

**SUBMISSION COVER SHEET**

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

Registered Entity Identifier Code (optional): 15-096 (1 of 2)

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): March 6, 2015 Filing Description: New Product Listing for Two (2) Jet Fuel Futures Contracts

**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

- Certification § 40.6(a)
- Approval § 40.5(a)
- Notification § 40.6(d)
- Advance Notice of SIDCO Rule Change § 40.10(a)
- SIDCO Emergency Rule Change § 40.10(h)

**Rule Numbers:**

**New Product**

Please note only ONE product per Submission.

- Certification § 40.2(a)
- Certification Security Futures § 41.23(a)
- Certification Swap Class § 40.2(d)
- Approval § 40.3(a)
- Approval Security Futures § 41.23(b)
- Novel Derivative Product Notification § 40.12(a)
- Swap Submission § 39.5

**Official Product Names:** NY Buckeye Jet Fuel (Platts) vs. NY Harbor ULSD Futures; NY Buckeye Jet Fuel (Platts) Futures

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

- Certification § 40.6(a)
- Certification Made Available to Trade Determination § 40.6(a)
- Certification Security Futures § 41.24(a)
- Delisting (No Open Interest) § 40.6(a)
- Approval § 40.5(a)
- Approval Made Available to Trade Determination § 40.5(a)
- Approval Security Futures § 41.24(c)
- Approval Amendments to enumerated agricultural products § 40.4(a), § 40.5(a)
- "Non-Material Agricultural Rule Change" § 40.4(b)(5)
- Notification § 40.6(d)

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

**Rule Numbers:**

March 6, 2015

**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 Two (2) New York Jet Fuel Futures Contracts. NYMEX Submission No. 15-096 (1 of 2)**

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 listing of two (2) new jet fuel futures contracts (the "Contracts") as described below for trading on the NYMEX trading floor, CME Globex and for submission for clearing via CME ClearPort, effective on Sunday, March 22, 2015 for trade date Monday, March 23, 2015.

Pursuant to Commission Regulation 40.6(a), NYMEX is separately self-certifying block trading on these Contracts with a minimum threshold of ten (10) contracts in NYMEX/COMEX Submission No. 15-091.

<b>Contract Name</b>	NY Buckeye Jet Fuel (Platts) Futures
<b>Commodity Code</b>	BUC
<b>Chapter</b>	996
<b>Settlement Type</b>	Financial
<b>Contract Size</b>	42,000 gallons
<b>Termination of Trading</b>	Trading shall cease on the last business day of the contract month.
<b>Minimum Price Fluctuation</b>	\$0.0001
<b>Final Settlement Price Tick</b>	\$0.0001
<b>First Listed Month</b>	April 2015
<b>Listing Convention</b>	Current year plus three consecutive years
<b>CME Match Algorithm</b>	First In First Out (F)

<b>Contract Name</b>	NY Buckeye Jet Fuel (Platts) vs. NY Harbor ULSD Futures
<b>Commodity Code</b>	JET
<b>Chapter</b>	997
<b>Settlement Type</b>	Financial
<b>Contract Size</b>	42,000 gallons
<b>Termination of Trading</b>	Trading shall cease on the last business day of the contract month.
<b>Minimum Price Fluctuation</b>	\$0.0001
<b>Final Settlement Price Tick</b>	\$0.0001
<b>First Listed Month</b>	April 2015
<b>Listing Convention</b>	Current year plus three consecutive years
<b>CME Match Algorithm</b>	First In First Out (F)

#### Trading and Clearing Hours:

**CME Globex and CME ClearPort:** Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. Chicago Time/CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. CT).

**NYMEX Trading Floor:** Monday – Friday 9:00 a.m. – 2:30 p.m. (8:00 a.m. – 1:30 a.m. CT)

	Member/Member Day	Cross Division	Non-Member	IIP
<b>Pit</b>	\$0.85	\$1.10	\$1.35	
<b>Globex</b>	\$0.85	\$1.10	\$1.35	\$1.10
<b>ClearPort</b>	\$0.85		\$1.35	
<b>Agency Cross</b>	\$0.85		\$1.35	

Additional Fees and Surcharges	
<b>Facilitation Desk Fee</b>	\$0.30
<b>Cash Settlement</b>	\$0.50

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 new contracts, as well as the additional changes, are presented below in Appendix B (attached under separate cover).

Exchange business staff responsible for the new products and the Exchange legal department collectively reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“Act” or “CEA”). During the review, Exchange staff identified that the new product may have some bearing on the following Core Principles:

- Prevention of Market Disruption: Trading in the Contracts will be subject to the NYMEX rules (“Rulebook”) Chapters 4 and 7 which include prohibitions on manipulation, price distortion and disruptions of the delivery or cash-settlement process. As with all products listed for trading on one of CME Group’s designated contract markets, activity in the new products will be subject to extensive monitoring and surveillance by CME Group’s Market Regulation Department.
- Contracts Not Readily Subject to Manipulation: The Contracts are not readily subject to manipulation due to the liquidity and robustness in the underlying cash market, which provides diverse participation and sufficient spot transactions to support the final settlement index as assessed by Platts and by transactions on CME Globex and CME ClearPort.
- Compliance with Rules: Trading in the Contracts will be subject to the rules in Rulebook Chapter 4 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in this contract will also be subject to the full panoply of trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. As with all products listed for trading on one of CME Group’s designated contract markets, activity in the new products will be subject to extensive 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.
- Position Limitations or Accountability: The spot month position limits for the Contracts are set at less than the threshold of 25% of the deliverable supply in the underlying market in accordance with the guidelines included in CFTC Part 151.
- Availability of General Information: The Exchange will publish information on the Contracts’ specifications on its website, together with daily trading volume, open interest and price information.
- Daily Publication of Trading Information: Trading volume, open interest and price information will be published daily on the Exchange’s website and via quote vendors.
- Financial Integrity of Contracts: All contracts traded on the Exchange will be cleared by the Clearing House of the Chicago Mercantile Exchange Inc. which is a registered derivatives clearing organization with the Commission and is subject to all Commission regulations related thereto.
- Execution of Transactions: The Contracts are dually listed for trading on CME Globex and on the NYMEX trading floor for open outcry trading, and for clearing through the CME ClearPort platform. The CME ClearPort platform provides a competitive, open and efficient mechanism for novating transactions that are competitively executed by brokers. The CME Globex platform provides a transparent, open, and efficient mechanism to electronically execute trades on screen. In addition, the NYMEX trading floor is available as an additional venue to provide for competitive and open execution of transactions.
- Trade Information: All required trade information is included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- Protection of Market Participants: Rulebook Chapters 4 and 5 contain multiple prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading on all of the Exchange’s competitive trading venues and will be applicable to transactions in this product.
- 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 these 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 these 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 the new product listings comply with the Act, including regulations under the Act. A description of the cash market for these new products is attached in Appendix D.

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 Rule 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 – Non-Reviewable Ranges  
Appendix D: Cash Market Overview and Analysis of Deliverable Supply

## **Appendix A**

### **Chapter 996 NY Buckeye Jet Fuel (Platts) Futures**

#### **996100. SCOPE OF CHAPTER**

The provisions of these rules shall apply to all futures contracts bought or sold on the Exchange for cash settlement based on the Floating Price. The procedures for trading, clearing and cash settlement of this contract, and any other matters not specifically covered herein shall be governed by the general rules of the Exchange.

#### **996101. CONTRACT SPECIFICATIONS**

The Floating Price for each contract month is equal to the arithmetic average of the daily midpoint of the high and low assessments of Platts Jet Fuel (Buckeye Pipeline) for each business day that it is determined during the contract month.

For purposes of determining the Floating Price, the Platts Jet Fuel (Buckeye Pipeline) assessment will be rounded to the nearest thousandth of a cent.

#### **996102. TRADING SPECIFICATIONS**

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

##### **996102.A. Trading Schedule**

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

##### **996102.B. Trading Unit**

The contract quantity shall be 42,000 gallons. Each contract shall be valued as the contract quantity (42,000) multiplied by the settlement price.

##### **996102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per gallon. The minimum price fluctuation shall be \$0.0001 per gallon. There shall be no maximum price fluctuation.

##### **996102.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.

##### **996102.E. Termination of Trading**

Trading shall cease on the last business day of the contract month.

#### **996103. FINAL SETTLEMENT**

Final settlement under the contract shall be by cash settlement. Final settlement following the termination of trading for a contract month will be based on the Floating Price.

#### **996104. DISCLAIMER**

Platts, a division of The McGraw-Hill Companies, Inc. ("Platts"), licenses the New York Mercantile Exchange, Inc. ("NYMEX") to use various Platts price assessments in connection with the trading or posting of the contracts.

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## **Chapter 997**

### **NY Buckeye Jet Fuel (Platts) vs. NY Harbor ULSD Futures**

#### **997100. SCOPE OF CHAPTER**

The provisions of these rules shall apply to all futures contracts bought or sold on the Exchange for cash settlement based on the Floating Price. The procedures for trading, clearing and cash settlement of this contract, and any other matters not specifically covered herein shall be governed by the general rules of the Exchange.

#### **997101. CONTRACT SPECIFICATIONS**

The Floating Price for each contract month is equal to the arithmetic average of the daily midpoint of the high and low assessments of Platts Jet Fuel (Buckeye Pipeline) minus the NYMEX NY Harbor ULSD Futures first nearby contract month settlement price for each business day that both prices are determined during the contract month.

For purposes of determining the Floating Price, the Platts Jet Fuel (Buckeye Pipeline) assessment will be rounded to the nearest thousandth of a cent.

#### **997102. TRADING SPECIFICATIONS**

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

##### **997102.A. Trading Schedule**

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

##### **997102.B. Trading Unit**

The contract quantity shall be 42,000 gallons. Each contract shall be valued as the contract quantity (42,000) multiplied by the settlement price.

##### **997102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per gallon. The minimum price fluctuation shall be \$0.0001 per gallon. There shall be no maximum price fluctuation.

##### **997102.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.

##### **997102.E. Termination of Trading**

Trading shall cease on the last business day of the contract month.

#### **997103. FINAL SETTLEMENT**

Final settlement under the contract shall be by cash settlement. Final settlement following the termination of trading for a contract month will be based on the Floating Price.

#### **997104. DISCLAIMER**

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## **Appendix B**

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

(Attached under separate cover)

## Appendix C

### Rule 588.H – Globex Non-Reviewable Ranges

<b>Instrument</b>	<b>Non-Reviewable Range (NRR) in Globex format</b>	<b>NRR including Unit of Measure</b>	<b>NRR Ticks</b>
NY Buckeye Jet Fuel (Platts) vs. NY Harbor ULSD Futures	250	\$0.025 per gallon	250
NY Buckeye Jet Fuel (Platts) Futures	250	\$0.025 per gallon	250

## **Appendix D**

### **CASH MARKET OVERVIEW**

The Exchange will list two new petroleum products contracts based on the Platts assessment for jet fuel for delivery on the Buckeye Pipeline in the New York Harbor area: 1) NY Buckeye Jet Fuel (Platts) Futures (code BUC); and 2) NY Buckeye Jet Fuel (Platts) vs. NY Harbor ULSD Futures (code JET).

These new cash-settled contracts are based on the Platts assessment for jet fuel delivered on the Buckeye Pipeline in the New York Harbor, which is the most liquid cash market index used by commercial participants. These two new jet fuel futures contract will replace the existing NY Jet Fuel (Platts) vs. NY Harbor ULSD Futures Contract (code 1U) and the NY Jet Fuel (Platts) Contract (code 1Q), which are based on a barge assessments that have diminishing relevance in the cash market.

The Buckeye Pipeline is the main pipeline that supplies the New York area airports with jet fuel from the terminals in New Jersey, and it is the hub for jet fuel pricing in New York Harbor. The Buckeye Pipeline connects directly to the Colonial Pipeline and New Jersey terminals, and then delivers jet fuel to the New York area airports via direct pipeline access. At its terminal in Linden, NJ, jet fuel is injected into the Buckeye Pipeline for delivery to the New York area airports. This is the main supply hub for the New York area, and provides a liquid pricing point for the New York Harbor jet fuel market.

The Platts methodology for the assessment of the jet fuel market is based on the Platts MOC process, which is a price discovery mechanism that takes into account transactions, bids, and offers at the close of the trading day at 3:15 p.m. New York time. Platts conducts an *e-Window* that provides equal and level access to a comparatively large number of cash-market participants to bid, offer and respond to bids and offers during the window. The assessment process is guided by a set of rules that are designed to stabilize the process and result in an orderly progression towards price discovery. There is full transparency as to who are the sellers and buyers in the process, and this information is reported publicly to subscribers who consist of hundreds of active market participants.

The Platts methodology for the assessment of the jet fuel market is based transactions, bids, and offers that are evaluated by Platts price reporters at the closing of the Platts *e-Window* at 3:15 p.m. In addition, price reporters monitor the jet fuel market throughout the trading day for deals done, bids, and offers. The details of the Platts methodology are available at the following link:

<http://www.platts.com/IM.Platts.Content/MethodologyReferences/MethodologySpecs/Americas-refined-oil-products-methodology.pdf>

According to data provided by Platts, there is robust activity in the jet fuel market on the Platts *e-Window*, with the typical transaction size for the Buckeye Pipeline being 25,000 barrels. The average number of transactions, bids, and offers has been in the area of 15 to 20 indications per day in the window. The market participation is diverse, and the most active commercial companies include BP, Phillips 66, Vitol, Valero, World Fuels, Delta, Morgan Stanley, Noble Americas, and Castleton.

#### **Jet Fuel Deliverable Supply Estimate**

The Exchange's estimate of deliverable supply for jet fuel to the New York Harbor delivery area is based on four key components:

- A. *Refinery production;*
- B. *Net import flows;*

C. Pipeline/barge flows;

D. Storage levels.

As part of this analysis, the Exchange is including estimated pipeline flows from the US Gulf Coast and Midwest to the Northeast, based on data provided by the US Energy Information Administration (EIA). In addition, the Exchange is including jet fuel supplied by refineries located in New Jersey, Delaware and Pennsylvania, all located within 100 miles of the New York Harbor area. East Coast refineries, a majority of which are located in New Jersey and Philadelphia, send products by local pipelines to New York Harbor. Further, inventories and imports are additional supply sources to the New York Harbor area.

The main jet fuel producing refineries in PADD 1 are located in New Jersey, Delaware and Pennsylvania, and are within 100 miles of the New York Harbor area. The EIA provides data on a weekly, monthly, and annual basis in addition to one-time analytical studies on specific topics, such as the study on refining activity, entitled "Potential Impacts of Reductions in Refinery Activity on Northeast Petroleum Product Markets" ("Northeast Refining Study").<sup>1</sup> A list of the key jet fuel refineries with their production capacity is provided in Table I.

***Table I. Northeast Jet Fuel Refinery Production Capacity<sup>2</sup>***

Company	State	Site	Barrels/Day
Delaware City Refining CO LLC	Delaware	Delaware City	16,500
Monroe Energy LLC	Pennsylvania	Trainer	23,000
Paulsboro Refining Co LLC	New Jersey	Paulsboro	29,000
United Refining Co	Pennsylvania	Warren	5,000

***A. Refinery Production and Imports***

According to EIA data, the three-year average jet fuel production from 2012-2014 was approximately 71,000 barrels per day in PADD 1 (see Table II below). Further, net imports to PADD 1 for the three-year period averaged 34,000 barrels per day. A majority of jet fuel imports into PADD 1 arrive in the New York Harbor area, the largest oil import hub in the US. According to the EIA's Northeast Refining Study<sup>3</sup>,

<sup>1</sup> <http://www.eia.gov/analysis/petroleum/nerefining/update/pdf/neprodmkts.pdf>

<sup>2</sup> <http://www.eia.gov/petroleum/refinerycapacity/>

<sup>3</sup> <http://www.eia.gov/analysis/petroleum/nerefining/update/pdf/neprodmkts.pdf>

approximately 65% of PADD 1 imports occur in the New York Harbor area. To be more conservative, the Exchange estimated that only 50% of PADD 1 imports of jet fuel occur in New York Harbor. Therefore, we conservatively estimate that net imports into the New York Harbor area were 17,000 barrels per day.

For the total net production and net imports, the Exchange estimates that the jet fuel supplied was 105,000 barrels per day for the three year period 2012 through 2014 (see Table II below).

***Table II- PADD 1 Jet Fuel Production and Imports<sup>4</sup>***

(In Thousands of Barrels Per Day)	2012	2013	2014	Average
Refiner and Blender Net Production	50	70	93	71
Imports	16	27	69	37
Exports	3	3	2	3
Net Imports	13	24	67	34
Total of Net Production and Net Imports	63	94	160	105

***B. Pipeline Flows and Net Receipts***

Colonial Pipeline is the most main transporter of jet fuel from the U.S. Gulf Coast to New York Harbor, accounting for the majority of the PADD 3 to PADD 1 shipments<sup>5</sup>. The monthly three-year average of pipeline receipts to PADD 1 was 13.5 million barrels per month. The EIA data does not provide a breakdown of the pipeline flows that are delivered to the New York Harbor area. However, according to the EIA's Northeast Refining Study, approximately 45% of PADD 1's receipts from PADD 3 end up in the Northeast. To be extra conservative, the Exchange estimated that only 20% of the total monthly movements of jet fuel into PADD 1 were delivered to the New York Harbor area. Therefore, 20% of the PADD 1 pipeline receipts are approximately 2.7 million barrels per month.

***Table III- PADD 1 Jet Fuel Receipts by Pipeline, Tanker and Barge<sup>6</sup>***

	East Coast (PADD 1) Receipts by Pipeline, Tanker, and Barge from Gulf Coast (PADD 3) of Jet Fuel (Thousand Barrels per Month)

<sup>4</sup> [http://www.eia.gov/dnav/pet/pet\\_sum\\_snd\\_d\\_nus\\_mbbldp\\_m\\_cur.htm](http://www.eia.gov/dnav/pet/pet_sum_snd_d_nus_mbbldp_m_cur.htm)

<sup>5</sup> [http://www.argusmedia.com/Oil-Products/~/\\_media/43387E56E9CF4B9AAC7EEF925DD5F69C.ashx](http://www.argusmedia.com/Oil-Products/~/_media/43387E56E9CF4B9AAC7EEF925DD5F69C.ashx)

<sup>6</sup> [http://www.eia.gov/dnav/pet/pet\\_move\\_ptb\\_dc\\_R10-R30\\_mbbldp\\_m.htm](http://www.eia.gov/dnav/pet/pet_move_ptb_dc_R10-R30_mbbldp_m.htm)

2012-2014 Monthly  
Average

13,483

### **C. Inventories of Jet Fuel in the New York Harbor Market**

New York Harbor has a petroleum bulk terminal storage capacity of over 75 million barrels, making it the largest petroleum product hub in the country. The EIA provides data on PADD 1 jet fuel inventories. The three-year monthly average of jet fuel stocks for PADD 1 was 9.9 million barrels. The EIA data does not provide a breakdown of the inventories that are held in the New York Harbor area, but to be conservative, the Exchange estimated that around 10% of PADD 1 stocks were stored in the New York Harbor terminals.

**Table V- PADD 1 Jet Fuel Stocks<sup>7</sup>**

Thousand Barrels Per Month	PADD 1
2012	9,830.3
2013	10,633.1
2014	9,164.0
Average	9,875.8

### **Summary of Jet Fuel Deliverable Supply**

As noted previously, the key components that the Exchange considered in estimating Jet Fuel deliverable supply are: refinery production, net imports, pipeline receipts from the US Gulf Coast, and storage levels. Using three-year average of the EIA data, the Exchange estimates the monthly deliverable supply of Jet Fuel in the New York Harbor area to be approximately 6.3 million barrels, which is equivalent to 6,000 contracts per month. Each component is summarized below:

1. **Refinery Production:** 71,000 barrels per day x 30 days = 2.1 million barrels per month
2. **Net Imports:** 17,000 barrels per day x 30 days = 0.5 million barrels
3. **Pipeline Receipts:** (20% of PADD 1 total jet fuel receipts) = 2.7 million barrels
4. **Storage levels:** (10% of PADD 1 inventories) = 1.0 million barrels

<sup>7</sup> <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MKJSTP11&f=M>

### **Deliverable Supply of New York Harbor ULSD**

The NYMEX NY Harbor ULSD Last Day Financial Futures Contract (code 23) is a cash-settled look-alike contract of the NYMEX NY Harbor ULSD Futures Contract, and will be used for calculating compliance with position limits. The Exchange's estimate of Ultra-Low Sulfur Diesel (ULSD) deliverable supply to the New York Harbor delivery area is based on four key components: refinery production, net foreign imports, net pipeline receipts, and storage levels. As part of this analysis, the Exchange is including estimated pipeline flows from the U.S. Gulf Coast refining region to the Northeast, based on data provided by the U.S. Energy Information Administration (EIA).

The Exchange estimates the monthly deliverable supply of ULSD to the New York Harbor (NYH) to be approximately 24 million barrels, which is equivalent to 24,000 contracts per month. The current spot month position limit for the NYMEX New York Harbor ULSD Futures Contract (HO) contract is 1,000 contracts, which is less than 4% of the monthly deliverable supply.

#### **I. Introduction**

The New York Harbor ULSD Futures contract is the main benchmark used for pricing the distillate products market, which includes diesel fuel, heating oil, and jet fuel. The Exchange has amended the grade and quality specifications in response to changes in environmental regulations in the Northeast, requiring cleaner, lower sulfur diesel standards for heating oil. Effective beginning with the May-2013 delivery month, the New York Harbor ULSD Futures contract was amended to require delivery of ULSD with a maximum of 15ppm sulfur content.

New England and the Central Atlantic Coast of the United States, collectively defined by the EIA as the "Northeast", is a well-connected and integrated geographical region in terms of oil and products infrastructure. The region is part of the larger PADD 1 (Petroleum Administration Defense District), and more specifically defined by PADD 1a and PADD1b, which include: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania<sup>8</sup>.

Located in both New York and New Jersey, the New York Harbor area is the largest oil importing and third largest container port in the nation, and is the main oil and refined products pricing and trading hub. Petroleum products in New York Harbor are supplied by refineries located in New Jersey, Delaware and Pennsylvania, all located within 100 miles of the New York Harbor area. East Coast refineries, a majority of which are located in New Jersey and Philadelphia, send products by local pipelines into New York Harbor. The Colonial Pipeline connects the Northeast to refinery output from the US Gulf Coast and foreign imports, principally from Canada, Virgin Islands, Caribbean and Europe, are additional supply sources to the New York Harbor area.

The Colonial Pipeline is the largest refined products pipeline in the US and a key products supply link for the Northeast. The pipeline provides a link from the US Gulf Coast to the New York Harbor area through the south and across the Eastern seaboard. The Trainer, Marcus Hook and Philadelphia refineries are strategically located along the pipeline. According to the EIA, more than 500,000 b/d of gasoline and distillates are delivered into the Northeast via the Colonial pipeline, which terminates in Linden, NJ. It generally takes from 14 to 24 days for a product batch on the Colonial Pipeline to get from Houston, Texas to the New York Harbor, with 18.5 days the average time.

The majority of PADD 1 refineries are located in New Jersey, Delaware and Pennsylvania, and within 100 miles of the New York Harbor area. These refineries are directly connected to the New York Harbor market by local pipelines and/or waterborne barges. A list of Northeast refineries is provided in Table I.

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<sup>8</sup> <http://www.eia.gov/analysis/petroleum/nerefining/prelim/>



II. Table I - Northeast Refineries

Delaware City Refinery	DE	PBF Energy	182,200 b/d	Operational
Port Reading	NJ	Hess	70,000 b/d. Processes straight run residual fuel oil.	Closed
Perth Amboy	NJ	Buckeye Partners	80,000 b/d, asphalt only.	Operational
Bayway Refinery in Linden	NJ	Phillips 66	238,000 b/d. Crude is supplied to the refinery by tanker, primarily from the North Sea, Canada and West Africa.	Operational
Paulsboro Asphalt	NJ	Nustar Asphalt Refining	70,000 b/d. The refinery purchases heavy crude and produces asphalt only.	Operational
Paulsboro Refining	NJ	PBF	160,000 b/d	Operational
Bradford	PA	American Refining Group	10,000 b/d	Operational
Trainer	PA	Monroe Energy (Delta Subsidiary)	185,000 b/d	<b>Resumed operations in Q4-2012.</b>
Marcus Hook	PA	Sunoco/Energy Transfer Partners	178,000 b/d. Processes light sweet oil from Nigeria, some Bakken.	Closed
Philadelphia	PA	Sunoco/Energy Transfer Partners and Carlyle Group	330,000 b/d	Operational
Warren	PA	United Refining Co.	70,000 b/d	Operational

Sunoco's Philadelphia refinery, now belonging to Delta Airlines, ConocoPhillips' Trainer, and Sunoco's Marcus Hook refineries had closed in late 2011 and early 2012 causing concerns about supply availability. However, concerns have eased considerably in recent months on a combination of production and infrastructure projects completed and underway in the region reflecting both an improved outlook for regional refining activity and success in meeting logistical challenges<sup>9</sup>.

Delta Airline's Trainer refinery has restarted operations late 2012 after being idle during the majority of the year<sup>10</sup>. The refinery alone represents 16% of East Coast refining capacity. Other developments, including increased product flows into the region from the Midwest (PADD 2) that were identified as a possible outcome by the EIA and an increased capacity to bring waterborne products into the product pipelines originating in the Philadelphia area, have also contributed to the easing of product supply concerns. For example, The Carlyle Group and Sunoco joint venture announced planned upgrades to the Philadelphia refinery, including the installation of a hydrocracker that will support higher ULSD yields.

## II. Methodology: Key Components of Deliverable Supply

There are four key components that the Exchange took into account when updating the deliverable supply estimates of the New York Harbor ULSD Futures contract:

- A. Refinery production;
- B. Net foreign import flows to the delivery area;
- C. Pipeline/barge flows to the delivery area;
- D. Storage levels in the delivery area.

The main source of data for the cash market analysis is the US Energy Information Administration (EIA), which provides detailed data on the key components of deliverable supply. The EIA provides data on a weekly, monthly, and annual basis in addition to one-time analytical studies on specific topics, such as the study on refining activity, entitled "Potential Impacts of Reductions in Refinery Activity on Northeast Petroleum Product Markets" ("Northeast Refining Study").<sup>11</sup>

### A. Refinery Production and Imports

According to EIA data from 2012-2014, and as presented in Table II below, the three-year average of refinery ULSD production in PADD 1 was 264,000 barrels per day, or 7.9 million barrels per month.

III. **Table II – PADD 1 Production and Imports**

ULSD (<15 ppm Sulfur), Thousand b/d	2012	2013	2014	Average
Refinery and Blender Net Production <sup>12</sup>	230	276	286	264

<sup>9</sup> <http://www.eia.gov/oog/info/twip/twiparch/120725/twipprint.html>

<sup>10</sup> [http://www.eia.gov/pressroom/presentations/sieminski\\_10102012.pdf](http://www.eia.gov/pressroom/presentations/sieminski_10102012.pdf)

<sup>11</sup> <http://www.eia.gov/analysis/petroleum/nerefining/update/pdf/neprodmts.pdf>

<sup>12</sup> [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WD0TP\\_R10\\_2&f=W](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WD0TP_R10_2&f=W)

<b>Imports<sup>13</sup></b>	69	83	86	79
<b>Exports<sup>14</sup></b>	29	61	33	41
<b>Net Imports</b>	40	22	53	38
<b>Total (Production + Net Imports)</b>	<b>270</b>	<b>298</b>	<b>339</b>	<b>302</b>

A majority of ULSD imports into PADD 1 arrive in the New York Harbor area, the largest oil import hub in the US. According to the EIA's Northeast Refining Study<sup>15</sup>, approximately 65% of PADD 1 imports occur in the New York Harbor area. The three-year average for net ULSD imports into PADD 1 is 38,000 b/d (Table II), and the estimate for the Northeast region specifically –assuming a conservative 65% ratio- net imports is about 25,000 b/d.

### ***B. Pipeline Flows and Net Receipts***

Nearly all pipeline and barge ULSD shipments into PADD 1 originate in the Gulf Coast. While the EIA provides weekly data on PADD 1 ULSD barge and pipeline receipts (See Table III below), it does not provide specific flow data by Colonial Pipeline delivery point or port of entry. However, according to the EIA's Northeast Refining Study, approximately 45% of PADD 1's receipts from PADD 3 are delivered to the Northeast. This estimate amounts to approximately 320,000 b/d (45% of 712,000 b/d) of ULSD flowing to the New York Harbor region from PADD 3 alone. Assuming the same 45% ratio for PADD 2 shipments into PADD 1 (45% of 18,000=8,100 b/d), total receipts of ULSD into New York Harbor is approximately 328,000 b/d.

**Table III – Shipments and Receipts of ULSD into PADD 1**

<b>Shipments by Pipeline, Tanker, and Barge, Thousand b/d</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Average</b>
<b>PADD 3 Shipments<sup>16</sup> to PADD 1</b>	659	746	730	<b>712</b>
<b>PADD 2 Shipments<sup>17</sup> to PADD 1</b>	18	18	18	<b>18</b>
<b>Total PADD 1 Receipts</b>	<b>677</b>	<b>764</b>	<b>748</b>	<b>730</b>

<sup>13</sup> [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WD0IM\\_R10-Z00\\_2&f=W](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WD0IM_R10-Z00_2&f=W)

<sup>14</sup> [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=M\\_EPDXL0\\_EEX\\_R10-Z00\\_MBBLD&f=M](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=M_EPDXL0_EEX_R10-Z00_MBBLD&f=M)

<sup>15</sup> <http://www.eia.gov/analysis/petroleum/nerefining/update/pdf/neprodmkts.pdf>

<sup>16</sup> [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MD0MX\\_R10R30\\_1&f=M](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MD0MX_R10R30_1&f=M)

<sup>17</sup> [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MD0MX\\_R10-R20\\_1&f=M](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MD0MX_R10-R20_1&f=M)

### C. Inventories of ULSD in the New York Harbor Market

New York Harbor has a petroleum bulk terminal storage capacity of over 75 million barrels, making it the largest petroleum product hub in the country. IMTT or the International-Matex Tank Terminals is a privately-held storage and handling company, and holds about one third of storage market share in New York Harbor. The IMTT terminal in Bayonne, New Jersey has 620 tanks, 16 million barrels total capacity ranging in size from 5,000 gallons through 250,000 barrels. The IMTT terminal holds 5-8 million barrels of distillate fuels in storage according to market sources.

In addition to commercial stocks held in New York Harbor terminals, the Northeast Heating Oil Reserve, which was established in 2000 to provide heating fuel supply security in the Northeast, is stored in three terminals in the NYH area: Perth Amboy, New Jersey, and New Haven and Groton, Connecticut. The storage terminal located at Perth Amboy is the largest of the three, with a capacity of almost 1 million barrels.

The three-year average of ULSD stocks held in the Central Atlantic, or PADD 1B, region is approximately 12 million barrels (See Table IV). The PADD 1B region includes New York, New Jersey, and Pennsylvania. According to market participants, the New York Harbor area, which includes storage terminals in New York and New Jersey, accounts for 50% to 60% of the inventories reported in EIA's PADD 1b statistics. Using a conservative estimate of 50% of PADD 1b inventories, the average stock level of ULSD is estimated to be 6 million barrels in New York Harbor.

**Table IV – Central Atlantic (Padd 1B) ULSD Stocks**

Thousand Barrels	PADD 1 <sup>18</sup>	PADD 1B (Central Atlantic) <sup>19</sup>
<b>2012</b>	20,930	9,470
<b>2013</b>	25,963	13,751
<b>2014</b>	25,730	13,543
<b>Average</b>	<b>24,208</b>	<b>12,255</b>

Based on estimates from industry experts, we determined that the operational minimum levels for storage tanks in the New York Harbor area are approximately 10%. Therefore, we estimate that approximately 600,000 of the 6 million barrels of stored ULSD are used for operations, leaving 5.4 million barrels available for spot month delivery.

#### Summary of NY Harbor ULSD Deliverable Supply

As noted previously, the key components the Exchange considered in updating ULSD deliverable supply are: 1) refinery production, 2) net foreign imports to the delivery area, 3) pipeline and barge flows from the US Gulf Coast and 4) PADD 1B storage levels. Using three-year average historical data presented previously, the Exchange estimates the monthly deliverable supply of ULSD in New York Harbor to be approximately 24 million barrels (23.91 million barrels precisely), which is equivalent to 24,000 contracts per month.

1. Refinery Production: 264,000 b/d x 30 days = 7.92 million barrels per month

<sup>18</sup> [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WD0ST\\_R10\\_1&f=W](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WD0ST_R10_1&f=W)

<sup>19</sup> [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WD0ST\\_R1Y\\_1&f=W](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=WD0ST_R1Y_1&f=W)

2. *Net Imports: 25,000 b/d x 30 days = 750,000 barrels per month*
3. *Pipeline/Barge Flows: 328,000 b/d x 30 days = 9.84 million barrels*
4. *Storage levels in the delivery area = 5.4 million barrels*

Given the CFTC spot month position limit guideline of not exceeding 25% of the available monthly supply, the deliverable supply of NYMEX New York Harbor ULSD and the cash-settled look-alike contract would support a spot month position limit of up to 6,000 contract equivalents. The current spot month position limit for the cash-settled NY Harbor ULSD Last Day Financial Futures Contract (code 23) is 1,000 contracts, which is 4.2% of the monthly deliverable supply.

#### **Analysis of NY Harbor Jet Fuel Spot-Month Position Limits**

As explained above, the Exchange estimates that the deliverable supply of jet fuel in the New York Harbor area is approximately 6.3 million barrels per month, which is equivalent to 6,300 futures contracts. The proposed spot month position limit for the NY Buckeye Jet Fuel (Platts) Futures Contract of 1,000 contracts is 16% of the estimated monthly supply of 6,300 contract equivalents.

For purposes of calculating compliance with position limits, the NY Buckeye Jet Fuel (Platts) vs. NY Harbor ULSD Futures Contract aggregates into the two underlying legs: the NY Buckeye Jet Fuel (Platts) Futures (code BUC) and the NY Harbor ULSD Last Day Financial Futures Contract (code 23). The existing spot month position limits for the NY Harbor ULSD Last Day Financial Futures Contract (code 23) is 1,000 contracts, which is 4.2% of the monthly deliverable supply. As mentioned above, the proposed spot month position limit for the NY Buckeye Jet Fuel (Platts) Futures Contract of 1,000 contracts is 16% of the estimated monthly supply of 6,300 contract equivalents.