

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 24-194

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): 06/10/24 **Filing Description:** Initial Listing of the California Low Carbon Fuel Standard (OPIS) Futures Contract

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:

June 10, 2024

VIA ELECTRONIC PORTAL

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

**Re: CFTC Regulation 40.2(a) Certification. Initial Listing of the California Low Carbon Fuel Standard (OPIS) Futures Contract
 NYMEX Submission No. 24-194**

Dear Mr. Kirkpatrick:

New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) is certifying to the Commodity Futures Trading Commission (“CFTC” or “Commission”) the initial listing of the California Low Carbon Fuel Standard (OPIS) Futures contract (the “Contract”) for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort effective Sunday, June 30, 2024, for trade date Monday, July 1, 2024.

Contract Title	California Low Carbon Fuel Standard (OPIS) Futures
CME Globex and CME ClearPort Code	LCS
Rulebook Chapter	1274
Price Quotation	U.S. dollars and cents per LCFS credit
Contract Size	100 LCFS credits
Minimum Price Fluctuation	\$0.25
Value per Tick	\$25.00
Settlement Type	Financial
CME Globex Matching Algorithm	F-FIFO
Listing Schedule	Monthly contracts listed for the current year and next three calendar years
Initial Listing	August 2024 through December 2025; December 2026; and December 2027
Termination of Trading	Trading terminates on the last business day of the contract month.
Block Trade Minimum Threshold and Reporting Window	10 contracts – subject to a 15-minute reporting window
Trading and Clearing Hours	CME Globex Pre-open: Sunday 4:00 p.m. – 5:00 p.m. Central Time/CT Monday – Thursday 4:45 p.m. – 5:00 p.m. CT CME Globex Open: Sunday 5:00 p.m. – Friday 4:00 p.m. CT with a daily maintenance period from 4:00 p.m. – 5:00 p.m. CT CME ClearPort: Sunday 5:00 p.m. – Friday 4:00 p.m. CT with no reporting Monday – Thursday from 4:00 p.m. – 5:00 p.m. CT

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 Contract may have some bearing on the following Core Principles:

- **Availability of General Information:** The Exchange will publish information on the Contract specifications on its website, together with daily trading volume, open interest and price information.
- **Contracts Not Readily Subject to Manipulation:** The Contract is based on a cash price series that is reflective of the underlying cash market and is commonly relied on and used as a reference price by cash market brokers and commercial market participants.
- **Compliance with Rules:** Trading in the Contract will be subject to Chapter 4 of the NYMEX Rulebook which includes prohibitions against fraudulent, non-competitive, unfair and abusive practices and will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department. The Market Regulation Department may use its investigatory and enforcement power where potential rule violations are identified during its regular surveillance reviews.
- **Prevention of Market Disruption:** Trading in the Contract will be subject to the NYMEX Rulebook, 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 Contract 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 Contract as demonstrated in this submission are consistent with the Commission's guidance.
- **Financial Integrity of Contracts:** The Contract will be cleared by the CME Clearing House which is a registered derivatives clearing organisation with the Commission and is subject to all Commission regulations related thereto.
- **Execution of Transactions:** The Contract will be listed for trading on the CME Globex electronic trading and for clearing through CME ClearPort. The CME Globex electronic 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 Contract will be included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- **Protection of Market Participants:** NYMEX Rulebook Chapters 4 and 5 contain multiple prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading on all Exchange's competitive venues and will be applicable to transactions in these Contract.
- **Disciplinary Procedures:** Chapter 4 of the NYMEX Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the Rulebook. Trading in the Contract 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 Contract are identified.
- **Dispute Resolution:** Disputes with respect to trading in the Contract will be subject to the arbitration provisions set forth in Chapter 6 of the NYMEX Rulebook. Chapter 6 allows all non-members 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 non-member 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.

- **Daily Publication of Trading Information:** The Exchange will publish information regarding trading volume, open interest and price information daily on its website and through quote vendors for the Contract.

Exhibit A provides the NYMEX Rulebook chapters. Exhibit B provides the Position Limit, Position Accountability and Reportable Level Table (under separate cover). Exhibit C provides the Exchange fees. Exhibit D provides the NYMEX Rule 588.H. (“Globex Non-Reviewable Trading Ranges”) Table. Exhibit E provides the Cash Market Overview and Analysis of Deliverable Supply.

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

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

Should you have any questions concerning the above, please contact the undersigned at (312) 466-7478 or via e-mail at CMEGSubmissionInquiry@cmegroup.com.

Sincerely,

/s/ Timothy Elliott
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: NYMEX Rulebook Chapter 1274
Exhibit B: Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the NYMEX Rulebook (attached under separate cover)
Exhibit C: Exchange Fees
Exhibit D: NYMEX Rule 588.H. – (“Globex Non-Reviewable Trading Ranges”) Table
Exhibit E: Cash Market Overview and Analysis of Deliverable Supply

Exhibit A

NYMEX Rulebook

Chapter 1274

California Low Carbon Fuel Standard (OPIS) Futures

1274100. SCOPE OF CHAPTER

The provisions of these rules shall apply to all 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.

1274101. CONTRACT SPECIFICATIONS

The Floating Price for each contract month is equal to the arithmetic average of the high and low quotations from OPIS for "LCFS Credit" for each business day that it is determined during the contract month.

1274102. TRADING SPECIFICATIONS

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

1274102.A. Trading Schedule

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

1274102.B. Trading Unit

The contract quantity shall be 100 LCFS credits (1 LCFS credit is equivalent to 1 metric ton). Each contract shall be valued as the contract quantity (100) multiplied by the settlement price.

1274102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per LCFS credit. The minimum price fluctuation shall be \$0.25 per LCFS credit.

1274102.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.

1274102.E. Termination of Trading

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

1274103. FINAL SETTLEMENT

Final settlement under the contract shall be by cash settlement. The final settlement price will be the Floating Price calculated for each contract month.

1274104. DISCLAIMER

See [NYMEX/COMEX Chapter iv. \("DISCLAIMERS"\)](#) incorporated herein by reference.

Exhibit B

**NYMEX Rulebook
Chapter 5
("Trading Qualifications and Practices")**

Position Limits, Position Accountability and Reportable Level Table

(attached under separate cover)

Exhibit C

Exchange Fees

	Member	Non-Member
CME Globex	\$0.85	\$1.35
EFP	\$0.85	\$1.35
Block	\$0.85	\$1.35
EFR/EOO	\$0.85	\$1.35
Processing Fees	Member	Non-Member
Cash Settlement	\$0.50	\$0.50
Facilitation Fee		\$0.60
Give-Up Surcharge		\$0.05
Position Adjustment/Position Transfer		\$0.10

Exhibit D

**NYMEX Rulebook
Chapter 5
("Trading Qualifications and Practices")
NYMEX Rule 588.H. – ("Globex Non-Reviewable Trading Ranges") Table
(additions underscored)**

Instrument	Globex Symbol	Outrights			Spreads	
		Globex Non-Reviewable Ranges (NRR)	NRR: Globex Format	NRR:Minimum Ticks	NRR: Globex Format	NRR: Outright Minimum Ticks
<u>California Low Carbon Fuel Standard (OPIS) Futures</u>	<u>LCF</u>	<u>\$5.00 per Environmental Credit</u>	<u>500</u>	<u>20</u>	<u>N/A</u>	

Exhibit E

Cash Market Overview and Analysis of Deliverable Supply

New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) certifies to the Commodity Futures Trading Commission (“CFTC” or “Commission”) the initial listing of the California Low Carbon Fuel Standard (OPIS) Futures contract (the “Contract”) as noted in the table below. The Exchange conducted a review of the underlying cash market and deliverable supply of Low Carbon Fuel Standard credits.

Contract Title	CME Globex and CME ClearPort Code	Rulebook Chapter
California Low Carbon Fuel Standard (OPIS) Futures	LCS	1274

Data Sources:

The Exchange determined to use data collected by California Air Resources Board (“CARB”) for its analysis and evaluation of deliverable supply estimates for Low Carbon Fuel Standard (“LCFS”) credits. The CARB provides detailed data on the key components of deliverable supply. The CARB provides such data on a quarterly basis.

Oil Price Information Service (“OPIS”),¹ a Dow Jones Company, is a price reporting service for energy, environmental and refined products, natural gas liquids, petrochemicals, and a premier source of benchmark price assessments for those commodity markets. OPIS assesses closing values with the greatest weight in its daily assessment process to confirmed deals, followed by bids and offers. OPIS methodology is compliant with all international standards for price reporting agencies set forth by IOSCO, the International Organization of Securities Commissions.² The methodology for the assessments can be found at the following website: <https://www.opisnet.com/about/methodology/#carbon-market-pricing>.

The final settlement price for the Contract is based on the price assessment of the respective underlying physical market as assessed and published by OPIS.

LCFS Background

The LCFS³ was established under California Bill AB 32 (California Global Warming Solutions Act of 2006) and the Governor’s Executive Order S-01-07, where CARB recognized LCFS as one of nine measures to reduce carbon intensity of transportation fuels sold in California. This bill was created to transform and diversify the fuel pool, reduce petroleum dependency, reduce emissions, and air pollutants by improving vehicle technology, reducing fuel consumption, and increasing transportation mobility options. In addition, this bill aims to reduce GHG emissions in the transportation sector, which accounts for approximately 50% of GHG emissions, 80% of ozone-forming gas emissions, and over 95% of diesel particulate matter.⁴

CARB approved the LCFS regulation in 2009 and began implementation on January 1, 2011. As the program evolved over the years, it underwent various changes. Specifically, the program was amended in 2011 in efforts to improve certain provisions. In September 2015, CARB introduced the re-adoption of the

¹<https://www.opisnet.com/>

²<https://www.opisnet.com/about/methodology/>

³[https://govt.westlaw.com/calregs/Browse/Home/California/CaliforniaCodeofRegulations?guid=I09D690805A2111EC8227000D3A7C4BC3&originationContext=documenttoc&transitionType=Default&contextData=\(sc.Default\)](https://govt.westlaw.com/calregs/Browse/Home/California/CaliforniaCodeofRegulations?guid=I09D690805A2111EC8227000D3A7C4BC3&originationContext=documenttoc&transitionType=Default&contextData=(sc.Default))

⁴<https://ww2.arb.ca.gov/sites/default/files/2020-09/basics-notes.pdf>

LCFS to address procedural matters since inception of the original regulation. These changes became effective on January 1, 2016.

In 2018, CARB approved further amendments to the regulation, which strengthened and smoothed the carbon intensity benchmarks through 2030 in-line with California's 2030 GHG emission reduction target enacted through SB 32. The amendments were comprised of new crediting opportunities to promote zero emission vehicle ("ZEV") adoption⁵, alternative jet fuel, carbon capture, and sequestration, and advanced technologies to achieve deep decarbonization in the transport sector. Under the current LCFS regulation, the 2030 standard of a 20% carbon intensity ("CI") decline will be imposed for all years post-2030.

LCFS are expressed in terms of CI of gasoline and diesel, fuel and their substitutes, measured in grams of carbon dioxide equivalent per megajoule of fuel energy (gCO_{2e}/MJ). Carbon intensity is the combined carbon emissions from all production, distribution, and consumption steps in the life cycle of a transportation fuel – steps that occur due to the demand for and consumption of transportation fuel in California. It is a performance-based and fuel-neutral standard whereby the market determines how the overall CI of California's transportation fuel are reduced.

The "lifecycle" assessment includes direct emissions associated with consuming, producing, and transporting of the fuels, as well as significant indirect effects on greenhouse gas emissions, such as changes in land use for certain biofuels. Direct effect of CI is calculated using the CA-GREET 3.0 (Greenhouse Gases, Regulated Emissions, and Energy Use in Transportation) and Oil Production Greenhouse Gas Emissions Estimator ("OPGEE") models. Indirect effect of CI is calculated using the Global Trade Analysis Project ("GTAP") and the Agro-Ecological Zone Emissions Factor ("AEZ-EF") model, which was created to supplement GTAP's estimates of greenhouse gas emissions from various types of land conversions.

California's LCFS regulation applies to most types of transport fuels, including the following:

1. California reformulated gasoline ("gasoline" or "CaRFG");
2. California diesel fuel ("diesel fuel" or "ULSD");
3. Fossil compressed natural gas ("Fossil CNG"), fossil liquefied natural gas ("Fossil LNG"), or fossil liquefied compressed natural gas ("Fossil L-CNG);
4. Bio-CNG, bio-LNG, or bio-L-CNG;
5. Electricity;
6. Compressed or liquefied hydrogen ("hydrogen");
7. A fuel blend containing greater than 10 percent ethanol by volume;
8. A fuel blend containing biomass-based diesel;
9. Denatured fuel ethanol ("E100");
10. Neat biomass-based diesel ("B100" or "R100");
11. Alternative Jet Fuel;
12. Propane; and
13. Any other liquid or non-liquid fuel.

Opt-in fuels, such as those listed below, that have a full fuel cycle with a CI that meets the compliance schedule set forth in the regulation through December 21, 2030, may also generate LCFS credits provided that the specific fuel is elected to opt into the LCFS as an opt-in fuel reporting entity.

1. Electricity;
2. Bio-CNG;
3. Bio-LNG;
4. Bio-L-CNG;
5. Alternative Jet Fuel; and

⁵<https://ww2.arb.ca.gov/resources/documents/lcfs-zev-infrastructure-crediting>

6. Renewable Propane.

LCFS Credit Generation

There are three (3) ways of generating credits under the LCFS: fuel pathways, projects, and capacity-based crediting.

Under fuel pathways, all transportation fuels need a CI score to participate in the LCFS. The fuel type dictates which process is used to determine that CI.

Under project-based crediting, projects include actions to reduce GHG emissions in the petroleum supply chain, and also CCS using direct air capture. Crediting for projects is based on life cycle emission reductions, and credits are issued after the reported reductions are verified.

In 2018, amendments were added creating a new crediting mechanism to the LCFS which is designed to support the deployment of zero emission vehicle infrastructure (“ZEV”). Crediting for ZEV infrastructure is based on the capacity of the hydrogen station or electric vehicle fast charging site minus the actual fuel dispensed. The LCFS will credit eligible stations based on the capacity of the station to deliver fuel once the station is fully utilized.

The CARB publishes data on carbon intensity reduction requirements. The carbon intensity benchmarks for gasoline, diesel, fuel, and their substitutes are illustrated in Table 1. below.

Table 1. LCFS Carbon Intensity Benchmarks for Gasoline and Diesel, and Fuels⁶

Year	Average Gasoline CI (gCO ₂ e/MJ)	Average Diesel CI (gCO ₂ e/MJ)	Average Fuels CI (gCO ₂ e/MJ)
2019	93.23*	94.17**	89.37***
2020	91.98	92.92	89.37
2021	90.74	91.66	89.37
2022	89.50	90.41	89.37
2023	88.25	89.15	89.15
2024	87.01	87.89	87.89
2025	85.77	86.64	86.64
2026	84.52	85.38	85.38
2027	83.28	84.13	84.13
2028	82.04	82.87	82.87
2029	80.80	81.61	81.62
2030 and subsequent years	79.55	80.36	80.36

*The benchmarks for years 2019 to 2030 reflect reductions from revised base year (2010) CI values for CaRFG (99.44).

**The benchmarks for years 2019 to 2030 reflect reductions from revised base year (2010) CI values for ULSD (100.45).

***The benchmarks reflect reductions from base year (2010) CI values for conventional jet fuel (89.37)

Source: CARB

⁶Carbon Intensity Benchmarks, [https://govt.westlaw.com/calregs/Document/I0AEEDE535A2111EC8227000D3A7C4BC3?viewType=FullText&originationContext=documenttoc&transitionType=CategoryPageItem&contextData=\(sc.Default\)](https://govt.westlaw.com/calregs/Document/I0AEEDE535A2111EC8227000D3A7C4BC3?viewType=FullText&originationContext=documenttoc&transitionType=CategoryPageItem&contextData=(sc.Default))

Fuels and fuel blendstocks introduced into the California fuel system that have a CI higher than the applicable standard generate deficits. Whereas those with CIs below the standard generate credits. Meeting annual CI requirements can be achieved via the following mechanisms: producing/purchasing lower-carbon fuels to sell on the market, using banked credits generated in previous years, or a combination of the above.

The CARB provides data in Table 2. below on LCFS Credits, LCFS Deficits, and Cumulative Bank. Over the annual period of 2021-2023, LCFS credits and deficits have steadily increased. According to data from December 2023, there was a total of 23,552,464 credits in the cumulative bank in the fourth quarter of 2023.

The cumulative bank assessment is calculated in the example below for the fourth quarter of 2023.

Cumulative Bank Q3 2023 + Total Credits Q4 2023 – Total Deficits Q4 2023 = Cumulative Bank Q4 2023

$$20,587,835 \quad + \quad 6,407,799 \quad - \quad 5,539,309 \quad = \quad 23,552,464$$

Table 2. LCFS Credits, LCFS Deficits, and Cumulative Bank⁷

	Q1	Q2	Q3	Q4	Average
LCFS Credits					
2021	3,178,823	3,856,085	4,350,040	4,329,691	3,928,660
2022	4,591,112	5,090,583	5,204,803	5,297,708	5,046,052
2023	4,964,961	5,521,646	6,059,586	6,407,799	5,738,498
3-Year Average					4,904,403
LCFS Deficits					
2021	4,282,878	4,825,179	5,165,375	4,695,145	4,742,144
2022	5,152,115	5,394,456	5,207,250	5,479,636	5,308,364
2023	5,327,468	5,754,900	5,797,109	5,539,309	5,604,697
3-Year Average					5,218,402
Cumulative Bank					
2021	8,119,065	8,356,344	8,790,204	9,755,116	8,755,182
2022	10,455,213	11,871,742	13,690,358	15,393,089	12,852,601
2023	16,732,681	18,330,684	20,587,835	23,552,464	19,800,916
3-Year Average					13,802,900

*1 credit is equivalent to 1 MT.

Source: CARB

A regulated party applies to any person that is responsible for transportation fuel in a calendar year. They are providers of most petroleum and biofuels in California. Parties that already meet the targets that provide clean fuel are exempt, however they can voluntarily “opt in” the program to generate credits. Credits and

⁷Cumulative Bank LCFS Credits, <https://www.arb.ca.gov/fuels/lcfs/lrtqsummaries.htm>.

deficits are assessed on a quarterly basis. Regulated parties may retain credits without expiration, acquire or transfer credits, and export credits for compliance with other greenhouse gas reduction initiatives which have been established under AB 32.

The LCFS compliance period begins on January 1st through December 31st of the calendar year. A regulated party achieves its annual compliance obligation when it uses credits to offset its deficits. This is accomplished by retiring credits in their credit account that is equal to the compliance obligation.

The LCFS Reporting Schedule⁸ is as follows:

Report	Period Covered	Deadline
1 st Quarter	January – March	June 30 th
2 nd Quarter	April – June	September 30 th
3 rd Quarter	July – September	December 31 st
4 th Quarter	October – December	March 31 st
Annual	The Prior Calendar Year	April 30 th

Source: CARB

LCFS Reporting Tool & Transfer System

The Alternative Fuels Portal (“AFP”) and the LCFS Credit Banking and Transfer System (“LRT-CBTS”) are the two components that make up the LCFS database management system.⁹ The AFP facilitates the application process to obtain a certified CI Score and the LRT-CBTS facilitates reporting and credit banking and transfers.

Reporting parties are required to submit their quarterly reports and annual compliance reports utilizing the LRT-CBTS. This electronic system is responsible for registering entities participating in the LCFS program, tracking the ownership of compliance obligations, enabling and recording compliance credit transfers, facilitating compliance and support market oversight. The total number of credits generated will be deposited in the regulated party’s credit account or generator. These credits may be retained indefinitely for future use, retired to meet obligations, or transferred to other regulated parties or generators once banked. Credit and deficit generation over a compliance period for LCFS fuel are calculated in the LRT-CBTS. Credits and deficits are denominated in a unit of measure of metric tons (“MT”) of carbon dioxide equivalent.

In the event a regulated party does not meet its compliance obligation by retiring adequate credits, it must purchase its pro-rata share of credits in the Credit Clearance Market should one occur. The clearance market periods begin from June 1st to July 31st, and a regulated party must acquire credits pledged into the CCM to be retired toward compliance from the previous year. These credits are defined as “Clearance Market” credits which may only be utilized to meet a regulated party’s obligation from the immediate prior year.

On the demand side, CARB currently designates 582 firms as regulated parties subject to LCFS, as of January 10, 2024. Compliance entities are diverse across the U.S. and consist of oil majors, independent refiners, petroleum fuel importers and distributors, and trading firms. As of February 2, 2024, there are 108 registered brokers in the LCFS reporting tool. On the supply side, entities from as far afield as Asia and South America participate in the LCFS industry together with U.S. and Canadian firms. International system registrations are anticipated to follow as carbon intensity reduction schedules increase.

⁸LCFS Reporting Schedule, <https://ww2.arb.ca.gov/sites/default/files/classic/fuels/lcfs/reportingtool/compliancecalendar.pdf>

⁹<https://ww2.arb.ca.gov/sites/default/files/2020-09/basics-notes.pdf>

The Commission defines deliverable supply as the quantity of the commodity meeting a derivative contract's delivery specifications that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract's delivery points during the specified delivery period, barring abnormal movement in interstate commerce. (See Appendix C to 17 CFR part 38).

For purposes of calculating deliverable supply, the Exchange used cumulative bank credit data over the annual three (3)-year time period from January 2021 through December 2023. The Exchange calculated monthly averages by dividing annual numbers by 12.

The Exchange estimates the monthly deliverable supply of LCFS credits to be approximately 1,150,242 LCFS credits, which is equivalent to 11,502 contracts per month (contract size: 100 LCFS credits). The proposed spot month position limit for the California Low Carbon Fuel Standard (OPIS) Futures contract is 2,500 contracts or 21.7% of the estimated monthly deliverable supply.