

**SUBMISSION COVER SHEET**

**IMPORTANT:** Check box if Confidential Treatment is requested

**Registered Entity Identifier Code (optional):** 17-005 (2 of 5)

**Organization:** New York Mercantile Exchange, Inc. ("NYMEX")

**Filing as a:**  **DCM**  **SEF**  **DCO**  **SDR**

**Please note - only ONE choice allowed.**

**Filing Date (mm/dd/yy):** 02/09/17 **Filing Description:** Initial Listing of Five (5) Physically-Delivered California Carbon Allowance Vintage-Specific Futures Contracts

**SPECIFY FILING TYPE**

**Please note only ONE choice allowed per Submission.**

**Organization Rules and Rule Amendments**

- |                          |                                     |            |
|--------------------------|-------------------------------------|------------|
| <input type="checkbox"/> | Certification                       | § 40.6(a)  |
| <input type="checkbox"/> | Approval                            | § 40.5(a)  |
| <input type="checkbox"/> | Notification                        | § 40.6(d)  |
| <input type="checkbox"/> | Advance Notice of SIDCO Rule Change | § 40.10(a) |
| <input type="checkbox"/> | SIDCO Emergency Rule Change         | § 40.10(h) |

**Rule Numbers:**

**New Product**

**Please note only ONE product per Submission.**

- |                                     |                                       |            |
|-------------------------------------|---------------------------------------|------------|
| <input checked="" type="checkbox"/> | Certification                         | § 40.2(a)  |
| <input type="checkbox"/>            | Certification Security Futures        | § 41.23(a) |
| <input type="checkbox"/>            | Certification Swap Class              | § 40.2(d)  |
| <input type="checkbox"/>            | Approval                              | § 40.3(a)  |
| <input type="checkbox"/>            | Approval Security Futures             | § 41.23(b) |
| <input type="checkbox"/>            | Novel Derivative Product Notification | § 40.12(a) |
| <input type="checkbox"/>            | Swap Submission                       | § 39.5     |

**Official Product Name:** See filing

**Product Terms and Conditions (product related Rules and Rule Amendments)**

- |                          |   |                      |
|--------------------------|---|----------------------|
| <input type="checkbox"/> | Certification   | § 40.6(a)            |
| <input type="checkbox"/> | Certification Made Available to Trade Determination     | § 40.6(a)            |
| <input type="checkbox"/> | Certification Security Futures                          | § 41.24(a)           |
| <input type="checkbox"/> | Delisting (No Open Interest)                            | § 40.6(a)            |
| <input type="checkbox"/> | Approval  | § 40.5(a)            |
| <input type="checkbox"/> | Approval Made Available to Trade Determination          | § 40.5(a)            |
| <input type="checkbox"/> | Approval Security Futures                               | § 41.24(c)           |
| <input type="checkbox"/> | Approval Amendments to enumerated agricultural products | § 40.4(a), § 40.5(a) |
| <input type="checkbox"/> | “Non-Material Agricultural Rule Change”                 | § 40.4(b)(5)         |
| <input type="checkbox"/> | Notification  | § 40.6(d)            |

**Official Name(s) of Product(s) Affected:**

**Rule Numbers:**

February 9, 2017

**VIA ELECTRONIC PORTAL**

Mr. Christopher J. Kirkpatrick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

**Re: CFTC Regulation 40.2(a) Certification. Notification Regarding the Initial Listing of Five (5) Physically-Delivered California Carbon Allowance Vintage-Specific Futures Contracts.  
NYMEX Submission No. 17-005 (2 of 5)**

Dear Mr. Kirkpatrick:

New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) is notifying the Commodity Futures Trading Commission (“CFTC” or “Commission”) that it is self-certifying the initial listing of five (5) physically-delivered California carbon allowance vintage-specific futures contracts (the “Contracts”) for trading on CME Globex and for submission for clearing on CME ClearPort, effective on Sunday, February 26, 2017 for trade date Monday, February 27, 2017 as noted in the table below.

<b>Contract Title</b>	<b>CBL California Carbon Allowance Vintage-Specific 2016 Futures</b>	<b>CBL California Carbon Allowance Vintage-Specific 2017 Futures</b>	<b>CBL California Carbon Allowance Vintage-Specific 2018 Futures</b>	<b>CBL California Carbon Allowance Vintage-Specific 2019 Futures</b>	<b>CBL California Carbon Allowance Vintage-Specific 2020 Futures</b>
<b>Commodity Code</b>	C6C	C7C	C8C	C9C	CC0
<b>Rulebook Chapter</b>	1253	1254	1255	1257	1258
<b>Contract Size</b>	1000 Allowances	1000 Allowances	1000 Allowances	1000 Allowances	1000 Allowances
<b>Listing Schedule</b>	Monthly contracts listed for the current year and the next three (3) calendar years. December 2020 is the last listed contract month. No other months	Monthly contracts listed for the current year and the next three (3) calendar years. December 2020 is the last listed contract month. No other months	Monthly contracts listed for the current year and the next three (3) calendar years. December 2020 is the last listed contract month. No other months	Monthly contracts listed for the current year and the next three (3) calendar years. December 2020 is the last listed contract month. No other months	Monthly contracts listed for the current year and the next three (3) calendar years. December 2020 is the last listed contract month. No other months

	will be listed after December 2020 expires.	will be listed after December 2020 expires.	will be listed after December 2020 expires.	will be listed after December 2020 expires.	will be listed after December 2020 expires.
<b>First Listed Month</b>	March 2017	March 2017	March 2017	March 2017	March 2017
<b>Price Quotation</b>	U.S. dollars and cents per allowance	U.S. dollars and cents per allowance	U.S. dollars and cents per allowance	U.S. dollars and cents per allowance	U.S. dollars and cents per allowance
<b>Termination of Trading</b>	Three (3) business day prior to the last business day of the contract month	Three (3) business day prior to the last business day of the contract month	Three (3) business day prior to the last business day of the contract month	Three (3) business day prior to the last business day of the contract month	Three (3) business day prior to the last business day of the contract month
<b>Minimum Price Fluctuation</b>	\$0.01 per Allowance	\$0.01 per Allowance	\$0.01 per Allowance	\$0.01 per Allowance	\$0.01 per Allowance
<b>Settlement Type</b>	Physical	Physical	Physical	Physical	Physical
<b>Block Trade Minimum Threshold Level</b>	10 Contracts	10 Contracts	10 Contracts	10 Contracts	10 Contracts
<b>CME Matching Algorithm</b>	F: First In, First Out (FIFO)	F: First In, First Out (FIFO)	F: First In, First Out (FIFO)	F: First In, First Out (FIFO)	F: First In, First Out (FIFO)
<b>Value per Tick</b>	\$10	\$10	\$10	\$10	\$10
<b>Delivery Location</b>	Physical delivery occurs through the "Compliance Instrument Tracking System Service" or "CITSS"	Physical delivery occurs through the "Compliance Instrument Tracking System Service" or "CITSS"	Physical delivery occurs through the "Compliance Instrument Tracking System Service" or "CITSS"	Physical delivery occurs through the "Compliance Instrument Tracking System Service" or "CITSS"	Physical delivery occurs through the "Compliance Instrument Tracking System Service" or "CITSS"

**Exchange Fees:**

	<b>Member</b>	<b>Non-Member</b>
<b>Exchange Fees</b>		
CME Globex	\$2.00	\$2.50

EFP	\$2.00	\$2.50
Block	\$2.00	\$2.50
EFR/EOO	\$2.00	\$2.50
Agency Cross	\$2.00	\$2.50

Processing Fees	Member	Non-Member
Delivery Notice	\$3.00	\$3.00
Other Fees		
Facilitation Fee	\$0.60	
Give-Up Surcharge	\$0.05	
Position Adjustments/Position Transfers	\$0.10	

### **Trading and Clearing Hours**

CME Globex and CME ClearPort	Sunday - Friday 6:00 p.m. - 5:00 p.m. (5:00 p.m. - 4:00 p.m. Central Time/CT) with a 60-minute break each day beginning at 5:00 p.m. (4:00 p.m. CT)
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The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the Contracts into the Position Limit, Position Accountability and Reportable Level Table and Header Notes located in the Interpretations and Special Notices Section of Chapter 5 of the NYMEX Rulebook in relation to the listing of the new contracts. These terms and conditions establish the all month/any one-month accountability levels, expiration month position limit, reportable level, and aggregation allocation for the Contracts. Please refer to Appendix B attached under separate cover.

In addition, NYMEX is self-certifying block trading on the Contracts with a minimum block threshold of ten (10) contracts. This minimum block threshold level of ten (10) contracts is aligned with the Exchange's existing emission contracts.

The Exchange reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA" or "Act") and identified that the Contracts may have some bearing on the following Core Principles:

- **Compliance with Rules:** Trading in the Contracts will be subject to all NYMEX Rules, including prohibitions against fraudulent, noncompetitive, unfair and abusive practices as outlined in NYMEX Rule Chapter 4, the Exchange's trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the NYMEX Rulebook, and the dispute resolution and arbitration procedures of NYMEX Rule Chapter 6. As with all products listed for trading on one of CME Group's designated contract markets, trading activity in the Contracts will be subject to monitoring and surveillance by CME Group's Market Regulation Department. The Market Regulation Department has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.
- **Contract Not Readily Subject to Manipulation:** The Contracts are not readily subject to manipulation as a result of the deep liquidity and robustness of the underlying cash market.
- **Monitoring of Trading:** Trading in the Contracts will be subject to the Rules of NYMEX, which include prohibitions on manipulation, price distortion, and disruption to the cash settlement process. As with any new product listed for trading on a CME Group designated contract market, trading

activity in the futures Contracts proposed herein will be subject to monitoring and surveillance by CME Group's Market Regulation Department.

- **Position Limitations or Accountability**: The speculative position limits for the Contracts as demonstrated in this submission are consistent with the Commission's guidance.
- **Availability of General Information**: The Exchange will publish on its website information in regard to Contracts specifications, terms, and conditions, as well as daily trading volume, open interest, and price information for the Contracts.
- **Daily Publication of Trading Information**: The Exchange will publish Contracts trading volumes, open interest levels, and price information daily on its website and through quote vendors for the Contracts.
- **Execution of Transactions**: The Contracts will be listed for trading on the CME Globex electronic trading and for clearing through CME ClearPort. The CME Globex trading venue provides for competitive and open execution of transactions. CME Globex affords the benefits of reliability and global connectivity.
- **Trade Information**: All requisite trade information for the Contracts will be included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- **Financial Integrity of Contract**: The Contracts will be cleared by the CME Clearing House, a derivatives clearing organization registered with the CFTC and subject to all CFTC regulations related thereto.
- **Protection of Market Participants**: NYMEX Rulebook Chapters 4 and 5 set forth multiple prohibitions that preclude intermediaries from disadvantaging their customers. These rules apply to trading in all of the Exchange's competitive trading venues.
- **Disciplinary Procedures**: Chapter 4 of the Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the Rulebook. Trading in the Contracts will be subject to Chapter 4, and the Market Regulation Department has the authority to exercise its enforcement power in the event rule violations in these products are identified.
- **Dispute Resolution**: Disputes with respect to trading in the Contracts will be subject to the arbitration provisions set forth in Chapter 6 of the Rulebook. Chapter 6 allows all nonmembers to submit a claim for financial losses resulting from transactions on the Exchange to arbitration. A member named as a respondent in a claim submitted by a nonmember is required to participate in the arbitration pursuant to Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration.

Pursuant to Section 5c(c) of the Act and CFTC Regulation 40.2(a), the Exchange hereby certifies that listing the Contracts complies with the Act, including regulations under the Act. There were no substantive opposing views to listing of the Contracts.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at (212) 299-2200 or via e-mail at [CMEGSubmissionInquiry@cmegroup.com](mailto:CMEGSubmissionInquiry@cmegroup.com).

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Appendix A: NYMEX Rulebook Chapters  
Appendix B: Position Limit, Position Accountability, and Reportable Level Table in  
Chapter 5 of the NYMEX Rulebook (attached under separate cover)  
Appendix C: NYMEX Rule 588.H. – (“Globex Non-Reviewable Trading Ranges”) Table  
Appendix D: Cash Market Overview and Analysis of Deliverable Supply

## **APPENDIX A**

### **Chapter 1253**

#### **CBL California Carbon Allowance (CCA) Vintage-Specific 2016 Futures**

##### **1253100. SCOPE OF CHAPTER**

This chapter is limited in application to California Carbon Allowance (CCA) Vintage-Specific 2016 Futures. The procedures for trading, clearing, delivery and settlement not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange.

The provisions of these rules shall apply to all California Carbon Allowance (CCA) Vintage-Specific 2016 Futures bought or sold for future delivery on the Exchange with the delivery of applicable CCAs made through the Compliance Instrument Tracking System Service (CITSS).

The terms “seller” and “buyer” shall mean the seller of the physical product and the buyer of the physical product, respectively. The seller’s clearing member and buyer’s clearing member may utilize a designee to perform their respective and necessary obligations with regard to transferring and accepting allowances at the CITSS.

The term “Applicable Emissions Law” shall mean Assembly Bill 32, the State of California’s Global Warming Solutions Act of 2006, together with associated regulations or rules, and amendments thereto.

The term California Carbon Allowance or (CCA), means a limited authorization to emit up to one metric ton of CO<sub>2</sub> or CO<sub>2</sub> equivalent, as defined by the California Air Resources Board in accordance with the Applicable Emissions Law.

The term “In-Force” shall mean: (i) CCAs have been issued and (ii) the CITSS is in operation.

The term “Compliance Instrument Tracking System Service” or “CITSS” shall mean the market tracking system in which accounts are established for market participants to hold and retire California Carbon Allowances and to participate in transactions of California Carbon Allowances with other account holders.

The term “Vintage Year” shall mean the calendar year for which the allowance may be utilized for compliance.

For purposes of this rule, unless otherwise specified, times referred to herein shall refer to and indicate the Eastern Prevailing Time (EPT).

##### **1253101. CONTRACT SPECIFICATIONS**

The California Carbon Allowance (CCA) Vintage-Specific 2016 Futures specifies the physical delivery of applicable California Carbon Allowances (CCAs) within the Compliance Instrument Tracking System Service (CITSS).

Deliverable allowances under this Chapter shall be CCAs dated with the Vintage Year 2016.

##### **1253102. TRADING SPECIFICATIONS**

The number of months open for trading at a given time shall be determined by the Exchange.

###### **1253102.A. Trading Schedule**

The hours for trading for this contract shall be determined by the Exchange.

###### **1253102.B. Trading Unit**

The contract unit shall be one thousand (1,000) CCAs for a delivery made by transfer through the CITSS. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

**1253102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per allowance. The minimum price fluctuation shall be \$0.01 per allowance (\$10.00 per contract).

**1253102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

**1253102.E. Termination of Trading**

Trading shall cease on the third to last business day of the contract month. Any contracts remaining open after the last day of trading must be

(a) Settled by delivery, which shall take place no later than the third business day after the termination of trading for the contract month, or

(b) Liquidated by means of a bona fide Exchange for Related Position (EFRP), pursuant to Exchange Rule 538. An EFRP is permitted in the expiring futures contract no later than two hours after trading terminates on the last day of trading of the expiring futures contract. An EFRP which establishes a futures position for either the buyer or the seller in an expired futures contract shall not be permitted following the termination of trading of an expired futures contract.

**1253102.F. Final Settlement**

Final settlement shall occur on the business day following the last trading day.

**1253103. DELIVERY**

CCA delivery shall comply with all requirements for the electronic transfer of allowances on the CITSS.

**1253104. DELIVERY PROCEDURES**

The Exchange is a party to all deliveries under this contract and will receive allowances by electronic transfer from the seller's clearing member into the Clearing House holding account at the CITSS. Following receipt from the seller's clearing member, the Exchange will deliver allowances from the Clearing House holding account to the CITSS holding account nominated by the buyer's clearing member.

All rights, title, and interest in and to, and risk of loss related to, the allowances will transfer upon receipt in the applicable CITSS account.

The seller's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to the submission of the delivery of allowances noted in this rule. The buyer's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to ensure the acceptance of a valid transfer into its holding account. Seller, buyer and the Exchange shall obtain and adequately maintain at all times systems and technology as may be necessary in order to comply with CITSS regulations. The Exchange may make amendments to delivery and timing of delivery, which may have a material impact to the contract, and will notify the Clearing Members of such amendments resulting from amendments to CITSS regulations.

By transferring allowances to the Exchange, the seller's clearing member represents and warrants that, at the time of delivery, it has good and marketable title to such allowances, and that such allowances are free and clear of all liens, security interests, claims, encumbrances and adverse claims.



#### **1253104.A. Responsibilities of Clearing Members**

##### **1. Notice of Intention to Accept**

Exchange clearing members having open long positions shall provide the Clearing House with a Notice of Intention to Accept delivery by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

##### **2. Notice of Intention to Deliver**

Exchange clearing members having open short positions shall provide the Clearing House with a Notice of Intention to Deliver by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

#### **1253104.B. Final Settlement Price**

The final settlement price shall be the basis for delivery.

#### **1253104.C. Assignment Day**

The Clearing House shall allocate Notices of Intention to Accept and Notices of Intention to Deliver by matching positions, to the extent possible.

The Clearing House shall provide Assignment Notice Reports to the respective clearing members on the second business day after the final day of trading.

### **1253105. TIMING OF DELIVERY**

For purposes of this Rule 1253105,

"Delivery Period" shall mean the time between the final day of trading and the third business day following the final day of trading.

Delivery shall take place on the third business day after the final day of trading. Should the CITSS be inoperable during the Delivery Period due to periodic maintenance that is an Exchange business day, the Exchange shall have the option to extend the Delivery Period to the next valid business day at the Registry and Exchange.

1. The seller's clearing member shall transfer allowances subject to delivery to the Clearing House holding account of the CITSS by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
2. The buyer's clearing member shall deposit / transfer payment equal to the full value of the product to the designated Clearing House bank account by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
3. For each buyer's clearing member that has satisfied its obligations under subsection (2) of this rule, the Clearing House shall initiate the process of transferring the allowances to the buyer's clearing member's account at the CITSS by 12:00 p.m. on the third business day after the final day of trading of the delivery month.
4. The buyer's clearing member shall receive allowances from the Clearing House holding account of the CITSS by 3:00 p.m. on the third business day after the final day of trading of the delivery month.
5. For each seller's clearing member that has satisfied its obligations under subsection (1) of this rule, the Clearing House shall pay the seller's clearing member full contract value by 3:00 p.m. on the third business day after the final day of trading of the delivery month.

### **1253106. DELIVERY MARGINS AND PAYMENT**

#### **1253106.A. Definitions**

For purposes of this Rule 1253106,

"Payment Date" shall mean the date on which the Clearing House transfers Payment in connection with a delivery to the seller's clearing member.

"Payment" shall include the settlement price, in U.S. dollars and cents, times the number of contracts times one thousand (1,000).

**1253106.B. Margin**

The buyer's clearing member and seller's clearing member shall deposit with the Exchange margins in such amounts and in such form as required by the Exchange. Such margins shall be returned on the business day following notification to the Exchange that delivery and Payment have been completed.

**1253106.C. Payment**

Any Payment made on the Payment Date shall be based on allowances actually delivered.

**1253107. VALIDITY OF DOCUMENTS**

The Exchange makes no representation respecting the authenticity, validity or accuracy of any Notice of Intention to Accept, Notice of Intention to Deliver, check or of any document or instrument delivered pursuant to these rules.

**1253108. ALTERNATIVE DELIVERY PROCEDURE**

Please refer to rule 771 in Chapter 7.

## Chapter 1254

### CBL California Carbon Allowance (CCA) Vintage-Specific 2017 Futures

#### 1254100. SCOPE OF CHAPTER

This chapter is limited in application to California Carbon Allowance (CCA) Vintage-Specific 2017 Futures. The procedures for trading, clearing, delivery and settlement not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange.

The provisions of these rules shall apply to all California Carbon Allowance (CCA) Vintage-Specific 2017 Futures bought or sold for future delivery on the Exchange with the delivery of applicable CCAs made through the Compliance Instrument Tracking System Service (CITSS).

The terms “seller” and “buyer” shall mean the seller of the physical product and the buyer of the physical product, respectively. The seller’s clearing member and buyer’s clearing member may utilize a designee to perform their respective and necessary obligations with regard to transferring and accepting allowances at the CITSS.

The term “Applicable Emissions Law” shall mean Assembly Bill 32, the State of California’s Global Warming Solutions Act of 2006, together with associated regulations or rules, and amendments thereto.

The term California Carbon Allowance or (CCA), means a limited authorization to emit up to one metric ton of CO<sub>2</sub> or CO<sub>2</sub> equivalent, as defined by the California Air Resources Board in accordance with the Applicable Emissions Law.

The term “In-Force” shall mean: (i) CCAs have been issued and (ii) the CITSS is in operation.

The term “Compliance Instrument Tracking System Service” or “CITSS” shall mean the market tracking system in which accounts are established for market participants to hold and retire California Carbon Allowances and to participate in transactions of California Carbon Allowances with other account holders.

The term “Vintage Year” shall mean the calendar year for which the allowance may be utilized for compliance.

For purposes of this rule, unless otherwise specified, times referred to herein shall refer to and indicate the Eastern Prevailing Time (EPT).

#### 1254101. CONTRACT SPECIFICATIONS

The California Carbon Allowance (CCA) Vintage-Specific 2017 Futures specifies the physical delivery of applicable California Carbon Allowances (CCAs) within the Compliance Instrument Tracking System Service (CITSS).

Deliverable allowances under this Chapter shall be CCAs dated with the Vintage Year 2017.

#### 1254102. TRADING SPECIFICATIONS

The number of months open for trading at a given time shall be determined by the Exchange.

##### 1254102.A. Trading Schedule

The hours for trading for this contract shall be determined by the Exchange.

##### 1254102.B. Trading Unit

The contract unit shall be one thousand (1,000) CCAs for a delivery made by transfer through the CITSS. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

**1254102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per allowance. The minimum price fluctuation shall be \$0.01 per allowance (\$10.00 per contract).

**1254102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

**1254102.E. Termination of Trading**

Trading shall cease on the third to last business day of the contract month. Any contracts remaining open after the last day of trading must be

(a) Settled by delivery, which shall take place no later than the third business day after the termination of trading for the contract month, or

(b) Liquidated by means of a bona fide Exchange for Related Position (EFRP), pursuant to Exchange Rule 538. An EFRP is permitted in the expiring futures contract no later than two hours after trading terminates on the last day of trading of the expiring futures contract. An EFRP which establishes a futures position for either the buyer or the seller in an expired futures contract shall not be permitted following the termination of trading of an expired futures contract.

**1254102.F. Final Settlement**

Final settlement shall occur on the business day following the last trading day.

**1254103. DELIVERY**

CCA delivery shall comply with all requirements for the electronic transfer of allowances on the CITSS.

**1254104. DELIVERY PROCEDURES**

The Exchange is a party to all deliveries under this contract and will receive allowances by electronic transfer from the seller's clearing member into the Clearing House holding account at the CITSS. Following receipt from the seller's clearing member, the Exchange will deliver allowances from the Clearing House holding account to the CITSS holding account nominated by the buyer's clearing member.

All rights, title, and interest in and to, and risk of loss related to, the allowances will transfer upon receipt in the applicable CITSS account.

The seller's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to the submission of the delivery of allowances noted in this rule. The buyer's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to ensure the acceptance of a valid transfer into its holding account. Seller, buyer and the Exchange shall obtain and adequately maintain at all times systems and technology as may be necessary in order to comply with CITSS regulations. The Exchange may make amendments to delivery and timing of delivery, which may have a material impact to the contract, and will notify the Clearing Members of such amendments resulting from amendments to CITSS regulations.

By transferring allowances to the Exchange, the seller's clearing member represents and warrants that, at the time of delivery, it has good and marketable title to such allowances, and that such allowances are free and clear of all liens, security interests, claims, encumbrances and adverse claims.

#### **1254104.A. Responsibilities of Clearing Members**

##### **1. Notice of Intention to Accept**

Exchange clearing members having open long positions shall provide the Clearing House with a Notice of Intention to Accept delivery by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

##### **2. Notice of Intention to Deliver**

Exchange clearing members having open short positions shall provide the Clearing House with a Notice of Intention to Deliver by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

#### **1254104.B. Final Settlement Price**

The final settlement price shall be the basis for delivery.

#### **1254104.C. Assignment Day**

The Clearing House shall allocate Notices of Intention to Accept and Notices of Intention to Deliver by matching positions, to the extent possible.

The Clearing House shall provide Assignment Notice Reports to the respective clearing members on the second business day after the final day of trading.

### **1254105. TIMING OF DELIVERY**

For purposes of this Rule 1254105,

"Delivery Period" shall mean the time between the final day of trading and the third business day following the final day of trading.

Delivery shall take place on the third business day after the final day of trading. Should the CITSS be inoperable during the Delivery Period due to periodic maintenance that is an Exchange business day, the Exchange shall have the option to extend the Delivery Period to the next valid business day at the Registry and Exchange.

1. The seller's clearing member shall transfer allowances subject to delivery to the Clearing House holding account of the CITSS by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
2. The buyer's clearing member shall deposit / transfer payment equal to the full value of the product to the designated Clearing House bank account by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
3. For each buyer's clearing member that has satisfied its obligations under subsection (2) of this rule, the Clearing House shall initiate the process of transferring the allowances to the buyer's clearing member's account at the CITSS by 12:00 p.m. on the third business day after the final day of trading of the delivery month.
4. The buyer's clearing member shall receive allowances from the Clearing House holding account of the CITSS by 3:00 p.m. on the third business day after the final day of trading of the delivery month.
5. For each seller's clearing member that has satisfied its obligations under subsection (1) of this rule, the Clearing House shall pay the seller's clearing member full contract value by 3:00 p.m. on the third business day after the final day of trading of the delivery month.

### **1254106. DELIVERY MARGINS AND PAYMENT**

#### **1254106.A. Definitions**

For purposes of this Rule 1254106,

"Payment Date" shall mean the date on which the Clearing House transfers Payment in connection with a delivery to the seller's clearing member.

"Payment" shall include the settlement price, in U.S. dollars and cents, times the number of contracts times one thousand (1,000).

**1254106.B. Margin**

The buyer's clearing member and seller's clearing member shall deposit with the Exchange margins in such amounts and in such form as required by the Exchange. Such margins shall be returned on the business day following notification to the Exchange that delivery and Payment have been completed.

**1254106.C. Payment**

Any Payment made on the Payment Date shall be based on allowances actually delivered.

**1254107. VALIDITY OF DOCUMENTS**

The Exchange makes no representation respecting the authenticity, validity or accuracy of any Notice of Intention to Accept, Notice of Intention to Deliver, check or of any document or instrument delivered pursuant to these rules.

**1254108. ALTERNATIVE DELIVERY PROCEDURE**

Please refer to rule 771 in Chapter 7.

## Chapter 1255

### CBL California Carbon Allowance (CCA) Vintage-Specific 2018 Futures

#### 1255100. SCOPE OF CHAPTER

This chapter is limited in application to California Carbon Allowance (CCA) Vintage-Specific 2018 Futures. The procedures for trading, clearing, delivery and settlement not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange.

The provisions of these rules shall apply to all California Carbon Allowance (CCA) Vintage-Specific 2018 Futures bought or sold for future delivery on the Exchange with the delivery of applicable CCAs made through the Compliance Instrument Tracking System Service (CITSS).

The terms “seller” and “buyer” shall mean the seller of the physical product and the buyer of the physical product, respectively. The seller’s clearing member and buyer’s clearing member may utilize a designee to perform their respective and necessary obligations with regard to transferring and accepting allowances at the CITSS.

The term “Applicable Emissions Law” shall mean Assembly Bill 32, the State of California’s Global Warming Solutions Act of 2006, together with associated regulations or rules, and amendments thereto.

The term California Carbon Allowance or (CCA), means a limited authorization to emit up to one metric ton of CO<sub>2</sub> or CO<sub>2</sub> equivalent, as defined by the California Air Resources Board in accordance with the Applicable Emissions Law.

The term “In-Force” shall mean: (i) CCAs have been issued and (ii) the CITSS is in operation.

The term “Compliance Instrument Tracking System Service” or “CITSS” shall mean the market tracking system in which accounts are established for market participants to hold and retire California Carbon Allowances and to participate in transactions of California Carbon Allowances with other account holders.

The term “Vintage Year” shall mean the calendar year for which the allowance may be utilized for compliance.

For purposes of this rule, unless otherwise specified, times referred to herein shall refer to and indicate the Eastern Prevailing Time (EPT).

#### 1255101. CONTRACT SPECIFICATIONS

The California Carbon Allowance (CCA) Vintage-Specific 2018 Futures specifies the physical delivery of applicable California Carbon Allowances (CCAs) within the Compliance Instrument Tracking System Service (CITSS).

Deliverable allowances under this Chapter shall be CCAs dated with the Vintage Year 2018.

#### 1255102. TRADING SPECIFICATIONS

The number of months open for trading at a given time shall be determined by the Exchange.

##### 1255102.A. Trading Schedule

The hours for trading for this contract shall be determined by the Exchange.

##### 1255102.B. Trading Unit

The contract unit shall be one thousand (1,000) CCAs for a delivery made by transfer through the CITSS. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

**1255102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per allowance. The minimum price fluctuation shall be \$0.01 per allowance (\$10.00 per contract).

**1255102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

**1255102.E. Termination of Trading**

Trading shall cease on the third to last business day of the contract month. Any contracts remaining open after the last day of trading must be

(a) Settled by delivery, which shall take place no later than the third business day after the termination of trading for the contract month, or

(b) Liquidated by means of a bona fide Exchange for Related Position (EFRP), pursuant to Exchange Rule 538. An EFRP is permitted in the expiring futures contract no later than two hours after trading terminates on the last day of trading of the expiring futures contract. An EFRP which establishes a futures position for either the buyer or the seller in an expired futures contract shall not be permitted following the termination of trading of an expired futures contract.

**1255102.F. Final Settlement**

Final settlement shall occur on the business day following the last trading day.

**1255103. DELIVERY**

CCA delivery shall comply with all requirements for the electronic transfer of allowances on the CITSS.

**1255104. DELIVERY PROCEDURES**

The Exchange is a party to all deliveries under this contract and will receive allowances by electronic transfer from the seller's clearing member into the Clearing House holding account at the CITSS. Following receipt from the seller's clearing member, the Exchange will deliver allowances from the Clearing House holding account to the CITSS holding account nominated by the buyer's clearing member.

All rights, title, and interest in and to, and risk of loss related to, the allowances will transfer upon receipt in the applicable CITSS account.

The seller's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to the submission of the delivery of allowances noted in this rule. The buyer's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to ensure the acceptance of a valid transfer into its holding account. Seller, buyer and the Exchange shall obtain and adequately maintain at all times systems and technology as may be necessary in order to comply with CITSS regulations. The Exchange may make amendments to delivery and timing of delivery, which may have a material impact to the contract, and will notify the Clearing Members of such amendments resulting from amendments to CITSS regulations.

By transferring allowances to the Exchange, the seller's clearing member represents and warrants that, at the time of delivery, it has good and marketable title to such allowances, and that such allowances are free and clear of all liens, security interests, claims, encumbrances and adverse claims.



#### **1255104.A. Responsibilities of Clearing Members**

##### **1. Notice of Intention to Accept**

Exchange clearing members having open long positions shall provide the Clearing House with a Notice of Intention to Accept delivery by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

##### **2. Notice of Intention to Deliver**

Exchange clearing members having open short positions shall provide the Clearing House with a Notice of Intention to Deliver by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

#### **1255104.B. Final Settlement Price**

The final settlement price shall be the basis for delivery.

#### **1255104.C. Assignment Day**

The Clearing House shall allocate Notices of Intention to Accept and Notices of Intention to Deliver by matching positions, to the extent possible.

The Clearing House shall provide Assignment Notice Reports to the respective clearing members on the second business day after the final day of trading.

### **1255105. TIMING OF DELIVERY**

For purposes of this Rule 1255105,

"Delivery Period" shall mean the time between the final day of trading and the third business day following the final day of trading.

Delivery shall take place on the third business day after the final day of trading. Should the CITSS be inoperable during the Delivery Period due to periodic maintenance that is an Exchange business day, the Exchange shall have the option to extend the Delivery Period to the next valid business day at the Registry and Exchange.

1. The seller's clearing member shall transfer allowances subject to delivery to the Clearing House holding account of the CITSS by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
2. The buyer's clearing member shall deposit / transfer payment equal to the full value of the product to the designated Clearing House bank account by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
3. For each buyer's clearing member that has satisfied its obligations under subsection (2) of this rule, the Clearing House shall initiate the process of transferring the allowances to the buyer's clearing member's account at the CITSS by 12:00 p.m. on the third business day after the final day of trading of the delivery month.
4. The buyer's clearing member shall receive allowances from the Clearing House holding account of the CITSS by 3:00 p.m. on the third business day after the final day of trading of the delivery month.
5. For each seller's clearing member that has satisfied its obligations under subsection (1) of this rule, the Clearing House shall pay the seller's clearing member full contract value by 3:00 p.m. on the third business day after the final day of trading of the delivery month.

### **1255106. DELIVERY MARGINS AND PAYMENT**

#### **1255106.A. Definitions**

For purposes of this Rule 1255106,

"Payment Date" shall mean the date on which the Clearing House transfers Payment in connection with a delivery to the seller's clearing member.

"Payment" shall include the settlement price, in U.S. dollars and cents, times the number of contracts times one thousand (1,000).

**1255106.B. Margin**

The buyer's clearing member and seller's clearing member shall deposit with the Exchange margins in such amounts and in such form as required by the Exchange. Such margins shall be returned on the business day following notification to the Exchange that delivery and Payment have been completed.

**1255106.C. Payment**

Any Payment made on the Payment Date shall be based on allowances actually delivered.

**1255107. VALIDITY OF DOCUMENTS**

The Exchange makes no representation respecting the authenticity, validity or accuracy of any Notice of Intention to Accept, Notice of Intention to Deliver, check or of any document or instrument delivered pursuant to these rules.

**1255108. ALTERNATIVE DELIVERY PROCEDURE**

Please refer to rule 771 in Chapter 7.

## **Chapter 1257**

### **CBL California Carbon Allowance (CCA) Vintage-Specific 2019 Futures**

#### **1257100. SCOPE OF CHAPTER**

This chapter is limited in application to California Carbon Allowance (CCA) Vintage-Specific 2019 Futures. The procedures for trading, clearing, delivery and settlement not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange.

The provisions of these rules shall apply to all California Carbon Allowance (CCA) Vintage-Specific 2019 Futures bought or sold for future delivery on the Exchange with the delivery of applicable CCAs made through the Compliance Instrument Tracking System Service (CITSS).

The terms “seller” and “buyer” shall mean the seller of the physical product and the buyer of the physical product, respectively. The seller’s clearing member and buyer’s clearing member may utilize a designee to perform their respective and necessary obligations with regard to transferring and accepting allowances at the CITSS.

The term “Applicable Emissions Law” shall mean Assembly Bill 32, the State of California’s Global Warming Solutions Act of 2006, together with associated regulations or rules, and amendments thereto.

The term California Carbon Allowance or (CCA), means a limited authorization to emit up to one metric ton of CO<sub>2</sub> or CO<sub>2</sub> equivalent, as defined by the California Air Resources Board in accordance with the Applicable Emissions Law.

The term “In-Force” shall mean: (i) CCAs have been issued and (ii) the CITSS is in operation.

The term “Compliance Instrument Tracking System Service” or “CITSS” shall mean the market tracking system in which accounts are established for market participants to hold and retire California Carbon Allowances and to participate in transactions of California Carbon Allowances with other account holders.

The term “Vintage Year” shall mean the calendar year for which the allowance may be utilized for compliance.

For purposes of this rule, unless otherwise specified, times referred to herein shall refer to and indicate the Eastern Prevailing Time (EPT).

#### **1257101. CONTRACT SPECIFICATIONS**

The California Carbon Allowance (CCA) Vintage-Specific 2019 Futures specifies the physical delivery of applicable California Carbon Allowances (CCAs) within the Compliance Instrument Tracking System Service (CITSS).

Deliverable allowances under this Chapter shall be CCAs dated with the Vintage Year 2019.

#### **1257102. TRADING SPECIFICATIONS**

The number of months open for trading at a given time shall be determined by the Exchange.

##### **1257102.A. Trading Schedule**

The hours for trading for this contract shall be determined by the Exchange.

##### **1257102.B. Trading Unit**

The contract unit shall be one thousand (1,000) CCAs for a delivery made by transfer through the CITSS. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

**1257102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per allowance. The minimum price fluctuation shall be \$0.01 per allowance (\$10.00 per contract).

**1257102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

**1257102.E. Termination of Trading**

Trading shall cease on the third to last business day of the contract month. Any contracts remaining open after the last day of trading must be

(a) Settled by delivery, which shall take place no later than the third business day after the termination of trading for the contract month, or

(b) Liquidated by means of a bona fide Exchange for Related Position (EFRP), pursuant to Exchange Rule 538. An EFRP is permitted in the expiring futures contract no later than two hours after trading terminates on the last day of trading of the expiring futures contract. An EFRP which establishes a futures position for either the buyer or the seller in an expired futures contract shall not be permitted following the termination of trading of an expired futures contract.

**1257102.F. Final Settlement**

Final settlement shall occur on the business day following the last trading day.

**1257103. DELIVERY**

CCA delivery shall comply with all requirements for the electronic transfer of allowances on the CITSS.

**1257104. DELIVERY PROCEDURES**

The Exchange is a party to all deliveries under this contract and will receive allowances by electronic transfer from the seller's clearing member into the Clearing House holding account at the CITSS. Following receipt from the seller's clearing member, the Exchange will deliver allowances from the Clearing House holding account to the CITSS holding account nominated by the buyer's clearing member.

All rights, title, and interest in and to, and risk of loss related to, the allowances will transfer upon receipt in the applicable CITSS account.

The seller's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to the submission of the delivery of allowances noted in this rule. The buyer's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to ensure the acceptance of a valid transfer into its holding account. Seller, buyer and the Exchange shall obtain and adequately maintain at all times systems and technology as may be necessary in order to comply with CITSS regulations. The Exchange may make amendments to delivery and timing of delivery, which may have a material impact to the contract, and will notify the Clearing Members of such amendments resulting from amendments to CITSS regulations.

By transferring allowances to the Exchange, the seller's clearing member represents and warrants that, at the time of delivery, it has good and marketable title to such allowances, and that such allowances are free and clear of all liens, security interests, claims, encumbrances and adverse claims.

#### **1257104.A. Responsibilities of Clearing Members**

##### **1. Notice of Intention to Accept**

Exchange clearing members having open long positions shall provide the Clearing House with a Notice of Intention to Accept delivery by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

##### **2. Notice of Intention to Deliver**

Exchange clearing members having open short positions shall provide the Clearing House with a Notice of Intention to Deliver by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

#### **1257104.B. Final Settlement Price**

The final settlement price shall be the basis for delivery.

#### **1257104.C. Assignment Day**

The Clearing House shall allocate Notices of Intention to Accept and Notices of Intention to Deliver by matching positions, to the extent possible.

The Clearing House shall provide Assignment Notice Reports to the respective clearing members on the second business day after the final day of trading.

### **1257105. TIMING OF DELIVERY**

For purposes of this Rule 1257105,

"Delivery Period" shall mean the time between the final day of trading and the third business day following the final day of trading.

Delivery shall take place on the third business day after the final day of trading. Should the CITSS be inoperable during the Delivery Period due to periodic maintenance that is an Exchange business day, the Exchange shall have the option to extend the Delivery Period to the next valid business day at the Registry and Exchange.

1. The seller's clearing member shall transfer allowances subject to delivery to the Clearing House holding account of the CITSS by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
2. The buyer's clearing member shall deposit / transfer payment equal to the full value of the product to the designated Clearing House bank account by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
3. For each buyer's clearing member that has satisfied its obligations under subsection (2) of this rule, the Clearing House shall initiate the process of transferring the allowances to the buyer's clearing member's account at the CITSS by 12:00 p.m. on the third business day after the final day of trading of the delivery month.
4. The buyer's clearing member shall receive allowances from the Clearing House holding account of the CITSS by 3:00 p.m. on the third business day after the final day of trading of the delivery month.
5. For each seller's clearing member that has satisfied its obligations under subsection (1) of this rule, the Clearing House shall pay the seller's clearing member full contract value by 3:00 p.m. on the third business day after the final day of trading of the delivery month.

### **1257106. DELIVERY MARGINS AND PAYMENT**

#### **1257106.A. Definitions**

For purposes of this Rule 1257106,

"Payment Date" shall mean the date on which the Clearing House transfers Payment in connection with a delivery to the seller's clearing member.

"Payment" shall include the settlement price, in U.S. dollars and cents, times the number of contracts times one thousand (1,000).

**1257106.B. Margin**

The buyer's clearing member and seller's clearing member shall deposit with the Exchange margins in such amounts and in such form as required by the Exchange. Such margins shall be returned on the business day following notification to the Exchange that delivery and Payment have been completed.

**1257106.C. Payment**

Any Payment made on the Payment Date shall be based on allowances actually delivered.

**1257107. VALIDITY OF DOCUMENTS**

The Exchange makes no representation respecting the authenticity, validity or accuracy of any Notice of Intention to Accept, Notice of Intention to Deliver, check or of any document or instrument delivered pursuant to these rules.

**1257108. ALTERNATIVE DELIVERY PROCEDURE**

Please refer to rule 771 in Chapter 7.

## Chapter 1258

### CBL California Carbon Allowance (CCA) Vintage-Specific 2020 Futures

#### 1258100. SCOPE OF CHAPTER

This chapter is limited in application to California Carbon Allowance (CCA) Vintage-Specific 2020 Futures. The procedures for trading, clearing, delivery and settlement not specifically covered herein or in Chapter 7 shall be governed by the general rules of the Exchange.

The provisions of these rules shall apply to all California Carbon Allowance (CCA) Vintage-Specific 2020 Futures bought or sold for future delivery on the Exchange with the delivery of applicable CCAs made through the Compliance Instrument Tracking System Service (CITSS).

The terms “seller” and “buyer” shall mean the seller of the physical product and the buyer of the physical product, respectively. The seller’s clearing member and buyer’s clearing member may utilize a designee to perform their respective and necessary obligations with regard to transferring and accepting allowances at the CITSS.

The term “Applicable Emissions Law” shall mean Assembly Bill 32, the State of California’s Global Warming Solutions Act of 2006, together with associated regulations or rules, and amendments thereto.

The term California Carbon Allowance or (CCA), means a limited authorization to emit up to one metric ton of CO<sub>2</sub> or CO<sub>2</sub> equivalent, as defined by the California Air Resources Board in accordance with the Applicable Emissions Law.

The term “In-Force” shall mean: (i) CCAs have been issued and (ii) the CITSS is in operation.

The term “Compliance Instrument Tracking System Service” or “CITSS” shall mean the market tracking system in which accounts are established for market participants to hold and retire California Carbon Allowances and to participate in transactions of California Carbon Allowances with other account holders.

The term “Vintage Year” shall mean the calendar year for which the allowance may be utilized for compliance.

For purposes of this rule, unless otherwise specified, times referred to herein shall refer to and indicate the Eastern Prevailing Time (EPT).

#### 1258101. CONTRACT SPECIFICATIONS

The California Carbon Allowance (CCA) Vintage-Specific 2020 Futures specifies the physical delivery of applicable California Carbon Allowances (CCAs) within the Compliance Instrument Tracking System Service (CITSS).

Deliverable allowances under this Chapter shall be CCAs dated with the Vintage Year 2020.

#### 1258102. TRADING SPECIFICATIONS

The number of months open for trading at a given time shall be determined by the Exchange.

##### 1258102.A. Trading Schedule

The hours for trading for this contract shall be determined by the Exchange.

##### 1258102.B. Trading Unit

The contract unit shall be one thousand (1,000) CCAs for a delivery made by transfer through the CITSS. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

**1258102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per allowance. The minimum price fluctuation shall be \$0.01 per allowance (\$10.00 per contract).

**1258102.D. Position Limits, Exemptions, Position Accountability and Reportable Levels**

The applicable position limits and/or accountability levels, in addition to the reportable levels, are set forth in the Position Limit, Position Accountability and Reportable Level Table in the Interpretations & Special Notices Section of Chapter 5.

A Person seeking an exemption from position limits for bona fide commercial purposes shall apply to the Market Regulation Department on forms provided by the Exchange, and the Market Regulation Department may grant qualified exemptions in its sole discretion.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

**1258102.E. Termination of Trading**

Trading shall cease on the third to last business day of the contract month. Any contracts remaining open after the last day of trading must be

(a) Settled by delivery, which shall take place no later than the third business day after the termination of trading for the contract month, or

(b) Liquidated by means of a bona fide Exchange for Related Position (EFRP), pursuant to Exchange Rule 538. An EFRP is permitted in the expiring futures contract no later than two hours after trading terminates on the last day of trading of the expiring futures contract. An EFRP which establishes a futures position for either the buyer or the seller in an expired futures contract shall not be permitted following the termination of trading of an expired futures contract.

**1258102.F. Final Settlement**

Final settlement shall occur on the business day following the last trading day.

**1258103. DELIVERY**

CCA delivery shall comply with all requirements for the electronic transfer of allowances on the CITSS.

**1258104. DELIVERY PROCEDURES**

The Exchange is a party to all deliveries under this contract and will receive allowances by electronic transfer from the seller's clearing member into the Clearing House holding account at the CITSS. Following receipt from the seller's clearing member, the Exchange will deliver allowances from the Clearing House holding account to the CITSS holding account nominated by the buyer's clearing member.

All rights, title, and interest in and to, and risk of loss related to, the allowances will transfer upon receipt in the applicable CITSS account.

The seller's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to the submission of the delivery of allowances noted in this rule. The buyer's clearing member shall comply with such requirements and obligations imposed by or under applicable CITSS regulations in all respect material to ensure the acceptance of a valid transfer into its holding account. Seller, buyer and the Exchange shall obtain and adequately maintain at all times systems and technology as may be necessary in order to comply with CITSS regulations. The Exchange may make amendments to delivery and timing of delivery, which may have a material impact to the contract, and will notify the Clearing Members of such amendments resulting from amendments to CITSS regulations.

By transferring allowances to the Exchange, the seller's clearing member represents and warrants that, at the time of delivery, it has good and marketable title to such allowances, and that such allowances are free and clear of all liens, security interests, claims, encumbrances and adverse claims.



#### **1258104.A. Responsibilities of Clearing Members**

##### **1. Notice of Intention to Accept**

Exchange clearing members having open long positions shall provide the Clearing House with a Notice of Intention to Accept delivery by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

##### **2. Notice of Intention to Deliver**

Exchange clearing members having open short positions shall provide the Clearing House with a Notice of Intention to Deliver by 11:00 a.m. on the second business day after the final day of trading providing number of contracts and any other information required by the Exchange.

#### **1258104.B. Final Settlement Price**

The final settlement price shall be the basis for delivery.

#### **1258104.C. Assignment Day**

The Clearing House shall allocate Notices of Intention to Accept and Notices of Intention to Deliver by matching positions, to the extent possible.

The Clearing House shall provide Assignment Notice Reports to the respective clearing members on the second business day after the final day of trading.

### **1258105. TIMING OF DELIVERY**

For purposes of this Rule 1258105,

"Delivery Period" shall mean the time between the final day of trading and the third business day following the final day of trading.

Delivery shall take place on the third business day after the final day of trading. Should the CITSS be inoperable during the Delivery Period due to periodic maintenance that is an Exchange business day, the Exchange shall have the option to extend the Delivery Period to the next valid business day at the Registry and Exchange.

1. The seller's clearing member shall transfer allowances subject to delivery to the Clearing House holding account of the CITSS by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
2. The buyer's clearing member shall deposit / transfer payment equal to the full value of the product to the designated Clearing House bank account by 10:00 a.m. on the third business day after the final day of trading of the delivery month.
3. For each buyer's clearing member that has satisfied its obligations under subsection (2) of this rule, the Clearing House shall initiate the process of transferring the allowances to the buyer's clearing member's account at the CITSS by 12:00 p.m. on the third business day after the final day of trading of the delivery month.
4. The buyer's clearing member shall receive allowances from the Clearing House holding account of the CITSS by 3:00 p.m. on the third business day after the final day of trading of the delivery month.
5. For each seller's clearing member that has satisfied its obligations under subsection (1) of this rule, the Clearing House shall pay the seller's clearing member full contract value by 3:00 p.m. on the third business day after the final day of trading of the delivery month.

### **1258106. DELIVERY MARGINS AND PAYMENT**

#### **1258106.A. Definitions**

For purposes of this Rule 1258106,

"Payment Date" shall mean the date on which the Clearing House transfers Payment in connection with a delivery to the seller's clearing member.

"Payment" shall include the settlement price, in U.S. dollars and cents, times the number of contracts times one thousand (1,000).

**1258106.B. Margin**

The buyer's clearing member and seller's clearing member shall deposit with the Exchange margins in such amounts and in such form as required by the Exchange. Such margins shall be returned on the business day following notification to the Exchange that delivery and Payment have been completed.

**1258106.C. Payment**

Any Payment made on the Payment Date shall be based on allowances actually delivered.

**1258107. VALIDITY OF DOCUMENTS**

The Exchange makes no representation respecting the authenticity, validity or accuracy of any Notice of Intention to Accept, Notice of Intention to Deliver, check or of any document or instrument delivered pursuant to these rules.

**1258108. ALTERNATIVE DELIVERY PROCEDURE**

Please refer to rule 771 in Chapter 7.

**APPENDIX B**

**Position Limit, Position Accountability, and Reportable Level Table  
in Chapter 5 of the NYMEX Rulebook**

(Attached under separate cover)

## APPENDIX C

### NYMEX Chapter 5 Trading Qualifications and Practices

#### NYMEX Rule 588.H. (“Globex Non-Reviewable Ranges”) Table

(Additions are underscored)

Instrument Name	Globex Symbol	Globex Non-Reviewable Ranges (NRR)	NRR: Globex Format	NRR: Ticks
<u>CBL California Carbon Allowance Vintage-Specific 2016 Futures</u>	<u>C6C</u>	<u>\$0.40 per allowance</u>	<u>40</u>	<u>40</u>
<u>CBL California Carbon Allowance Vintage-Specific 2017 Futures</u>	<u>C7C</u>	<u>\$0.40 per allowance</u>	<u>40</u>	<u>40</u>
<u>CBL California Carbon Allowance Vintage-Specific 2018 Futures</u>	<u>C8C</u>	<u>\$0.40 per allowance</u>	<u>40</u>	<u>40</u>
<u>CBL California Carbon Allowance Vintage-Specific 2019 Futures</u>	<u>C9C</u>	<u>\$0.40 per allowance</u>	<u>40</u>	<u>40</u>
<u>CBL California Carbon Allowance Vintage-Specific 2020 Futures</u>	<u>CC0</u>	<u>\$0.40 per allowance</u>	<u>40</u>	<u>40</u>

## APPENDIX D

### Cash Market Overview and Analysis of Deliverable Supply

#### Background

In 2006, the California legislature passed Assembly Bill (AB 32), the California Global Warming Solutions Act of 2006. The bill created a comprehensive, multi-year program to reduce greenhouse gas (GHG) emissions in California to 1990 levels by 2020. In 1990, the total GHG output in California was 431 million metric tons of carbon dioxide equivalents (MMT<sub>CO<sub>2</sub>e</sub>). GHGs include carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), and fluorinated gases (e.g., hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF<sub>6</sub>), and nitrogen trifluoride)<sup>1</sup>.

The global warming potential (GWP) of various non-CO<sub>2</sub> GHGs can be measured relative to the GWP of CO<sub>2</sub> (an equivalence) over a standard time horizon (e.g., 20, 100 or 500 years). According to the Intergovernmental Panel on Climate Change (IPCC), global warming potential is an index that attempts to integrate the overall climate impacts of a specific action (e.g., emissions of CH<sub>4</sub>, NO<sub>x</sub> or other aerosols). For example, the IPCC's fourth assessment report lists CO<sub>2</sub> with a GWP of one over a period of 100 years. Subsequently, the GWP of CH<sub>4</sub> is 25 and the GWP for N<sub>2</sub>O is 298 when compared to CO<sub>2</sub> over the same 100 year period.<sup>2</sup>

On December 16, 2010, regulations for California's Greenhouse Gas Cap-and-Trade Program were passed by the California Air Resources Board (CARB), the regulatory body administering the program, and took effect in early 2012. In addition to facilitating AB 32, the program is designed to reward businesses who can find low-cost opportunities to reduce pollution by allowing them to sell excess allowances to other entities. In 2015 an executive order was issued with the goal to further reduce California GHGs by 40 percent below 1990 levels by 2030, and 80 percent below by 2050. The top 11 GHG producers in California in 2015 are shown below.<sup>3</sup>

Facility Name	Total CO <sub>2</sub> e in 2014 (combustion, process, vented, and supplier)
Tesoro Refining and Marketing - Fuel Supplier	49,269,931
Pacific Gas and Electric Company (PG&E) - Supplier of Natural Gas	43,022,557
Southern California Gas Company - End User Emissions	42,863,420
Chevron Products Company - Headquarters Fuel Supplier	33,419,568
Phillips 66 Company - Fuel Supplier	20,486,176
Valero Marketing and Supply Company - Fuel Supplier	17,282,809
Shell Oil Products US - Supply - Fuel Supplier	13,492,086
Los Angeles Department of Water & Power (LADWP)	12,206,071
ExxonMobil Oil Corporation - Supply - Fuel Supplier	8,218,122
BP West Coast Products LLC (BPWCP) - Terminals	7,394,070

<sup>1</sup> <http://www.ipcc.ch/ipccreports/sres/aviation/index.php?idp=71>

<sup>2</sup> <http://www.arb.ca.gov/cc/inventory/background/gwp.htm>

<sup>3</sup> For a list of large emitters subject to the carbon emissions reduction program, see <http://www.arb.ca.gov/ei/tools/ghgfacilities>.

There are three compliance periods in the program: (2013-2014), (2015-2017), and (2018-2020). Each covered entity is required to comply by covering 100 percent of its annual GHG emissions, for which they have a compliance obligation, with allowances by the final year of each compliance period. Covered entities are defined as entities that emit >25,000 metric tons CO<sub>2</sub>e. They are mandated by the state to register and be monitored. Types of covered entities:

1. Operators of industrial facilities
2. Operators of electricity generation in California
3. Importers of electricity from out of state
4. Fuel suppliers and distributors
5. Carbon dioxide suppliers

Non-covered entities are defined as entities that emit <25,000 metric tons CO<sub>2</sub>e. They are not mandated by the state to register and be monitored, but may opt-in and receive allowances, and participate in auctions. Types of non-covered entities:

1. Opt-in Covered Entities
2. Voluntary Associated Entities
3. Clearing Houses
4. Other Registered Participants

Allowances are surrendered in stages during each period. 30 percent of the annual compliance obligation is due in November of the following year, while the remaining 70 percent may be 'banked' or carried forward until the end of the three-year compliance period. The balance of allowances due at the end of each period (e.g.: 70 percent for 2015 and 2016, and 100 percent for the final year 2017) must be submitted to CARB in November following the final year of the compliance period. Complete compliance or true-up (i.e. the retiring of allowances equal to emissions) occurs after the conclusion of each compliance period.<sup>4</sup>

If an entity is found to be non-compliant at the end of the period, it must forfeit four allowances for each allowance it did not retire. The partial annual compliance obligation offers a form of flexibility to participants regarding how they use their allowances and meet their compliance obligations. A longer compliance window (i.e., three-year period) for (2015-2017) and (2018-2020) is intended to help reduce volatility in the market for allowances by smoothing out the impacts of variation in economic activity and emissions levels.

Allowances or California Carbon Allowances (CCAs) are physical in the sense that they represent a permit to emit one metric ton of CO<sub>2</sub>e. However, they are actually issued and maintained in electronic form through the Compliance Instrument Tracking System Service (CITSS). This electronic system is also responsible for the following:

- registering entities participating in the Cap-and-Trade program;
- track the ownership of compliance instruments;
- enable and record compliance instrument transfers;
- facilitate emissions compliance; and
- support market oversight

Covered entities make up the majority of registered entities currently in the CITSS. As of April, 2016 there were a total of 592 registered entities listed in the CITSS.

CCAs are distributed free on an annual basis to qualifying entities, and sold through a quarterly auction process held by CARB each February, May, August, and November. During each auction, allowances are offered for the current calendar year (current vintage year), and for a future calendar year (future vintage year - three years out). For example, at each quarterly auction in 2016, vintage 2016 and vintage 2019 allowances will be offered.

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<sup>4</sup> <https://www.edf.org/sites/default/files/california-case-study-may2015.pdf>

Participants in the primary market are required to register with CARB by establishing an account in the CITSS in order to hold, transfer, trade, buy, sell and retire allowances. Covered entities are allowed two credit-holding accounts- 1) compliance account and 2) holding account. Allowances held in holding accounts can be freely bought, sold and traded among market participants. Allowances in compliance accounts cannot be sold, traded or transferred to another account or entity, but serve as clearinghouses where allowances are transferred to CARB for retirement. Once an allowance enters a compliance account, it can only be submitted to CARB for compliance.<sup>5</sup>

There are no restrictions on non-compliance entities establishing holding accounts, with the exception that the applicants must be approved by CARB. Holding accounts are subject to two holding limits: one for allowances eligible for compliance use in the current year, and another for allowances eligible for compliance use in future years. Holding limits are intended to prevent individual entities (or small groups of entities) from manipulating the market by gaining too large a market share of allowances. All accounts must have an authorized representative and up to four alternate authorized representatives to make actions on an entity's account(s).

On January 1, 2014, the California Cap-and-Trade Program and the Québec Cap-and-Trade system officially linked, enabling the mutual acceptance of compliance instruments issued by each jurisdiction, and the jurisdictions to hold joint auctions of GHG allowances. The first joint auction by CARB and Québec's Ministry of Sustainable Development, Environment and the Fight against Climate Change (MDDELCC) was held on November 25, 2014.

In the initial compliance year (2013), CARB set the number of allowances in the market to 162.8 million metric tons of CO<sub>2</sub>e, as the program only covered emissions from electricity generators. The expansion into additional sectors (i.e., transportation fuels) increased the number of available allowances to 394.5 million in 2015 to match expected emissions for that year. The projected budget for emissions allowances is expected to decrease each year to 334.2 million by the end of the third compliance period in 2020.

CCA futures contracts will be listed for trading based on the allowance specific vintage. The initial launch calls for Vintage 2016 to Vintage 2020. Each vintage futures contract permits the physical delivery of allowances that are dated with exactly the same calendar year as the one noted by the futures contract (Vintage Specific). For example, allowances that are deliverable on the Vintage 2016 futures contract are those dated with the year 2016 only. Similarly, allowances that are deliverable on the Vintage 2017 futures contract are those dated with the year 2017 only. The same rule applies for futures with vintage year 2018, 2019 and 2020.

### **Deliverable Supply**

In estimating the deliverable supply of allowances for each vintage futures contract, the total amount of allowances offered and sold in the market were analyzed. As stated above, allowances are sold through a quarterly auction process held by CARB each February, May, August, and November. During each auction, allowances are offered for the current calendar year (current vintage year), and for a future calendar year (future vintage year) three years out. For example, allowances for Vintage Year 2016 were sold during the Advance Auctions in 2013 and also in the Current Auctions held during 2016. Allowances for Vintage Years 2017, 2018 and 2019 were sold during the Advance Auctions in 2014, 2015 and 2016, respectively. Current Auctions for the sale of Allowances for Vintage Years 2017, 2018 and 2019 will be held during the current years for those Vintages. Allowances for Vintage Year 2020 will be offered for sale at the Advance Auction scheduled for February, May, August and November 2017.

Allowances are surrendered in stages during each period. 30 percent of the annual compliance obligation is due November 1 of the following year, while the remaining 70 percent may be 'banked' or carried forward until the end of the three-year compliance period. Section 95856 of the Cap-and-Trade Regulation states, "To fulfill a compliance obligation, a compliance instrument must be issued from an allowance budget year within or before the year for which an annual compliance obligation is calculated or the last year of a compliance period for which a triennial compliance obligation is calculated." An entity may bank allowances

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<sup>5</sup> CARB Cap-and-Trade, 2011. Subarticle 5; §95831(a)(4)

from previous vintage years, but not borrow from future vintage years to meet a compliance obligation. Table 1 lists which vintage year allowances may be used to meet an annual or triennial compliance obligation. There are no restrictions on which vintage year of offsets are used to meet a compliance obligation. Please note, that offsets can only be used to meet up to 8 percent of a compliance obligation in each compliance period.

Table 1. Eligible Allowance Vintages for Annual and Triennial Compliance Obligations<sup>6</sup>



Since the nearest vintage year futures contract is 2016, covered entities can start retiring 2016 vintage allowances beginning November 1, 2017. All auctioned allowances are tradable and may be part of the deliverable supply.

**Vintage 2016-Specific Delivery:**

In determining the deliverable supply of allowances for the Vintage 2016 futures contract (the “2016 allowances”), the Exchange considered 2016 allowances sold at the Advance Auctions conducted in 2013 and 2016 allowances sold at the Current Auctions during 2016 (see Table 2) totaling 210,903,307 Vintage 2016 CCAs. The Exchange did not account for unsold allowances at those auctions in estimating deliverable supply. To date, none of the 2016 allowances sold have been redeemed for compliance. On a contract-equivalent basis, the total number of 2016 allowances sold represents 210,903 contracts (futures contract unit is 1,000 CCAs).

In accordance with compliance obligations under the Cap-and-Trade Regulation, on November 1, 2017, 30 percent of the annual compliance obligation for year 2016 must be surrendered through any combination

<sup>6</sup><https://www.arb.ca.gov/cc/capandtrade/guidance/20130419%20Guidance%20Document%20Ch%203%20posting.pdf>



of Vintages 2013-2016. The remainder (70%) of the annual compliance obligation for 2016 must be surrendered (through any combination of Vintages 2013-2017) to meet compliance obligations by November 1, 2018, the end of the Second Compliance Period under the Cap-and-Trade Regulation.

In accordance with Core Principle 3 Appendix C, the Exchange determined it to be prudent not to account for all sold 2016 allowances as part of the deliverable supply for the Vintage 2016 futures contract. Based on a review of the underlying cash market, and while 30 percent of the annual compliance obligation for year 2016 can be satisfied through the surrender of any combination of Vintages 2013-2016 on November 1, 2017, in estimating the deliverable supply for the 2016 allowances the Exchange applied a 75% discount on the total 2016 allowances sold. The estimated deliverable supply for 2016 allowances is equivalent to 52,725 futures contracts. The Exchange determined to set the spot month limit for the Vintage 2016 CCA at 8,000 contracts or approximately 15% of estimated deliverable supply.

Table 2: Advance and Current Auction for 2016 Vintage Allowances<sup>7</sup>

<b>Auction Date</b>	<b>Allowances Offered for Sale</b>	<b>Allowances Sold</b>
2/19/2013	9,560,000	4,440,000
5/16/2013	9,560,000	7,515,000
8/16/2013	9,560,000	9,560,000
11/19/2013	9,560,000	9,560,000
<b>SUB-TOTAL</b>	<b>38,240,000</b>	<b>31,075,000</b>
2/17/2016	69,944,509	66,414,682
5/18/2016	67,675,951	7,260,000
8/16/2016	86,278,410	30,021,000
11/15/2016	86,242,120	76,132,625
<b>SUB-TOTAL</b>	<b>310,140,990</b>	<b>179,828,307</b>
<b>TOTAL 2016 ALLOWANCES</b>	<b>348,380,990</b>	<b>210,903,307</b>

**Vintage 2017-Specific Delivery:**

In determining the deliverable supply of allowances for the Vintage 2017 futures contract (the “2017 allowances”), the Exchange considered 2017 allowances sold at the Advance Auctions conducted in 2014. As additional 2017 allowances will be generated and offered for sale during the 4 quarterly auctions which will be held in 2017, the number of Vintage 2017 CCAs available for sale is anticipated to drastically increase during 2017. A total of 30,553,000 Vintage 2017 CCAs were sold at auction in 2014. To date, none of the 2017 allowances have been redeemed for compliance. The Exchange did not account for any unsold allowances in estimating the deliverable supply.

Based on the foregoing, the Exchange determined to base its estimated deliverable supply of 2017 allowances on the total number of allowances sold during the Advance Auctions. On a contract-equivalent basis, the deliverable supply of Vintage 2017 CCAs represents 30,553 contracts (futures contract unit is 1,000 CCAs). The Exchange determined to set the spot month limit for the Vintage 2017 CCA at 4,500 contracts or approximately 15% of estimated deliverable supply.

Table 3: Advance Auction for 2017 Vintage Allowances<sup>7</sup>

<b>Auction Date</b>	<b>Allowances Offered for Sale</b>	<b>Allowances Sold</b>
2/19/2014	9,260,000	9,260,000
5/16/2014	9,260,000	4,036,000
8/18/2014	9,260,000	6,470,000
11/19/2014	10,787,000	10,787,000

<sup>7</sup> [https://www.arb.ca.gov/cc/capandtrade/auction/auction\\_archive.htm](https://www.arb.ca.gov/cc/capandtrade/auction/auction_archive.htm)

<b>TOTAL</b>	<b>38,567,000</b>	<b>30,553,000</b>
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**Vintage 2018-Specific Delivery:**

In determining the deliverable supply of allowances for the Vintage 2018 futures contract (the “2018 allowances”), the Exchange considered 2018 allowances sold at the Advance Auctions conducted in 2015. Additional 2018 allowances will be generated and offered for sale during the 4 quarterly auctions held in 2018, at which time the number of Vintage 2018 CCAs available for sale is anticipated to drastically increase. A total of 41,106,500 Vintage 2018 CCAs were sold at auction in 2015. The Exchange did not account for any unsold allowances in estimating deliverable supply. On a contract-equivalent basis, the deliverable supply of Vintage 2018 CCAs represents 41,106 contracts. The Exchange determined to set the spot month limit for the Vintage 2018 CCA at 6,000 contracts or approximately 15% of estimated deliverable supply.

Table 4: Advance Auction for 2018 Vintage Allowances<sup>7</sup>

<b>Auction Date</b>	<b>Allowances Offered for Sale</b>	<b>Allowances Sold</b>
2/18/2015	10,431,500	10,431,500
5/21/2015	10,431,500	9,812,000
8/18/2015	10,431,500	10,431,500
11/17/2015	10,431,500	10,431,500
<b>TOTAL</b>	<b>41,726,000</b>	<b>41,106,500</b>

**Vintage 2019-Specific Delivery:**

In determining the deliverable supply of allowances for the Vintage 2019 futures contract (the “2019 allowances”), the Exchange considered 2019 allowances sold at the Advance Auctions conducted in 2016. Additional 2019 allowances will be generated and offered for sale during the 4 quarterly auctions held in 2019, at which time the number of Vintage 2019 CCAs available for sale is anticipated to drastically increase. A total of 12,064,500 Vintage 2019 CCAs were sold at auction in 2016. The Exchange did not account for any unsold allowances in estimating deliverable supply. On a contract-equivalent basis, the deliverable supply of Vintage 2019 CCAs represents 12,064 contracts. The Exchange determined to set the spot month limit for the Vintage 2019 CCA at 1,800 contracts or approximately 15% of estimated deliverable supply.

Table 5: Advance Auction for 2019 Vintage Allowances<sup>7</sup>

<b>Auction Date</b>	<b>Allowances Offered for Sale</b>	<b>Allowances Sold</b>
2/17/2016	10,078,750	9,361,000
5/18/2016	10,078,750	914,000
8/16/2016	10,078,750	769,000
11/15/2016	10,078,750	1,020,000
<b>TOTAL</b>	<b>40,315,000</b>	<b>12,064,000</b>

**Vintage 2020-Specific Delivery:**

For 2020 Vintage CCAs, CARB announced a 3.5% reduction from 2019 annual allowance budgets.<sup>8</sup> Since the Advance Auctions for 2020 Vintage CCAs won't be held until 2017, the Exchange determined to base its estimation of deliverable supply for the Vintage 2020 futures contract (the “2020 allowances”) on the 2019 allowances sold at the Advance Auctions in 2016, discounted by 3.5% to mirror the 3.5% budget reduction by CARB. As such, the Exchange estimated that the overall deliverable supply for the 2020 Vintage CCAs during calendar year 2017 will be at 11,641,760 or 11,641 futures contract equivalents.

<sup>8</sup> <https://www.arb.ca.gov/cc/capandtrade/ctlinkqc.pdf>

Since the Exchange anticipates listing the March 2017 contract month as the first expiration of the Vintage 2020 CCA futures, (after the first advance auction scheduled on February 22<sup>nd</sup> 2017 and prior to the second, third and fourth advance auctions for the 2020 Vintage allowances scheduled in 2017), the Exchange determined to account for one quarter of the estimated 2020 Vintage allowances sold during 2017 as the basis of deliverable supply or 2,910 futures contract equivalents.<sup>9</sup> As such, the Exchange shall set the spot month limit for the 2020 Vintage CCA futures at 400 contract equivalents. As additional allowances are sold through 2017, the Exchange will monitor and re-evaluate deliverable supply and adjust the spot month limits accordingly.

As noted earlier, CARB distributes free allowances annually, as a portion of the overall allowance budget, to (1) covered entities for leakage prevention and industrial assistance, (2) electrical distribution utilities on behalf of ratepayers, (3) natural gas suppliers on behalf of ratepayers, and (4) special cases (such as generators operating under legacy contracts and public service facilities). The first category is to ensure that California businesses are not disadvantaged by the carbon rules and to stop the shifting of operations to other jurisdictions not subject to cap-and-trade regulation. The second and third categories were established to prevent customers' energy bills from rising too high due to the implementation of the carbon reduction program.

Entities receiving free allowances include electrical distribution utilities (EDUs), petroleum refiners/hydrogen producers, crude oil and natural gas extractors, cement/lime/gypsum producers, ore and mineral miners, metal processors, and manufacturers, fruit and vegetable canners, other food manufacturers, dairies, glass manufacturers, paper manufacturers, chemical/biological/pharmaceutical manufacturers, and miscellaneous industrial facilities (e.g., Los Angeles Airport and Tesla Motors). CARB defines methodologies for determining how many free allowances to give out for each sector and entity. Only the distribution for EDUs has been determined through 2020. For other sectors, allowance distributions have been reported for the 2013 through 2015 compliance years. In addition, allowances for affected entities, including EDUs, are distributed for the compliance year in which they are usable. Specifically, such entities must notify CARB by September 1 or the first business day thereafter each year as to how the allowances should be distributed into holding and compliance accounts. Soon after notification, CARB makes the allowance distribution. For the compliance year 2015, the allowances were distributed to the entities' accounts on October 24, 2014.

Since free allowances are not available until the vintage year becomes the current year, they were not included in the deliverable supply calculation.

Additionally, an Allowance Price Containment Reserve (APCR) was set up by CARB. This reserve collects a portion of allowances from auction each year and releases them if certain predetermined trigger prices are reached. Only California emitters are eligible to purchase allowances from the APCR. In the first compliance period, one percent of allowances was withheld from auction, in the second compliance period four percent of allowances are withheld, and in the third compliance period seven percent will be withheld. Allowances from the APCR are divided into three equal-sized tiers. In 2013, one of these tiers became available at each of the following prices: \$40, \$45 and \$50. Since 2014, the trigger price increases by five percent annually plus inflation.<sup>10</sup> Thus far, no allowances have been purchased from the APCR, as market prices for allowances remain far below the pre-prescribed price tiers.

By not including free allowances, the supply from the APCR, or any current or future offset allowances in the deliverable supply estimates, the established position limit levels remain conservative.

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<sup>9</sup> [https://www.arb.ca.gov/cc/capandtrade/auction/2017\\_auction\\_reserve\\_sale\\_dates.pdf](https://www.arb.ca.gov/cc/capandtrade/auction/2017_auction_reserve_sale_dates.pdf)

<sup>10</sup> <https://www.edf.org/sites/default/files/california-case-study-may2015.pdf>