

SUBMISSION COVER SHEET

IMPORTANT: Check box if Confidential Treatment is requested

Registered Entity Identifier Code (optional): 14-255

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): 11/06/2014 Filing Description: Listing of Crude Oil Mid-Curve Option 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

Official Product Name: Crude Oil Mid-Curve Option

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:

November 6, 2014

VIA ELECTRONIC PORTAL

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. Notification of Listing of Crude Oil Mid-Curve Option Contract.
NYMEX Submission No. 14-255**

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 one (1) new crude oil option contract effective on Sunday, November 23, 2014 for the trade date Monday, November 24, 2014. The contract details are as follows:

| Contract Code | Rulebook Chapter | Contract Name |
|----------------------|-------------------------|----------------------------|
| LM1-LM5 | 468 | Crude Oil Mid-Curve Option |

The Exchange will list five (5) consecutive Mid-Curve Options that expire on a June and December cycle. The options will exercise into a cycle of June and December Light Sweet Crude Oil Futures (Contract Code: CL) for the next five consecutive contract years. For the June 2015 Crude Oil Mid-Curve Option (which will expire on the same day as the June 2015 Crude Oil Option, code LO), there will be five mid-curve options exercised as follows:

| Mid-Curve Option | Underlying Light Sweet Crude Oil Futures |
|-------------------------|---|
| LM1 | June 2016 |
| LM2 | June 2017 |
| LM3 | June 2018 |
| LM4 | June 2019 |
| LM5 | June 2020 |

For the December 2015 Crude Oil Mid-Curve Option (which will expire on the same day as the December 2015 Crude Oil Option, code LO), there will be five (5) mid-curve options exercised as follows:

| Mid-Curve Option | Underlying Light Sweet Crude Oil Futures |
|-------------------------|---|
| LM1 | December 2016 |
| LM2 | December 2017 |
| LM3 | December 2018 |
| LM4 | December 2019 |
| LM5 | December 2020 |

Pursuant to Commission Regulation 40.6(a), NYMEX is separately self-certifying block trading on this contract with a minimum threshold of five (5) contracts in NYMEX/COMEX Submission No. 14-400.

The Exchange reviewed the designated contract market core principles (“Core Principles”) as set forth in the Commodity Exchange Act (“CEA” or “Act”). During the review, NYMEX staff identified that the contract may impact the following Core Principles as follows:

- Prevention of Market Disruption: Trading in the contract will be subject to the Rules of NYMEX 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 Susceptible to Manipulation: The contract is not readily susceptible to manipulation due to the liquidity and robustness in the underlying cash markets, which provides diverse participation and sufficient spot transactions to support the final settlement index.
- Compliance with Rules: Trading in the contract will be subject to the rules in Rulebook Chapter 4 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in these contracts will also be subject to the full range 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.
- Availability of General Information: The Exchange will publish information of the contract specifications on its website, together with daily trading volume, open interest and price information.
- Financial Integrity of Contracts: All contracts traded on the Exchange will be cleared by the CME Clearing House which is a registered derivatives clearing organization with the Commission and is subject to all Commission regulations related thereto.
- 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 these products.
- 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 rules. 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 this product 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. The rules in Chapter 6 allow 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 the rules in Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration.
- 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.
- Daily Publication of Trading Information: NYMEX will continue to comply with this Core Principle by making public daily information on settlement prices, volume, open interest, and opening and closing ranges for the contract listed for trading on the NYMEX trading floor and on CME Globex.
- Execution of Transactions: The Crude Oil Mid-Curve Option contract is listed for trading on CME Globex and the NYMEX trading floor and for clearing through the CME ClearPort platform. The CME Globex platform provides a transparent, open and efficient mechanism to electronically execute trades on screen. In addition, the NYMEX trading floor continues to be available as a trading venue

and provide for competitive and open execution of transactions. The CME ClearPort platform continues to provide a competitive and open execution of transactions by brokers.

- Position Limitations or Accountability: The contract has spot-month speculative position limits as well as all-months and any-one-month accountability levels. These position limits and accountability levels are at or below 25 percent of deliverable supply for the appropriate underlying cash market (See Appendix C, attached under separate cover).

Pursuant to CFTC Regulation 40.2(a), the Exchange hereby certifies that the new 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 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 Christopher.Bowen@cmegroup.com.

Sincerely,

/s/ Christopher Bowen
Managing Director and Chief Regulatory Counsel

Attachments:

Appendix A – Product Chapter

Appendix B – Cash Market Overview and Analysis of Deliverable Supply

Appendix C – Position Limit, Position Accountability, and Reportable Level Table in Chapter 5 of the NYMEX Rulebook (attached under separate cover)

Appendix D – Fee Schedule

Appendix E – Rule 588.H – Non-reviewable Range Table

Appendix A

Chapter 468 Crude Oil Mid-Curve Option

46800. SCOPE OF CHAPTER

This chapter is limited in application to Crude Oil Mid-Curve put and call options on WTI Crude Oil Futures contract. In addition to the rules of this chapter, transactions in Crude Oil Mid-Curve Options on subject to the general rules of the Exchange insofar as applicable.

46801. OPTION CHARACTERISTICS

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

46801.A. Trading Schedule

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

46801.B. Trading Unit

A Crude Oil Mid-Curve will be listed for the nearest June/December cycle. A call (put) option traded on the Exchange represents an option to assume a long (short) position in Crude Oil futures in accordance with the following schedule:

- LM1: the second nearest to expiry June/December futures contract
- LM2: the third nearest to expiry June/December futures contract
- LM3: the fourth nearest to expiry June/December futures contract
- LM4: the fifth nearest to expiry June/December futures contract
- LM5: the sixth nearest to expiry June/December futures contract

46801.C. Price Increments

Prices shall be quoted in dollars and cents per barrel and prices shall be in multiples of \$0.01 per barrel. The minimum price increment will be \$0.01. A cabinet trade may occur at a price of \$0.001 per barrel, or \$1.00 per contract.

46801.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.

46801.E. Termination of Trading

Options will expire at the close of trading on the same business day as the corresponding monthly Crude Oil option.

46801.F. Type Option

The option is an American-style option which can be exercised on any business day prior to and until expiration day.

46802. EXERCISE PRICES

- (A) On the first Business Day of trading in an option contract, trading shall be at the following strike prices: (i) the previous day's settlement for the underlying WTI Crude Oil Futures contract rounded off to the nearest fifty-cent increment strike price, unless such settlement price is precisely midway between two fifty-cent strike prices, in which case it shall be rounded off to the lower fifty-cent increment strike price and (ii) the twenty fifty cent increment strike prices which are twenty increments higher than the strike price described in (i) of this Rule and (iii) the twenty fifty-cent increment strike prices which are twenty increments lower than the strike price described in (i) of this Rule and (iv) an additional ten strike prices for both call and put options will be listed at \$2.50 increments above the highest fifty-cent increments as described in (ii) of this Rule beginning with the first available such strike that is evenly divisible by \$2.50 and (v) an additional ten strike prices for both put and call options will be listed at \$2.50 increments below the lowest fifty-cent increment as described in (iii) of this Rule, beginning with the first available such strike that is evenly divisible by \$2.50.
- (B) Thereafter, on any business day prior to the expiration of the option, (i) new consecutive strike prices for both puts and calls will be added such that at all times there will be at least twenty fifty-

cent (\$0.50) increment and ten two dollar and fifty cent (\$2.50) strike prices strike prices above and below the at-the-money strike price available for trading in all Crude Oil Mid-curve options. The at-the-money strike price will be determined in accordance with the procedures set forth in subsection (A)(i) of this rule.

- (C) Notwithstanding the provisions of subsections (A) and (B) of this rule, if the Exchange determines that trading in the Crude Oil Mid-Curve option contract will be facilitated thereby, the Exchange may, by resolution, change the increments between strike prices, the number of strike prices which shall be traded on the first day in any new Mid-Curve option, the number of new strike prices which will be introduced on each business day or the period preceding the expiration of a Crude Oil Mid-Curve option in which no new strike prices may be introduced.

Appendix B

Cash Market Analysis

1. Methodology and Data Sources: Key Components of Estimated Deliverable Supply

In estimating deliverable supply for the WTI contract and relying on Commission long-standing precedent, the key component of estimated deliverable supply is the portion of typical production and supply stocks that could reasonably be considered to be reliably available for delivery. Accordingly, there are three components NYMEX considered in updating the existing deliverable supply estimates of the Domestic Light Sweet Common Stream Crude Oil for the Cushing, Oklahoma delivery location:

- (A) Crude Oil Production;
- (B) Crude Oil Flows to the delivery area; and
- (C) Crude Oil Storage in the delivery area.

A. Crude Oil Production

For production, NYMEX used information collected by the U.S. Department of Energy (“DOE”) Energy Information Administration (“EIA”), which is a definitive source for this information. Other information is, in part, available from other sources as well, particularly at the state level from either energy or tax revenue authorities. We have chosen to rely on the EIA data alone because it constitutes a single source, employing common standards, across each state. The EIA data are highly regarded but they do not provide sufficient breakdown on the quality characteristics of the oil production to determine the subset of total production that would qualify as Domestic Light Sweet under the terms of the futures contract.

B. Crude Oil Flows to the Cushing Delivery Area

To determine the flows of Domestic Light Sweet crude oil into the delivery area, NYMEX consulted with industry executives and professionals from pipeline and storage terminal operators in Cushing as well as other major industry participants. It is noteworthy that the estimates provided here are materially less than the production that can readily access the delivery mechanism and which *could* be delivered due to the fact that the sources we used were specifically knowledgeable about *actual* Cushing deliveries. Thus, the information provided is not what *could be* delivered — the standard which is in accordance with

Commission's policy and precedent — but what actually *is* delivered. The Exchange believes that the Cushing delivery mechanism for light sweet crude oil and corresponding commercial secondary market constitutes such a sophisticated and highly-developed commercial market mechanism that, at any time, the actual flows to and stocks in the delivery area represent precisely the deliverable supply sufficient to support the mechanism. In other words, even though at any time there is additional production that *could* be delivered to the delivery mechanism, we are only including what *actually* flows in our estimate of deliverable supply.¹

C. Crude Oil Storage in the Cushing Delivery Area

Storage data are provided on a weekly basis by EIA. Details are provided for the U.S., Petroleum Administration for Defense Districts (“PADDs”) and Cushing. There are five PADDs and, in some cases, they correspond to broad regions. PADD 2 broadly includes the Midwest; PADD 3 broadly includes U.S. Gulf Coast states and New Mexico; PADD 4 contains the Rocky Mountain States excluding New Mexico. Cushing is the only single location where crude oil official inventory numbers are collected and publicly disseminated on a regular basis anywhere in the world. The actual geographic market that is consistently most applicable to the NYMEX crude oil futures contract would, therefore, include much of PADD 2, not just Cushing.

Nonetheless, NYMEX includes only inventories reported at Cushing, so these underestimate relevant storage. As with production, EIA does not provide details on the quality characteristics of stored crude oil, but the industry experts with whom NYMEX consulted consistently estimated that 60% to 70% of the oil stored at Cushing qualified as Domestic Light Sweet Common Stream, (with a notable leaning towards 70%).

¹ We recognize that not including all production that could reasonably and readily access the delivery point represents a departure from the Commission's stated methodology; but, since the Cushing secondary market is so sophisticated and highly-developed that it regularly supports physical delivery quantities that are more than 10 times greater than the quantity of physical throughput, such departure seems to introduce no material impairment in determining a reasonable deliverable supply that supports the physical delivery needs of the physical market. We are not suggesting that such departure be regularly applied in estimating deliverable supply for commodity markets; in fact, we can think of no other market where we would recommend doing so.

2. The Cushing Physical Delivery Mechanism: Scope of Deliverable Oil

The Cushing physical delivery mechanism is comprised of a network of nearly two dozen pipelines and 10 storage terminals, several with major pipeline manifolds. Two of the storage facilities — Enterprise and Enbridge — and their pipeline manifolds are the core of the Cushing physical delivery mechanism.² Physical volumes delivered against the WTI Contract within the Enterprise and Enbridge systems are at par value. Any deliveries made on futures contracts elsewhere in Cushing require the Seller to compensate the Buyer for the lower of the transportation netbacks from these facilities to where the delivery occurs. Detailed information about the inflowing and outflowing pipelines is contained below in Table 2.

Terminating obligations in the WTI Contract are fulfilled by delivering any of six “Domestic Production Streams of crude oil: West Texas Intermediate (“WTI”); Low Sweet Mix (“Scurry Snyder”); New Mexican Sweet; North Texas Sweet; Oklahoma Sweet; and South Texas Sweet. Additionally, a seventh stream, defined as “The Domestic Common Stream” transported by Enterprise Products’ (formerly Teppco Pipeline), is also deliverable. Market participants commonly refer to the combination of all of the deliverable streams, including the Domestic Common Stream, as “WTI.” Furthermore, the flow of each of these sweet crude streams is also commonly referred to as “Domestic Common Stream” within the complex that comprises the Cushing delivery mechanism, as well as in the WTI physical market which calls for delivery in the Cushing delivery mechanism.

3. Physical Market Trading Structure and Term Contracts

A. Physical Market Trading Structure

Typically, there is a chronology of sales and purchases of crude oil in the onshore U.S. market that starts with a sale from producer and finishes with a purchase by an end-user to consume the crude oil. First-sales are from producers to aggregators or other middleman-type firms with delivery at the property where it is produced. The first-sale buyer transports oil downstream from the point of sale. Usually the

² Three of the major sources for the cash-market information we provide in this analysis come from Plains All America, Enterprise and Enbridge. Enterprise oversees the vast majority of deliveries in the Cushing Delivery Market and, as indicated, Enterprise and Enbridge are the core delivery mechanism operators. Plains and Enbridge account for about 60% of the storage available at Cushing.

first-sale buyer resells the oil to someone other than the end-user but sometimes sells directly to the end-user.

Final sales are sales to end-users who when they consume the oil remove it from the supply chain. End-users, however, also resell oil. Such end-user re-sales sometimes occur during the same commercial cycle in which they purchased it; other times, they occur during a later commercial cycle after the oil has been stored for a period of time. Like end-users, other buyers of oil also can either resell it immediately or store it first for some period of time and then resell it later. Thus, it is a common commercial practice that the first-sale and multiple subsequent re-sales occur in the same delivery cycle.

As discussed above, the Cushing delivery market is essentially a major reseller market where buyers either: resell the oil to someone else; store the oil and resell it later; store the oil and then consume it later; or transport it to consume it. The Cushing market is essentially downstream of first-sales. Most of the sales in the Cushing market are for resale and not for either storage or final-sale; in fact, the physical market in “WTI,” in which the standard form of delivery is within the pipeline system at Cushing, is estimated to be 10-20 times the multiple of “WTI” oil that flows to Cushing. As such, it is clear that most sales are for resale because they constitute the selling, over-and-over (thus, *re-selling*), of the base physical oil that flows to Cushing. *Argus Media* documents about 5-8 times the flow in “WTI” sales but does not capture all of the sales.³

a. Term Contracts

The Exchange has spoken with and interviewed a number of market participants regarding common commercial practices with respect to the use of term contracts in the U.S. onshore crude oil market.⁴

The responses we received were consistent and they can be summarized as follows:

³ The commercial market for physical delivery of light sweet crude oil in Cushing is a *secondary* (or *spot*) market mechanism. The number of physical deliveries in this market each month is 240 million barrels and higher (240,000 futures contracts equivalent and higher).

⁴ These include: Plains All America, a major Midcontinent aggregator and marketer and operator of pipeline and storage terminals including in Cushing; Enterprise, a Midcontinent aggregator and marketer and operator of pipeline and storage terminals, including in Cushing; JSK Consulting, the principal of which is a seasoned Midcontinent oil market participant and professional with 40 years of experience in trading, operating transportation and storage in Cushing, and refining; a major international oil aggregator, marketer and refiner who is heavily active in the Cushing market and has requested anonymity; and an Energy Market Participant Group of several dozen market participants organized through Hunton & Williams LLP to discuss and comment on Regulatory issues.

- Almost all first-sales of production are sold term; as discussed in the previous section, typically for delivery on the property where it is produced (or nearest gathering pipeline or holding tank), and typically to middleman-firms or aggregators. 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. NYMEX is including evergreen contracts in the “term contracts” category.
- There are no restrictions applied to the resale of crude oil bought first-sale on a term basis from producers. In fact, that would clearly not be applicable because sales are typically to aggregators or others acting in a middleman-firm role with the expressed responsibility of reselling the oil.
- The Cushing market is downstream of first-sales; in other words, Cushing is downstream of any term sales from producers. Thus, even if barrels were sold term by the producer, in the Cushing market those barrels are re-sold and re-delivered by either the purchaser from the producer or a subsequent purchaser from that original purchaser. The Cushing market mechanism, which consists of trading and physical delivery of light sweet crude oil, is a commercial secondary (or *spot*) market which is extremely liquid, comprised of broad participation and results in a substantial quantity of physical delivery of crude oil.
- Terms sales do not result in reducing the deliverable supply for Cushing. Market participants all agreed that crude oil purchased on a term sale is available for resale, including in the Cushing market, and that all market participants downstream of first-sales participate in the market for resale.
- Our sources expressly advised us that any production sold long-term was available for re-sale and this is especially the case in the Cushing market.

b. Data for Crude Oil Production

In the five-year of 2008-2012, the average production of crude oil available to the U.S. Midcontinent⁵ was approximately 75.5 million barrels per month. Based on discussions with industry participants, our estimate of the portion of that average production which would qualify as Domestic Light Sweet Common

⁵ The production listed here includes: North Dakota, South Dakota, Montana, Wyoming, Colorado, New Mexico, Onshore Texas, Oklahoma, Kansas, Nebraska and Missouri.

Stream is 50% and higher— i.e., 37.8 million barrels and higher. The 37.8 million barrels converts into 37,800 contracts equivalent of the WTI Contract.

Table 1A provides monthly production data available to the U.S. Midcontinent from January 2008 through 2013. It shows that production has been steadily growing in recent years and this trend is expected to continue. Overall, US domestic crude oil production increased by 790,000 barrels per day between 2011 and 2012 alone, the largest increase in annual output since the beginning of U.S. commercial crude oil production in 1859. The EIA expects U.S. crude oil production to continue rising on increasing drilling in tight rock formations located in North Dakota and Texas⁶. EIA estimates that total U.S. oil production will increase from 6.89 million b/d in November 2012 to 8.15 million b/d in December 2014.

In addition to growing production over the past five years onshore in the U.S., production has also increased in Canada over the past decade. Canadian oil is not currently deliverable under the Domestic Light Sweet Crude Oil futures contract and we have not included any of it in any of our deliverable supply estimates. However, Canadian oil flows to the U.S. Midcontinent, including Cushing, and this flow is anticipated to increase over the foreseeable future. It is entirely foreseeable that, in the near future, industry practice will lead to Canadian Syncrude, which is sweet, becoming part of the Domestic Common Stream. In such a circumstance, it could be deliverable under the WTI Contract and become part of deliverable supply.

Production in Canada is expected to grow substantially over the next decade. Table 1B provides production data for Western Canada. Alberta is the predominant producer and the predominant Canadian source for oil that has been delivered to Cushing. Light sweet crude oil from Canada is predominantly synthetic crude and its production rose from about 500,000 barrels per day in 2005 to 804,000 barrels per day in 2012.

As indicated above, the production data are provided not as direct inputs to deliverable supply, but to: 1) demonstrate that production levels are more than sufficient to support the actual flows of deliverable product to the delivery location; and 2) demonstrate that deliverable supply is likely to be increasing in the near future because of the on-going increases in both production that is currently eligible to deliver and that is qualitatively close to eligible product but not currently eligible to deliver.

⁶ http://www.eia.gov/forecasts/steo/special/pdf/2013_sp_02.pdf

c. Data for Crude Oil Flows to the Cushing Delivery Area

Over the last three years, pipeline capacity for delivering crude oil to Cushing increased by about 815,000 b/d according to the EIA⁷. The key development was the construction of the 590,000 b/d TransCanada Keystone pipeline that originates in Hardisty, Alberta, Canada. Phase 1 of the Keystone pipeline, which runs from Hardisty to Steele City, Nebraska, and on to Patoka, Illinois, was completed in June 2010. Phase 2 of the Keystone pipeline, which extended the pipeline from Steele City to Cushing, was completed in February 2011.

Until mid-2012, there was only one pipeline that could deliver crude oil from the Midwest to the Gulf Coast. The 96,000-bbl/d ExxonMobil Pegasus pipeline between Patoka, Illinois and Nederland, Texas originally shipped crude oil northward. The pipeline was reversed in 2006 in order to ship Canadian heavy oil to the Gulf Coast

Currently, there is approximately 1.8 million b/d of inflow pipeline capacity to Cushing and 1.455 million barrels per day of outflow capacity. In addition, 77.8 million barrels of storage capacity exists in the Cushing area which continues to grow steadily. It is anticipated that the outflow capacity will increase by 500,000 to 1 million barrels per day over the next several years with the construction of pipeline additions flowing oil to the U.S. Gulf.

Based on information provided by pipeline and storage terminal operators, actual flows of oil to Cushing have ranged from 1.125 to 1.275 million barrels per day in recent years, with Domestic Light Sweet Common Stream Crude Oil averaging between 665,000 and 750,000 barrels per day.⁸ On a 30-day monthly basis, this computes into 19.95 to 22.5 million barrels per month which converts into 19,950 to 22,500 of WTI contract equivalents of deliverable supply. Table 2 in the Appendix provides specific details of pipeline flows into and out of Cushing. We note that we asked operators of pipeline terminals in

⁷ http://www.eia.gov/forecasts/steo/special/pdf/2013_sp_02.pdf

⁸ The sources were: Plains All America, an aggregator and marketer of crude oil production and pipeline and storage terminal operator at Cushing; Enterprise, an aggregator and marketer of crude oil production and pipeline and storage terminal operator at Cushing; Enbridge, a pipeline and storage terminal operator at Cushing; and JSK Consulting, the principal of which is a seasoned Midcontinent oil market participant and professional with 40 years of experience in trading, operating transportation and storage in Cushing, and refining.

Cushing if they would share specific data on flows of Domestic Light Sweet Common Stream Crude Oil stored at their facilities and they responded that such data were confidential.

The Exchange collects this information periodically but not on either an on-going or scheduled basis. As indicated above, we did collect it when we updated the deliverable supply estimates in 2006 and 2011; and we collected it again in February 2013. Consequently, we are unable to provide a five year average of these data but we believe that an average of the 2006, 2011 and 2013 actual flows data would be very close to an actual five year average (if we were able to calculate it). The average of the 2006, 2011 and 2013 data is 17,850 to 21,800 contract equivalents.

d. Data for Crude Oil Storage in the Cushing Delivery Area

Table 3 provides the weekly Cushing storage calculation starting with January 2008 and continuing through January 2013. During that time period, inventories averaged over 32 million barrels and ranged from about 16 to 48 million barrels. Inventories ended 2012 at a record-high of 48.18 million barrels. Based on the lower end of the estimates, since January 2008, the contract equivalent of the WTI Contract stored in the delivery location was 15,594. NYMEX asked operators of storage in Cushing if they would share specific data on quantities of Domestic Light Sweet Common Stream Crude Oil stored at their facilities and they responded that such data were confidential.

As of September 30, 2012, EIA reports that shell storage capacity at Cushing was 77.8 million barrels and working capacity was 55.008 million barrels.⁹ Based on additional information from industry sources, we expect total shell capacity to increase to more than 80 million barrels by year-end 2013.

Currently, there is substantial excess working capacity at Cushing (nearly 18 million barrels) and, based on growth rates in the use of storage since 2009, there would be even more excess working capacity after the additions are completed in 2013. Finally, it should be noted that, at least on a temporary basis that can last several months, storage can exceed working capacity and it is common for an individual tank to reach 85-90% of shell capacity (which exceeds the 83% average underlying the EIA estimates).

The Exchange has estimated the average weekly storage of Domestic Light Sweet crude oil in Cushing for the 5 year period beginning January 1, 2008 and ending December 31, 2012; it is 32,486,000 barrels

⁹ <http://www.eia.gov/petroleum/storagecapacity/table2.pdf> Shell capacity is defined by EIA as the design capacity of a petroleum storage tank which is always greater than or equal to working storage capacity.

of oil, which converts into 32,486 contract equivalents of WTI contracts. The Exchange has further evaluated both operational practices at storage facilities as well as commercial practices by customers of storage facilities to determine if some components of inventoried product could rightfully be considered *not* to be readily deliverable.

With respect to operational practices, based on discussions with some industry experts, the Exchange conservatively estimates that 6.75% of stored product, on average, is required for operational minimums.¹⁰ This converts into an estimated 2,193,000 barrels of Domestic Light Sweet crude oil based on the 5 year average storage level (2,193 contract equivalents); so we subtract this amount from the estimated average storage from 2008 through 2012. The adjusted estimate due to subtracting operational minimums is 30,293 contract equivalents.

With respect to commercial practices, the Exchange specifically sought whether storage customers were expressly allotting any stored barrels at Cushing for refining and was, therefore, unavailable for secondary market delivery. We consistently heard from market participants that was not the case; that barrels stored at Cushing are not specifically targeted for scheduled refining. Rather, refiners typically store barrels targeted for scheduled refining in tanks on the premises at their respective refineries or at other storage facilities. However, we did hear from one refiner that they keep barrels stored at Cushing for the contingency that there could be some unexpected interruption in their refinery supply; and, rather than refine the barrels stored at Cushing, they use them to trade for other barrels they would refine. We are adjusting for this *contingency storage* in our estimate of deliverable supply by subtracting it. We estimate this quantity to be 2 million barrel (or 2,000 contract equivalents) of Domestic Light Sweet crude oil. Therefore, the corresponding adjustment to the average Domestic Light Sweet crude oil stored from 2008 through 2012 (adjusted for operational minimums and contingency storage) is 28,293 contract equivalents.

Analysis of Deliverable Supply

¹⁰ We have been advised that, for older tanks, the operational minimum is 9% and, for newer tanks, it is 4.5%. Our assessment is that the majority of tanks at Cushing would qualify as newer. Nonetheless, to be conservative, we have applied the mid-point percentage—6.75%-- for all of Cushing.

Combining the average for 2006, 2011 and 2013 of industry-based estimates of physical flow of deliverable oil to the delivery area each month with the average industry-based estimates of deliverable oil stored in the delivery area between 2007 and 2012 (adjusted downwards for operational minimums and *contingency* storage) yields: 17,850 to 21,800 contracts equivalent plus 28,293 which ranges from 46,143 to 50,093 contract equivalents. The mid-point of this range, which is based on estimated 5-year averages for physical flows and storage, is 48,100 contract equivalents, which is our estimated deliverable supply.

Therefore, the current spot month position limit for the WTI Crude Oil Futures contract of 3,000 contracts is equivalent to 6% of the total monthly deliverable supply. It is requested that the spot month position limit for the Crude Oil Weekly Option contract aggregate into the WTI Crude Oil Futures contract.

Table 1A
U.S. Midcontinent Oil Production^{11,12}
(Thousands of Barrels per Month)

| | |
|----------|--------|
| Jan-2008 | 62,115 |
| Feb-2008 | 57,884 |
| Mar-2008 | 63,368 |
| Apr-2008 | 60,737 |
| May-2008 | 63,303 |
| Jun-2008 | 61,145 |
| Jul-2008 | 63,687 |
| Aug-2008 | 64,283 |
| Sep-2008 | 61,180 |
| Oct-2008 | 65,749 |
| Nov-2008 | 64,707 |
| Dec-2008 | 65,225 |
| Jan-2009 | 64,590 |
| Feb-2009 | 59,749 |
| Mar-2009 | 64,066 |
| Apr-2009 | 62,737 |
| May-2009 | 64,009 |
| Jun-2009 | 62,204 |
| Jul-2009 | 63,419 |
| Aug-2009 | 62,484 |
| Sep-2009 | 62,924 |
| Oct-2009 | 64,284 |
| Nov-2009 | 63,738 |
| Dec-2009 | 64,321 |

¹¹ The production listed here includes North Dakota, South Dakota, Montana, Wyoming, Colorado, New Mexico, Onshore Texas, Oklahoma, Kansas, Nebraska and Missouri.

¹² http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbbl_m.htm

| | |
|----------|---------|
| Jan-2010 | 64,386 |
| Feb-2010 | 60,927 |
| Mar-2010 | 67,554 |
| Apr-2010 | 66,603 |
| May-2010 | 68,783 |
| Jun-2010 | 67,465 |
| Jul-2010 | 70,386 |
| Aug-2010 | 71,112 |
| Sep-2010 | 70,248 |
| Oct-2010 | 73,126 |
| Nov-2010 | 72,872 |
| Dec-2010 | 75,731 |
| Jan-2011 | 76,474 |
| Feb-2011 | 67,222 |
| Mar-2011 | 78,673 |
| Apr-2011 | 76,850 |
| May-2011 | 80,717 |
| Jun-2011 | 79,793 |
| Jul-2011 | 84,127 |
| Aug-2011 | 87,187 |
| Sep-2011 | 86,987 |
| Oct-2011 | 92,475 |
| Nov-2011 | 93,326 |
| Dec-2011 | 96,650 |
| Jan-2012 | 91,735 |
| Feb-2012 | 87,799 |
| Mar-2012 | 95,468 |
| Apr-2012 | 95,516 |
| May-2012 | 101,190 |

| | |
|----------------|---------------|
| Jun-2012 | 99,688 |
| Jul-2012 | 104,498 |
| Aug-2012 | 107,508 |
| Sep-2012 | 106,831 |
| Oct-2012 | 112,296 |
| Nov-2012 | 109,604 |
| Average | 75,487 |

Table 1B
Western Canada Crude Oil Production
(Thousand Barrels per Day)¹³

| CONVENTIONAL | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Light and Medium | 589 | 563 | 569 | 606 | 702 |
| Net Conventional Heavy to Market | 350 | 308 | 309 | 312 | 323 |
| TOTAL CONVENTIONAL | 939 | 871 | 878 | 917 | 1025 |
| OIL SANDS | | | | | |
| Upgraded Light (Synthetic)¹ | 557 | 646 | 660 | 705 | 804 |
| Oil Sands Heavy² | 916 | 996 | 1,162 | 1,296 | 1310 |
| TOTAL OIL SANDS AND UPGRADERS | 1,473 | 1,642 | 1,822 | 2,001 | 2,115 |
| Total Light Supply | 1,146 | 1,209 | 1,229 | 1,311 | 1,506 |
| Total Heavy Supply | 1,266 | 1,304 | 1,471 | 1,608 | 1,633 |
| WESTERN CANADA OIL SUPPLY | 2,412 | 2,513 | 2,700 | 2,918 | 3,139 |

Notes:

1. Includes upgraded conventional

2. Includes: a) imported condensate b) manufactured diluent from upgraders and c) upgraded heavy volumes coming from upgraders

¹³ <http://www.capp.ca/forecast/Pages/default.aspx>

**Table 2
Crude Oil Flows to Cushing
(Barrels/Day)¹⁴**

| Outgoing Pipelines | Capacity (B/D) | Owner |
|------------------------------------|--------------------------|--------------------|
| Seaway Pipeline | 400,000 | Enterprise |
| BP (to Chicago) | 200,000 | BP |
| Occidental Centurion | 60,000 | Occidental |
| Ozark (to Wood River, IL) | 225,000 | Enbridge |
| Osage (to Eldorado, KS) | 135,000 | Magellan / NCRA |
| Plains (to Coffeyville, KS) | 125,000 | Plains |
| ConocoPhillips (to Ponca City, OK) | 102,000 | ConocoPhillips |
| ConocoPhillips (to Borger, TX) | 53,000 | ConocoPhillips |
| PAA Red River Pipeline | 30,000 | Plains All America |
| Sun (to Tulsa) | 55,000 | Sunoco |
| West Tulsa (to Tulsa) | 50,000 | Enbridge |
| Eagle | 20,000 | Blue Knight |
| TOTAL ESTIMATE | 1.455 Million B/D | |

| Incoming Pipelines | Capacity | Owner | Estimated Flows (in Barrels/Day) |
|---------------------------|--------------------------|--------------|---|
| Keystone XL Pipeline | 590,000 | Transcanada | 200,000 to 225,000 BD (Heavy sour) |
| Basin Pipeline | 450,000 | Plains | 400,000 to 440,000 (75% WTI) |
| Occidental Pipeline | 120,000 | Occidental | 100,000 to 120,000 (100% WTI) |
| Spearhead Pipeline | 240,000 | Enbridge | 120,000 to 140,000 (Canadian sour) |
| White Cliffs Pipeline | 70,000 | SemGroup | 65,000 to 70,000 (100% WTI) |
| Plains Oklahoma Pipeline | 100,000 | Plains | 90,000 to 100,000 (100% WTI) |
| Cherokee Pipeline | 50,000 | Plains | 40,000 to 50,000 (100% Sour) |
| Ark City Pipeline | 30,000 | SemGroup | 25,000 to 30,000 (100% WTI) |
| MV Magellan Pipeline | 30,000 | SemGroup | 25,000 to 30,000 (100% WTI) |
| Midcontinent Pipeline | 50,000 | Sunoco | 45,000 to 50,000 (100% WTI) |
| Bakken Crude via Rail | 90,000 | Various | 15,000 to 20,000 (100% WTI) |
| TOTAL ESTIMATE | 1.820 Million B/D | | 1,125,000 to 1,275,000 |

Estimated WTI inbound flows of 665,000 B/D to 750,000 B/D (Monthly 19.95 to 22.5 Million Barrels)

¹⁴ Sources: Enterprise Products, Plains All American Pipeline Company, JSK Consulting, and other industry sources. Please note this table was prepared in February 2013.

Table 3 Cushing Storage¹⁵

| Average of Weekly Stocks Thousand Barrels | | |
|--|-------|--------|
| Year | Month | |
| 2008 | Jan | 16,416 |
| | Feb | 16,660 |
| | Mar | 17,752 |
| | Apr | 18,588 |
| | May | 20,864 |
| | Jun | 20,864 |
| | Jul | 19,658 |
| | Aug | 18,113 |
| | Sep | 15,864 |
| | Oct | 15,594 |
| | Nov | 20,067 |
| | Dec | 26,778 |
| 2009 | Jan | 33,239 |
| | Feb | 34,560 |
| | Mar | 32,509 |
| | Apr | 29,628 |
| | May | 29,773 |
| | Jun | 28,697 |
| | Jul | 31,449 |
| | Aug | 32,471 |
| | Sep | 28,366 |
| | Oct | 25,547 |
| | Nov | 28,923 |
| | Dec | 34,177 |
| 2010 | Jan | 33,780 |
| | Feb | 30,451 |
| | Mar | 30,477 |
| | Apr | 33,668 |
| | May | 37,621 |
| | Jun | 36,950 |
| | Jul | 36,807 |
| | Aug | 36,692 |
| | Sep | 34,895 |
| | Oct | 34,274 |
| | Nov | 33,256 |
| | Dec | 36,272 |

¹⁵ http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=W_EPC0_SAX_YCUOK_MBBL&f=W

| | | |
|----------------|-----|---------------|
| 2011 | Jan | 37,546 |
| | Feb | 37,769 |
| | Mar | 40,592 |
| | Apr | 41,154 |
| | May | 40,409 |
| | Jun | 38,049 |
| | Jul | 36,882 |
| | Aug | 33,754 |
| | Sep | 31,585 |
| | Oct | 31,324 |
| | Nov | 31,621 |
| | Dec | 30,339 |
| 2012 | Jan | 29,037 |
| | Feb | 32,237 |
| | Mar | 38,651 |
| | Apr | 41,619 |
| | May | 45,725 |
| | Jun | 47,596 |
| | Jul | 46,162 |
| | Aug | 44,895 |
| | Sep | 43,874 |
| | Oct | 43,912 |
| | Nov | 44,657 |
| | Dec | 48,177 |
| Average | | 32,486 |

Appendix C

NYMEX Rulebook Chapter 5 Position Limit Table

(Attached Under Separate Cover)

Appendix D

| Exchange Fees | | | | | |
|------------------|------------|--------|----------------|------------|--------|
| | Member Day | Member | Cross Division | Non-Member | IIP |
| Pit | \$0.45 | \$0.70 | \$0.95 | \$1.45 | |
| Globex | \$0.45 | \$0.70 | \$0.95 | \$1.45 | \$0.95 |
| ClearPort | | \$1.75 | | \$2.50 | |

| Other Processing Fees | | | |
|---------------------------|------------|---------------|--|
| | House Acct | Customer Acct | |
| Options E/A Notice | \$0.40 | \$0.85 | |

| Additional Fees and Surcharges | | |
|--------------------------------|--------|--|
| Facilitation Desk Fee | \$0.20 | |

Appendix E

NYMEX Rule 588.H – Non-reviewable Range Table

| Instrument | Bid/Ask Reasonability | Non-Reviewable Range (NRR) |
|---------------------------------|--|---|
| Crude Oil MidCurve Option | The greater of the delta times the underlying futures' non-reviewable range or 20% of the fair value premium up to the underlying futures' non-reviewable range with a minimum reasonability of \$0.10 | 20% of premium up to 1/4 of the underlying futures' non-reviewable range with a minimum of 1 tick |