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April 27, 2011

**VIA E-MAIL**

Mr. David Stawick  
Office of the Secretariat  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

**Re: Rule Certification. New York Mercantile Exchange, Inc. Submission # 11-147: Notification Regarding the Listing of a Petroleum Spread Futures Contract for Trading on the NYMEX Trading Floor and for Clearing through CME ClearPort**

Dear Mr. Stawick:

The New York Mercantile Exchange, Inc. ("NYMEX" or the "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the listing of one (1) financially settled petroleum futures contract for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, May 1, 2011, for trade date Monday, May 2, 2011.

The specifications for the petroleum futures contract are provided below.

<u>Contract Title</u>	<u>Commodity Code</u>	<u>Rule Chapter</u>	<u>First Listed Month</u>	<u>Listing Period</u>
European Propane CIF ARA (Argus) vs. Naphtha CIF NWE (Platts) Swap Futures	EPN	396	June 2011	36 consecutive months

- **Contract Size:** 1,000 Metric Tons
- **Termination of Trading:** Trading shall cease on the last business day of the contract month.
- **Minimum Price Tick:** \$0.001
- **Value per Tick:** \$1.00
- **Final Settlement Price:** minimum settlement tick = \$0.001
- **Trading and Clearing Hours:**
  - CME ClearPort: Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. Chicago Time/CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. CT).
  - Open Outcry: Monday – Friday 9:00 a.m. – 2:30 p.m. (8:00 a.m. – 1:30 p.m. CT).

- **Exchange Fees:**

Contract	CME ClearPort Rates		NY Trading Floor Rates		Cash Settlement Fee	
	Member	\$6.00	Member	\$6.00	Member	\$6.00
European Propane CIF ARA (Argus) vs. Naphtha CIF NWE (Platts) Swap Futures	Non-Member	\$9.00	Non-Member	\$9.00	Non-Member	\$9.00
			Blended Floor	\$7.50		

The Exchange will allow the exchange for related position (EFRP) transactions to be submitted through CME ClearPort. EFRP transactions in these futures contracts will be governed by the provisions of Exchange Rule 538.

Pursuant to Section 5c(c) of the Commodity Exchange Act ("Act") and CFTC Rules 40.2 and 40.6, the Exchange hereby certifies that the attached contract complies with the Act, including regulations under the Act. There were no substantive opposing views to this proposal. This submission will be made effective on trade date May 2, 2011.

Should you have any questions concerning the above, please contact Daniel Brusstar at (212) 299-2604 or the undersigned at (212) 299-2207.

Sincerely,

/s/ Felix Khalatnikov  
Dir & Assoc General Counsel

Attachments: Contract terms and conditions  
Cash Market Overview and Analysis of Deliverable Supply

## Chapter 396

### European Propane CIF ARA (Argus) vs. Naphtha CIF NWE (Platts) Swap Futures

- 396.01. SCOPE**  
The provisions of these rules shall apply to all contracts bought or sold on the Exchange for cash settlement based on the Floating Price.
- 396.02. FLOATING PRICE**  
The Floating Price for each contract month is equal to the arithmetic average of the mid-point between the high and low quotations from Argus Media for Propane CIF ARA minus the arithmetic average of the high and low quotations from the Platts European Marketscan for Northwest Europe Naphtha Physical under the heading "Cargoes CIF NWE Basis ARA" price for each business day during the contract month (using Non-common pricing).
- 396.03. CONTRACT QUANTITY AND VALUE**  
The contract quantity shall be 1,000 metric tons. Each contract shall be valued as the contract quantity (1,000) multiplied by the settlement price.
- 396.04. CONTRACT MONTHS**  
Trading shall be conducted in contracts in such months as shall be determined by the Exchange.
- 396.05. PRICES AND FLUCTUATIONS**  
Prices shall be quoted in U.S. dollars and cents per metric ton. The minimum price fluctuation shall be \$0.001 per metric ton. There shall be no maximum price fluctuation
- 396.06. TERMINATION OF TRADING**  
Trading shall cease on the last business day of the contract month.
- 396.07. FINAL SETTLEMENT**  
Delivery 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.
- 396.08. EXCHANGE FOR RELATED POSITION**  
Any exchange for related position (EFRP) transaction shall be governed by the provisions of Exchange Rule 538.
- 396.09. DISCLAIMER**  
Argus Media ("Argus") licenses the New York Mercantile Exchange, Inc. ("NYMEX") to use various Argus price assessments in connection with the trading of the contract.  
"Platts," is a trademark of The McGraw-Hill Companies, Inc. and has been licensed for use by NYMEX. Platts does not sponsor, endorse, sell or promote the NYMEX contract and Platts makes no recommendations concerning the advisability of investing in the NYMEX contract.  
NEITHER NYMEX, ITS AFFILIATES, ARGUS NOR PLATTS, A DIVISION OF THE MCGRAW-HILL COMPANIES, INC. ("PLATTS") GUARANTEES THE ACCURACY AND/OR COMPLETENESS OF EITHER ASSESSMENT FROM PLATTS OR ARGUS OR ANY OF THE DATA INCLUDED THEREIN. NYMEX, ITS AFFILIATES, ARGUS AND PLATTS MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF EITHER ASSESSMENT FROM PLATTS OR ARGUS, TRADING BASED ON THE ASSESSMENTS FROM PLATTS AND ARGUS, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACT, OR, FOR ANY OTHER USE. NYMEX, ITS AFFILIATES, ARGUS AND PLATTS MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AND HEREBY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE ASSESSMENTS FROM PLATTS AND ARGUS, OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX, ITS AFFILIATES, ARGUS OR PLATTS HAVE ANY LIABILITY FOR ANY LOST PROFITS OR INDIRECT, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGE.

## **CASH MARKET OVERVIEW**

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is self-certifying the listing of the financially settled European Propane CIF ARA (Argus) vs. Naphtha CIF NWE (Platts) Swap Futures contracts for trading on the NYMEX trading floor and for clearing through CME ClearPort.

This new contract is a spread of two existing NYMEX futures contracts. The European Propane CIF ARA (Argus) vs. Naphtha CIF NWE (Platts) Swap Futures contract is based on the differential between the European Propane CIF ARA (Argus) Swap Futures and the European Naphtha (Platts) Calendar Swap Futures contracts.

### **PRICE SOURCES**

Argus: Argus Media ("Argus") is the price reporting service utilized for one leg of the final settlement for the new European Propane CIF ARA (Argus) vs. Naphtha CIF NWE (Platts) Swap Futures contract. Argus is one of the major pricing services that are used in the over-the-counter (OTC) market for pricing swap contracts, and the methodology utilized by Argus is well-known in the oil industry. Their pricing methodology<sup>1</sup> is derived from telephone surveys and electronic data collected from multiple market participants to determine market value. CME Group, parent company of NYMEX, ("CME Group") is party to a license agreement with Argus to utilize their pricing data.

Platts, a division of The McGraw-Hill Companies, Inc. ("Platts") is the price reporting service used for the final settlement of one leg for the European Propane CIF ARA (Argus) vs. Naphtha CIF NWE (Platts) Swap Futures contract. Platts is one of the major pricing services used in the OTC market for the pricing of swap contracts, and the methodology utilized by Platts is well-known in the oil industry. Their pricing methodology<sup>2</sup> is derived from telephone surveys and electronic data collected from multiple market participants to determine market value. Platts has a long-standing reputation in the industry for price benchmarks that are fair and not manipulated. NYMEX is a party to license agreements with Platts to utilize their pricing data.

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<sup>1</sup> [http://web04.us.argusmedia.com/ArgusStaticContent//Meth/IntlLPG\\_meth\\_latest.pdf](http://web04.us.argusmedia.com/ArgusStaticContent//Meth/IntlLPG_meth_latest.pdf)

<sup>2</sup> <http://www.platts.com/IM.Platts.Content/methodologyreferences/methodologyspecs/europeanoilproductspecs.pdf>

## **MARKET OVERVIEW**

The cash market overview contains a description of the following markets:

- I. European Naphtha Market
- II. European Propane Market

### **A. EUROPEAN NAPHTHA MARKET**

#### **Description**

Naphtha<sup>3</sup> is a refined product that is used as a gasoline blending component and is a part of the gasoline pool. It is also utilized as a solvent and petrochemical feedstock. Further, naphtha is categorized as "gasoline" in the European petroleum statistics. Naphtha and gasoline represent a large physical market, and the ARA region is the major European import hub for naphtha and gasoline. The ARA is the largest gasoline market in Europe, with demand of over one million barrels per day.

#### **Consumption, Production, Imports and Exports**

The gasoline market in Northwest Europe, specifically the Amsterdam-Rotterdam-Antwerp (ARA) region represents the largest hub in Europe for petroleum products, with extensive storage and refining capacity. The ARA market is a vibrant import and supply center for gasoline, with more than one million barrels per day of gasoline supplied by refineries in The Netherlands, Germany, and France. The U.S. Energy Information Administration ("EIA") provides gasoline production data for the ARA market in Table 1 below. In addition, naphtha is used as a gasoline blending component, and the EIA compiles data on naphtha under the category of "Motor Gasoline". Further, the imports for The Netherlands are around 210,000 barrels per day, as shown in the EIA data in Table 1. Consequently, the total supply of gasoline in the ARA market is more than one million barrels per day.

According to the EIA data in Table 1 below, for the three-year period of 2007-2009, average annual consumption of gasoline for France, Germany and Netherlands was approximately 790,000 barrels per day. Further, for the same period, the average annual production of gasoline was 1,130,000 barrels per day. Total average annual exports for motor gasoline during the three-year period of 2007-

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<sup>3</sup> <http://www.eia.gov/tools/glossary/index.cfm?id=N>

2009, set at around 632,000 barrels per day, more than doubled the total average annual imports of motor gasoline for the same period, which was approximately 263,000 barrels per day.

**Table 1. Selected Statistics for Motor Gasoline: Europe**  
(Thousand Barrels per Day)

Item and Region	2007	2008	2009	Average 2007-2009
<b>Consumption, Motor Gasoline<sup>4</sup></b>				
France	225	206	199	210
Germany	493	480	473	482
Netherlands	97	100	100	99
<b>Total Consumption</b>	<b>815</b>	<b>786</b>	<b>772</b>	<b>791</b>
<b>Production, Motor Gasoline<sup>5</sup></b>				
France	389	387	366	381
Germany	610	587	565	587
Netherlands	162	163	165	163
<b>Total Production</b>	<b>1,161</b>	<b>1,137</b>	<b>1,096</b>	<b>1,131</b>
<b>Imports, Motor Gasoline<sup>6</sup></b>				
France	12	17	14	14
Germany	41	37	35	38
Netherlands	172	226	236	211
<b>Total Imports</b>	<b>225</b>	<b>280</b>	<b>285</b>	<b>263</b>
<b>Exports, Motor Gasoline<sup>7</sup></b>				
France	147	183	148	159
Germany	126	133	126	128
Netherlands	298	358	377	344
<b>Total Exports</b>	<b>571</b>	<b>674</b>	<b>651</b>	<b>632</b>

<sup>4</sup> EIA Consumption Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=62&aid=2&cid=r3.&syid=2007&eyid=2009&unit=TBPD>

<sup>5</sup> EIA Production Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=62&aid=1&cid=r3.&syid=2007&eyid=2009&unit=TBPD>

<sup>6</sup> EIA Import Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=62&aid=3&cid=r3.&syid=2007&eyid=2009&unit=TBPD>

<sup>7</sup> EIA Export Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=62&aid=4&cid=r3.&syid=2007&eyid=2009&unit=TBPD>

### Market Activity

The Northwest European gasoline/naphtha market is priced in units of dollars per metric ton. The conversion factor is 8.3 barrels per metric ton. According to industry sources, the estimated trading volume of naphtha (converted to barrel equivalents) in the ARA cash market is approximately 500,000 to 700,000 barrels per day. The typical transaction size is around 35,000 to 40,000 barrels. The volume of spot transactions is typically more than half of all cash transactions. There is active trading in forward cash deals and in the OTC swaps market. The bid/ask spreads are typically in increments of 50 cents per metric ton (or around 0.10 cents per gallon equivalent), which reflects robust liquidity in the cash market.

### European Naphtha/Gasoline Market Participants

The market participation in the European naphtha market is diverse and includes many of the same commercial entities that are active in the New York Harbor cash market. The European cash market and OTC market is comprised of at least 30 to 40 commercial companies, including the following:

<u>Refiners</u>	<u>Traders/End Users</u>	<u>Brokers</u>	<u>Financial (Swaps)</u>
ConocoPhillips	Sempre	GFI Starsupply	Citibank
AGIP	Vitol	PVM	Deutsche Bank
Shell	Glencore	Man Financial	Barclays
ExxonMobil	Trafigura	ICAP	BankAmerica
BP	Mercuria	Aspen Oil	AIG
Total	Cargill	GFI Spectron	Merrill Lynch
ENI Refining	Morgan Stanley	TFS	
Repsol	Goldman Sachs	Amerex	
CEPSA	Koch	Prebon	
Netherlands Refining	Mabanaft		
OMV Refining	Phibro		
PetroPlus	Arcadia		
	Koch Petroleum		

## **B. EUROPEAN PROPANE MARKET (EUROPEAN PROPANE CIF ARA)**

Natural Gas Liquids (NGLs), also called Liquefied Petroleum Gases (LPGs) or Natural Gas Plant Liquids (NGPLs), are hydrocarbons comprised of propane and other related natural gas liquids, including natural gasoline, ethane, normal butane and iso-butane. NGLs are utilized as processing and blending components, feedstocks in the production of ethylene and propylene, and as fuel for heating and industrial processes.

NGLs are by-products of either of the following two processes: natural gas plant processing or petroleum refining. Fractionation is the process in which NGLs are removed from natural gas in processing plants; beginning with the removal of the lighter NGLs from the stream. Separating the lighter from the heavier hydrocarbons allows for ease of separating each NGL. During the natural gas plant production process, NGLs are produced as a result of the extraction of materials such as propane, ethane, and butane from natural gas in order to prevent these liquids from condensing and causing operational problems within the natural gas pipelines. Similarly, when oil refineries produce petroleum products, such as gasoline and heating oil, certain NGLs are also produced as a by-product of those processes. Refineries are both major consumers and producers of NGLs.

Given that NGLs are a by-product and are not directly produced, their production cannot be adjusted to coincide with changes in prices and/or demand. In addition, NGLs can be imported/exported and stored. The primary end-users for the various NGLs are the refineries, petrochemical and industrial companies, including plastics manufacturers. The manufacturing sector purchases the NGLs to use as inputs for their production process of plastic products and components. Propane is used as a petrochemical feedstock and for heating and residential uses. As described by the EIA, propane<sup>8</sup> is a normally gaseous straight-chain hydrocarbon. It is a colorless paraffinic gas that boils at a temperature of -43.67 degrees Fahrenheit and is extracted from natural gas or refinery gas streams.

The main trading hub for the European propane market is the Amsterdam-Rotterdam-Antwerp (ARA) region, where extensive storage capacity and refining infrastructure exists. The ARA market is a vibrant import and supply center for petroleum products, and encompasses the geographic area of The Netherlands, Germany, and France. The EIA compiles demand and supply data on the European market

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<sup>8</sup> Propane, <http://www.eia.gov/tools/glossary/index.cfm?id=P>



from the International Energy Agency under the *International Energy Annual* publication, as detailed below.

**Consumption, Production, Imports and Exports**

The EIA provides key data on consumption, imports, and exports for the "liquid petroleum gas" segment, which reflects liquefied petroleum gases sold directly from natural gas processing plants for fuel or chemical uses and pentanes plus. The liquefied petroleum gas production data includes, where data are available, pentanes plus. According to the EIA data in Table 2, below, the total average annual consumption of liquid petroleum gas for 2007 through 2009 was approximately 273,000 barrels per day, while average annual refinery production was 219,000 barrels per day for the same period. Total average imports were at 173,000 barrels per day, which were higher than total average exports of 88,000 barrels per day for the same period.

**Table 2. Selected Statistics for Liquefied Petroleum Gases: Europe.**  
(Thousand Barrels per Day)

Item and Region	2007	2008	2009	Average 2007-2009
<b>Annual Consumption, Liquefied Petroleum Gases<sup>9</sup></b>				
France	127	128	88	114
Germany	95	95	93	94
Netherlands	57	69	66	64
<b>Total Consumption</b>	<b>280</b>	<b>292</b>	<b>247</b>	<b>273</b>
<b>Annual Production, Liquefied Petroleum Gases<sup>10</sup></b>				
France	83	93	80	85
Germany	97	92	85	91
Netherlands	42	42	44	42
<b>Total Production</b>	<b>222</b>	<b>226</b>	<b>208</b>	<b>219</b>
<b>Imports, Liquids Petroleum Gases<sup>11</sup></b>				
France	82	84	61	76
Germany	22	28	26	25
Netherlands	73	74	69	72
<b>Total Imports</b>	<b>176</b>	<b>186</b>	<b>157</b>	<b>173</b>

<sup>9</sup> EIA Consumption Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=67&aid=2&cid=r3.&syid=2007&eyid=2009&unit=TBPD>.

<sup>10</sup> EIA Production Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=67&aid=1&cid=r3.&syid=2007&eyid=2009&unit=TBPD>.

<sup>11</sup> EIA Import Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=67&aid=3&cid=r3.&syid=2007&eyid=2009&unit=TBPD>.

Item and Region	2007	2008	2009	Average 2007-2009
<b>Exports, Liquefied Petroleum Gases<sup>12</sup></b>				
France	47	42	31	40
Germany	17	18	13	16
Netherlands	34	30	33	32
Total Exports	98	89	77	88

### Market Activity

The European propane market is priced in units of dollars per metric ton. There are dozens of propane wholesalers and retailers that participate in the propane market. According to industry sources, the estimated trading volume of propane (converted to barrel equivalents) in the ARA cash market is approximately 400,000 to 500,000 barrels per day. The typical transaction size ranges from approximately 15,000 to 40,000 barrels. The volume of spot transactions is typically more than half of all cash transactions. There is active trading in forward cash deals and in the OTC swaps market. The bid/ask spreads are typically in increments of 50 cents per metric ton (or around 0.10 cents per gallon equivalent), which reflects robust liquidity in the cash market.

### European Propane Market Participants

The propane cash market and OTC market participants are diverse and include 30 to 40 wholesalers and retailers. A partial listing is as follows:

<u>Refiners</u>	<u>Traders/Retailers</u>	<u>Brokers</u>	<u>Financial</u>
ConocoPhillips	Louis Dreyfus	Liquidity Partners	Barclays
Valero	Vitol	Nuevo	Citibank
Shell	Glencore	Nordico	JP Morgan
ExxonMobil	Koch	Houston Merc	
BP	Trafigura	Echo Energy	
Sunoco	Cargill	Lozier Energy	
Hess	Morgan Stanley		
Lyondell	Goldman Sachs		
	Trammo		

<sup>12</sup> EIA Export Data,  
<http://tonto.eia.doe.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=67&aid=4&cid=r3,&syid=2007&eyid=2009&unit=TBPD>.

## ANALYSIS OF DELIVERABLE SUPPLY

The spot month position limits for the new European Propane CIF ARA (Argus) vs. Naphtha CIF NWE (Platts) Swap Futures will aggregate into their underlying counterparts which are listed on the Exchange.

Please note that, at this time, with regard to European Naphtha and Propane markets, the Exchange is not including stocks data in its analysis of deliverable supply. Stocks data tend to vary and, at least upon launch of products, we would rather not condition recommended position limits based on stock data. Further, the Exchange has determined not to adjust the deliverable supply estimate based on the spot availability because spot market liquidity is not restrictive and tends to vary depending on the market fundamentals of demand and supply. The typical term agreement in the cash market allows flexibility for re-trading of the contracted quantity in the spot market, so the term agreements do not restrict the potential deliverable supply. Also, the spot trading is not restricted in that it could increase if the market demand increases. Therefore, we believe that it is not necessary to adjust the deliverable supply estimate on the basis of spot trading activity as it does not restrict the deliverable supply, and spot trading volume can expand to allow for more supply to flow if needed in the spot market.

The new propane-naphtha spread swap futures contract is priced as a differential between the European Propane CIF ARA (Argus) Swap Futures and the European Naphtha (Platts) Calendar Swap Futures contracts. For the leg of the spread that is based on the European Propane CIF ARA (Argus) Swap Futures contract, the Exchange will aggregate the spot month limit with the underlying contract's position limit of 50 contracts (with a contract size of 1,000 metric tons), which is equivalent to 600,000 barrels. Based on the production data provided by the EIA (Table 2 above), the total propane supply in the European market was approximately 220,000 barrels per day, which is equivalent to 6.6 million barrels per month, or 500,000 metric tons per month (contract size for the underlying contract is 1,000 metric tons). The existing position limit of 50 contracts for the underlying contract is approximately 10% of the monthly deliverable supply of propane.

Further, for the leg of the spread that is based on the European Naphtha (Platts) Calendar Swap Futures contract, the Exchange will aggregate the spot month limit with the underlying contract's position

limit of 150 contracts with contract size of 1,000 metric tons, which is equivalent to 1.3 million barrels. In Table 1 above, the total gasoline/naphtha production in the European market was approximately 1.1 million barrels per day, which is equivalent to 33 million barrels per month, or 3.7 million metric tons per month (contract size for the underlying contract is 1,000 metric tons). This is equivalent to 3,700 contract equivalents for the underlying contract size of 1,000 metric tons. Thus, the existing spot month position limits of 150 contract units for the underlying European Naphtha (Platts) Calendar Swap Futures contract (of 1,000 metric ton contract size) is approximately 4% of the 3,700 contract equivalents of monthly supply.