As a result, Emirates is not involved in any insurance arrangements that Morgan Stanley may have relating to transport of the jet fuel to the airport or elsewhere.

#### ***Fuel Hedging Operations***

As we advised your staff in our October 1 meeting, Emirates no longer engages in fuel hedging operations. Our client is still in the process of gathering information responsive to your questions regarding its historic hedging operations. As noted above, we anticipate being able to provide that information early next week.

Squire Patton Boggs (US) LLP

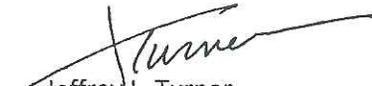
October 9, 2014

If you have any additional questions and are unable to reach me for any reason, please contact my partner, Mitchell R. Berger, whose phone number is 202-457-5601 and whose email address is [mitchell.berger@squirepb.com](mailto:mitchell.berger@squirepb.com).

Thank you again for the opportunity to provide this submission to assist you in your investigation.

Sincerely yours,

Squire Patton Boggs (US) LLP

  
Jeffrey L. Turner

October 14, 2014

Via Email

The Honorable Carl Levin  
Chairman  
Permanent Subcommittee on Investigations  
SR-199 Russell Senate Office Building  
Washington, DC 201510

The Honorable John McCain  
Ranking Member  
Permanent Subcommittee on Investigations  
SR-199 Russell Senate Office Building  
Washington, DC 201510

Dear Chairman Levin and Ranking Member McCain:

On behalf of our client, Emirates, we are providing additional information as a follow up to our meeting with your staff on October 1, 2014 and in response to the additional questions we received after that meeting. This letter supplements our letter of October 9, 2014.

1. Is jet fuel the biggest single operational cost for Emirates Airlines? How big an expense is it on an annual basis?

As we confirmed for your staff in our meeting on October 1 and indicated in our letter of October 9, jet fuel is the biggest single operational expense for the company. For the financial year ended March 2014, the cost of jet fuel totaled US\$ 8.35 billion and represented 39% of Emirates' operating costs.

2. What are Emirates Airlines' hedging goals and about how much does Emirates Airlines typically have to hedge?

Since 2009, Emirates' strategy has been to remain unhedged. As disclosed in the company's latest annual report (page 52), this strategy reflects a view that the balance of risk is considered greater to the downside given historic high jet fuel price levels.

October 14, 2014

Prior to 2009, Emirates was more active in its fuel hedging and utilized commodity futures and options to achieve a level of control over jet fuel costs, with the aim that profitability would not be adversely affected if prices rose, nor would the business be denied the benefits if prices fell.

3. How does Emirates Airlines typically hedge your expenses for jet fuel?

The following responses relate to the period prior to 2009, as Emirates is currently not engaged in any fuel hedging.

a. What products do Emirates Airlines use?

Emirates has used a variety of products over the years, including swaps, range swaps, put options, call options, three way options, backwardation swaps, contango swaps, cap double down, crack spread swap, gas oil swap, and range collar/swap.

b. Does Emirates Airlines trade OTC or in exchange listed and cleared products?

Emirates traded over-the-counter products.

c. What are the typical trade sizes for your hedges?

Emirates used a variety of volumes, but most commonly would trade in sizes of 100,000 to 200,000 barrels of West Texas Intermediate (WTI) per month.

d. What are the typical tenors?

The tenors varied, but most commonly were for 12 months.

e. Does Emirates Airlines record hedges in your P&L? If so, how?

Yes, hedges are recorded in the P&L. Emirates follows International Financial Reporting Standards and, in relation to fuel hedging, it applies International Accounting Standard 39. Gains or losses on transactions that qualify as cash flow hedges are recorded in the P&L when the hedged transaction occurs. If transactions do not qualify for cash flow hedging, then changes in the fair value are charged to the P&L immediately.

4. With whom does Emirates Airlines typically hedge your jet fuel expenses? Is it always a bank?

October 14, 2014

Emirates typically hedged its jet fuel expenses with banks. Emirates has used a number of counterparties in the past, including Morgan Stanley, Barclays, JP Morgan, and Calyon.

5. Did Morgan Stanley ever provide Emirates with physical jet fuel or did it provide only financial hedges? Please explain.

As further described in our letter of October 9, Morgan Stanley currently supplies physical jet fuel to Emirates at three airports in the United States. This physical supply of jet fuel was subject to a public tender process and is unrelated to our client's previous fuel hedging transactions with Morgan Stanley.

6. How did Emirates Airlines contact with Morgan Stanley begin?

- a. Who initiated contact with whom?

Emirates has been transacting with Morgan Stanley for over a decade, so it is difficult for our client to ascertain exactly how contact was first initiated. Emirates was/is regularly approached by banks offering services, including fuel hedging, and Morgan Stanley was one of a few banks that was used for such services.

- b. Did Emirates Airlines discuss a similar arrangement with other banks? Are you aware of Morgan Stanley having a similar arrangement with any other airlines?

Emirates has used a number of other banks for fuel hedging arrangements, as mentioned above. Our client also is aware that Morgan Stanley was a counterparty with other airlines in fuel hedging transactions, but our client is not privy to any information regarding other airlines' fuel hedging arrangements.

7. Is it accurate to say that Morgan Stanley's commodities division participated in a series of crude oil hedges with Emirates Airlines to manage the airline's jet fuel price risk?

Morgan Stanley participated in many crude oil hedges with Emirates. These hedges were entered into over many years, for different time periods, using a variety of products, and so were not just one series of transactions.

- a. Please describe how the hedge functioned.

As mentioned above, Emirates had numerous transactions in place with Morgan Stanley at any one point in time, entered into in different years, covering different periods into the future. For example, in early 2009 our client had transactions entered into in 2006 to 2008 covering periods up to 2013.

October 14, 2014

- i. What was the airline's role, if any, in devising and implementing the hedge?

The hedge products and pricing were devised by Morgan Stanley and presented to Emirates. Emirates decided which of these products best matched its needs, and for what timeframe, and so it was ultimately responsible for implementing the hedge.

- ii. How long was it in place?

As mentioned above, Emirates had multiple hedges in place at any one time, covering multiple future periods.

- iii. How many times was it extended?

Emirates had a number of deals with extension options. Some, but not all, of these options were exercised across different years. The extension options were typically exercisable at one point in time (usually the year-end) with the exercise of the extension dependent upon future prices at that point in time. These options were for periods from 2008 to 2012.

**Redacted By**  
**Permanent Subcommittee on Investigations**

Emirates used cap-swap double-down extendable hedges as a part of its fuel hedging strategy.

- vii. Did Emirates Airlines make money from the hedge in most years? How much?

October 14, 2014

Emirates did make money from its fuel hedging in most years. For example, in the three years preceding the 2008/9 financial year, Emirates' fuel hedging program reduced the airline's fuel bill across that period by over \$600 million (as disclosed in the respective annual reports).

b. Is it correct that in 2008, Emirates Airlines suddenly had to pay money for the hedge to Morgan Stanley?

It is not correct to say that Emirates suddenly had to pay money for the hedges. The settlement of the fuel hedge trades took place on a monthly basis over the period for which the fuel was hedged. While the dramatic fall in prices in 2008 increased the amounts paid by Emirates across these hedges, there was no sudden payment required.

i. How did that happen?

ii. Is it correct that, in 2008, the airline ended up paying about \$428 million to Morgan Stanley under the hedge? [The Secret Club That Rules the World, at 83.]

In our client's 2008/9 financial year (April 1, 2008 to March 31, 2009), Emirates took a charge of \$428 million in its P&L for losses on its fuel risk management program. This charge represents the accounting value of losses, which will not exactly match the cash settlement amounts paid during the same period due to timing differences in settlement. The losses also included counterparties other than Morgan Stanley.

ii. Was this an unusual loss for Emirates Airlines?

Yes, it was unusual. It was the first year since the program had started in which a loss was recorded.

iii. Did this loss threaten the finances of Emirates Airlines?

No. The loss was large and had a material impact on Emirates' annual profit for that financial year, but it did not threaten the long-term financial viability of the airline.

8. Please describe the circumstances surrounding Morgan Stanley's margin call in November 2008.

Emirates' fuel hedging trades with Morgan Stanley were commercial arrangements entered into on industry standard terms, similar to arrangements Emirates used with other banks for fuel hedging transactions. Under these terms, Emirates was required to post collateral (also referred to as a margin call) to the extent that the mark to market value (MTM) of the program exceeded an agreed collateral-free threshold of US\$50 million. With the dramatic drop in fuel prices in

October 14, 2014

2008, there was a need to provide collateral to Morgan Stanley in the form of letters of credit (LCs) from Emirates' bankers and/or cash deposits.

a. How much was the margin call reduced?

The margin call was never reduced; this was always based upon a calculation of the MTM value of the program, which was calculated on a weekly basis throughout the duration of the trades. The discussions that took place between Emirates and Morgan Stanley were around the composition of collateral for the margin call, which ordinarily would be met by LCs from banks. As a result of the global banking crisis, LCs from a number of banks used by Emirates, particularly Dubai banks, were no longer acceptable to Morgan Stanley from a credit perspective. Lengthy negotiations took place on finding an acceptable mix of local and international banks to provide LCs for collateral.

b. When was the lower amount put into effect?

As referred to above, there was no negotiation to reduce the margin call in 2008. However, over time as the price of oil stabilized, the MTM value of the program reduced and the overall amount of collateral required to be provided to Morgan Stanley was also reduced in line with these MTM values.

9. We understand that in early 2009, Morgan Stanley's CEO (John Mack) and two senior executives flew to Dubai to meet with airline management and the Sheikh Mohammed bin Rashid Al Maktoum. [The Secret Club That Rules the World, at 81.] Is this correct? Can you discuss the nature of these meetings? Is it true that Sheikh Mohammed bin Rashid Al Maktoum assured Morgan Stanley's executives that the state would provide financial assistance to the airlines if necessary?

Our client understands that such a meeting may have taken place, but Emirates' executives were not informed about the content of the meeting. Our client also believes that executives from other major international banks may also have visited Dubai during 2008/2009.

10. Did the airline stop using the hedge in 2009?

Emirates did not enter into any new fuel hedge trades after 2009. The existing trades with Morgan Stanley were settled as and when they became due.

11. How did it handle its jet fuel hedges after that? Still used MS?

After 2009, Emirates shifted its strategy to an unhedged position, so it has not been hedging with any counterparty.

October 14, 2014

12. What is the current relationship between Morgan Stanley and Emirates Airlines?

Emirates is no longer hedging its fuel costs and so it is not trading with Morgan Stanley on the fuel side. Morgan Stanley continues to provide Emirates with information and updates about the oil market, as do other major financial institutions, but our client has no plans to begin hedging with Morgan Stanley at this time.

Emirates currently has no active transactions with Morgan Stanley, other than the supply of physical jet fuel referred to above.

13. Do you believe Emirates Airlines was treated fairly by Morgan Stanley? Why or why not?

Emirates and Morgan Stanley had a commercial relationship and Emirates entered into transactions with Morgan Stanley based upon its own assessment of the risks. Emirates continued to speak to other banks throughout this period and benchmarked the products and services offered by Morgan Stanley against corresponding offers from other banks. Throughout the duration of the fuel hedging transactions, there were regular meetings between Emirates and Morgan Stanley where briefings were provided about the operation of the hedges and the impact of potential variations in the prices of oil on the program going forward.

If you have any additional questions and are unable to reach me for any reason, please contact my partner, Mitchell R. Berger, whose phone number is 202-457-5601 and whose email address is [mitchell.berger@squirepb.com](mailto:mitchell.berger@squirepb.com).

Thank you again for the opportunity to provide this submission to assist you in your investigation.

Sincerely yours,

Squire Patton Boggs (US) LLP



Jeffrey L. Turner

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**NOTICE**

to the

**BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM**

by

**JPMORGAN CHASE & CO.**

**Pursuant to Section 4(k)(1)(B) of the  
Bank Holding Company Act of 1956,**

**as amended, and**

**12 C.F.R. §225.89**

**Submitted**

**July 21, 2005**

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**NOTICE**  
**to the**  
**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**(the “Board”)**  
**by**

**JPMORGAN CHASE & CO.**

**Pursuant to Section 4(k)(1)(B) of the  
Bank Holding Company Act of 1956,  
as amended (the “BHCA”), and  
Section 225.89 of the Board’s Regulation Y**

JPMorgan Chase & Co. (“*JPM Chase*”) respectfully gives notice to the Board, pursuant to Section 4(k)(1)(B) of the BHCA, that JPM Chase intends to expand its current trading activities in commodities derivatives contracts based on nonfinancial assets by entering into contracts that may require JPM Chase to make or take physical delivery of, or store, commodities, as further described in Section II.A.1. below. In order to expand its current trading activities in this manner, JPM Chase asks the Board to grant it the approval given by the Board to Barclays Bank PLC, UBS AG and Citigroup under Section 225.89 of the Board’s Regulation Y to purchase and sell commodities in the spot market and to make and take physical delivery of, or store, commodities to settle commodities derivatives contracts based on nonfinancial assets (the “*Complementary Activities*”) worldwide.<sup>1</sup> JPM Chase asserts that its exercise of the Complementary Activities would be complementary to a financial activity and would not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally.

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<sup>1</sup> Barclays Bank PLC, 90 Fed Res. Bull. 511 (2004) (*the “Barclays Order”*); UBS AG, 90 Fed. Res. Bull. 215 (2004) (*the “UBS Order”*); Citigroup, 89 Fed. Res. Bull. 508 (2003) (*the “Citigroup Order”*).

**I. Background**

JPM Chase is a financial holding company engaged primarily in banking, investment banking and asset management. Its lead bank subsidiary, JPMorgan Chase Bank, N.A. ("JPMCB"), is a national bank chartered by the Office of the Comptroller of the Currency ("OCC") offering a wide range of banking services to its customers, both domestically and internationally. JPMCB is one of the world's leading derivatives dealers, with a growing focus on commodities derivatives activities.

JPMCB engages in financially settled swaps, options, forwards and structured transactions involving the following commodities: oil and oil-based products, natural gas, base metals, precious metals, agricultural and soft commodities, and commodity indices. JPMCB currently has approximately 40 front office employees involved in commodities trading activities, and that number is expected to grow to 55 by year-end.

JPMCB engages in commodities derivatives activities pursuant to authority granted to its predecessor institutions, Morgan Guaranty Trust Company of New York, The Chase Manhattan Bank and Bank One, NA, by the New York State Banking Department and the OCC. As required by those approvals, JPMCB's commodity derivatives activities are customer-driven and are subject to comprehensive policies and procedures addressing all risks arising from the approved commodities derivatives activities. In addition, JPMCB's role is limited to acting as financial

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intermediary and it may not make or take of physical delivery of any commodity except as an incident to that role.

In the fall of 2003, the JPM Investment Bank Executive Committee decided to expand the energy business. The desire to expand is driven by developments in the market that introduce opportunities, and increase demand, for financial intermediation. Financial firms, such as JPM Chase, have a unique opportunity to enter the trading arena, as the collapse of many of the trading participants has resulted in significant demand for creditworthy firms capable of providing energy-linked trading products and risk management solutions to investment-grade clients. JPM Chase has existing relationships with many of these clients and can assist them with management of their energy and power risks.

In light of this, JPM Chase now proposes to expand its commodities derivatives activities to include physical transactions in the natural gas, crude oil and emissions allowance<sup>2</sup> markets in the United States and will use JPMorgan Ventures Energy Corporation ("JPMVEC") to facilitate the expansion of its physical energy trading business. Some of these transactions will require JPMVEC to make or take

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<sup>2</sup> An emission allowance is an intangible right granted by the Environmental Protection Agency ("EPA") to release one ton of pollution during a given year (the "vintage year") or any year thereafter. An allowance can be bought, sold or exchanged by individuals, brokers, corporations or government entities. JPM Chase plans to provide derivative products linked to publicly available emission allowance price indices, such as NOX SIP call allowances and the EPA Acid Rain Program SO2 allowances, to enable its customers to manage more effectively the costs of emission allowances.

physical delivery of, and in some instances store, natural gas, crude oil, or emissions allowances, as described in more detail below in Section II.A.1.<sup>3</sup>

## II. Discussion

### A. Identify and define the proposed complementary activity, specifically describing what the activity would involve and how the activity would be conducted. (*Section 225.89(a)(1)*)

#### 1. Description of the Complementary Activities

JPM Chase proposes to engage in the Complementary Activities as a complement to its current trading activities in commodities derivatives contracts based on nonfinancial assets (the “*Existing Business*”).<sup>4</sup> The Complementary Activities will expand the Existing Business to include entering into contracts that may require JPM Chase to make or take physical delivery of, or store, commodities (the “*Expansion*”). Initially, JPM Chase intends only to make or take delivery of, or store, natural gas, crude oil and emissions allowances (each, a “*Physical Commodity*”, and collectively, the “*Physical Commodities*”), but may in the future expand into other physical commodities. The Expansion will consist of trading the Physical Commodities in the spot market, entering into physically settled commodities derivatives contracts and entering into

<sup>3</sup> JPMCB has applied to the OCC for approval to enter into (i) cash-settled derivative transactions in natural gas, crude oil, power, coal and emissions; (ii) physically-settled transactions in the form of transitory title transfers in natural gas, crude oil, power, emissions and coal; and (iii) physical commodity transactions in natural gas, crude oil, coal and emissions as an incident to its commodities derivatives activities. A copy of JPMCB’s application to the OCC, including responses to questions asked by staff of the OCC, is included in Confidential Annex A.

<sup>4</sup> The Existing Business conforms to the requirements of Section 225.28(b)(8)(ii)(B) of the Board’s Regulation Y.

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structured financing transactions to assist its customers in managing their commodities risk.

*Trading Activities.* JPM Chase intends to engage in trading of swap, option, forward, futures and similar contracts as principal with counterparties to buy and sell the Physical Commodities. Many of JPM Chase's contracts will close out on a financial basis without requiring delivery of the Physical Commodities, or JPM Chase will take title to the Physical Commodities as a participant in a delivery chain as legal title is transferred "instantaneously" from party to party. In other circumstances, to the extent applicable, JPM Chase will arrange to transport the Physical Commodities from one marketplace to another marketplace on an instantaneous transfer basis by entering into agreements with third-party pipeline operators to transport the Physical Commodities. Each of these transactions would be permissible under Regulation Y as cash-settled or instantaneous transfer transactions.

There may be periods of time, however, with respect to certain of the Physical Commodities, when JPM Chase's withdrawals from and deliveries to a pipeline at a specific delivery point are not balanced. Such imbalances may occur because a counterparty fails to deliver or receive a Physical Commodity sold to it by JPM Chase. The Complementary Activities may include managing such short-term imbalances by utilizing the imbalance management service (known generally as a "park and loan service") provided as part of pipeline tariffs to enable market participants to manage operational imbalances and avoid imbalance charges. When utilizing these services, JPM Chase will take title to the Physical Commodity for a relatively short period of time.

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*Storage Transactions.* The Complementary Activities also may include long-term park transactions whereby JPM Chase would deliver a Physical Commodity to a pipeline that would hold the Physical Commodity in a JPM Chase account for redelivery in some forward timeframe, *e.g.*, the following month. JPM Chase might choose to enter into such a transaction to hedge another of its positions, thereby capturing the “spread” between the current market price and that of a forward obligation.

JPM Chase also may elect to enter into a Physical Commodity storage arrangement with a pipeline or storage facility wherein JPM Chase would cause to be delivered a pre-determined quantity of a Physical Commodity pursuant to an “injection” schedule. That Physical Commodity would be held in the storage field (in the possession and control of the pipeline or storage operator) under a JPM Chase account for “withdrawal” on a predetermined schedule. This type of transaction would allow JPM Chase to inject the Physical Commodity into an account during a period when prices may be lower, which then could be sold into the market during periods of higher demand and, presumably, higher prices.

*Structured Financing Transactions.* JPM Chase also intends to participate as principal in structured financing transactions on behalf of its clients. Such transactions could require JPM Chase to hold title to Physical Commodities or to interests in physical reserves or inventories and would include storage monetization transactions, Volumetric Production Payment transactions (a “VPP”) and inventory financings.

*Spot Emissions Allowances.* JPM Chase intends to purchase and hold spot emissions allowances as hedges for emission derivative contracts or to generate revenue

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and improve its understanding of the emissions allowance market, enabling it to better serve its customers. In addition, JPM Chase intends to take physical delivery of emissions allowances in settlement of emissions derivative contracts. Emissions allowances are held in "book entry" form in an account at the EPA or other government agency and are transferred via allowance transfer forms. Additional information regarding the market and settlement procedures for emissions allowances may be found in the OCC Application included in Confidential Annex A.

2. Rationale for Expansion

The Expansion is a natural avenue for growth for the Existing Business. Increasingly, customers for commodities risk management services prefer to work with a single provider who can structure transactions for all of the major types of commodities using the full range of structures, including upon occasion structures that require the taking of physical delivery, or storage, of commodities. As in any competitive market, JPM Chase must be able to provide these services in a cost-effective and efficient manner that is consistent with existing market practice. In short, to be an effective competitor in the market for commodities risk management services, JPM Chase must have the capability and flexibility to engage in the Complementary Activities. A further discussion of the rationale behind the Expansion and the ways in which it will complement the Existing Business is provided below in Section II.B.

3. New Product Approval Process

The expansion into physically-settled commodities derivatives will go through a rigorous new product approval ("NPA") process. The NPA process will verify

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that the risks associated with the Complementary Activities are identified, analyzed, understood and documented with control processes in place prior to introduction. Responsibility and accountability will be defined at each step of the process with critical personnel and procedures in place prior to the launch of the Complementary Activities. NPA documentation for the Complementary Activities is in the process of being prepared. Concurrently, the front office is in the process of introducing the product and the key risks to staff areas, and this coupled with the NPA process will ensure that risk management and control issues are identified and addressed in a timely manner. The NPA documentation relating to JPMVEC's SO2 emissions allowance trading has been completed and a copy is included in Confidential Annex B. A copy of JPMCB's New Product Approval Policy is included in Confidential Annex C.

4. Organization of Commodities Trading Activities

A business organization chart showing the entities that will participate in the Complementary Activities is attached hereto as Confidential Annex D. The counterparty with respect to the Complementary Activities will be JPMVEC. On a counterparty by counterparty basis, JPM Chase may guarantee JPMVEC's obligations arising from the Complementary Activities.

JPMVEC front office employees will also be employees of JPMCB. Administrative and operational support for JPMVEC will be provided by JPMCB under a service agreement. Fees paid by JPMVEC pursuant to the service agreement will be equal to the actual costs incurred by JPMCB in providing those services plus a mark-up, which will be negotiated with JPMVEC. The fee arrangement and other terms and

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conditions of the JPMVEC service agreement will be at least as favorable to JPMCB as those in the service agreements with its other affiliates.<sup>5</sup>

JPMVEC also will have the authority to execute specified transactions with pre-approved counterparties on behalf of JPMCB and may engage in transactions with JPMCB to hedge JPMCB customer-driven transactions. The agency relationship between JPMVEC and JPMCB will be memorialized in a written agreement that will allow JPMVEC to negotiate with pre-approved third parties regarding the type, size and price of a commodity derivatives transaction for the account of JPMCB. In each case, JPMVEC will execute a transaction on behalf of JPMCB, subject to verification by JPMCB that the transaction conforms to agreed parameters and includes an approved counterparty. JPMCB will then enter into a perfectly matched transaction with JPMVEC to hedge JPMCB's market risk. The fee arrangement between JPMVEC and JPMCB will conform to Section 23B of the Federal Reserve Act and the Board's Regulation W.

**B. Identify the financial activity for which the proposed activity would be complementary and provide detailed information sufficient to support a finding that the proposed activity should be considered complementary to the identified financial activity. (*Section 225.89(a)(2)*)**

**1. Description of the Existing Business**

JPM Chase is currently active in the global financial derivatives markets for a wide range of commodities. JPM Chase engages through JPMCB in customer-driven commodity-related transactions, including (i) cash-settled derivative transactions

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<sup>5</sup> The OCC is reviewing the proposed arrangements between JPMVEC and JPMCB in connection with JPMCB's application to engage in certain commodities-related activities. A detailed

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in energy (crude oil, refined oil products, natural gas and power), base metals, precious metals and certain agricultural and soft commodities, (ii) physically-settled derivative transactions involving taking title to and physical delivery of commodities in order to hedge exposure arising from other permissible banking activities (energy, base metals and precious metals), (iii) repurchase agreements involving energy, base metals and precious metals, (iv) perfectly matched physical spot and forward contracts on energy and base metals, and (v) prepaid forward contracts involving energy, base metals and precious metals.

JPMVEC currently engages in cash-settled or transitory title commodities derivatives transactions in the emissions allowance market and plans to expand those activities to include physical commodities transactions involving crude oil, natural gas and coal. All of JPMVEC's existing business is permissible under Section 225.28(b)(8)(ii)(B) of Regulation Y.

2. Complementary Nature of the Complementary Activities

JPM Chase submits that the Complementary Activities are "complementary" to a financial activity under Section 4(k)(1)(B) of the BHCA because there is a strong connection between the Existing Business, which is the financial activity of trading nonfinancial commodities contracts, and the making or taking of physical delivery, or storing, of the underlying commodity.<sup>6</sup> The principal purpose of JPM

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discussion of those arrangements may be found in the OCC Application included in Confidential Annex A.

<sup>6</sup> The Complementary Activities have been found by the Board to be complementary to the financial activity of trading nonfinancial commodities derivatives contracts. See Barclays Order; UBS Order; Citigroup Order.

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Chase's involvement in physical markets is to service client demand and to complement existing financial trading activities.

To compete effectively in the Existing Business, JPM Chase must have the ability to enter into physically settled transactions and be prepared upon occasion to make or take physical delivery of, or store, the underlying commodity. Currently, JPM Chase sometimes has to decline to enter into physically-settled transactions except when such transactions fall under Regulation Y. The Complementary Activities will allow JPM Chase to fully participate in the commodities derivatives markets, conducting the Existing Business in a more cost efficient manner and offering more competitive prices to its clients.

In addition, JPM Chase will be able to structure transactions consistent with prevailing market practice, even if that market practice requires JPM Chase to make or take physical delivery of the underlying commodity. JPM Chase, and more importantly its clients, will no longer have to structure transactions to avoid physical delivery, thereby incurring additional costs. Furthermore, JPM Chase will be able to hedge its commodities derivatives positions more effectively and cheaply, generating cost savings that JPM Chase can pass on to its clients.

The Complementary Activities will allow JPM Chase to provide risk management services that more effectively meet clients' demands. Clients often seek to obtain cheap, efficient and naturally-hedged financing by securing their borrowing requirements with physical commodities. Market practice and client need dictate the structure of these financing transactions, and require that JPM Chase have the ability to

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hold title to physical commodities or to interests in physical reserves or inventories. Offering this service is fundamental to maintaining JPM Chase's on-going banking and lending relationships with its clients and its ability to serve as the one-stop financial services provider that its clients and the financial markets increasingly demand. This added flexibility to take title to, or store, the underlying commodity or interests in physical reserves or inventories will allow JPM Chase to structure transactions in a way that best serves customers' risk management needs and assists them in optimizing their energy assets without altering existing market practice.

The Complementary Activities will further complement the Existing Business by providing JPM Chase with important market information. The ability to make or take physical delivery of, or store, commodities will position JPM Chase in the supply end of the commodities markets, which in turn will provide access to information regarding the full array of actual producer and end-user activity in those markets. The information gathered through this increased market participation will help improve projections of forward and financial activity and supply vital price and risk management information that JPM Chase can use to improve its financial commodities derivative offerings.

- C. **Describe the scope and relative size of the proposed activity, as measured by the percentage of the projected financial holding company revenues expected to be derived from and assets associated with conducting the activity. (Section 225.89(a)(3))**

JPM Chase estimates that it will generate approximately \$20 million in revenue from the Complementary Activities in 2006. It estimates that revenues from these activities will rise to approximately \$38 million in 2007 and \$50 million in 2008.

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These revenues are expected to constitute approximately 10% of the overall revenues for the Global Commodity Group in 2006, 14% in 2007 and 14.3% in 2008.

As discussed in Section III., JPM Chase would limit its holdings of physical commodities at any one time to 5% of Tier 1 Capital or \$3.472 billion; this would represent 0.3% of JPM Chase's total assets as of December 31, 2004.

Typically, JPM Chase would only own a specified quantity of a Physical Commodity as a result of entering into trading and structured financing transactions. The length of time such Physical Commodity is held depends on the transaction in question. On a day-to-day basis, JPM Chase estimates that the percentage of transactions involving physical delivery where JPM Chase would hold title to and store a Physical Commodity for more than one day will be a small percentage (less than 5%) of its total annual trading volume for the Physical Commodities.

**D. Discuss the risks that conducting the activity may reasonably be expected to pose to the safety and soundness of the subsidiary depository institutions of the financial holding company and to the financial system generally. (Section 225.89(a)(4))**

The major risks associated with the trading of physically-settled commodities contracts are broadly similar to those taken when trading cash-settled commodities contracts. These risks include market risk, credit risk, operational risk, liability risk and reputational risk. These risks will be managed by JPM Chase applying the policies, procedures and controls that govern the Existing Business, which include the conditions to these activities set out by the OCC in BC-277 and the OCC Derivatives Handbook. As noted above, operational and administrative support for the

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Complementary Activities will be provided by JPMCB to JPMVEC pursuant to a service agreement.

*Market Risk.* Exposure to adverse movements in the level or volatility of market prices is measured and controlled primarily through the use of a value-at-risk ("VaR") approach. JPM Chase has established a daily VaR limit for the Global Commodity Group of JPM Chase of \$15 million, of which \$10 million has been allocated to JPMVEC. This limit is reviewed periodically. JPM Chase manages its market risk across the entire Global Commodity Group and does not set VaR limits for specific business lines within the Group. In fact, the activities in one business line, such as the Complementary Activities, may offset risk incurred in another line and lead to a decrease in the overall VaR of the Group. JPM Chase does establish position limits (delta, gamma and vega limits) for each underlying commodity that is part of its commodities trading business and that will apply to the Complementary Activities.

*Credit Risk.* JPM Chase's credit process for commodity derivative transactions is the same as that for all over-the-counter derivative transactions it executes. Before a transaction can be executed with a counterparty, a credit line must be established for the counterparty. In almost all cases, the credit officer with responsibility for the counterparty establishes the credit line. When a derivative transaction is proposed with a counterparty, the derivative marketer calculates the derivative risk equivalent ("DRE") of the transaction, which is the loan-equivalent credit exposure that the transaction is expected to generate. The DRE counts against the overall credit line to the counterparty. When a derivative transaction is executed with a counterparty, a credit

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valuation adjustment ("CVA") is calculated, and the line of business that executed the transaction then pays the CVA, either upfront or on a pay-as-you-go basis, to JPM Chase's Credit Portfolio Group ("CPG") as consideration for CPG providing default protection to the line of business should the counterparty default and owe a termination payment to the line of business. The CVA represents the counterparty credit charge to the line of business arising from the transaction with the counterparty.

*Operational Risk.* JPM Chase will be exposed to the risks associated with transporting and storing physical commodities.<sup>7</sup> JPM Chase will insure that it manages in a safe and sound manner the particular risks that arise in owning physical commodities. For natural gas and crude oil, JPM Chase will use appropriate storage facilities and means of transportation that are owned and operated by unaffiliated entities selected on the basis of experience, reputation, safety record, adequate insurance and creditworthiness. JPM Chase will also use independent inspectors to inspect and determine the quantity, quality and other specifications of the natural gas and crude oil. For emissions, JPM Chase will establish a general account with the EPA through which physical transactions will settle.

*Liability Risk.* Another risk associated with transporting or storing physical commodities is the risk of a malfunction or an accident resulting in personal injury or property damage. In general, the terms of any contract with the third party

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<sup>7</sup> Emissions allowances are not transported and stored like physical commodities. Transfer of emissions allowances is done via allowance transfer forms filed with the EPA and other government agencies. As a result, trading of emissions allowances does not create the same operational and liability risks as trading of physical commodities.

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operator of the facility would allocate these liability risks associated with physical ownership to the operator. While at times JPM Chase will enter into transactions that involve the actual acceptance by JPM Chase of physical deliveries or storage, JPM Chase does not expect to own, control or operate entities in the United States that are involved in the production, distribution, storage or processing of physical commodities for the purposes of engaging in the underlying commercial activity.

*Reputational Risk.* JPM Chase has several policies in place to address the reputational risk of the Complementary Activities. JPM Chase has a policy entitled "Heightened Risk Transactions with Investment Bank Clients" (included in Confidential Annex E) that defines what constitutes a Heightened Risk Transaction, which is the term JPM Chase uses for a complex structured finance transaction, focuses on the reputational risk in these transactions and explains the importance to JPM Chase of properly reviewing these transactions. Heightened Risk Transactions are escalated for review to the regional Reputation Risk Committee (there are three, in the Americas, Europe and Asia). JPM Chase has a policy describing the roles, responsibilities and procedures of each Reputation Risk Committee (formerly known as the Policy Review Committee). JPM Chase also has a Know Your Customer Policy that further establishes procedures to safeguard JPM Chase's reputation. In addition, the line of business responsible for marketing and executing transactions is subject to the Appropriateness Policy (included in Confidential Annex F). This policy provides a framework for approving and monitoring all transactions executed by the line of business, including Heightened Risk Transactions, based on customer sophistication and product complexity. JPM Chase has

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a New Product Approval Policy (included in Confidential Annex C), to which the Complementary Activities would be subject. This policy is designed to ensure that all the risks associated with new products are identified, analyzed, understood and documented with control processes prior to execution.

- E. Describe the potential adverse effects, including potential conflicts of interest, decreased or unfair competition, or other risks, that conducting the activity could raise, and explain the measures the financial holding company proposes to take to address those potential effects. (Section 225.89(a)(5))**

The potential adverse effects associated with the Complementary Activities should be minimal and can be mitigated by JPM Chase's existing control and risk management infrastructure.

*Competition.* JPM Chase intends to build on its existing commodities derivatives trading business for its proposed Expansion. A number of financial intermediaries already provide global commodities risk management services. In addition to investment banks such as Morgan Stanley and Goldman Sachs, both of whom are well-entrenched participants in the global commodities derivatives markets, a number of other bank and financial holding companies already participate in the commodities derivatives markets or are planning to do so, including Barclays Bank PLC, UBS, Bank of America and Citigroup. In fact, JPM Chase's proposed Expansion should increase competition by making JPM Chase a more efficient competitor that can offer cost-efficient and individually tailored risk management services that better meet the needs of its clients, while also supplying additional liquidity to the physical commodities markets.

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Additionally, competition in the market will increase because JPM Chase will be able to enter into transactions from which it is currently precluded.

*Conflicts of Interest.* Potential conflicts of interest could develop between different business groups within JPM Chase if, for example, JPM Chase is advising a client with a managed account regarding transactions in securities of a public utility while purchasing commodities from or storing commodities with the same public utility. The individual JPM Chase employees filling each of these roles and the interests of the customers that they serve, whether internal or external, will differ. To prevent these conflicts of interest from adversely impacting the market, JPM Chase has developed and refined through experience several procedures, including the institution of information barriers between the trading and advising divisions of its business. Furthermore, when acting as a fiduciary, JPM Chase is required to act in the best interests of the client and its actions as a fiduciary will be closely scrutinized by examiners.

*Market Manipulation.* JPM Chase does not currently intend to operate or control facilities in the United States that extract, transport, store or distribute physical commodities with the intent to engage in these activities on a commercial basis. In addition, currently JPM Chase does not itself process, refine, store or otherwise alter physical commodities and will not be an end-user of physical commodities in the United States.<sup>8</sup> JPM Chase's limited role in the commodities markets will limit the

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<sup>8</sup> In the normal course of its business, JPM Chase holds securities of facilities that extract, transport, store, distribute, process, refine, store or otherwise alter commodities. However, in these instances, JPM Chase would not manage or control the business with the intent to engage in a commercial activity. See Application of JPMCB for Market-Based Rate Authority filed with the Federal Energy Regulatory Commission ("*FERC*"), and related Order, included in Public Annex A.

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opportunities, and more importantly the incentives, that JPM Chase might have to engage in any price manipulation, either directly or indirectly. As a financial holding company, JPM Chase must comply, and has a policy of full compliance, with the regulatory and supervisory regimes of several regulators, as discussed below, which further reduces the likelihood that JPM Chase or a JPM Chase employee would be able to engage in any form of market manipulation.

*Regulation.* The physical commodities markets are further protected from the adverse effects of unfair competition, conflicts of interest or market manipulation because financial institutions, such as JPM Chase, and the commodities markets are subject to extensive regulation. JPMCB is subject to regulation by the Office of the Comptroller of the Currency in the United States. JPM Chase's U.S. securities activities are subject to the regulatory oversight of the Securities and Exchange Commission, the New York Stock Exchange and the National Association of Securities Dealers. Its activities in U.S. commodities markets are additionally overseen by the Commodity Futures Trading Commission ("CFTC"), the National Futures Association and applicable futures exchanges, and its power marketing activities are overseen by FERC.

- F. Describe the potential benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that the proposal reasonably can be expected to produce. (Section 225.89(a)(6))**

The Complementary Activities should provide significant benefits to the public by providing a greater variety of risk management tools that are more efficiently structured to meet customer needs, increasing competition and liquidity in the physical

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commodities markets and reducing JPM Chase's risk exposure associated with its commodities derivatives contracts.

Authorizing JPM Chase to take physical delivery of, or store, commodities as part of the Complementary Activities would allow JPM Chase to more efficiently provide a full-range of commodities-related services to its customers. JPM Chase would be able to tailor its products and services more closely to its customers' risk management needs without having to structure the transactions to prevent taking delivery of the underlying physical commodity. Also, the requested authority would allow JPM Chase to offer its customers financing opportunities that would help them to manage their liquidity needs.

The ability to engage in the Complementary Activities will help JPM Chase avoid the extra costs that are imposed on non-standard transactions. When standard market practices typically call for commodities derivative contracts to physically settle, JPM Chase would have to pay a premium or accept a discount in order to structure a transaction that would normally be a physically settled transaction as a cash-settled transaction. JPM Chase might be forced to cover and exit a transaction to avoid making or taking delivery of the underlying physical commodity, again incurring additional costs that provide no additional risk protection to its client.

The Complementary Activities would eliminate the disadvantage that JPM Chase currently faced in competing with other financial holding companies that have already received approval from the Board to make or take delivery of physical commodities, as well as other financial intermediaries that provide global commodities

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risk management services. As discussed above in Sections II. A. and B., as companies look for more sophisticated risk management tools and become more comfortable with participating in the commodities derivatives markets, they are looking for a single provider that can meet all of their trading needs, including on those occasions when those needs are best met by a physically settled transaction.

The addition of a new financially sound and well-capitalized counterparty such as JPM Chase will add needed liquidity to the commodities derivatives markets. With Tier 1 capital of \$69.435 billion and total assets of \$1.1 trillion as of December 31, 2004, JPM Chase has the resources to handle large and complex transactions that few other organizations can match.

Finally, the Complementary Activities would reduce JPM Chase's risk exposure associated with its commodities derivatives contracts. JPM Chase would have an alternative method of fulfilling its obligations under otherwise permissible commodities derivatives contracts, by making or taking physical delivery of, or storing, commodities underlying the contracts. It would, therefore, be able to manage its delivery and receipt obligations under commodities derivatives contracts more efficiently and hedge its commodities derivatives positions more effectively. By participating in the widest possible variety of commodities markets and transactions, JPM Chase will gain access to price and related market information and acquire more experience in the markets for physical commodities that it can use to better serve its customers, which will lead to increased revenues and lower costs, all of which will improve JPM Chase's profitability and enhance its soundness. Finally, as a more effective competitor, JPM

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Chase will be better able to win business from new clients, resulting in more diversified credit exposure for JPM Chase, both in terms of markets and customer base.

- G. Provide any information about the financial and managerial resources of the financial holding company and any other information requested by the Board. (Section 225.89(a)(7))**

A list of the key personnel involved in the Complementary Activities and a description of their background is included in this submission as Confidential Annex G. A copy of the 2004 Annual Report of JPM Chase is included as Public Annex B.

**III. Commitments**

- A. Limit amount of commodities held to 5 % of consolidated Tier 1 Capital.**

JPM Chase commits to the Board that it will limit the amount of physical commodities that it holds at any one time to 5% of its consolidated Tier 1 Capital. JPM Chase Tier 1 Capital as of December 31, 2004 is \$69.435 billion. Five percent of that number would be \$3.472 billion.

- B. Assure proper risk management and controls.**

JPM Chase commits to the Board that it will assure proper risk management and controls over the Complementary Activities.

- C. Limit physical delivery or storage to commodities for which contracts have been authorized for trading on U.S. futures exchanges by the CFTC.**

JPM Chase commits to the Board that it will make and take physical delivery of, or store, only commodities, such as natural gas, crude oil, and emissions allowances, that have been approved by the CFTC for trading on U.S. futures exchanges.

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- D. Will not acquire or operate facilities in the United States for the extraction, transportation, storage or distribution of commodities.

JPM Chase commits to the Board that it will not acquire or operate facilities in the United States for the extraction, transportation, storage or distribution of commodities. This is not intended to restrict JPM Chase's ability to acquire such facilities in satisfaction of debts previously contracted or in connection with a nonperforming loan or to invest in shares of companies or other entities that own or operate such facilities when such investment is otherwise permissible for a financial holding company. JPM Chase will not hold any such interest as a means to engage in the underlying commercial activity.

- E. Will not process, refine, store or otherwise alter commodities in the United States.

JPM Chase will act solely as a financial intermediary in the physical commodities markets and will not use, process, refine, store or otherwise alter a physical commodity itself in the United States. It will contract with a third party for any services that it needs in connection with the handling of any commodity.

- F. Will use appropriate storage and transportation facilities owned and operated by third parties in the United States.

JPM Chase will only use storage and transportation facilities owned and operated by third parties in the United States. It will enter into service agreements only with accredited, reputable independent third party facilities.

**IV. Conclusion**

For the reasons set forth above, we believe that the manner in which JPM Chase will conduct its physically settled transactions in the commodities derivatives markets, as described and subject to the exceptions listed herein, is fully consistent with a complementary activity and will not pose a risk to the safety and soundness of depository

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institutions or the financial system in general. Therefore, we respectfully request that the Board exercise its discretionary authority to authorize JPM Chase to engage in the Complementary Activities as a complementary activity to its commodities derivatives activities based on nonfinancial commodities, subject to the commitments contained herein.

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**NOTICE**

**to the**

**BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM**

**by**

**JPMORGAN CHASE & CO.**

**Pursuant to Section 4(k)(1)(B) of the  
Bank Holding Company Act of 1956,**

**as amended, and**

**12 C.F.R. §225.89**

**Submitted**

**November 25, 2008**

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**NOTICE**  
**to the**  
**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**(the “Board”)**  
**by**  
**JPMORGAN CHASE & CO.**

**Pursuant to Section 4(k)(1)(B) of the**  
**Bank Holding Company Act of 1956,**  
**as amended (the “BHCA”), and**  
**Section 225.89 of the Board’s Regulation Y**

JPMorgan Chase & Co. (“JPM Chase”) respectfully gives notice to the Board, pursuant to Section 4(k)(1)(B) of the BHCA, that its wholly owned non-banking subsidiary, J.P. Morgan Ventures Energy Corporation (“JPMVEC”), requests relief from a commitment JPMVEC has made in connection with the conduct of its current commodity trading activities to not process, refine or otherwise alter commodities. In order to grant such relief to JPMVEC, JPM Chase asks the Board to grant JPMVEC approval under Section 225.89 of the Board’s Regulation Y to contract with third parties to alter commodities on behalf of JPMVEC as described herein (the “*Complementary Activity*”). JPM Chase asserts that JPMVEC’s exercise of the Complementary Activity would be complementary to a financial activity and would not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally.

## I. Request and Background

JPM Chase is a financial holding company engaged primarily in banking, investment banking and asset management. As a part of JPM Chase's business, JPMVEC enters into commodity derivatives contracts based on non-financial commodities, and makes and takes physical delivery and/or stores the underlying commodities, as permitted by Section 225.28(b)(8)(ii)(B) of the Board's Regulation Y and as previously approved for JPM Chase under Section 225.89 of the Board's Regulation Y (collectively, the "*Existing Business*").<sup>1</sup>

JPMVEC now proposes to expand its Existing Business to include the ability to engage a third party to blend, refine or otherwise alter a commodity on its behalf. Blending, in general terms, is the amalgamation of two or more different grades of a commodity, usually oil or coal, to derive a grade that conforms to specific standards of countries, regions or customers. For example, within the oil barrel there are a number of different grades/specifications in crude oil, heating oil, diesel, and gasoline. Some of the key differing characteristics in these grades are physical properties such as density, sulfur content, flash point, viscosity, distillation, cloud point and filter plugging point. Because of different environmental regulations, every country has its own version of diesel, gasoline, heating oil or fuel oil specification. Russian gasoil does not meet US heating oil standards and needs to be blended with kerosene to achieve US-approved

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<sup>1</sup> JPMorgan Chase & Co., 91 Fed. Res. Bull. C57 (2006); C54 (2005);

quality. Similarly, US diesel does not meet European specifications. Hence, in order for JPMVEC to participate in the flow of refined product across different countries and regions and thus meet customer demand, it needs the ability to contract third parties to blend on its behalf.

In the context of oil products, the process of blending for JPMVEC can occur in one of three ways:

1. Blending in storage tanks (most common) – JPMVEC has customer interest in a product C that has certain physical characteristics. C can be produced by blending product from two storage tanks, A and B, each of which has product of differing grades and specifications. The contents of these tanks are individually tested by an independent inspection company who arrives at a theoretical model of what blend needs to be in order for  $A+B = C$ . Once tested accurately in a laboratory, which is near the storage terminal, JPMVEC instructs the storage terminal, which is an independent third party, to pump the modeled percentages of oil from A and B into a tank that will hold C, which is the blended quality we wish to achieve to meet the customer demand.

2. Inline Blending – Moving oil from storage tanks A and B and blending in pipeline such that the required specification is discharged directly onboard a vessel. The inspector would test the quality of the blend onboard the vessel. Again, all the activities would be performed by independent third parties. JPMVEC may occasionally participate in inline blending.

3. Blending onboard maritime vessels (least common practice) – JPMVEC likely will not participate in this form of blending.

A different example of altering a commodity occurs when an entity purchases dirt or rock metal nodes that contain a variety of metals. The purchaser ships the nodes to a smelter, a metal refinery, where, pursuant to a contract, they are refined by the smelter for the account of the purchaser into copper and into concentrate, which are then sold by the purchaser to third parties. JPMVEC seeks to contract third parties to alter commodities in this respect in order to meet customer demand.

## **II. Discussion**

The Board has previously determined that the engaging a third party to blend, refine or otherwise alter (collectively, for purposes of this Notice, "alter") a commodity is consistent with the Existing Business.<sup>2</sup> JPMVEC will conduct the Complementary Activity in the same manner as that approved in the RBS Order.

## **III. Commitments**

In connection with its request for relief to conduct the Complementary Activity, JPMVEC makes the following commitments:

- A. JPMVEC will not alter a commodity itself;
- B. Both the commodity input and the resulting altered commodity will be permissible commodities under the Board's decisions;
- C. JPMVEC will not have exclusive rights to use the alteration facility.

## **IV. Conclusion**

For the reasons set forth above, we believe that the manner in which

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<sup>2</sup> The Royal Bank of Scotland Group plc, 94 Federal Reserve Bulletin C60 (2008) (the "RBS Order").

JPMVEC will engage third parties to alter commodities on its behalf, as described, is fully consistent with a complementary activity and will not pose a risk to the safety and soundness of depository institutions or the financial system in general. Therefore, we respectfully request that the Board exercise its discretionary authority to authorize JPM Chase, through JPMVEC, to engage in the Complementary Activity as a complementary activity to its physically-settled and financially-settled transactions in commodities derivatives on nonfinancial commodities, subject to the commitments contained herein.



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

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

April 20, 2009

Mark Lenczowski, Esq.  
Managing Director  
JPMorgan Chase & Co.  
245 Park Avenue, 11<sup>th</sup> Floor  
New York, New York 10167

Dear Mr. Lenczowski:

This is in response to your letter dated November 25, 2008, on behalf of JPMorgan Chase & Co. ("JPM"), New York, New York, requesting relief from certain commitments JPM made to the Board in connection with its notice to purchase and sell commodities in the spot market and to take and make delivery of physical commodities to settle commodity derivative transactions ("Physical Commodity Trading").<sup>1</sup> The commitment relief you request would allow JPM to engage a third party to alter or refine commodities after JPM takes delivery in connection with its Physical Commodity Trading, subject to the same conditions that the Board has imposed on other financial holding companies ("FHCs") that were granted similar authority.

The JPM Order permits JPM to engage in Physical Commodity Trading in (i) commodities for which derivative contracts have been authorized for trading on a U.S. futures exchange by the Commodity Futures Trading Commission and (ii) other commodities specifically approved by the Board (together, "Approved Commodities"). As part of the Board's approval of JPM's notice, JPM committed that it would not process, refine, or otherwise alter a commodity ("alter" or "altering" a commodity for short). You now request relief from that commitment so that JPM may engage a third party to alter commodities.

The Board previously has granted authority to FHCs to alter commodities, subject to certain commitments.<sup>2</sup> JPM has made the same

<sup>1</sup> See JPMorgan Chase & Co., 92 Federal Reserve Bulletin C57 (2006) ("JPM Order").

<sup>2</sup> See, e.g., The Royal Bank of Scotland Group plc, 94 Federal Reserve Bulletin C60 (2008); Board letter to John Shrewsberry, Wells Fargo & Company, April 10, 2008.

commitments that the Board has relied on from other FHCs. In particular, JPM has committed that it:

1. Will not process, refine, or otherwise alter a physical commodity itself;
2. Will not contract for the exclusive right to use a facility to alter commodities for any period of time; and
3. Will contract with third parties (i) to alter only an Approved Commodity and (ii) to alter the commodity only into another Approved Commodity.

Based on the foregoing and all the facts of record, the Director of the Division of Banking Supervision and Regulation, acting pursuant to authority delegated by the Board under section 265.7(a)(2) of the Board's Rules Regarding Delegation of Authority, and after consulting with the General Counsel, hereby grants relief from the commitment not to alter a commodity, as discussed above.

This determination is specifically conditioned on compliance by JPM with all the commitments and representations made in connection with this request. These commitments and representations are deemed to be conditions imposed in writing in connection with granting the relief and, as such, may be enforced in proceedings under applicable law. Any change in the facts could result in a different conclusion and should be reported immediately to Board staff. This determination should not be construed as granting relief from any other conditions or commitments to which JPM may be subject, nor does it authorize JPM to engage in any activities other than those approved in the JPM Order.

Sincerely yours,



Robert deV. Frierson  
Deputy Secretary of the Board

cc: Ivan J. Hurwitz, Vice President  
Federal Reserve Bank of New York

**EXHIBIT #58**

GLOBAL COMMODITIES - OPERATING RISK

April 2011

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FRB-PSI-623086

Overview of Global Commodities Group 1

- Overview of GCG Business
- Physical Portfolio

Risk Management and Operating Risk Controls 18

# 1Q Financial Performance – Net Economic Revenue

	Actual Total	Plan Total	%	Steady State*
--	--------------	------------	---	---------------

Oil				
NA Power & Gas				
EMEA Power & Gas				
Coal				
Bullion				
Base Metals				
Investor Products				
Agricultural Commodities				
Principal Investments				
Management (incl Credit)				
<b>Economic Revenues</b>				
Expenses				
Earnings				
Overhead Ratio				
ROE				
Basel II				
Basel III				
Economic Capital				
Headcount				
(ex Henry Bath and Eco Sec.)				

\* Base Case Scenario

## 1Q Highlights

- Significant market volatility resulted in strong client flows and trading results, particularly in Oil with \$53mm gain on a structured oil storage transaction
- Good momentum in Agricultural and Metals with \$25mm from a large agricultural hedging solution for Latin America client
- Investor demand continues to be robust
- Structural challenges in EMEA Power & Gas market with low client activity

## 2011 Priorities / Challenges

- Sempra integration – Oil system migration challenges due to physical trading complexity, other merger work on track
- Athena (Target State Architecture) build out on schedule
- Key business initiatives on track
  - Commodity Linked Finance / Project Finance
  - Electronic Market Making
  - China Wholly Foreign Owned Entity (“WFOE”)
  - Latin America client expansion
- EMEA Power & Gas restructuring in progress
- Regulatory reform uncertainty (i.e. position limits, market making rules)

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## Our Commodities Franchise and Our Competitive Advantages

### Why Commodities?

- Our clients require solutions to manage their commodity price risk
- Complete JPM IB's franchise offering across all asset classes
- Portfolio / diversification benefits with our Fixed Income and Equities businesses
- Strong global growth outlook, closely linked to non-US expansion

### GCG Franchise and competitive advantages

- Extensive client franchise
  - Approximately 3,000 clients including corporate, investor, governments
  - Ability to further leverage client relationships in Investment Bank, Commercial Bank, Asset Management, T&SS
- Complete global product capability
  - Financial risk management solutions
  - Commodity-linked financing and capital market transactions
  - Physical hedging solutions, off-take and supply agreements
  - Transportation and storage assets
- Capital and balance sheet strength

## Diversified Global Platform Across Multiple Product Areas

- Complete product offering to address full spectrum of client needs
- Physical capabilities required to allow physical derivative solutions to clients to minimize basis risk

<b>Energy</b>	<ul style="list-style-type: none"> <li>■ Comprehensive offering (Oil, Power, Gas, Coal, Environmental Markets)</li> <li>■ Strong global financial and physical presence</li> </ul>
<b>Metals</b>	<ul style="list-style-type: none"> <li>■ Long standing franchise (precious and base)</li> <li>■ Vault operations in London, NY and Singapore</li> <li>■ Global base metal warehousing business</li> </ul>
<b>Agricultural</b>	<ul style="list-style-type: none"> <li>■ Financial capabilities across major agricultural products (wheat, cocoa, sugar, etc.)</li> <li>■ Limited physical activities within established guidelines and limits</li> </ul>
<b>Investor</b>	<ul style="list-style-type: none"> <li>■ Customized products and investment vehicles, building Exchange Traded Fund capabilities</li> <li>■ JPM commodity indexes (JPMCCI) and leading investment algorithms (C-IGAR, Optimax)</li> </ul>
<b>Asset Optimization</b>	<ul style="list-style-type: none"> <li>■ Experienced team invests in energy assets to leverage the platform</li> </ul>

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on Investigations**

# Continued Expansion Of Franchise Over Last 4 Years

## Redacted By Permanent Subcommittee on Investigations

2005	2007	2008	2009	2010	2011/ Steady State
<ul style="list-style-type: none"> <li>Unacceptable P&amp;L volatility (emissions losses offset by Amaranth gains of approx. \$600mm)</li> <li>Poor infrastructure, risk management and control</li> <li>Unbalanced business model</li> </ul>	<ul style="list-style-type: none"> <li>New management team</li> <li>Build Sales &amp; Trading team, rebuild capability</li> <li>Invest in infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Strong financial performance</li> <li>Acquisition of Bear Energy, UBS Commodities, ClimateCare)</li> <li>Expand product capabilities and physical presence</li> </ul>	<ul style="list-style-type: none"> <li>Delivering on Investments</li> <li>Continuing build out of physical oil, Agricultural commodities</li> <li>Expand client franchise</li> <li>Exploit synergies between physical &amp; financial</li> <li>Define Target State Technology Architecture</li> <li>EcoSecurities</li> </ul>	<ul style="list-style-type: none"> <li>Acquired RBS Sempra Global Oil, Global Metals and EMEA P&amp;G businesses</li> <li>Focus on large structured transactions, Commodity linked financing</li> <li>Enhancements and buildout of operating risk framework to support physical business</li> </ul>	<ul style="list-style-type: none"> <li>2011 ROE will be impacted by costs related to RBS Sempra merger</li> <li>Steady state projection represents base case based on bottom-up analysis by individual business</li> </ul>

\* Excludes EcoSecurities and Henry Bath headcount

## 2010 Competitor Revenue Analysis

- Major financial institution competitors are Goldman Sachs, Morgan Stanley and Barclays Capital
- Significant competition from many other companies (Oil and energy companies)
- Combined JPM and Sempra platform makes us a Top 3 player in Steady State

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## Overview of J.P. Morgan Physical Portfolio

JPM leases and does not own physical assets used in its market making business. Assets are owned and operated by third parties.

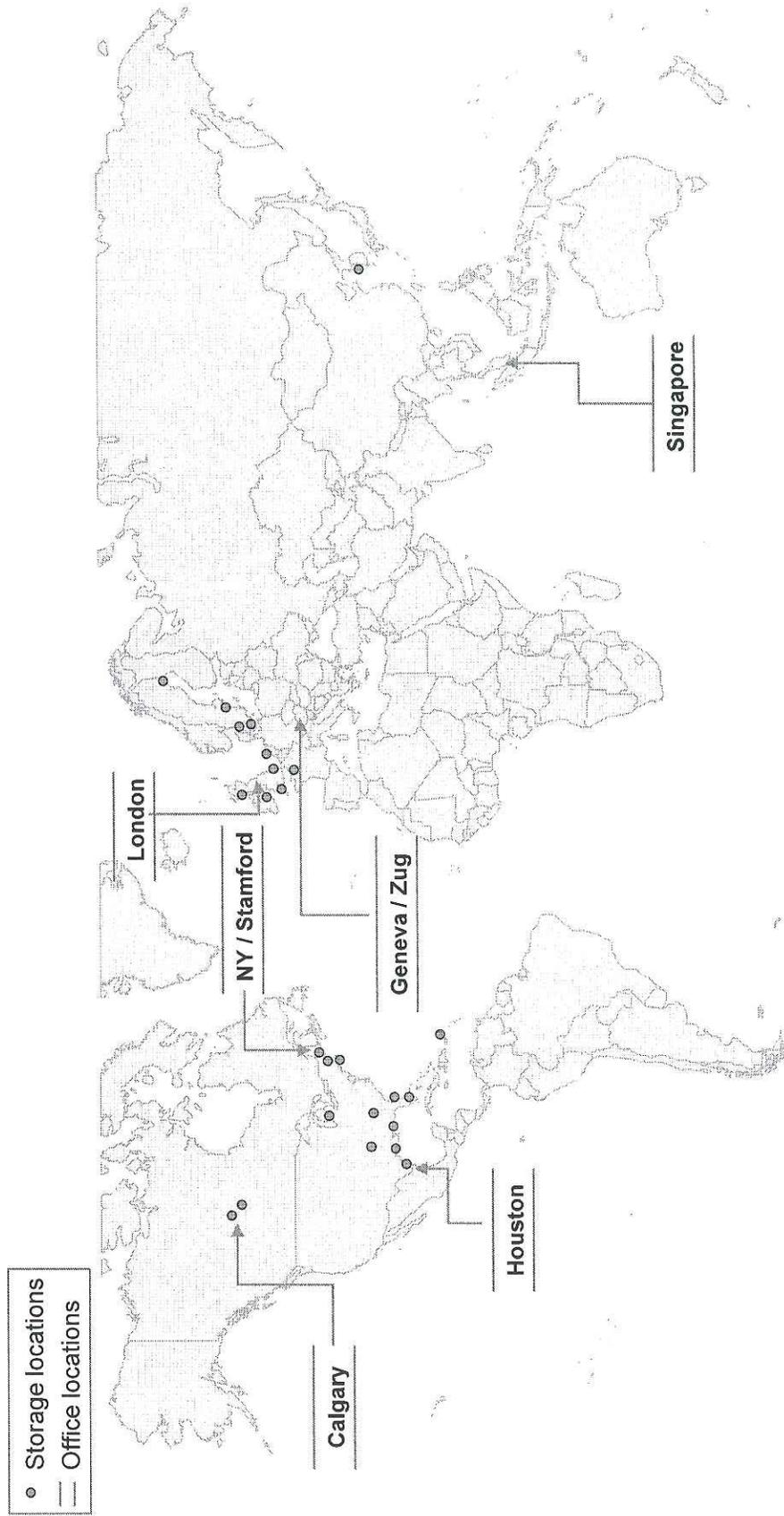
- Tolling agreements on power plants - right to supply fuel to power plant and receive power output. Power output is used to meet JPM's obligations to supply power to consumers and counterparties. Tolling capacity in the U.S. is over 8,000 Megawatts, less than 1% of the overall power capacity in the U.S. Our capacity in Southern California represents 6.6% of the market.
- Load serving agreements - obligations to supply power to energy cooperatives or other consumers. To meet these obligations, JPM uses power from tolling agreements or purchases from the market.
- Natural Gas transportation and storage - JPM leases both storage and pipeline capacity in order to facilitate purchases of gas from producers and sales to consumers. JPM has storage capacity in the U.S. of 78bcf (billion cubic feet) and pipeline capacity of 1.8 bcf/day, both less than 1% of overall U.S. capacity. Smaller amounts are leased in Europe.
- Oil transportation and storage - JPM leases storage, pipeline capacity and vessels in order to facilitate purchases of oil from producers and sales to consumers. JPM has storage capacity of 25 million barrels, which is less than 1% of the estimated global capacity of between 7 - 8 billion barrels. JPM also leases vessels and currently has 13 vessels available to charter.
- Coal transportation and dry freight trading - JPM trades physical coal, and charters dry freight vessels for the transportation of coal and other bulk freight. JPM currently has 2 operating ships under charter, with 1 new build due to come into service.
- Base metals warehousing - JPM owns Henry Bath & Son, Ltd., a global warehousing business licensed by the London Metal Exchange and others for aluminum, copper, zinc, lead, nickel, tin, aluminum alloy, steel, cocoa and coffee. In 19 warehouses across 12 countries, Henry Bath stores 627K metric tonnes of metal (10% market share) and 55K metric tons cocoa and coffee stock (10% market share). In 2010, JPM traded ~1 million metric tons of metal with a value of \$4bn.
- Precious metals vaulting - JPM is one of the largest custodians and clearers of precious metals globally, trading gold, silver, platinum, and palladium. Provide custody services for global clients including ETFs and ETNs via three vaulting facilities in London, New York and Singapore (>\$60bn stored and daily average turnover of \$8-10bn).
- Agricultural Physical Trading and Financing - JPM offers risk management solutions to producers, consumers and merchants primarily in coffee, cocoa, palm oil. Existing Henry Bath Warehousing capacity and vessels are used to store commodity for future delivery and transport to clients. JPM operates within strictly agreed inventory limits, is not involved in the supply chain and all business is client driven. JPM's volumes represent a small fraction of the overall market.

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# J.P. Morgan's Global Oil Physical Assets Locations



- J.P. Morgan has physical assets and front office personnel participating in the physical and financial global crude and refined products markets around the world
- 13 Time Chartered Vessels
- 25mmbbls Storage capacity

## Crude Oil, Refined Products & Coal

### Crude Oil, Distillates, Fuel Oil, and Light Products

- JPM trades all principal grades of crude oil and refined products worldwide from desks in New York, Stamford, Houston, Calgary, London, Zug, Geneva and Singapore
- Leasing of storage facilities, pipeline capacity and vessels in order to facilitate purchases of oil from producers and sales to consumers
- JPM has storage capacity of 25 million barrels, which is less than 1% of the estimated global capacity of between 7 - 8 billion barrels
- JPM charters crude and refined products-carrying vessels, on a spot-charter and time-chartered basis
- Oil traffic groups in Stamford, Houston, Geneva, London, Calgary, New York and Singapore manage all aspects of physical movement

### Coal and Dry Freight

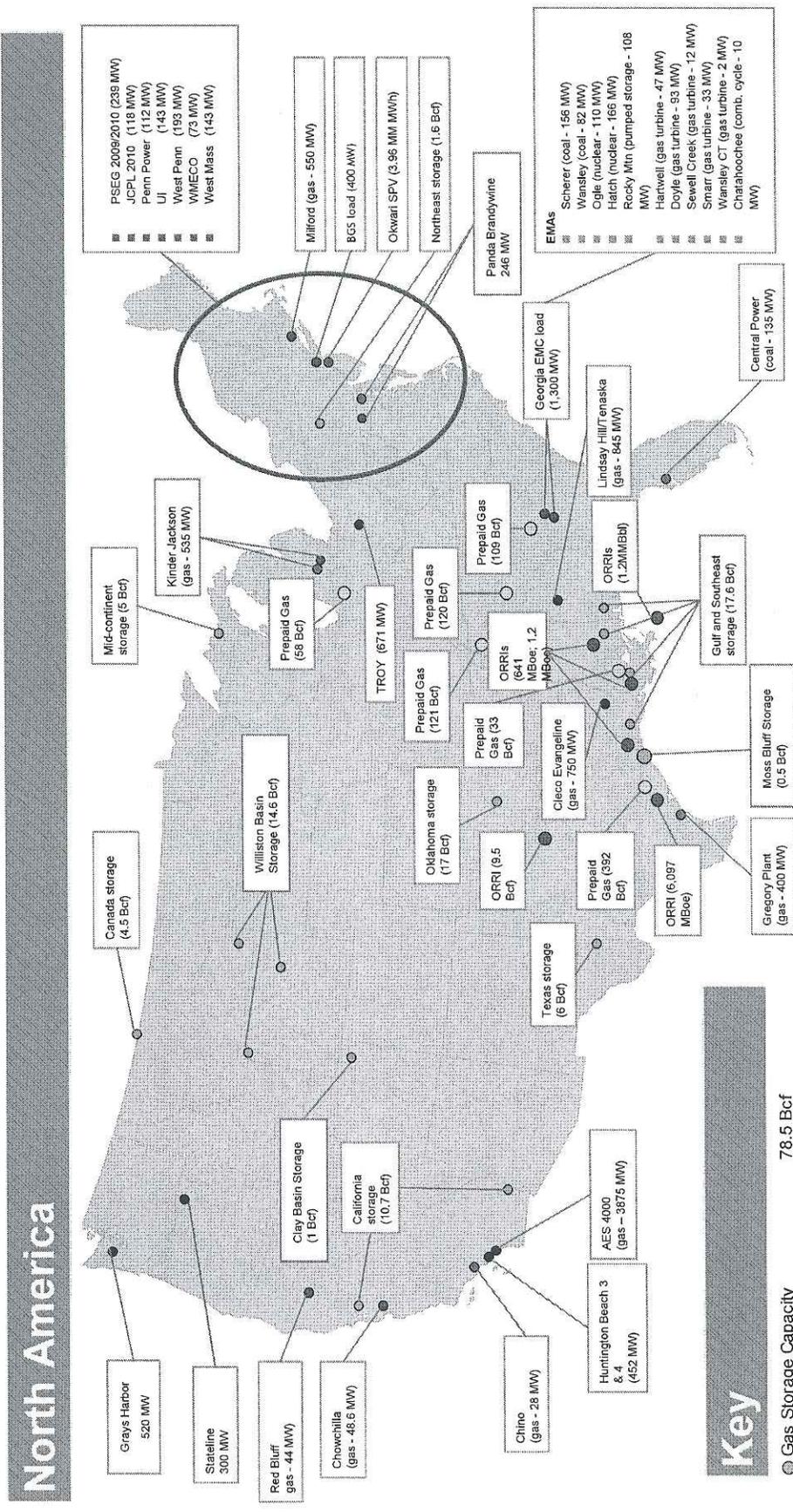
- JPM transacts in global physical coal and dry bulk freight markets from offices in London and Geneva
- JPM provides Producers, Consumers, and global fleet owners with physical and financial hedging strategies
- JPM has sub-chartered vessels for a wide range of client cargoes including metals, coal and agricultural products
- Currently have chartered 2 operating vessels and 1 new build.

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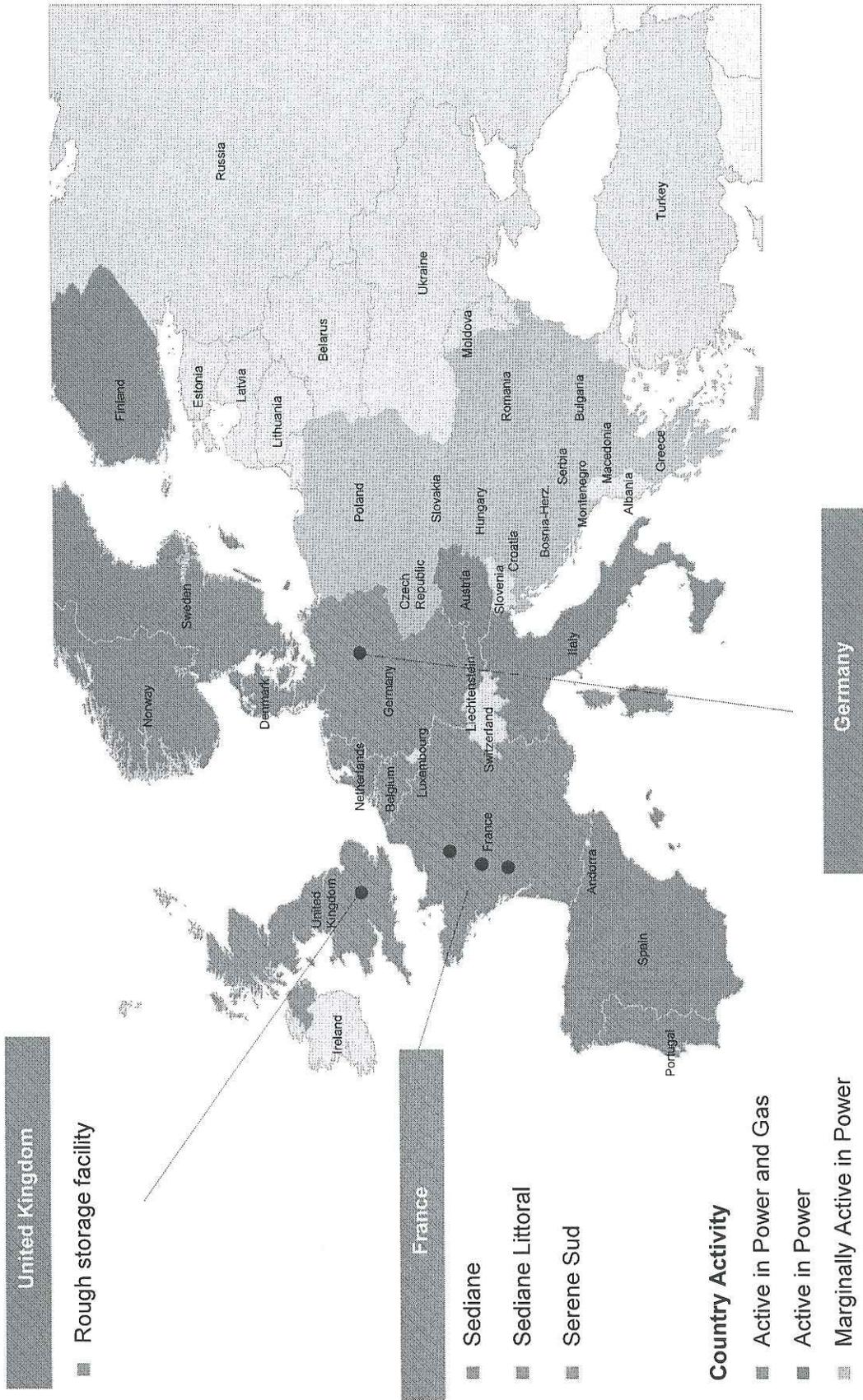
# Overview of North America Gas, Power and PI Assets<sup>1</sup>



Note: Power plant equity interest may vary  
<sup>1</sup>Includes assets owned by Arroyo Energy affiliated entities;  
 does not include gas transport or power transmission

\*As of 03/31/2011

# J.P. Morgan's European Power & Gas Activity and Storage Capacity



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## Power & Natural Gas

### Power Trading and Tolling

- JPM's tolling agreements provide the right to supply fuel to a power plant and receive power output. Power is used to meet JPM's obligations to supply power to consumers and clients. JPM's tolling capacity in the U.S. is over 8,000 Megawatts, less than 1% of total installed generation.
  - Capacity in Southern California is 4,325 Megawatts, which represents approximately 6.6% of the local market.
- JPM has entered into "load-serving agreements", obligations to supply power to energy cooperatives or other aggregations of consumer demand, or "load". To meet these obligations, JPM uses power from tolling agreements or purchases from the forward and spot markets.
- JPM is a member of almost every organized power pool (also called ISO or RTO) in North America and Europe, participating in many of their physical power and associated product markets.

### Natural Gas Trading, Transportation and Storage

- JPM leases natural gas storage and pipeline capacity to facilitate purchases of gas from producers and sales to consumers. JPM has storage capacity in the U.S. of about 78bcf (billion cubic feet) and pipeline capacity of 1.8 bcf/day, less than 1% of overall U.S. capacity, with smaller amounts leased in Europe.

### Power Plant Investments

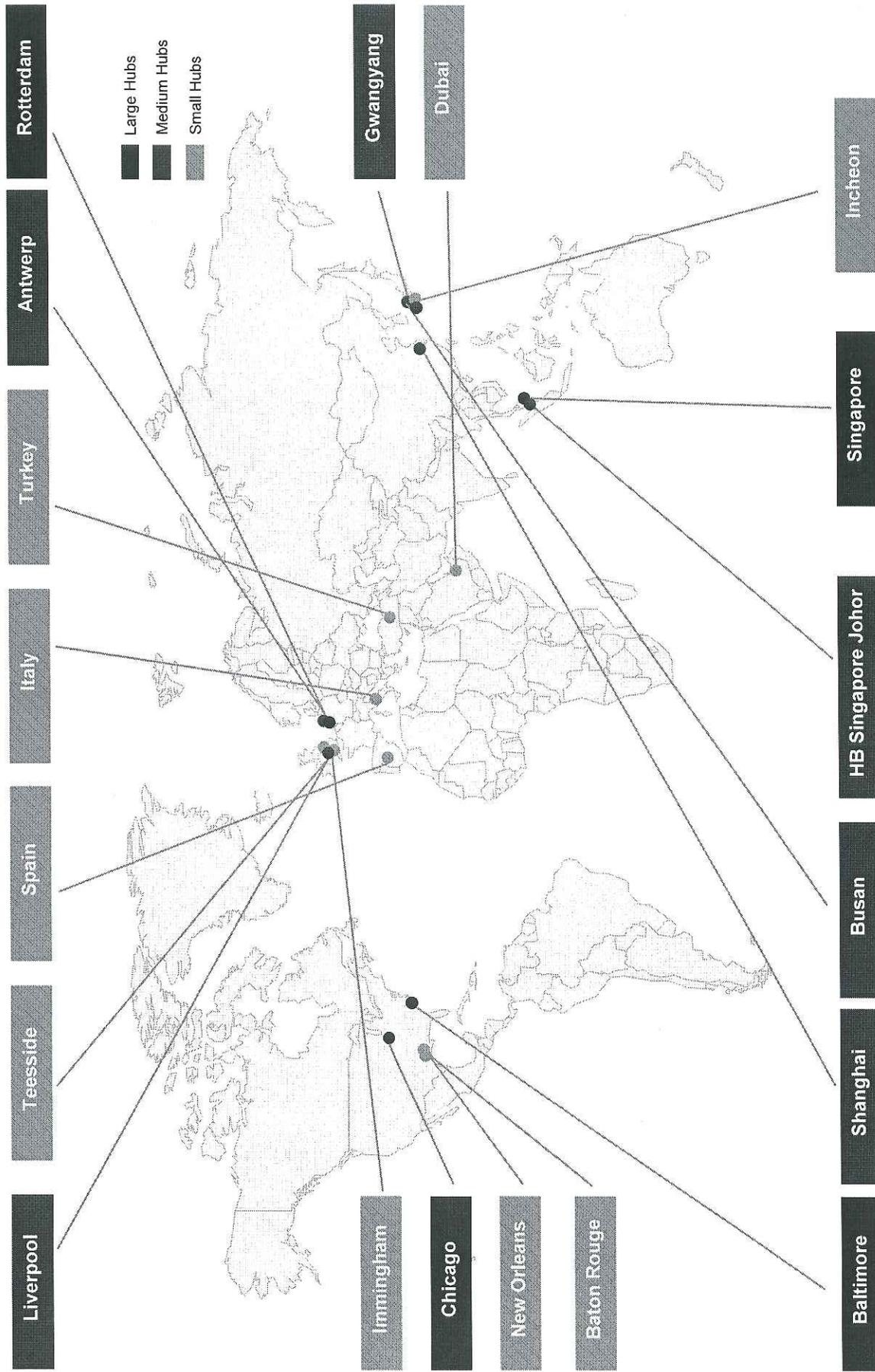
- Through the Principal Investments group, JPM has varying levels of equity ownership in U.S. generating stations of over 1,300 Megawatts. Total book value is \$423mm in five power plants.
- Power plants are managed by third parties, with coordination provided by the JPM Asset Optimization group in Houston.

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# 19 Henry Bath Warehouse Locations Worldwide



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# Base Metals Trading and Warehousing

## Base Metals Trading

- Client-focused trading of aluminium, copper, zinc, lead, nickel and tin in Asia, Europe and the Americas
- ~1 million metric tonnes of metal transacted in 2010 with value of \$4b
- Currently hold 1.2 million metric tonnes of inventory in various global locations with a value of \$4.2bn
- Material is bought and sold principally in bonded warehouses with some movement of material between locations
- Main competitors are merchant traders (Glencore, Trafigura, Noble); increasing competition from Goldman Sachs, Deutsche Bank

## Henry Bath Warehouses

- Global warehousing business licensed by the London Metal Exchange (LME), NYSE Euronext.Liffe (Liffe) and the Intercontinental Exchange (ICE) to store and issue Exchange-traded Warrants (bearer documents of title) for commodities including aluminium, copper, zinc, lead, nickel, tin, aluminium alloy, steel billets, cocoa, and coffee.
- Warehouse operations in 19 port area locations across 12 countries; UK, Netherlands, Belgium, Italy, Spain, Turkey, USA, Singapore, Malaysia, South Korea, China, United Arab Emirates.
- Revenues are warehouse storage fees (rent), charged per metric tonne per day to the owner of the stored commodity, and a published warehouse exit fee, charged per tonne and collected upon delivery for onward transportation.
- Business is run "asset light" to maintain a variable cost base that can be flexed up and down to match cyclical volumes of inventory; thus, all warehouses are leased and warehouse labour is hired as required using local logistics and handling.
- Total market size of LME metal stock is 6.4 million metric tonnes, of which HB stores 627k metric tonnes (10% market share). Total market size of Liffe cocoa and coffee stock is 530k metric tonnes, of which HB stores 55k metric tonnes (10% market share).
- Largest competitors are Metro International (owned by Goldman Sachs), Pacorini Metals (Glencore), Steinweg (Independent), NEMS (Trafigura) and The Delivery Network (Noble Resources).
- The business is governed by the written rules and regulations of the Exchanges that license the business. Physical inspections and 100% inventory checks are conducted by the Exchanges annually.

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## Precious Metals Trading and Vaulting

### Bullion Trading & Vaulting Operations

- Client-focused trading of Gold, Silver, Platinum and Palladium in Asia, Europe and the Americas
- JPM is one of the largest custodians and clearers of precious metals globally, offering vaulting facilities in 3 locations (London, New York, Singapore) with a daily average turnover value of \$8-10 billion
- In excess of \$60 billion precious metal assets in London, New York and Singapore vaults
- Bullion custody services for global clients including Exchange Traded Fund and Exchange Traded Note providers
- Bonded warehouse status for UK vaults with direct technology links to UK Revenue & Customs (HMRC)
- London Precious Metals Clearing Limited member, providing bullion clearing services for external clients in the over-the-counter London and Zurich markets
- Refining and recasting activities to include quality and location swaps
- Wholesale supplier of physical metal from refiner to consumer
- Scheduling and logistics undertaken and overseen by UK-based operations
- Principal competitors are HSBC and UBS

## Agricultural Commodities

### Coffee and Cocoa Warehousing

- JPM stores physical coffee and cocoa in its LIFFE registered warehouses (Rotterdam, Antwerp, Trieste & Liverpool) to take advantage of spare HB warehouse capacity. The inventory is ultimately sold to customers or to market, rental income stays with Henry Bath
- Although coffee and cocoa are part of the food supply chain they are considered luxury items and JPM's holding is less than 0.5% of annual production

### Palm Oil (currently in pipeline)

- JPM will provide cash and physically settled OTC price risk management in Palm Oil against crude and refined products. Palm oil trades mostly on short term physical terms and access to physical market is required to provide any longer dated hedging solutions and offset client risk.
- JPM will use existing vessels to ship Palm Oil from origin to destination. We secure physical off take from plantations and/or refineries as part of financing transactions or tolling agreements. Inventory financing is being explored

### Agricultural Linked Financing (currently in pipeline)

- Exchange Trade Repo Financing – exchange certified quality, no shipping, no balance sheet usage
- Trade Financing – working capital during inventory shipping, inventory on JPM balance sheet during voyage
- Non-exchange traded financing using 3<sup>rd</sup> party warehouses – e.g. Australian wheat

### Key Rules Governing All Agricultural Physical Activities

- All business is conducted within agreed inventory limits
- All business is client driven and JPM will not be involved in the food supply chain
- All customers are either producers, consumers or merchants and these products will facilitate their businesses
- JPM does not offer physical market access on any of these products to investors nor will it have any principal investment

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Overview of Global Commodities Group 1

Risk Management and Operating Risk Controls 18

- Risk Management
- Pre-Operations
- Operations
- Post-Operations

## Risk Management Organization

### RESPONSIBILITIES:

- The Risk Management Organization under John Hogan independently monitors and advises the business on Market, Credit and Operating Risk. Its key responsibilities include:
  - Setting limits, monitoring and reporting usage against limits.
  - Approving new transactions that are material in size or risk (credit, liquidity, operating, market, etc), or represent new initiatives.
  - Advising business on hedging strategies, money management strategies, credit structuring, macro hedges, and methods to diversify risk with the objective to maximize risk/reward.
  - Ensuring appropriate due diligence around all operating risk including procedures around vetting ships, on-boarding of third party operating vendors, monitoring of escalation processes and crisis management responses.

### ORGANIZATION:

- Risk Management support for GCG is organized into 3 primary groups:
  - **Market Risk Management** - headed by John Anderson supported by 17 people located in Houston, Stamford, NY, London and Singapore.
  - **Credit Risk Management** - dedicated commodities credit team headed by Jim Ballentine supported by 46 people in Houston, Stamford, NY, London and Singapore. (GCG is also supported by the rest of the JPM credit organization as applicable).
  - **Risk Reporting** - headed by Mick Waring which supports both Market Risk and Credit Risk and coordinates closely with both teams.
- In addition, two important ancillary teams support the business:
  - **Operating Risk** - headed by Bob Trejo who reports into Dan Hines, John Anderson and Jim Ballentine
  - **FVP** - headed by Manish Das who has a dotted line into John Anderson and Dan Hines.

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## Risk Management Organization: Market and Credit Risk Governance

- Blythe Masters ensures her business works closely with the risk teams by insisting that the appropriate teams are involved in transactions from an early stage, and in all stages of approval whether it regards individual deals or overall risk profile. John Anderson and Jim Ballentine are members of the GCG management team in order to facilitate this oversight and deep involvement with the business.
- **Market Risk:**
  - Twice a week risk meetings with Blythe Masters, business heads, and desk heads chaired by John Anderson.
  - Daily risk meetings within Market Risk team to identify and agree top risks incorporating feedback from business and desk heads.
  - Weekly management meeting of Market Risk senior team with FVP head and Risk Reporting head to discuss projects and general risk topics.
  - Weekly meeting of Market Risk team and Blythe Masters to discuss current risk topics, key risks and deal pipeline.
  - Weekly deal pipeline meetings.
  - 2 Weekly meetings with Ashley Bacon directs to discuss 1) specific top risks and exposures and 2) IB risk topics and market views
- **Credit Risk:**
  - Weekly regional deal pipeline meetings.
  - Weekly global call to discuss major deals, trends and issues and ensure consistency.
  - Counterparty credit reviews and risk grading in accordance with policy.
  - Quarterly commodities credit risk review – review of top exposures, changes in exposure and trends. (Commodities exposures are also included in relevant industry and regional credit portfolio reviews).
  - Quarterly business review with John Hogan and senior regional credit executives to discuss strategy and resource needs.

## Risk Management Organization: Operating Risk Governance

- **Operating Risk Manager**
  - New role established mid-2010 to establish a coordinated GCG Operating Risk program
  - Evaluates adequacy of Operating Risk controls in GCG physical operations
  - Reviews and sets policies and monitors compliance; escalates issues to the GCG Operating Risk Committee as required
  - Coordinates implementation of Vendor Framework
  - Verifies adequate insurance coverage and compliance with GCG Insurance Policy
- **GCG Operating Risk Committee**
  - Charter:
    - Understand physical operating risks and ensure appropriate mitigants are established and maintained
    - Review, set conditions, and approve new activities that have physical operating risk components
    - Review and approve policies and procedures related to the trading and handling of physical commodities
    - Ensure significant events are reviewed and actions taken to prevent recurrence
  - Members:
    - Dan Hines – GCG CFO, Chairman
    - Bob Trejo – Operating Risk Manager, Secretary
    - Blythe Masters – Head of GCG
    - Paul Posoli – Power and Gas
    - Jeff Frase – Oil
    - Peter Sellars – Metals; EMEA
    - Ray Eyles – Asia
    - Audit (Charlie Wright), Credit Risk (Jim Ballentine), Market Risk (John Anderson), Legal (Mark Lenczowski), Compliance (Ari Nakkab), Environmental Affairs (Odin Knudsen), Global Security (Tim McNulty)
- **Operating Risk Assessment**
  - Engaged operating risk consultants Det Norske Veritas (DNV) to independently assess our risk framework. Engagement to be completed 2Q 2011, no major issues have been raised to date.

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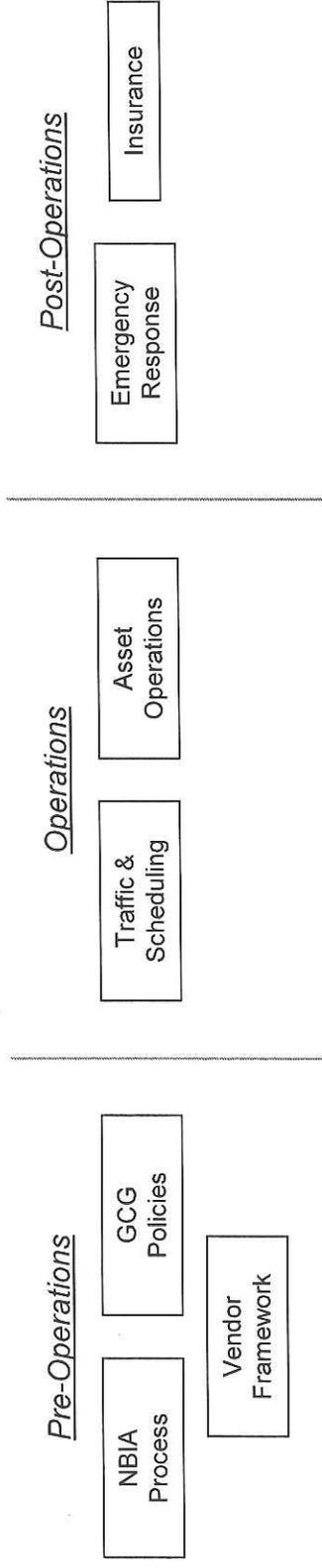
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**FRB-PSI-623107**

# Controls in Physical Commodities

## Life-cycle approach

Controls are in place for physical commodities activities at JPM at three distinct points in the "life cycle" of the activity:

- **Pre-Operations controls** consider attendant risks and establish appropriate mitigants and controls *prior to* engaging in any prospective physical commodity activity
- **Operations controls** are established to ensure day-to-day physical commodities operations are conducted with due care and logistical support, plus independent oversight
- **Post-operations controls** are instituted to reduce the ramifications of an operating incident



## Controls in Physical Commodities: Pre-Operations

### New Business Initiative Approval (NBIA) Process

- Firm-wide and IB-specific policies instituted to create a control framework for all new initiatives
- Ensures consistent standards applied to risk review of new initiatives across multiple risk “stripes”
- Detailed policy steps, formal documentation, conditions of approval and record-keeping
- Physical Operating Risk of a new business is addressed in the process
- Overseen by IB NBIA Governance Council, IB Risk Committee and individual Business Control Committees

### Examples:

- Physical Oil Trading (2007)
- Physical Coal & Dry Bulk Freight (2008)
- New Physical Oil Jurisdictions (2009)
- European Gas Transmission (2009)
- European Gas Storage (2010)
- Global Physical LNG (2010)

### Commodities Policies

- Specific policies are set forth in applicable NBIA documents - Example: only double-hulled ships to transport oil and oil products
- We are consolidating these discrete policies into stand-alone policy documents

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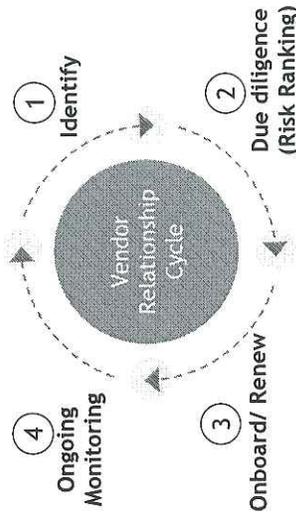
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## Controls in Physical Commodities: Pre-Operations

### Vendor Framework

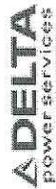
- GCG relies on numerous third-party vendors for physical commodity-related services
- “Commodities Enhanced Third Party Vendor Framework” created in mid-2010 to promote consistent oversight, detailed risk-ranking and due-diligence, and ongoing management of vendor relationships
- A vendor may be ranked as high-risk based on various factors, such as the reputational risk to JPM for vendor non-performance or accidents, country of operations, risk of regulatory non-compliance, vendor concentration, vendor replacement risk and JPM revenue at risk



- The GCG Vendor Risk Committee owns this process; members are representatives from each business line plus Legal, Audit and Compliance; the Vendor Risk Committee reports to the GCG Operating Risk Committee
- There are currently 888 vendors, 82 of which are ranked high-risk. Vendors are reviewed on a set frequency (high-risk: 6 months, low-risk: annual)
- Sample vendors ranked in high-risk category:



- Vessel vetting



- Power plant operator



North America's LNG Gateway

- Operates LNG terminal

## Controls in Physical Commodities: Operations

### Specialized Scheduling and Logistics Teams

- Experienced scheduling and logistics teams (sometimes called “traffic”), and asset optimization teams, work closely with traders to ensure safe and successful commodity movement and asset operations
  - Oil – 19 traffic staff in Stamford, Houston, Calgary, London, Geneva, and Singapore
  - North American Power – 24 schedulers (including two 24/7 real-time scheduling desks) in Houston
  - North American Gas – 13 schedulers in Houston and Calgary
  - Europe Power & Gas – 12 schedulers in London
  - Coal and Bulk Freight – 3 schedulers in London and Geneva
  - Metals – numerous logistical personnel worldwide
  - Independent and dedicated market risk, credit risk, operating risk and legal & compliance support
  - Technology, operations and finance personnel with strong product knowledge and experience

### Sample Process: Chartering a Vessel

When Trading requests a vessel, traffic group searches for suitable class, tonnage, age, and cost for given timeframe

1. Candidate vessel is “put on subs” (contingent offer)
2. Request ship vetting company evaluation: ship, shipyard, crew and owner history; Ship Inspection Report (SIRE); vessel chartering questionnaire (Q88); terminal approvals (recipient and supplier)
3. Carry out Office of Foreign Assets Control (US Treasury) checks
4. Credit check
5. Review of contractual terms

## Controls in Physical Commodities: Operations

### Example Incident: Potential Violation of the Jones Act Averted

- GCG's oil traffic group in Stamford conducts numerous checks throughout the life of a physical oil movement, including reviews of all documentation related to ship voyages to ensure all requirements and regulations are complied with. This review includes the Bill of Lading and Certificate of Origin for any cargo bound for the US.
- The United States' Jones Act (part of the Merchant Marine Act of 1920) requires that all goods transported by water between US ports be carried exclusively on US-flag ships, built in the US, owned by US citizens and crewed by US citizens.
- In October 2010, during the routine review of an import of #6 fuel oil, a JPM scheduler observed that a non-US flag vessel was scheduled to deliver the cargo to a US port, and the origin was another US port.
- The scheduler notified the head of oil traffic, who subsequently convened meetings and discussions with additional personnel and GCG support groups, including Legal, Credit, Senior Management of GCG and outside counsel.
- Despite initial pushback from the trading counterparty who had sourced the shipment, JPM insisted it could not legally accept delivery of the cargo.
- The ship ultimately sailed to a non-US port, thereby implicitly conceding the validity of JPM's position.

## Controls in Physical Commodities: Post-Operations

### Emergency Response Procedure

- Developed specifically for our unique position as “non-owner, non-operator”
- In place for oil and oil products, LNG, and dry freight
- Specifies an on-call Duty Officer, with prompt notification of appropriate JPMorgan personnel, including Legal, Corporate Communications, Investor Relations, Insurance, Environmental Affairs, plus applicable external support groups

### Power-Related Emergency Response Procedures

- Individual plans are in place at generating facilities

### Piracy Events

- Despite recent notoriety, the probability of a piracy event is still very low, and owners/crews are highly incented to have procedures to reduce the chances of a successful occurrence
- Shipping industry is being very proactive: Best Management Practices, convoys, deterrents
- Primary responsibility is with ship owner; in fact, it's doubtful a cargo could be identified as belonging to JPM
- Cargo insurance responsive for cargo value; charterer's insurance for other liabilities, including pollution
- Any request for ransom has to be addressed very carefully; sovereign laws and US/EU Orders apply
- Our Emergency Response Procedure is already well-suited for this type of event
- It is advised to not have a written policy on Piracy, as it can be corrupted/exploited

## Controls in Physical Commodities: Insurance

- Through its ownership and transportation of physical commodities and its investments in assets, GCG is exposed to a variety of insurable risks. These include:
  - Third Party Liability & Pollution/Environmental (on the sea and on land)
  - Physical Loss, Destruction or Damage (in storage and transit)
  - Terrorism (in storage and in transit)
  - Warehouse Keeper's Legal Liability (Henry Bath) and Specie Policy (Precious Metals)
  - Director and Officer Run-off (relating to RBS Sempra transaction)
  - Contingent Business Interruption (AES 4000 re-toll)
- GCG's insurance policy mandates the following:

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## Risk Engagement with DNV



MANAGING RISK

- **Objective**
  - Secure a qualified, independent assessment of the risks associated with our activities in physical commodities
- **Qualifications of DNV**
  - Det Norske Veritas (DNV) is a global provider of services for managing risk, with 9,000 employees in 300 offices in 100 countries
  - Independent, autonomous foundation with focus on maritime and energy sectors
  - Internationally recognized provider of technical and managerial consultancy services and one of the world's leading ship-classification societies; very deep product knowledge in energy and risk
- **Scope of Engagement**
  - Identify operating risks for current portfolio of JPM Commodities activities and assets
  - Assess effectiveness of existing risk mitigants, including internal policies, procedures, and processes
  - Provide recommendations for improvements to existing risk mitigants and propose new mitigants based on industry best practices
  - Provide a framework for ongoing monitoring of current and future physical commodity operating risk, including leading and lagging indicators
  - DNV Technical Leads completed Initial Risk Screening and Desktop Reviews, wrapping up Site Visits
  - Engagement to be completed in Q2 2011. No major issues have been raised to date

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## Regulatory / Compliance Risks Update

**Due to the physical nature of the business GCG is subject to regulatory oversight in addition to banking regulation**

- Energy Tolling/Management Activities: In June 2010, JPM received permanent approval to engage in these activities from the federal Reserve
- 5% Tier 1 Physical Inventory Limit: GCG is subject to holding limit 5% of JPMC's tier 1 capital (4% reporting trigger). See page 38 for monthly report to the Federal Reserve
- Energy transmission/transport: GCG must comply with Federal Energy Regulatory Commission (FERC), other certain government energy authorities, and is subject to excise and fuels taxing authorities

### Financial Reform Update

- Dodd-Frank CFTC position limits and hedging exemptions: Significant uncertainty remains regarding scale of opportunity cost pending final rules
- Volcker Rule: GCG has closed down its Proprietary Trading business. In dialog with regulators on drafting of market-making rules
- Derivative Push-Out: GCG already has a large portion of is activity in non-bank entities and majority of Metals business expected to remain in the bank. GCG will need to migrate its financial OTC derivatives activity out of JPMCB NY Branch to JPMorgan Ventures Energy Corporation

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# Regulatory / Compliance Risks Update (Continued)

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## FERC MISO:

- \* In early November the FERC began a non-public investigation into JPM's offers of power from the Jackson, Michigan power plant into the Midwest Independent System Operator's ("MISO") market during the last week of October 2010.
- \* One JPM employee deposed - FERC seems to be focused on JPM's offer structures and the related receipt of Revenue Sufficiency Guarantee "RSG" payments.
- \* JPM has no material market presence or pricing power. JPM did not realize any profit from this plant as a result of the strategies questioned by FERC, which were intended to optimize an otherwise unprofitable asset. JPM does not believe that it violated FERC's policies and regulations regarding market manipulation.

## CAISO DMM:

- \* This item relates to our much more significant position in AES related tolls in Southern California.
- \* The California Independent System Operator's ("CAISO") market monitor has raised concerns regarding JPM's offer structures into the CAISO market and the related Bid Cost Recovery ("BCR") uplift payments.
- \* CAISO agrees that the activity does not violate the current CAISO tariff, but has submitted a request for tariff revisions to FERC to "remedy the observed exploitation of the existing bid cost recovery tariff rules, causing an unexpected market outcome".
- \* JPM believes that it has not violated any regulation but given the vague standards around FERC rules we may be at risk of a FERC enforcement action alleging market manipulation.
- \* Weekly meetings held with commercial, risk, compliance and business management groups to review JPM's offer structures.

## LME Copper:

- \* During Nov 2010, JPM held a large position in LME Copper inventory to meet forward delivery obligations. The warrant position reached approx 52% of the published LME stock and the desk was subject to LME lending guidance in accordance with the exchange rules. The position was reduced to below 20% on Dec 15 when the warrants were delivered.
- \* Press reports that JPM was dominant holder of warrants in anticipation of the Copper ETF were false.

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## Rifles (Risk Identification For Large Exposures) Related To Physical Assets

- Potential losses from extreme events which may not be captured within VaR or Stress limits
- RIFLEs are reviewed regularly by senior management and are part of ongoing risk review process
- RIFLEs with exposure greater than \$50mm are the following:

Exposure	Scenario	Estimated Loss (\$ million)
AES 4000 power plant tolls in Southern California	Cumulative 1 year outage over 3 years or complete property loss from a natural disaster	\$100 – \$140
Oil storage lease rates	Market lease rates fall significantly below our contracted lease rates	\$180
Europe Natural Gas pipeline transportation	Significant increase in pipeline capacity reduces valuation	\$70
Physical Power Plants & Tolls	Significant decline in residual value of owned power plants	\$55
	Significant increase in non-fossil fuel power generation in Germany results in decline in value from our toll positions	\$50

# Commodities Audit Coverage

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## Reputation Risk

GCG manages reputation risks consistent with the IB's overall reputation risk framework (Appropriateness Policy, Heightened Risk Policy and Non-Standard Transactions) and has developed policies and procedures specific to certain GCG activities

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## Physical Inventory Limit Monitoring

- JPM is subject to a limit on physical inventory as well as value of tolling agreements that is held outside the Bank entities.
- The maximum allowed amount is 5% of the bank's Tier 1 capital, or \$7.1bn
- GCG management provided guidance to individual desks as to the amount of inventory they need to manage to.
- Actual usage is reviewed weekly and corrective action is taken as necessary

Business	As of 3/28	25% Stress on 3/28 Inv	Notes
Canadian Oil	586	732	Inventory in pipelines and storage facilities
EMEA Oil	949	1,186	Inventory in pipelines and storage facilities
AP Oil	78	97	Inventory in pipelines and storage facilities
US Oil	1,224	1,530	Inventory in pipelines and storage facilities
Freight	2	2	Margin on sub-lease of time chartered vessels
NA Gas & Emissions	197	246	Gas and Emissions inventory
NA Tolls	2,372	2,374	Present value of future demand payments
EMEA Gas & Emissions	286	358	Gas and Emissions inventory
Global Coal	8	10	Coal inventory at plant
Softs	17	22	
Metals	7	9	
Plastics	28	35	
Concentrates	210	262	Inventory in warehouse and in transit
<b>Total Physical Inventory</b>	<b>5,969</b>	<b>6,871</b>	Inventory in warehouse and in transit

Tier 1 Capital	-	142,845	142,845
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4% Reporting Requirement	5,714	5,714
5% Limit	7,142	7,142

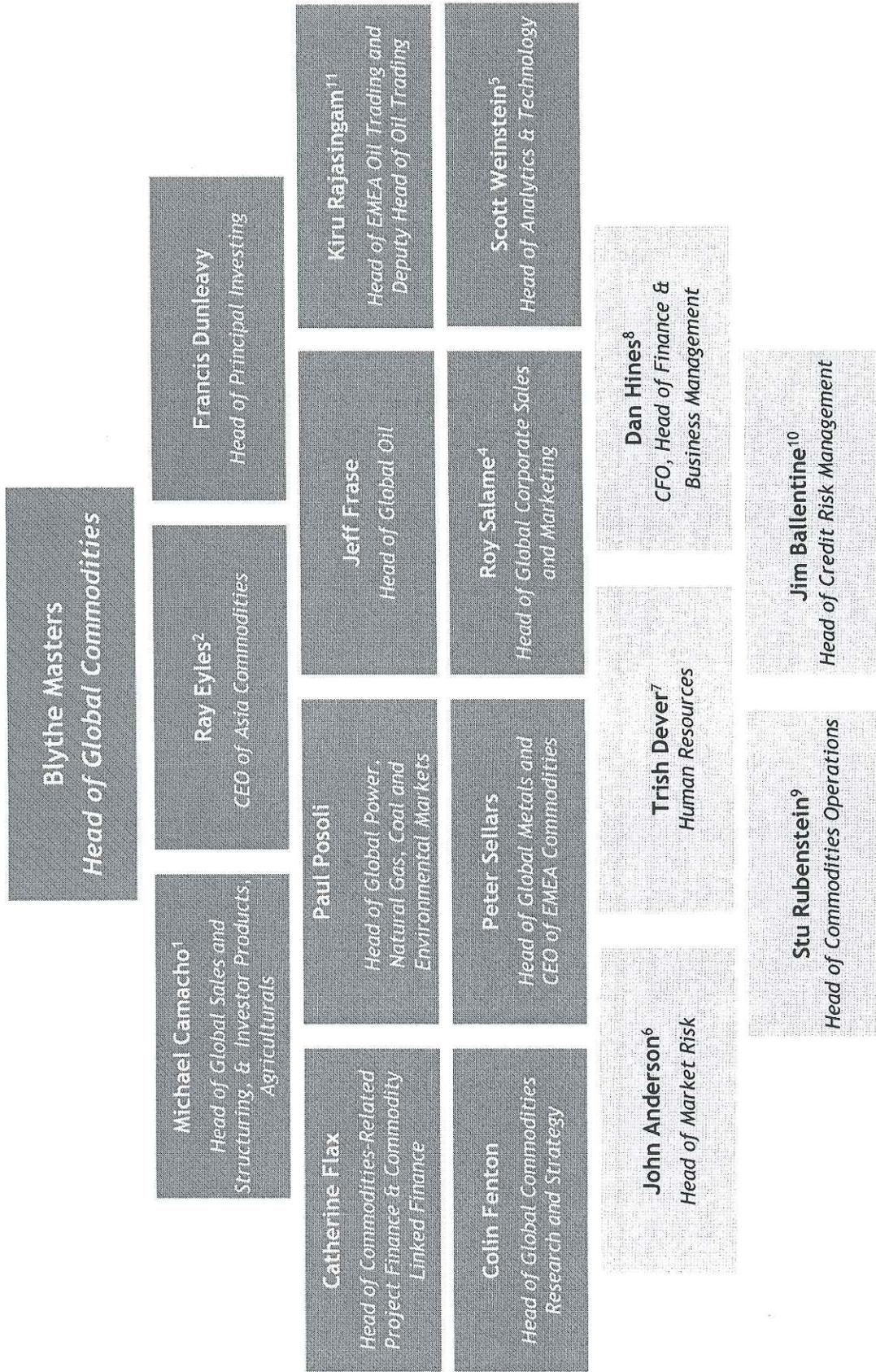
Under/(over) Reporting Requirement	(256)	(1,157)
Under/(over) Limit	1,173	272

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# Global Commodities Management Committee



1) Mike Camacho also heads Business Development, which includes initiatives such as leveraging JPM's Global Corporate Bank, electronic trading, client clearing, 2) Ray Eyles - also reports to Gaby Abdelnour, 4) Roy Salame - reports to Mike Camacho, 5) Scott Weinstein - also reports to Peter Cherasia, 6) John Anderson - reports to Ashley Bacon, 7) Trish Dever - reports to Nancy Gill, 8) Dan Hines - reports to Tushar Morzaria, 9) Stu Rubenstein reports to Mary Ambrecht, 10) Jim Ballentine - reports to Steve Eichenberger, 11) Kiru Rajasingam reports to Jeff Frase

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## Global Commodities Management Team – Front Office

<b>Blythe Masters</b>	Head of Global Commodities	20 years experience at JPM across a variety of roles in sales and trading across fixed income and commodities markets, risk and finance.
<b>Michael Camacho</b>	Head of Sales & Structuring, Investor Products, Ags	20 years experience at JPM that included: Rates Exotics Trading business (which included developing pricing models and risk management systems); Global Head of the U.S. Dollar Rate Exotics Trading desks; Americas Structured Investments team.
<b>Jeff Frase</b>	Head of Global Oil Trading	20 years experience in Oil industry including 17 years at Goldman Sachs where he had most recently been head of Global Crude Oil and Derivatives trading. After Goldman, spent one year at Lehman Brothers, running Global Oil Trading. Joined JPM in October of 2008.
<b>Roy Salame</b>	Head of Global Corporate Sales and Marketing	Over 20 years experience in Commodities, with JPM since November 2008. Previously led various commodities franchises at Goldman Sachs and Lehman Brothers.
<b>Kiru Rajasingam</b>	Head of EMEA Oil Trading and Deputy Head of Oil Trading	Deputy head of Global Oil. Has over 15 years experience in the Oil business, including both physical and financial products. Has held key risk positions at both BP and Goldman Sachs.
<b>Paul Posoli</b>	Head of Global Power, Nat gas, Coal and Envir. Mkts	Over 25 years in commodities, prior to JPMorgan president of Bear Energy, the Bear Stearns energy trading and marketing business. Prior to Bear President of Calpine Energy Services, several years at Enron Capital and Trade.
<b>Peter Sellars</b>	Head of Global Metals and CEO of EMEA Commodities	27 years of experience in Metals industry including 9 years as head of metals for Semptra, 9 years as head of Commodities for BarCap and 8 years with Englehard. Prior board member of the London Metal Exchange (LME) and various chairman and committee roles on industry trade groups.
<b>Francis Dunleavy</b>	Head of Principal Investments	30 yrs of experience in the commodity industry including Partner at Bear, Stearns & Co., Senior Managing Director at Bear, Stearns & Co. Inc. and Bear Energy, member of the board of various Bear Stearns subsidiaries and Chairman of the Board of Doman Industries.
<b>Ray Eyles</b>	Head of Asia Commodities	22 years with JPM between the Sydney, Singapore and London offices. Previously CEO European Commodities, Global head of metals and Agricultural commodities.
<b>Catherine Flax</b>	Head of Commodities-Related Project Finance & Commodity Linked Finance	Former head of GCG Corporate Market and Structuring business, as well as the Environmental Market sales, trading, and origination business. Before JPM: Managing Director for North American Power Origination at Morgan Stanley; research and structurer for Williams Companies' oil, gas and power businesses.

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# Global Commodities Management Team – Support Functions

<b>John Anderson</b>	Head of Market Risk	19 years with JPM with positions in Fixed Income, Currencies and Commodities including market making interest rate swaps and options, Global Head of Fixed Income Derivatives and FX Trading, Global Head of FX, Metals and Proprietary Trading.
<b>Colin Fenton</b>	Head of Research	20 years experience in commodities research and analysis, including nearly 8 years at Goldman Sachs. Former managing director and head of commodities and cyclical industries at Duquesne Capital Management (a multi-billion dollar hedge fund). Former research assistant to Ambassador Chester A. Crocker, assistant secretary of state for African Affairs.
<b>Dan Hines</b>	Business CFO	22 years of experience with JPMorgan, the last 4 as CFO of Commodities. Has held various senior Finance roles including head of Strategic Planning & Analysis for the Investment Bank and CFO and Controller positions across various Investment Banking businesses.
<b>Scott Weinstein</b>	Head of Analytics and Technology	Over 20 years with GS - 16 yrs in commodities as lead energy strategist; primary software architect of Goldman's proprietary risk management software (known as Secdb) and Energy quantitative models, involved in creation of Constellation commodities business, 4 years as co-head of Goldman's NA power business. With JPM since 2009.
<b>Stu Rubenstein</b>	Head of Global Operations	Over 25 years experience in commodities. 15 years with Goldman Sachs (MD in 1999), ran J.Aron energy operations for 4 years, helped start Constellation Energy commodities group while with Goldman. 10 years with Constellation Energy (Chief Operating Officer from 2001).
<b>Trish Dever</b>	Human Resources	18 years in banking including 12 years in Human Resources. Has been supporting Global Commodities businesses for the past 4 years.
<b>Jim Ballentine</b>	Head of Credit Risk Management	31 years in banking including the last 10 years in credit. Prior experience includes leveraged finance and investment banking coverage.

Response to Question 2

J.P. Morgan's Global Commodities Group conducts a customer-driven commodity derivatives and commodities financial intermediation business, providing its clients with risk management and financing solutions for their commodity exposures. Customers include governments, producers, consumers, intermediaries, refiners, and investors. J.P. Morgan's physical commodity inventory is related to these customer businesses, and J.P. Morgan does not engage in proprietary trading in any physical commodities and is not a user of or investor in physical commodities. To illustrate this, J.P. Morgan has supplemented the requested data about its physical inventory positions with the corresponding committed forward physical sales and/or financial sales ("hedged") that neutralize J.P. Morgan's directional interest in the price performance of its inventory positions. J.P. Morgan has shown its resulting net directional positions, which are held for very short periods of time. To provide further context, J.P. Morgan enters into physical commodity transactions in connection with the orderly establishment or unwinding of hedging positions for its customer-driven commodities business. J.P. Morgan does not take a position in physical commodities for the purpose of profiting from price changes, but rather as part of a portfolio hedge. Physical inventory held by J.P. Morgan is either hedged with or is a hedge for the sale of a comparable financial derivative or forward sale. Physical inventory is associated with hedges to protect the firm against commodity prices rising or falling. J.P. Morgan assesses its physical commodities at an aggregated portfolio level to measure the total risk associated with the hedged portfolio. This is shown by the fact that the USD notional value of the hedged portfolio is both small in relation to the notional value of the inventory alone, and the total notional value of the portfolios are small in relation to the general buying and selling activities of consumers/producers/speculators in the market as a whole, as well as supply and demand for the products in question.

Commodity	Approximate Dollar Value (in Millions USD at Spot Value)																
	Inventory at the end of each fiscal year**						Highest inventory during each fiscal year**						Lowest inventory during each fiscal year**				
	2008	2009	2010	2011	2012*	2008	2009	2010	2011	2012*	2008	2009	2010	2011	2012*		
<b>Agriculture</b>																	
Cocoa	0	0	6.0	0	0	0	0	11.8	5.1	0	0	0	0	0	0	0	
Coffee	0	0	19.6	16.1	0	0	0	3.3	25.8	19.1	0	0	0	0	0	6.5	
Cotton	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Corn	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Lumber	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Rice	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Soybeans	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Sugar	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Wheat	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>Metals</b>																	
Aluminum	360.5	803.5	3047.7	6673.7	4078.1	565.6	1477.5	3047.7	6673.7	5088.0	54.5	76.6	798.7	1399.4	4078.1		
Copper	148.8	303.7	659.9	1264.9	946.4	241.6	551.3	1648.4	2718.7	1216.3	0	124.4	659.9	1265.0	430.5		
Gold	3144.5	5660.0	8952.6	10763.8	4954.8	5200.0	5660.0	11632.6	16459.2	6799.9	1525.8	1324.2	1730.8	2575.0	1208.7		
Iron Ore	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
Lead	0	229.6	38.8	157.3	138.9	66.0	229.6	182.8	254.7	179.2	0.0	0.0	38.8	3.1	67.3		
Nickel	253.8	214.7	2170.1	928.7	1393.0	268.4	951.0	2170.1	1330.2	1650.1	39.4	214.7	308.0	369.2	764.6		
Palladium	105.6	408.2	584.3	612.3	578.5	312.9	408.2	584.3	765.4	804.8	42.5	64.6	262.8	561.2	578.5		
Platinum	57.5	554.5	875.2	1088.6	727.5	307.4	554.5	875.2	1475.9	1173.9	24.1	1.8	300.9	766.9	227.5		
Silver	121.2	1162.5	372.1	157.6	1264.0	1165.6	1448.1	746.2	1188.7	1264.0	90.3	302.0	138.5	0	202.5		
Tin	4.8	4.7	215.3	184.7	80.2	17.5	5.7	215.3	508.4	245.6	0	0	3.4	139.8	80.2		
Zinc	174.1	197.4	1026.2	1313.0	1047.4	762.1	631.1	1026.2	1313.0	1389.8	10.9	56.1	60.3	386.0	1047.4		
<b>Energy</b>																	
Coal	7.2	2.8	9.4	7.2	2.1	2.2	4.2	9.4	15.5	3.9	0	2.2	1.8	5.0	2.1		
Crude Oil (all benchmarks)	0	8.4	560.4	597.0	260.9	0	27.1	560.4	597.0	540.7	0	0.3	0.7	349.4	260.9		
Electricity <sup>(1)</sup>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
Heating Oil	0	178.6	416.3	445.0	326.4	0	178.6	416.3	474.5	460.4	0	0	0	363.9	326.4		
Gasoline (RBOB)	0	0	28.5	94.0	74.2	0	0	38.9	121.1	74.2	0	0	0	79.4	26.1		
Jet, Kerosene	0	134.7	495.2	455.5	390.0	0	159.0	495.2	591.2	467.0	0	0	0	455.5	390.0		
Natural Gas <sup>(2)</sup>	91.0	162.8	315.1	196.2	169.0	N/A	162.8	315.1	332.9	169.0	N/A	N/A	79.3	164.5	90.2		

\* Includes only the first and second quarters of 2012.

\*\* Based upon monthly inventory values.

(1) As electricity cannot be stored, inventory volumes are zero.

(2) Monthly inventory values for January 2008 - November 2008 are currently not available and as such, highest and lowest inventory during 2008 is not applicable.

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### Merchant Banking Investment in Henry Bath

JPMorgan Chase & Co. (“JPMC”) plans to hold its investment in Henry Bath & Son Limited (“Henry Bath”) under the merchant banking authority in Section 4(k)(4)(H) of the Bank Holding Company Act of 1956 (the “BHC Act”). JPMC acquired all of the equity interests of Henry Bath on July 1, 2010 as part of its acquisition of certain businesses from RBS Sempra Commodities. JPMC currently holds Henry Bath in reliance on Section 225.85(a)(3) of Regulation Y, which allows a financial holding company to acquire a company engaged in limited nonfinancial activities if the financial holding company conforms, terminates, or divests the nonfinancial activities within two years of the date of acquisition. JPMC will conform its investment in Henry Bath to a permissible merchant banking investment before the end of the two-year conformance period required under Section 225.85.

### Bona Fide Merchant Banking Investment

JPMC acquired Henry Bath based on its belief that it was an attractive investment and will hold Henry Bath with the intent of profiting from its earnings and realizing any appreciation in its value upon ultimate resale or disposition. Section 4(k)(4)(H) and Regulation Y permit a bank holding company to hold shares of a company engaged in nonfinancial activities as part of a bona fide merchant banking activity, including where the shares are held for the purpose of appreciation and ultimate resale or disposition of the investment. JPMC was attracted to the opportunity to own Henry Bath because it is a well-run and profitable company with a long history and a solid reputation in its industry, the warehousing of commodities, predominantly metals traded on the London Metal Exchange (“LME”). Its value is supported in part by the fact that it is not easy for competitors to get into the business of operating warehouses licensed by the LME—the application process is rigorous and warehousing companies need a good track record to attract customers. JPMC believes that LME warehousing is a business with excellent growth potential because there has been a substantial increase in demand for metals, particularly in the emerging markets, which has increased storage demands. In short, JPMC believes that this is a business that can generate a good return on investment.

Under the BHC Act and the merchant banking regulations, JPMC may own an interest in a company, including a 100% or other controlling interest in a company, that engages in nonfinancial activities provided it complies with the requirements relating to merchant banking investments.<sup>1</sup> As noted, JPMC owns 100% of Henry Bath and therefore controls it, but JPMC will do so as a bona fide merchant banking investment. The requirement in Regulation Y that a merchant banking investment be “bona fide” is meant to prevent a financial holding company from holding investments in nonfinancial companies for the purpose of engaging in the activities of the nonfinancial company, *i.e.*, integrating the portfolio company into the strategy and operations of the financial holding company. Consistent with this, Henry Bath is very much a separate company from JPMC. Importantly, Henry Bath has independent management<sup>2</sup> and there are no officer or employee interlocks between JPMC and Henry Bath. In addition, it is

<sup>1</sup> See 12 C.F.R. § 225.170.

<sup>2</sup> Henry Bath currently does not have a chief executive officer. The board of directors of Henry Bath is expected to appoint a chief executive officer prior to June 1, 2012.

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operationally independent from JPMC and its subsidiaries, in part because of the requirements imposed on it under LME rules.

All LME warehouse operators, including Henry Bath, are subject to strict regulations imposed by the LME that are designed to ensure that conflicts of interest do not arise when LME warehouse companies are affiliated with companies engaged in commodity trading activities. LME warehousing companies are required to operate as separate companies and are subject to strict confidentiality rules regarding price-sensitive information, including information related to stock levels and flows of commodities in or out of the warehouses. These structural requirements and information barriers prevent any operational integration of Henry Bath into JPMC's trading or other financial operations, in addition to preventing JPMC's commodities business personnel from accessing or taking advantage of nonpublic information known to Henry Bath. Moreover, LME regulations require that LME warehouse companies treat all customers wanting to deposit commodities at, or remove commodities from, an LME warehouse fairly, in time order, and with a common level of service to avoid even the appearance of favoritism. That is, Henry Bath cannot favor JPMC or its customers when accepting metal for storage or releasing it.

The fact that a large portion of stocks held at Henry Bath warehouses currently belongs to JPMC or its customers does not prevent JPMC from holding this investment consistent with the merchant banking regulations. JPMC, when given a choice, directs its business to Henry Bath because Henry Bath is a reputable LME warehouse operator and JPMC owns 100% of Henry Bath. Henry Bath does not provide JPMC with preferential terms. JPMC does not believe that Henry Bath is in any way dependent on business from JPMC, and being a customer of Henry Bath does not give JPMC any rights or ability to influence operational decisions made by Henry Bath's management. As noted, JPMC has owned Henry Bath only since July 2010, and in general demand is high across the industry for LME storage. Moreover, with limited exceptions,<sup>3</sup> business relationships between a portfolio company and a financial holding company are not prohibited and, in fact, are not unusual in connection with merchant banking investments.

Holding the Henry Bath investment under the authority of Section 225.85 and then transitioning it to merchant banking authority should not prevent JPMC from holding it as a bona fide merchant banking investment. In fact, Regulation Y specifically contemplates that a financial holding company may hold shares, assets or ownership interests under one authority and later hold them under merchant banking authority.<sup>4</sup> The ability to change the authority under which a

<sup>3</sup> Section 225.176 of Regulation Y imposes limits on cross marketing and on certain transactions between a depository institution subsidiary of a financial holding company and a merchant banking portfolio company.

<sup>4</sup> Under the tacking provisions of the merchant banking rules, a financial holding company that previously held shares, assets or ownership interests under an authority that imposes a limited holding period must tack on the time such interests were held under that authority when calculating compliance with the merchant banking holding period. See 12 C.F.R. § 225.172(b)(3). The preamble to the final merchant banking rule states that this requirement is appropriate because it prevents a financial holding company from evading the holding periods applicable to the merchant banking regulations and provisions of other federal banking laws with similar requirements. See 66 FR 8465, 8475 (2001).

financial holding company holds shares, assets or ownership interests therefore should not undermine its ability to hold such interests as a bona fide merchant banking investment. Indeed, the preamble to the final merchant banking rule recognizes that, although interests held by a financial holding company may not have been acquired originally as a merchant banking investment, the financial holding company may later determine that it wishes to hold such interests for investment purposes consistent with the requirements of the merchant banking rules.<sup>5</sup>

Permitting JPMC to hold Henry Bath under merchant banking authority thus is consistent with the bona fide investment requirement. JPMC will not be engaging in the activities of Henry Bath, which will maintain, separate, independent executive management that will manage its routine operations. JPMC and its personnel will not engage or participate in the day-to-day management of Henry Bath except when and to the extent permitted under the limited exceptions set forth in Regulation Y.

### **Routine Management**

As explained, JPMC does not, and will not, routinely manage or operate Henry Bath. The merchant banking regulations prohibit a financial holding company from routinely managing or operating a portfolio company, except under limited circumstances.<sup>6</sup> JPMC does not have and will not maintain any officer or employee interlocks with Henry Bath that would trigger a presumption of routine management or operation under Regulation Y. Moreover, JPMC does not and will not have in place any covenants or other contractual agreements with Henry Bath that would restrict Henry Bath's ability to make routine business decisions. JPMC will ensure that any actions taken in its ownership of Henry Bath to date that may not be consistent with merchant banking, such as bringing Henry Bath employees under JPMC benefits policies, are reversed prior to the end of the two-year conformance period.

As noted above, the LME places restrictions on Henry Bath as an LME warehouse operator. These restrictions will help ensure that JPMC remains in compliance with the prohibition on routine management by a financial holding company of a portfolio company.

### **Holding Period**

JPMC recognizes that there is a ten-year holding period applicable to merchant banking investments (subject to extension) and that the holding period begins from the date that Henry Bath was acquired in reliance on Section 225.85 of Regulation Y.<sup>7</sup> JPMC will comply with this requirement as well as the other requirements under the merchant banking rules.

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<sup>5</sup> The preamble cites to the authority under the BHC Act to acquire shares, assets or ownership interests in satisfaction of a debt previously contracted in good faith as an example. *See id.*

<sup>6</sup> *See* 12 C.F.R. § 225.171.

<sup>7</sup> *See* 12 C.F.R. § 225.172.

EXCERPT

CONFIDENTIAL

COMMODITIES PHYSICAL OPERATING RISK

Update to CIBRC

24 Jan 2013

Permanent Subcommittee on Investigations

EXHIBIT #61

STRICTLY PRIVATE AND CONFIDENTIAL

J.P.Morgan  
FRB-PSI-301379

# Physical Operating Risk Review of Project Liberty

## Transaction Summary

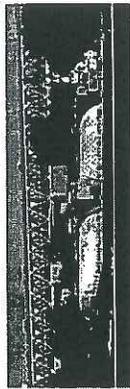
- Supply and Offtake agreement between JPMVEC and Philadelphia Energy Solutions Refining and Marketing (PESRM), a joint venture between the Carlyle Group and Sunoco
- JPM supplies 100% of crude oil and feedstocks and purchases the majority of the refined products
- JPM sells around half of refinery products back to Sunoco for its retail distribution network; remainder is sold to third parties
- JPM leases storage for crude and refined products on and near the refinery premises
- Crude oil and feedstocks arrive via ship and rail
- Refined products and blends taken away by pipeline and barge
- 5 year contract term; option to cancel at end of years 3 or 4

## Physical Operating Risk Framework

- The physical components of the transaction are already contemplated and routinely undertaken by GCG
- All physical commodity handling is by third parties (vendors)
- Activities are bounded and controlled via:
  - NBIA for Global Physical Oil
  - GCG 2.01 – Vessel Chartering and Vetting Policy Wet Freight
  - GCG 1.05 – Physical Commodity Vendor Management
  - GCG 1.04 – Incident Reporting
  - GCG 1.03 – Insurance Coverage
  - GCG 1.02 – Avoidance and Operational Control of Third Party Service Providers
  - GCG Emergency Response Plan

## Transaction-Specific Review and Approval

- Physical Oil products and related policies/processes verified to be business-as-usual for GCG
- All vessels to be used in transaction vetted and approved by GCG's Vessel Vetting Specialist
  - Chemical tank barge "Ponciana"
    - Age: 11 years; Policy specifies 40 year limit
  - Barge accepted per Policy's exception process: detailed on-site inspection of ship, crew and record; ongoing schedule of inspections established; frequent review of exception
- Per the Physical Commodity Vendor Management Policy, all vendors assigned a relationship manager, evaluated, and found acceptable. Onboarding of all vendors carried out, including KYV.
  - All storage tanks and ship-handling infrastructure inspected by Oil Inspections, Inc. Some remediation items identified and addressed.
  - Some logistical (scheduling) expertise retained from PESRM and provided to JPM under a negotiated Consulting Services Agreement
    - Training provided on vessel vetting, Avoidance of Operational Control, and incident reporting
  - Certain crude shipments from Strict Liability Jurisdictions evaluated by ORC and IBRC and approved with conditions (for countries that are not signatories to CLC 92, take only delivered cargoes; GCG to purchase additional marine liability insurance, \$450mm acquired)
  - Project Liberty reviewed and approved by IB Environmental Risk Group, RRC, and GCG Operating Risk Committee



Board of Governors of the Federal Reserve System



# Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies—FR Y-12

Report at the close of business as of the last calendar day of the reporting period.

This report is required by law: Section 5(c) of the Bank Holding Company Act (12 U.S.C. § 1844(c)) and Section 10 of the Home Owners Loan Act (12 U.S.C. § 1467a(b)).

the instructions provided by the Federal Reserve System. The Federal Reserve may not conduct or sponsor and an organization (or a person) is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

The *Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies* is to be prepared in accordance with

NOTE: The *Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies* must be signed and attested by an Executive Officer of the reporting holding company.

Date of Report: June 30, 2014  
Month / Day / Year (BHEI 9999)

I, the undersigned Executive Officer of the named holding company, attest that the *Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies* for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and is true and correct to the best of my knowledge and belief.

Marianne Lake  
Printed Name of Executive Officer at Holding Company (BHEI C490)

JPMORGAN CHASE & CO  
Legal Name of Holding Company (TEXT 9010)

Executive Vice President  
Title of Executive Officer of Holding Company (BHEI C491)

270 PARK AVENUE  
(Mailing Address of Holding Company) Street / P.O. Box (TEXT 9110)

\_\_\_\_\_  
Signature of Executive Officer of Holding Company

NEW YORK                      NY                      10017  
City (TEXT 9130)                      State (TEXT 9200)                      Zip Code (TEXT 9220)

06/30/2014  
Date of Signature (MM/DD/YYYY) (BHEI J196)

Person to whom questions about this report should be directed:

\_\_\_\_\_  
Name / Title (TEXT 8901)

\_\_\_\_\_  
Area Code / Phone Number (TEXT 8902)

\_\_\_\_\_  
Area Code / FAX Number (TEXT 9116)

\_\_\_\_\_  
E-mail Address (TEXT 4086)

<b>For Federal Reserve Bank Use Only</b>		
RSSD ID	_____	
C.I.	_____	S.F. _____

Public reporting burden for this information collection is estimated to average 16.5 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Comments regarding this burden estimate or any other aspect of this information collection, including suggestions for reducing the burden, may be sent to Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0300), Washington, DC 20503.

**Permanent Subcommittee on Investigations**  
**EXHIBIT #62**

**FRB-PSI-800005** 03/2013  
PSI-FRB-12-000008

JPMORGAN CHASE & CO

Legal Name of Holding Company

June 30, 2014

As-of Date

For Federal Reserve Bank Use Only

RSSD ID \_\_\_\_\_

C.I. \_\_\_\_\_

FR Y-12  
Page 2 of 4

**Schedule A: Type of Investments**

(If no activity or if the following section does not apply, please enter zero "0".)

	(Column A) Acquisition Cost			(Column B) Net Unrealized Holding Gains Not Recognized as Income			(Column C) Carrying Value			(Column D) Publicly Quoted Value			
	BHEI	Bil	Mil	BHEI	Bil	Mil	BHEI	Bil	Mil	BHEI	Bil	Mil	
Dollar Amounts in Millions													
1. Direct investments in public entities .....	C088		582	C089		0	C090		872	C091		562	1.
2. Direct investments in nonpublic entities .....	C093	10	206	C094		0	C095	8	205				2.
3. All indirect investments .....	C097		776	C098		0	C099		628				3.
4. Total portfolio (sum of items 1, 2, and 3) .....	C101	11	564	C102		0	C103	9	705				4.

**Memoranda**

1. Total portfolio.....

	Number of Companies				
	BHEI	1-10	11-25	26-100	100+
C100			100		

	(Column A) Acquisition Cost			(Column B) Net Unrealized Holding Gains Not Recognized as Income			(Column C) Carrying Value			
	BHEI	Bil	Mil	BHEI	Bil	Mil	BHEI	Bil	Mil	
Dollar Amounts in Millions										
<b>Financial holding companies only</b>										
2. Investments held under Merchant Banking (GLBA) authority .....	C104	10	267	C105		0	C106	8	784	M.2.

	Income Amount			
	BHEI	Bil	Mil	
Dollar Amounts in Millions				
<b>Only for holding companies filing FR Y-9C</b>				
3. Pre-tax impact on net income from items 1, 2, and 3 above .....	B498		419	M.3.

	Off-Balance-Sheet Amount			
	BHEI	Bil	Mil	
Dollar Amounts in Millions				
<b>For all holding companies</b>				
4. Investments managed for others .....	C716	1	045	M.4.

	Income Amount			
	BHEI	Bil	Mil	
Dollar Amounts in Millions				
<b>Only for holding companies filing FR Y-9C</b>				
5. Pre-tax impact of management fee income (from item M4 above) .....	J443		0	M.5.

JPMORGAN CHASE & CO

Legal Name of Holding Company

June 30, 2014

As-of Date

**Schedule B: Type of Security**

	(Column A) Acquisition Cost			(Column B) Carrying Value			
	BHEI	Bil	Mil	BHEI	Bil	Mil	
Dollar Amounts in Millions							
1. Common stock .....	C107	3	624	C108	3	757	1.
2. Convertible debt and convertible preferred stock .....	C109		475	C110		327	2.
3. Other equity instruments .....	C111	7	465	C112	5	621	3.
4. Total portfolio (sum of items 1, 2, and 3) .....	C113	11	564	C114	9	705	4.

	Off-Balance-Sheet Amount			
	BHEI	Bil	Mil	
Dollar Amounts in Millions				
<b>Memoranda</b>				
1. Unused equity commitments .....	C115		638	M.1.

	Warrants			
	0=No	BHEI		
2. Does the holding company hold any warrants or similar instruments received in connection with equity investment activity? (Enter "1" for yes; enter "0" for no.) .....	1=Yes	C717	1	M.2.

**Schedule C: Type of Entity within the Banking Organization**

	(Column A) Acquisition Cost			(Column B) Net Unrealized Holding Gains Not Recognized as Income			(Column C) Carrying Value			
	BHEI	Bil	Mil	BHEI	Bil	Mil	BHEI	Bil	Mil	
Dollar Amounts in Millions										
1. Depository institutions:										
a. SBICs .....	C117		0	C718		0	C118		0	1.a.
b. Edge and agreement corporations .....	C121		48	C719		0	C122		30	1.b.
c. All other .....	C126		22	C720		0	C127		47	1.c.
2. Parent holding and other nonbank subsidiaries:										
a. SBICs .....	C136		13	C721		0	C137		12	2.a.
b. Edge and agreement corporations .....	C722		12	C723		0	C724		9	2.b.
c. Broker/Dealers .....	C131		42	C725		0	C132		24	2.c.
d. Private equity subsidiaries .....	C726	10	076	C727		0	C728	8	580	2.d.
e. All other .....	C145	1	351	C729		0	C146	1	003	2.e.
3. Total portfolio (sum of items 1.a through 2.e) .....	C150	11	564	C730		0	C151	9	705	3.
<b>Memoranda</b>										
1. Domestic investments .....	C155	7	426	C749		0	C156	5	150	M.1.
2. Foreign investments .....	C157	4	138	C750		0	C158	4	555	M.2.

JPMORGAN CHASE & CO

Legal Name of Holding Company

June 30, 2014

As-of Date

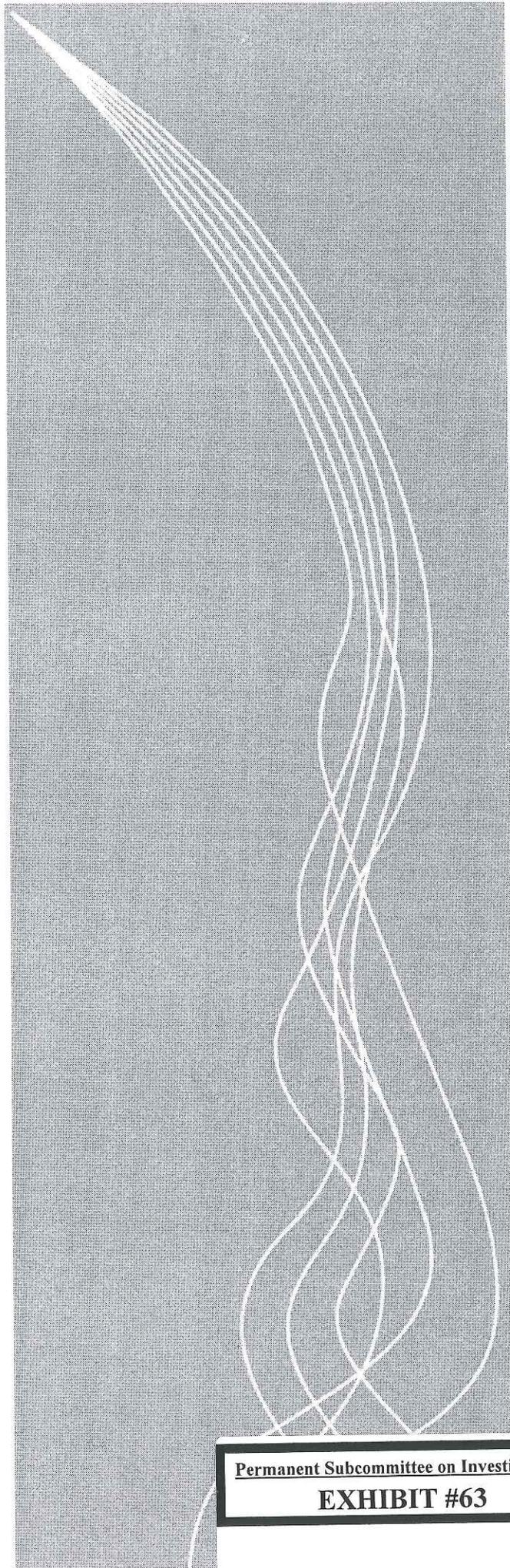
**Schedule D: Nonfinancial Investment Transactions During Reporting Period**

Type of Transaction	Direct Public Investments						Direct Nonpublic Investments						Indirect (Fund) Investments					
	(Column A) Acquisition Cost		(Column B) Carrying Value		(Column C) Acquisition Cost		(Column D) Carrying Value		(Column E) Acquisition Cost		(Column F) Carrying Value		(Column G) Acquisition Cost		(Column H) Carrying Value			
Dollar Amounts in Millions	BHEI	BII	Mil	BHEI	BII	Mil	BHEI	BII	Mil	BHEI	BII	Mil	BHEI	BII	Mil	BHEI	BII	Mil
1. Purchases .....	C731		10	C732		10	J434		96	J435		95	C733		0	C734		0
2. Less: return of capital .....	C735		248	C736		248	J436		103	J437		75	C737		345	C738		343
3. Net valuation changes .....				C739		-389				J438		14				C740		8
4. Other .....	C741		99	C742		119	J439		-147	J440		-194	C743		-49	C744		-48
5. Total transactions (sum of items 1 through 4) .....	C745		-139	C746		-508	J441		-154	J442		-160	C747		-394	C748		-383

**CONFIDENTIAL**

**FRB-PSI-800008**

PSI-FRB-12-000011



**Permanent Subcommittee on Investigations**

**EXHIBIT #63**

# **Global & Regional Investment Bank League Tables – 1H2014**

September 2014

**EXCERPT**

# **COALITION**

**ANALYTICS | INTELLIGENCE**  
PSI-Coalition-01-000019

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# Coalition Global Investment Bank League Table

Global (1H14, USD Billion)	JP Morgan	Goldman Sachs	Deutsche Bank	Bank of America Merrill Lynch	CITI	Morgan Stanley	Credit Suisse	Barclays	UBS	BNP Paribas
Investment Bank	11.5 bn	1	= 2	= 2	= 4	↑	6	8	9	10
Fixed Income, Commodities & Currencies	5.9 bn	= 1	↑	= 1	= 1	↑				
G10 Rates		= 1	= 1	= 1				3		
G10 Credit			3	2	1					
G10 Foreign Exchange		= 1		= 1	= 1					
Securitization		= 2	1				= 2			
Emerging Markets		3		2	1					
Commodities		= 1	= 1			3				
Municipal Finance		3								
Equities		= 2	= 2		= 1	2.8 bn	↑	1		↑
Cash Equities			= 2						= 2	
Equity Derivatives & Convertibles		1								
Prime Services		= 2	= 2				= 2			
Futures & Options		2	1			1				3
IBD		= 1	3.0 bn	= 1		↑				
Mergers & Acquisitions		3	1							
Equity Capital Markets			1		= 2	2				
Debt Capital Markets		2	= 3	= 3	1	= 2				

Two Strongest Performers 1H14 vs. 1H13 ↑  
 Coalition's League Table applies the following tiering convention: Rank 1-3 Rank 4-6 Rank 7-10 Exited Business  
 When more than one bank is included within an equal rank, all banks' performances are within 5% of the largest bank in that rank  
 Where banks are ranked equally, they are ordered on the League Table according to the number of 1-3 rank positions at the Business Level (e.g. Cash Equities, Securitisation)  
 Source: Coalition Proprietary Competitor Analytics

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# Coalition Regional Investment Bank League Tables

Americas (1H14, USD Billion)	JP Morgan	Goldman Sachs	Bank of America Merrill Lynch	CITI	Morgan Stanley	Deutsche Bank	Credit Suisse	Barclays	Wells Fargo	Royal Bank of Canada
Investment Bank	= 1	= 1	= 1	4	↑	5	↑	6	8	= 9
Fixed Income Commodities & Currencies	= 1	= 3	= 3	= 1	↑	↑	↑	↑	↑	↑
Equities	= 2	1	↑	↑	↑	= 2	↑	↑	↑	↑
IBD	2	↑	3	1	↑	↑	↑	↑	↑	↑

EMEA (1H14, USD Billion)	Deutsche Bank	JP Morgan	Goldman Sachs	Barclays	Bank of America Merrill Lynch	CITI	Morgan Stanley	BNP Paribas	Societe Generale	UBS
Investment Bank	1	2	3	= 4	↑	= 4	↑	↑	6	9
Fixed Income Commodities & Currencies	1	2	↑	↑	↑	3	↑	↑	↑	10
Equities	= 1	↑	↑	↑	↑	↑	↑	↑	↑	= 1
IBD	= 2	= 2	1	↑	↑	↑	↑	↑	↑	↑

APAC (1H14, USD Billion)	Deutsche Bank	CITI	Goldman Sachs	Nomura	JP Morgan	Credit Suisse	Morgan Stanley	HSBC	SCB	Bank of America Merrill Lynch
Investment Bank	1	= 2	= 2	= 2	= 2	↑	= 6	= 8	↑	= 8
Fixed Income Commodities & Currencies	1	3	↑	↑	↑	↑	↑	2	↑	↑
Equities	↑	3	3	↑	↑	↑	2	↑	↑	↑
IBD	↑	= 3	= 1	= 1	↑	↑	↑	= 3	↑	↑

Two Strongest Performers 1H14 vs. 1H13 ↑  
 Coalition's Regional League Table analysis includes Leading Regional Top 10 Investment Banks at Investment Bank level and applies the following tiering convention: Rank 1-3 Rank 4-6 Rank 7-10  
 When more than one bank is included within an equal rank, all banks' performances are within 5% of the largest bank in that rank  
 Where banks are ranked equally, they are ordered on the League Table according to the Divisional Level (e.g. Equities)  
 Source: Coalition Proprietary Competitor Analytics