

12/15/2021

SUBMITTED VIA CFTC PORTAL

Secretary of the Commission
Office of the Secretariat
U.S. Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: KalshiEX LLC – CFTC Regulation 40.2(a) Notification Regarding the Initial Listing of the ERCOT Contract

Dear Sir or Madam,

Pursuant to Section 5c(c) of the Commodity Exchange Act and Section 40.2(a) of the regulations of the Commodity Futures Trading Commission, KalshiEX LLC (Kalshi) hereby notifies the Commission that it is self-certifying the “What share of Texas’s electricity will be from zero-carbon sources?” contract (Contract). Contract is intended to be listed at monthly durations. The Contract’s terms and conditions (Appendix A) includes the following strike conditions:

- **<month>** (target month)
- **<expo_date>** (last possible expiration date)
- **<percent>** (target percentage)

Along with this letter, Kalshi submitted the following documents:

- A concise explanation and analysis of the Contract;
- Certification;
- Appendix A with the Contract’s Terms and Conditions;
- Confidential Appendices with further information; and
- A request for FOIA confidential treatment.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Elie Mishory
Chief Regulatory Officer
KalshiEX LLC
emishory@kalshi.com

KalshiEX LLC

New Contract Submission: What share of Texas's electricity will be from zero-carbon sources?

Ticker: ERCOT

Kalshi Contract Category: Econ/Demographic Data (U.S. Government Data)

Texas Energy Sources

12/15/2021

CONCISE EXPLANATION AND ANALYSIS OF THE PRODUCT AND ITS COMPLIANCE WITH APPLICABLE PROVISIONS OF THE ACT, INCLUDING CORE PRINCIPLES AND THE COMMISSION'S REGULATIONS THEREUNDER

Pursuant to Commission Rule 40.2(a)(3)(v), the following is a concise explanation and analysis of the product and its compliance with the Act, including the relevant Core Principles, and the Commission's regulations thereunder.

I. Introduction

The “What share of Texas’s electricity will be from zero-carbon sources?” Contract is a contract relating to the share of electricity from zero-carbon sources in the Electricity Reliability Council of Texas. After careful analysis, Kalshi (hereafter referred to as “Exchange”) has determined that the Contract complies with its vetting framework, which has been reviewed by the CFTC and formed part of the Exchange’s application for designation as a Contract Market (“DCM”) that was approved by the Commission.

ERCOT is the organization that runs Texas’s electrical grid. The share of electricity from zero-carbon sources is a direct function of renewable buildout, transmission construction, and total energy demand. When unexpectedly cold or hot weather hits, the share of zero-carbon sources generally falls, as solar and wind are “non-dispatchable” sources of electricity (i.e. grid operators cannot merely order more solar power when demand rises) and nuclear and hydro power are not frequently used for quick ramp-ups.

Further information about the Contract, including an analysis of its risk mitigation and price basing utility, as well as additional considerations related to the Contract, is included in Confidential Appendices B, C, and D.

Pursuant to Section 5c(c) of the Act and CFTC Regulations 40.2(a), the Exchange hereby certifies that the listing of the Contract complies with the Act and Commission regulations under the Act.

General Contract Terms and Conditions: The Contract operates similar to other binary contracts that the Exchange lists for trading. The minimum price fluctuation is \$0.01 (one

cent). Price bands will apply so that Contracts may only be listed at values of at least \$0.01 and at most \$0.99. Further, the Contract is sized with a one-dollar notional value and has a minimum price fluctuation of \$0.01 to enable Members to match the size of the contracts purchased to their economic risks. The Exchange has further imposed position limits (defined as maximum loss exposure) of \$25,000 USD on the Contract. As outlined in Rule 5.12 of the Rulebook, trading shall be available at all times outside of any maintenance windows, which will be announced in advance by the Exchange. Members will be charged fees in accordance with Rule 3.6 of the Rulebook. Fees are charged in such amounts as may be revised from time to time to be reflected on the Exchange's Website. Additionally, as outlined in Rule 7.2 of the Rulebook, if any event or any circumstance which may have a material impact on the reliability or transparency of a Contract's Source Agency or the Underlying related to the Contract arises, Kalshi retains the authority to designate a new Source Agency and Underlying for that Contract and to change any associated Contract specifications after the first day of trading. That new Source Agency and Underlying would be objective and verifiable. Kalshi would announce any such decision on its website. All instructions on how to access the Underlying are non-binding and are provided for convenience only and are not part of the binding Terms and Conditions of the Contract. They may be clarified at any time. Furthermore, the Contract's payout structure is characterized by the payment of an absolute amount to the holder of one side of the option and no payment to the counterparty. During the time that trading on the Contract is open, Members are able to adjust their positions and trade freely. After trading on the Contract has closed, the Expiration Value and Market Outcome are determined. The market is then settled by the Exchange, and the long position holders and short position holders are paid according to the Market Outcome. In this case, "long position holders" refers to Members who purchased the "Yes" side of the Contract and "short position holders" refers to Members who purchased the "No" side of the Contract. If the Market Outcome is "Yes," meaning that the share of electricity in ERCOT from zero-carbon sources exceeds <percent>, then the long position holders are paid an absolute amount proportional to the size of their position and the short position holders receive no payment. If the Market Outcome is "No," then the short position holders are paid an absolute amount proportional to the size of their position and the long position holders receive no payment. Specification of the circumstances that would trigger a Market Outcome of "Yes" are included below in the section titled "Payout Criterion" in Appendix A.

**CERTIFICATIONS PURSUANT TO SECTION 5c OF THE COMMODITY
EXCHANGE ACT, 7 U.S.C. § 7A-2 AND COMMODITY FUTURES TRADING
COMMISSION RULE 40.2, 17 C.F.R. § 40.2**

Based on the above analysis, the Exchange certifies that:

- The Contract complies with the Act and Commission regulations thereunder.
- This submission (other than those appendices for which confidential treatment has been requested) has been concurrently posted on the Exchange's website at <https://kalshi.com/regulatory/filings>.

Should you have any questions concerning the above, please contact the exchange at ProductFilings@kalshi.com.

Eliezer Mishory

By: Eliezer Mishory
Title: Chief Regulatory Officer
Date: 12/15/2021

Attachments:

Appendix A - Contract Terms and Conditions

Appendix B (Confidential) - Further Considerations

Appendix C (Confidential) - Source Agency

Appendix D (Confidential) - Compliance with Core Principles

APPENDIX A – CONTRACT TERMS AND CONDITIONS

TERMS OF CONTRACTS TRADED ON KALSHI

Official Product Name: What share of ERCOT’s electricity will be from zero-carbon sources?

Ticker and Rulebook: ERCOT

ERCOT

Scope: These rules shall apply to the ERCOT contract.

Underlying: The Underlying for this Contract is the share of electricity generated from nuclear, hydropower, solar, and wind sources in the area governed by the Electricity Reliability Council of Texas (ERCOT) for <month> as reported by ERCOT. Revisions to the Underlying made after Expiration will not be accounted for in determining the Expiration Value.

Instructions: Go to <http://www.ercot.com/gridinfo/generation>. Click on “Fuel Mix Report: YYYY” where YYYY is the relevant year (e.g. Fuel Mix Report: 2021 is found here: <https://www.ercot.com/files/docs/2021/11/08/IntGenbyFuel2021.xlsx>). Sum the generation from nuclear, hydropower, solar and wind for the month and divide by the value in the row labeled “Total”. For example, consider the data through October 2021. In this case, the value of the Underlying is $(18+2178+1455+8608)/32542$ which is just above 37.66%.



Energy, GWh	Jan*	Feb*	Mar*	Apr*	May*	Jun*	Jul*	Aug*	Sep	Oct	Nov	Dec	Total
Biomass	22	17	22	19	18	29	68	75	59	58			386
Coal	6,803	5,540	4,036	4,859	5,956	7,804	8,192	7,706	6,876	6,140			63,912
Gas	934	2,843	1,235	2,053	1,193	2,925	3,476	3,520	2,672	2,730			23,582
Gas-CC	10,744	10,455	7,023	8,119	10,228	14,621	16,735	17,045	14,538	11,360			120,868
Hydro	36	56	23	51	76	77	57	56	34	18			484
Nuclear	3,801	3,317	3,369	2,988	3,748	3,099	3,705	3,696	3,595	2,178			33,496
Other	1	14	-1	2	-1	0	-1	-2	-4	-4			5
Solar	738	686	1,085	1,023	1,400	1,694	1,872	1,726	1,770	1,455			13,450
Wind	7,702	5,996	10,483	8,895	9,104	6,960	5,370	7,375	6,767	8,608			77,261
Total	30,782	28,924	27,276	28,009	31,723	37,209	39,475	41,197	36,307	32,542			333,444

Please note that some values (such as Other) may be negative. These instructions on how to access the Underlying are provided for convenience only and are not part of the binding Terms and Conditions of the Contract. They may be clarified at any time.

Source Agency: The Source Agency is ERCOT.

Type: The type of Contract is a Binary Contract.

Issuance: The Contract is based on the outcome of a recurrent data release, which is issued on a daily basis. Thus, Contract iterations will be issued on a recurring basis, and future Contract iterations will generally correspond to the next month.

<percent>: Kalshi may list iterations of the Contract with <percent> levels that fall within an inclusive range between a maximum value of 100.00 and a minimum value of 0.00 at consecutive increments of 0.01. Due to the potential for variability in the Underlying, the Exchange may modify <percent> levels in response to suggestions by Members.

<month>: <month> refers to a calendar month specified by Kalshi. Kalshi may list iterations of the Contract corresponding to different statistical periods of <month>.

<expo_date>: <expo_date> refers to a calendar date specified by Kalshi. Kalshi may list iterations of the Contract corresponding to different statistical periods of <expo_date>.

Payout Criterion: The Payout Criterion for the Contract encompasses the Expiration Values that strictly exceed <percent>.

Minimum Tick: The Minimum Tick size for the referred Contract shall be \$0.01.

Position Limit: The Position Limit for the \$1 referred Contract shall be \$25,000 per Member.

Last Trading Date: The Last Trading Date of the initial iteration of the Contract will be the last day of <month>. The Last Trading Time will be 11:59 PM.

Settlement Date: The Settlement Date of the initial iteration of the Contract shall be no later than the day after the Expiration Date, unless the Market Outcome is under review pursuant to Rule 7.1.

Expiration Date: The Expiration Date of the Contract shall be the sooner of the first 10:00 AM following the release of the data for <month>, and <expo_date>.

Expiration time: The Expiration time of the initial Contract iteration shall be 10:00 AM ET.

Settlement Value: The Settlement Value for this Contract is \$1.00.

Expiration Value: The Expiration Value is the value of the Underlying as documented by the Source Agency on the Expiration Date at the Expiration time.

Contingencies: Before Settlement, Kalshi may, at its sole discretion, initiate the Market Outcome Review Process pursuant to Rule 6.3(c) of the Rulebook. Additionally, as outlined in Rule 7.2 of the Rulebook, if any event or any circumstance which may have a material impact on the reliability or transparency of a Contract's Source Agency or the Underlying related to the Contract arises, Kalshi retains the authority to designate a new Source Agency and Underlying for that Contract and to change any associated Contract specifications after the first day of trading.