

**SUBMISSION COVER SHEET**

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

Registered Entity Identifier Code (optional): 19-247 (2 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): 7/19/2019 Filing Description: Initial Listing of Two (2) Crude Oil Spread Futures Contracts

**SPECIFY FILING TYPE**

Please note only ONE choice allowed per Submission.

**Organization Rules and Rule Amendments**

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

**Rule Numbers:**

**New Product**

Please note only ONE product per Submission.

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

Official Product Names: 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:

July 19, 2019

**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) Crude Oil Spread Futures Contracts. NYMEX Submission No. 19-247 (2 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 initial listing of two (2) crude oil spread futures contracts (the “Contracts”) for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort, effective on Sunday, August 4, 2019 for trade date Monday, August 5, 2019, as more specifically described below.

Contract Title	Rulebook Chapter	CommodityCode	Termination of Trading
WTL Midland (Argus) vs. WTI Trade Month Futures	1286	WTL	The last business day that falls on or before the 25th calendar day of the month prior to the contract month.
WTL Midland (Argus) vs. WTI Calendar Month Futures	1287	TIL	The last business day of the contract month.

<b>Settlement Type</b>	Financial
<b>Contract Size</b>	1,000 barrels
<b>Price Quotation</b>	U.S. dollars and cents per barrel
<b>Minimum Price Fluctuation</b>	\$0.01
<b>Value Per Tick</b>	\$10.00
<b>First Listed Month</b>	October 2019
<b>Listing Schedule</b>	Monthly contracts listed for the current year and the next three (3) calendar years. Additional monthly contracts will be listed for a new

	calendar year following the termination of trading in the December contract of the current year.
<b>CME Globex Match Algorithm</b>	First In, First Out
<b>Block Trade Minimum Threshold</b>	5 contracts

**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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**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	

<b>Processing Fees</b>	
Cash Settlement	\$0.50
Facilitation Fee	\$0.60
Give-Up Surcharge	\$0.05
Position Adjustment/Transfer	\$0.10

The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the new futures 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 contract. 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 contract. Please see Exhibit B attached under separate cover.

In addition, NYMEX is self-certifying block trading on these contracts with a minimum block threshold of five (5) contracts. This block level aligns with the Exchange's currently listed WTI Midland (Argus) vs. WTI Trade Month Futures.

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

- **Compliance with Rules:** Trading in the Contracts will be subject to all CME Rules, including prohibitions against fraudulent, noncompetitive, unfair and abusive practices as outlined in CME Rule Chapter 4, the Exchange's trade practice rules, the majority of which are contained in Chapter 300 Vesey Street New York, NY 10282 t 212 299 2200 f 212 299 2299 christopher.bowen@cmegroup.com cmegroup.com

5 and Chapter 8 of the CME Rulebook, and the dispute resolution and arbitration procedures of CME Rule Chapter 6. As with all products listed for trading on one of CME Group's designated contract markets, trading activity in the Contract will be subject to monitoring and surveillance by CME Group's Market Regulation Department. The Market Regulation Department has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

- **Contract Not Readily Subject to Manipulation:** The Contracts are 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.
- **Prevention of Market Disruption:** Trading in the Contracts will be subject to the Rules of CME, which include prohibitions on manipulation, price distortion, and disruption to the cash settlement process. As with any new product listed for trading on a CME Group designated contract market, trading activity in the futures 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 Contracts as demonstrated in this submission are consistent with the Commission's guidance.
- **Availability of General Information:** The Exchange will publish on its website information in regard to contract specifications, terms, and conditions, as well as daily trading volume, open interest, and price information for the Contract. In addition, the Exchange will advise the marketplace of the launch of the Contracts by releasing a Special Executive Report ("SER"). The SER will also be posted on CME Group's website.
- **Daily Publication of Trading Information:** The Exchange will publish contract trading volumes, open interest levels, and price information daily on its website and through quote vendors for the Contracts.
- **Execution of Transactions:** The Contracts will be listed for trading on the CME Globex electronic trading and for clearing through CME ClearPort. The CME Globex 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 Contracts will be included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- **Financial Integrity of Contract:** The Contracts will be cleared by the CME Clearing House, a derivatives clearing organization registered with the CFTC and subject to all CFTC regulations related thereto.
- **Protection of Market Participants:** CME Rulebook Chapters 4 and 5 set forth multiple prohibitions that preclude intermediaries from disadvantaging their customers. These rules apply to trading in all of the Exchange's competitive trading venues.
- **Disciplinary Procedures:** Chapter 4 of the Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the Rulebook. Trading in the Contracts will be subject to Chapter 4, and the Market Regulation Department has the authority to exercise its enforcement power in the event rule violations in these products are identified.
- **Dispute Resolution:** Disputes with respect to trading in the Contracts will be subject to the arbitration provisions set forth in Chapter 6 of the Rulebook. Chapter 6 allows all nonmembers to submit a claim for financial losses resulting from transactions on the Exchange to arbitration. A member named as a respondent in a claim submitted by a nonmember is required to participate in the arbitration pursuant to Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration.

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

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

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

Sincerely,

/s/ Christopher Bowen  
Managing Director and Chief Regulatory Counsel

Attachments: Exhibit A: NYMEX Rulebook Chapters  
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 Chapters**

**Chapter 1286**  
**WTL Midland (Argus) vs. WTI Trade Month Futures**

**1286100. 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.

**1286101. CONTRACT SPECIFICATIONS**

The Floating Price for each contract month is equal to the arithmetic average of the WTL Midland (1st month) differential weighted average (Diff wtd avg) price from Argus Media, which is based on the weighted average floating price of WTL Midland minus the "WTI Formula Basis" price from Argus Media, for the Trade month period beginning with the first business day after the 25th calendar day two months prior to the contract month through the last business day that falls on or before the 25th calendar day of the month prior to the contract month. If the 25th calendar day is a weekend or holiday, the Trade month period shall end on the first business day prior to the 25th calendar day. The Floating Price is calculated using the common pricing convention.

**1286102. TRADING SPECIFICATIONS**

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

**1286102.A. Trading Schedule**

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

**1286102.B. Trading Unit**

The contract quantity shall be 1,000 U.S. barrels. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

**1286102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per barrel. The minimum price fluctuation shall be \$0.01 per barrel.

**1286102.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.

**1286102.E. Termination of Trading**

Trading shall cease at the close of trading on the last business day that falls on or before the 25th calendar day of the month prior to the contract month. If the 25th calendar day is a weekend or holiday, trading shall cease on the first business day prior to the 25th calendar day.

**1286103. 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.

**1286104. DISCLAIMER**

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

**Chapter 1287**  
**WTL Midland (Argus) vs. WTI Calendar Month Futures**

**1287100. 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.

**1287101. CONTRACT SPECIFICATIONS**

The Floating Price for each contract month is equal to the arithmetic average of the WTL Midland (1st month) differential weighted average (Diff wtd avg) price from Argus Media, which is based on the weighted average floating price of WTL Midland minus the "WTI Formula Basis" price from Argus Media, for each day during the calendar month. The Floating Price is calculated using the common pricing convention.

**1287102. TRADING SPECIFICATIONS**

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

**1287102.A. Trading Schedule**

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

**1287102.B. Trading Unit**

The contract quantity shall be 1,000 U.S. barrels. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.

**1287102.C. Price Increments**

Prices shall be quoted in U.S. dollars and cents per barrel. The minimum price fluctuation shall be \$0.01 per barrel.

**1287102.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.

**1287102.E. Termination of Trading**

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

**1287103. 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.

**1287104. DISCLAIMER**

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

**EXHIBIT B**

**NYMEX Rulebook**

**Chapter 5**

**(“Trading Qualifications and Practices”)**

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

(Attached under separate cover.)



## EXHIBIT C

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

NYMEX Rule 588.H. – ("Globex Non-Reviewable Trading Ranges") Table

(additions underscored)

Instrument Name	Globex Symbol	Outright			Spreads	
		Globex Non-Reviewable Ranges (NRR)	NRR: Globex Format	NRR: Ticks	NRR: Globex Format	NRR: Minimum Outright Ticks
<u>WTL Midland (Argus) vs. WTI Trade Month Futures</u>	<u>WTL</u>	<u>\$1.00 per barrel</u>	<u>100</u>	<u>100</u>	<u>N/A</u>	<u>N/A</u>
<u>WTL Midland (Argus) vs. WTI Calendar Month Futures</u>	<u>TIL</u>	<u>\$1.00 per barrel</u>	<u>100</u>	<u>100</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 two (2) crude oil spread futures contracts (the “Contracts”) for trading on the CME Globex electronic trading platform and for submission for clearing via CME ClearPort. The Exchange conducted a review of the underlying cash markets and deliverable supply in the West Texas Light (WTL) crude oil markets.

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.)

#### **West Texas Light (WTL) Midland Cash Market Overview**

The WTL Midland price, published daily in the Argus Crude report, is for Permian basin crude with a gravity of 44 to 50°API traded at terminals in Midland, Texas. Midland is the chief gathering hub for Permian basin crude oil, the fastest growing source of oil in the world. The contract specifications for WTL type crude oil in Midland represent a lighter quality than WTI at Midland. An increasing share of Permian crude oil is lighter than 44°API, and midstream companies have created the WTL stream to separate lighter crude from the heavier WTI Midland grade, which is typically at 40 to 44°API.

There is an active physical crude oil trading center based in Midland, Texas, which is a major hub for storage and pipelines with direct connectivity to the Cushing and the U.S. Gulf Coast markets. There is active trading in WTL type crude oil at Midland. Further, there are substantial pipeline flows of WTL type crude oil from Midland, Texas to Cushing, Oklahoma and to Houston. Two major pipelines carry crude oil from Midland to Cushing: the Basin Pipeline, and the Centurion Pipeline.

In addition, there are substantial pipeline inflows of WTL type crude oil from Midland to Houston from the major oil production centers in West Texas. The total pipeline capacity from the Permian Basin and Eagle Ford production areas to Houston is 2.4 million b/d. The capacity of each pipeline is presented in Table 1 below.

**Table 1  
In-bound Crude Oil Pipelines from West Texas to Houston  
(Barrels/Day)**

<b>Incoming Pipelines</b>	<b>Capacity</b>	<b>Owner</b>
BridgeTex Pipeline (from Midland)	400,000	Magellan
Longhorn Pipeline (from Midland)	275,000	Magellan
Enterprise’s Sealy Pipeline (from Midland)	600,000	Enterprise Products LLC
Enterprise’s Sealy 2 Pipeline (from Midland)	240,000	Enterprise Products LLC
Enterprise’s Eagle Ford Pipeline	560,000	Enterprise Products LLC
Kinder Morgan Pipeline (from Eagle Ford)	350,000	Kinder Morgan

**TOTAL In-Bound Capacity: 2.4 Million Barrels/Day**

Argus publishes the WTL Midland price assessment as a differential to the WTI Cushing price. The Argus methodology for the assessment of the WTL Midland crude oil index is the volume weighted-average price of transactions done during the entire trading day and is available at the following link:

[http://d1bs3qurwcoybx.cloudfront.net/~media/Files/PDFs/Meth/argus\\_americas\\_crude.pdf](http://d1bs3qurwcoybx.cloudfront.net/~media/Files/PDFs/Meth/argus_americas_crude.pdf).

**A.****Crude Oil Production in West Texas**

For production data, NYMEX used information collected by the U.S. Department of Energy's Energy Information Administration ("EIA"), which is a definitive source for this information. The EIA provides crude oil production data with a breakdown by API gravity. The WTL Midland type crude oil is captured in the EIA's category of 40.1 to 50.0 degrees API gravity. Table 2 below provides EIA production data for the three-year period of April 2016 through March 2019 for crude oil in the range of 40.1 to 50.0 degrees API gravity. For the three-year period of April 2016 through May 2019, production of crude oil in the range of 40.1 to 50.0 API gravity was 2.09 million b/d, or 62.7 million barrels per month.

**Table 2: EIA Data  
Texas Production of 40.1 to 50.0 Degrees API Gravity Crude Oil  
in the Permian Basin and Eagle Ford Regions**

**(Millions of Barrels per Day)**

<b>Month</b>	<b>Quantity</b>
Apr-2016	1.56
May-2016	1.63
Jun-2016	1.62
Jul-2016	1.61
Aug-2016	1.63
Sep-2016	1.64
Oct-2016	1.67
Nov-2016	1.75
Dec-2016	1.73
Jan-2017	1.73
Feb-2017	1.74
Mar-2017	1.71
Apr-2017	1.77
May-2017	1.86
Jun-2017	1.88
Jul-2017	1.85
Aug-2017	1.84
Sep-2017	1.92
Oct-2017	2.06
Nov-2017	2.18
Dec-2017	2.22
Jan-2018	2.23
Feb-2018	2.31
Mar-2018	2.36
Apr-2018	2.36
May-2018	2.36
Jun-2018	2.31
Jul-2018	2.46
Aug-2018	2.42
Sep-2018	2.55
Oct-2018	2.63
Nov-2018	2.82

Dec-2018	2.84
Jan-2019	2.78
Feb-2019	2.71
Mar-2019	2.65
<b>3-Year Avg. (Apr 2016-Mar 2019)</b>	<b>2.09</b>

Source: <https://www.eia.gov/petroleum/data.php#crude>

**B. Crude Oil Storage in Padd 3**

Table 3 below provides the monthly Padd 3 storage levels for the three-year time period of April 2016 through March 2019. During that time period, inventories averaged 239.1 million barrels and ranged from 205 to 283 million barrels. However, the EIA does not provide a breakdown by type of crude oil stored in Padd 3, and consequently, the Exchange will not utilize inventory levels in the deliverable supply estimate.

**Table 3  
EIA Data: PADD 3 Crude Oil Stocks excluding SPR  
(End-of-Month Stocks in millions of barrels)**

<b>Month</b>	<b>Quantity</b>
Apr-2016	259.7
May-2016	260.1
Jun-2016	257.9
Jul-2016	250.9
Aug-2016	247.0
Sep-2016	239.9
Oct-2016	255.1
Nov-2016	249.7
Dec-2016	244.0
Jan-2017	265.3
Feb-2017	278.0
Mar-2017	282.6
Apr-2017	270.2
May-2017	262.6
Jun-2017	259.5
Jul-2017	249.9
Aug-2017	231.7
Sep-2017	238.7
Oct-2017	218.7
Nov-2017	220.7
Dec-2017	204.5
Jan-2018	216.3
Feb-2018	229.4
Mar-2018	217.4
Apr-2018	220.3
May-2018	217.0
Jun-2018	213.3
Jul-2018	219.8
Aug-2018	214.0
Sep-2018	220.8
Oct-2018	225.1

Nov-2018	236.9
Dec-2018	231.4
Jan-2019	232.3
Feb-2019	230.3
Mar-2019	234.8
<b>3-Year Avg. (Apr 2016-Mar 2019)</b>	<b>239.1</b>

EIA Data Source: [https://www.eia.gov/dnav/pet/pet\\_stoc\\_typ\\_c\\_r30\\_EPC0\\_mdbl\\_m.htm](https://www.eia.gov/dnav/pet/pet_stoc_typ_c_r30_EPC0_mdbl_m.htm)

### **Analysis of Deliverable Supply of WTL Midland**

In its estimate of deliverable supply for the WTL Midland cash market, the Exchange has determined to focus on EIA production data for crude oil in Texas in the range of 40.1 to 50.0 degrees API gravity, as shown in Table 2 above. Further, the Exchange will not utilize inventory levels in the deliverable supply estimate, as the EIA data does not provide a breakdown by type of crude oil stored in Padd 3.

Given that the EIA does not provide a specific breakdown for crude oil produced in the range of 44.1 to 50.0 degrees API gravity, the Exchange has applied a reduction of 80% to the production data in the range of 40.1 to 50.0 API gravity. Based on conversations with market analysts, it was estimated that approximately 20% to 25% of production in Texas was WTL type crude oil in the range of 44.1 to 50.0 API gravity. Therefore, the Exchange has determined the deliverable supply for WTL type crude oil in Midland to be approximately 420,000 b/d (20% of 2.09 million b/d). This is equivalent to 12.5 million barrels per month, which is equivalent to 12,500 contracts per month.

The Exchange is not applying a reduction for long term contracts, given the liquid spot market, and the lack of restrictions applied to the resale of crude oil. Almost all first-sales of production are sold typically to middleman-firms or marketers. These middleman-firms typically resell the crude oil to other middleman-firms (or participants performing that function) or to end-users. Typically, the first-sales contracts are “evergreen” contracts that can be discontinued by either party with notice, so there are no restrictions applied to the resale of crude oil bought first-sale on a term basis from producers. The Midland market is downstream of first-sales; in other words, the hub is downstream of any term sales from producers. Thus, even if barrels were sold term by the producer, in the Midland market those barrels are re-sold and re-delivered by either the purchaser from the producer or a subsequent purchaser/middleman from that original purchaser. The Midland cash market consists of active trading and physical delivery of WTL type crude oil, and provides commercial secondary (or *spot*) markets which are liquid, with broad participation, and results in a substantial quantity of physical delivery of crude oil.

Based on the foregoing, the Exchange estimates deliverable supply of WTL type crude oil at approximately 12,500 futures contract equivalents per month. Therefore, the proposed spot month position limits of the WTL Midland (Argus) vs. WTI Trade Month Futures and the WTL Midland (Argus) vs. WTI Calendar Month Futures of 1,500 contracts represents 12.0% of the estimated monthly deliverable supply.