

**SUBMISSION COVER SHEET**

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

**Registered Entity Identifier Code (optional):** 18-199

**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):** 06/28/2018 **Filing Description:** Initial Listing of California Low Carbon Fuel Standard (PRIMA) Futures Contract

**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

**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:**



Christopher Bowen  
Managing Director and Chief Regulatory Counsel  
Legal Department

June 28, 2018

**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 California Low Carbon Fuel Standard (PRIMA) Futures Contract. NYMEX Submission No. 18-199**

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 the California Low Carbon Fuel Standard (PRIMA) Futures contract (the “Contract”) for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort effective on Sunday, July 15, 2018 for trade date Monday, July 16, 2018, as described below.

<b>Contract Title</b>	California Low Carbon Fuel Standard (PRIMA) Futures
<b>Rulebook Chapter</b>	1259
<b>Commodity Code</b>	LCF
<b>Listing Schedule</b>	Monthly contracts listed for 24 consecutive months
<b>Contract Size</b>	100 Credits
<b>Settlement Method</b>	Financial
<b>Minimum Price Fluctuation</b>	\$0.25
<b>Value per Tick</b>	\$25.00
<b>First Listed Contract</b>	August 2018
<b>CME Globex Match Algorithm</b>	First-In, First-Out (FIFO)
<b>Block Trade Minimum Threshold</b>	10 contracts
<b>Termination of Trading</b>	Trading terminates on the last business day of the contract month

## Exchange Fees

Exchange Fees	Member	Non-Member	International Incentive Programs (IIP/IVIP)
CME Globex	\$0.85	\$1.35	\$1.10
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
Other Fees		
Facilitation Fee		\$0.60
Give-Up Surcharge		\$0.05
Position Adjustment/Transfer		\$0.10

## Trading and Clearing Hours

CME Globex and CME ClearPort	Sunday - Friday 6:00 p.m. - 5:00 p.m. Eastern Time/ET (5:00 p.m. - 4:00 p.m. Central Time/CT) with a 60-minute break each day beginning at 5:00 p.m. ET (4:00 p.m. CT)
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NYMEX is self-certifying block trading on the Contract 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 environmental futures and options 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 Contract may have some bearing on the following Core Principles:

- **Compliance with Rules:** Trading in the Contract will be subject to the rules in Rulebook Chapter 4 which include 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 Contract 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.
- **Contract Not Readily Subject to Manipulation:** The Contract is not readily subject to manipulation because of the active underlying market and reliance on a well administered index. Final settlements are based on the index published by Prima Regulated Markets Limited ("PRIMA") and sub-licensed to the Exchange.
- **Prevention of Market Disruption:** Trading in the Contract 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,

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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.
- **Availability of General Information**: The Exchange will publish on its website information regarding the Contract's specifications, terms, and conditions, as well as daily trading volume, open interest, and price information.
- **Daily Publication of Trading Information**: The Exchange will publish the Contract's trading volumes, open interest levels, and price information daily on its website and through quote vendors for the Contract.
- **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 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.
- **Financial Integrity of Contract**: The Contract 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 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 products 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 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 Contract complies with the Act, including regulations under the Act. There were no substantive opposing views to listing of the Contract.

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

## Exhibit A

### NYMEX Rulebook

#### Chapter 1259

#### California Low Carbon Fuel Standard (PRIMA) Futures

**1259100. 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.

**1259101. CONTRACT SPECIFICATIONS**

The Floating Price for each contract month is equal to the arithmetic average of the mid-point of the high and low quotations from PRIMA for California LCFS Index for each business day that it is determined during the contract month.

**1259102. TRADING SPECIFICATIONS**

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

**1259102.A. Trading Schedule**

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

**1259102.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.

**1259102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per ton. The minimum price fluctuation shall be \$0.25 per ton. There shall be no maximum price fluctuation.

**1259102.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.

**1259102.E. Termination of Trading**

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

**1259103. FINAL SETTLEMENT**

Final settlement under the contract shall be by cash settlement. Final settlement, following termination of trading for a contract month, will be based on the Floating Price. The final settlement price will be the Floating Price calculated for each contract month.

**Exhibit B**

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

(Attached under separate cover)

## Exhibit C

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

(Additions are underscored.)

Outright					Spreads	
Instrument Name	Globex Symbol	Globex Non-Reviewable Ranges (NRR)	NRR: Globex Format	NRR: Ticks	NRR: Globex Format	NRR: Minimum Outright Ticks
<u>California Low Carbon Fuel Standard (PRIMA) Futures</u>	<u>LCF</u>	<u>\$2.00 per credit</u>	<u>200</u>	<u>8</u>	<u>N/A</u>	<u>N/A</u>



## Exhibit D

### Cash Market Overview and Analysis of Deliverable Supply

New York Mercantile Exchange, Inc. (“NYMEX” or “Exchange”) is self-certifying the initial listing of the California Low Carbon Fuel Standard 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.

<b>Contract Title</b>	<b>Commodity Code</b>	<b>Rulebook Chapter</b>	<b>Spot Limit</b>
California Low Carbon Fuel Standard (PRIMA) Futures	LCF	1259	4,500

For the California Low Carbon Fuel Standard (PRIMA) Futures contract, the Exchange has determined to base its analysis of the deliverable supply on average cumulative bank credits over the annual period of 2015-2017. In estimating the deliverable supply, the total amount of credits available in the market were analyzed.

#### **Background**

The Low Carbon Fuel Standard was established under California Bill AB 32 (California Global Warming Solutions Act of 2006) and the Governor’s Executive Order S-01-07, where the Board (California Air Resources Board) 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. In addition, this bill aims to reduce GHG emissions in the transportation sector, which accounts for approximately 40% of GHG emissions, 80% of ozone-forming gas emissions, and over 95% of diesel particulate matter.<sup>1</sup>

LCFS regulation was approved by the Board (California Air Resources Board) in 2009 and began implementation on January 1, 2011. As the program evolved over the years, it underwent various changes. This included amendments to the program in 2011 in efforts to improve certain provisions, which were implemented on January 1, 2013 and in September 2015, where the Board introduced the re-adoption of the LCFS which addressed procedural matters since inception of the original regulation. These changes became effective on January 1, 2016. Under the current regulation, LCFS aims to reduce carbon intensity transportation fuel by 10% of 2010 levels by 2020. During the initial years of the program, a 1% reduction was required, with 2018 requiring a 5% decrease. As LCFS was extended through 2030, targets are expected to accelerate in the coming years.

LCFS are expressed in terms of carbon intensity (CI) of gasoline and diesel fuel and their substitutes, measured in grams of carbon dioxide equivalent per megajoule of fuel energy (gCO<sub>2e</sub>/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.<sup>2</sup> 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 2.0 (Greenhouse Gases, Regulated Emissions, and Energy Use in Transportation) and Oil Production

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<sup>1</sup>LCFS Basics, <https://www.arb.ca.gov/fuels/lcfs/background/basics.htm>

<sup>2</sup> Carbon Intensity, <https://www.arb.ca.gov/fuels/lcfs/fuelpathways/fuelpathways.htm>.

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) models. The compliance schedule for gasoline and diesel fuel and their substitutes is illustrated in Table 1 below.

**Table 1 – LCFS Compliance Schedule<sup>3</sup>**

Year	Average Gasoline CI (gCO <sub>2</sub> e/MJ)	Average Diesel CI (gCO <sub>2</sub> e/MJ)
2016	96.50	99.97
2017	95.02	98.44
2018	93.55	96.91
2019	91.08	94.36
2020 onwards	88.62	91.81

Source: California Air Resources Board (ARB)

California’s LCFS regulation is comprised of most types of transport fuels which include the following:

- California reformulated gasoline;
- California ultra-low sulfur diesel fuel;
- fossil compressed or liquefied natural gas or liquified compressed natural gas;
- electricity;
- compressed or liquefied hydrogen;
- any fuel blend containing hydrogen;
- any fuel blend containing greater than 10 percent ethanol by volume;
- any fuel blend containing biomass-based diesel;
- neat denatured ethanol;
- neat biomass-based diesel; and
- any other liquid or non-liquid fuel.

Low carbon credit generating fuel and blendstocks include: electricity; hydrogen, hydrogen blends, fossil CNG derived from North American sources, biogas CNG, and, biogas LNG. Conversely, high carbon deficit generating fuel and blendstocks include: California diesel fuel and California reformulated gasoline blendstock for oxygenate blending (CARBOB).

The California Air Resources Board (ARB) publishes data on carbon intensity reduction requirements. According to ARB, annual targets are set in efforts to achieve these goals. Carbon intensity requirements are illustrated in Table 2 below.

**Table 2 – Carbon Intensity Requirements<sup>4</sup>**

	2013	2014	2015	2016	2017	2018	2019	2020
Carbon Intensity Reduction	1.0%	1.0%	1.0%	2.0%	3.5%	5.0%	7.5%	10.0%

Source: California Air Resources Board (ARB)

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

<sup>3</sup> Compliance Schedule, <https://www.arb.ca.gov/regact/2015/lcfs2015/lcfsfinalregorder.pdf>

<sup>4</sup> Carbon Intensity Reduction Requirement, <https://www.arb.ca.gov/regact/2015/lcfs2015/lcfsfinalregorder.pdf>.

lower-carbon fuels to sell on the market, using banked credits generated in previous years, or a combination of the above.

The California Air Resources Board (ARB) provides data in table 3 below on LCFS Credits, LCFS Deficits, and Cumulative Bank. Over the annual period of 2015-2017, LCFS credits and deficits have steadily increased. According to the most recent data available, there was a total of 9,766,634 credits in the cumulative bank in the 4<sup>th</sup> quarter of 2017.

The cumulative bank assessment is calculated in the example below for the 4<sup>th</sup> quarter of 2017.

Cumulative Bank Q3 2017 + Total Credits Q4 2017 – Total Deficits Q4 2017 = Cumulative Bank Q4 2017

$$9,877,142 \quad + \quad 2,485,157 \quad - \quad 2,595,665 \quad = \quad 9,766,634$$

**Table 3 –LCFS Credits, LCFS Deficits, and Cumulative Bank<sup>5</sup>**

	Q1	Q2	Q3	Q4	Average
<b>LCFS Credits</b>					
2015	1,102,964	1,307,728	1,510,993	1,567,164	1,372,212
2016	1,909,687	2,417,766	2,430,418	2,633,877	2,347,937
2017	2178481	2554676	2693885	2485157	2,478,050
<b>3-Year Average</b>					2,066,066
<b>LCFS Deficits</b>					
2015	599,822	660,642	696,989	686,418	660,968
2016	1,627,706	1,641,877	1,736,739	1,774,142	1,695,116
2017	2,355,125	2,497,245	2,566,313	2,595,665	2,503,587
<b>3-Year Average</b>					1,619,890
<b>Cumulative Bank</b>					
2015	4,915,663	5,562,749	6,376,753	7,257,499	6,028,166
2016	7,539,480	8,315,369	9,009,048	9,868,783	8,683,170
2017	9,692,139	9,749,570	9,877,142	9,766,634	9,771,371
<b>3-Year Average</b>					8,160,902

\*1 credit is equivalent to 1 MT.

Source: California Air Resources Board (ARB)

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 2020 targets that provide clean fuel are exempt however can voluntarily “opt in” the program to generate credits. Credits and deficits are assessed on a quarterly basis. Regulated parties are 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.

<sup>5</sup> Cumulative Bank LCFS Credits, <https://www.arb.ca.gov/fuels/lcfs/lrtqsummaries.htm>.

The LCFS compliance period begins on January 1<sup>st</sup> through December 31<sup>st</sup> 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 Schedule<sup>6</sup> is as follows:

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

Source: California Air Resources Board (ARB)

Reporting parties are required to submit their quarterly reports and annual compliance reports utilizing the LCFS Reporting Tool and Credit Bank & Transfer System (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 beings from June 1<sup>st</sup> to July 31<sup>st</sup>, 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. In a CCM, a price cap is implemented to protect the consumer and the price of credits.

On the demand side, ARB currently designates 274 firms as RPs subject to LCFS compliance entities are diverse across the U.S. and consist of oil majors, independent refiners, petroleum fuel importers and distributors, and trading firms. Between 10-20 firms regularly purchase credits directly or through brokers to meet their compliance obligations.

On the supply side, ARB lists 479 separate low carbon intensity fuel supply pathways eligible towards credit generation). Nearly 10-20 firms regularly sell credits to meet their compliance obligations. These encompass production entities from as far afield as Asia and South America into the LCFS industry together with U.S. and Canadian firms. International system registrations are anticipated to follow as carbon intensity reduction schedules increase.

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<sup>6</sup> LCFS Reporting Schedule, <https://www.arb.ca.gov/fuels/lcfs/reportingtool/reportingtimeline2017.pdf>.

### **Deliverable Supply**

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.

In estimating the deliverable supply of LCFS credits, the Exchange has determined to base its deliverable supply estimate on average cumulative bank data over the annual period of 2015-2017 that is published by ARB. The Exchange examined net cumulative bank LCFS credits over the annual period of 2015-2017 as it reflects what is available in the market after deducting credits that were submitted over the compliance year and has determined the deliverable supply of LCFS credits to be 8,160,902.

Based on the foregoing, the Exchange estimates deliverable supply of LCFS credits to be 8,160,902, which is equivalent to 20,402 futures contracts per month. Therefore, the proposed spot month position limit of the California Low Carbon Fuel Standard (PRIMA) Futures of 4,500 contracts represents 22.1% of the estimated monthly deliverable supply.