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May 10, 2011

OFFICE OF THE  
SECRETARIAT

**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 #11-184: Notification Regarding the Listing of ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip Contract for Open Outcry Trading and for Clearing through CME ClearPort®**

Dear Mr. Stawick:

The 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 a new ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip Contract (Rule Chapter 407; Code NEL), for open outcry trading and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, May 15, 2011 for trade date Monday, May 16, 2011.

The proposed option contract will exercise into a strip of twelve underlying ISO New England Internal Hub Peak LMP Swap Futures beginning with January 2012 contract month. The listing period shall be three (3) consecutive years. The following will be the option contract specifications:

<b>Contract Name</b>	ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip
<b>Rule Chapter</b>	407
<b>Contract Code</b>	NEL
<b>Minimum Price Increments</b>	\$0.01 per megawatt hour
<b>Strike Price Interval</b>	\$0.50 per megawatt hour
<b>Underlying Contract</b>	ISO New England Internal Hub Peak LMP Swap Futures (code NI)
<b>Contract Size</b>	2.5 MWh multiplied by the number of peak hours in the contract year.

The Exchange fee schedule is as follows:

Exchange Fees					
	Member	Member	Cross	Non-	IIP
<b>NX Pit</b>	N/A	\$48.00	\$48.00	\$48.00	
<b>ClearPort</b>		\$48.00		\$48.00	

Processing Fees		
	Member	Non-Member
<b>Cash Settlement</b>	N/A	N/A
<b>Futures from</b>	N/A	N/A
	House Acct	Customer Acct
<b>Options E/A</b>	\$0.40	\$0.85
<b>Delivery Notice</b>	N/A	N/A

Additional Fees and	
<b>EFS Surcharge</b>	N/A
<b>Block Surcharge</b>	N/A
<b>Facilitation Desk</b>	\$0.60

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. The listing of this contract will become effective on trade date May 16, 2011.

Should you have any questions concerning the above, please contact Bob Biolsi at (212) 299-2610, (347) 439-4735 or [Bob.Biolsi@cmegroup.com](mailto:Bob.Biolsi@cmegroup.com) or the undersigned at (212) 299-2207, (347) 463-5347 or [felix.khalatnikov@cmegroup.com](mailto:felix.khalatnikov@cmegroup.com).

Sincerely,

/s/ Felix Khalatnikov  
Dir & Assoc General Counsel

Attachments: Contract terms and conditions  
Cash market overview and analysis of deliverable supply

## Chapter 407

### ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip

#### 407.01 EXPIRATION

An ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip contract shall expire on the second to last Friday of the month prior to the first underlying ISO New England Internal Hub Peak LMP Swap Futures contract. If the second to last Friday is an Exchange holiday, expiration will occur on the business day immediately preceding that day.

#### 407.02 TYPE OPTION

An ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip is a European-style option.

#### 407.03 TRADING UNIT

On expiration of a call option, the long position will be assigned twelve consecutive months beginning with the underlying January month of long ISO New England Internal Hub Peak LMP Swap Futures contracts at the strike price. On exercise of a put option, the long position will be assigned twelve consecutive months beginning with the underlying January month of short ISO New England Internal Hub Peak LMP Swap Futures contracts at the strike price.

#### 407.04 STRIKE PRICES

Trading shall be conducted for options with strike prices in increments as set forth below.

(A) On the first business day of trading in an option contract month, trading shall be at the following strike prices: (i) the previous day's average settlement price for the underlying ISO New England Internal Hub Peak LMP Swap Futures strip rounded off to the nearest fifty cent increment, unless such settlement price is precisely midway between two fifty cent increments in which case it shall be rounded off to the lower fifty cent increment; (ii) the five strike prices which are five fifty cent increments higher than the strike price described in section (i) of this Rule 407.04(A); and (iii) the five strike prices which are five fifty cent increments lower than the strike price described in section (i) of this Rule 407.04(A)

(B) Thereafter, on any business day prior to the expiration of the option, new strike prices for both puts and calls will be added, such that at all times there will be at least five fifty cent increment strike prices above and below the at-the-money strike price available for trading in all options contract months. The at-the-money strike price will be determined in accordance with the procedures set forth in Subsection (A) of this Rule 407.04.

(C) Notwithstanding the provisions of subsections (A) and (B) of this Rule, if the Exchange determines that trading in ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip 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 option contract month, the number of new strike prices which will be introduced on each business day or the period preceding the expiration of a ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip in which no new strike prices may be introduced.

#### 407.05 TRADING MONTHS

Trading in ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip contracts shall be conducted in the months determined by the Exchange. Trading shall commence on the day fixed by resolution of the Exchange.

#### 407.06 PRICES

Prices shall be quoted in dollars and cents per Megawatt hour (MWh). The minimum price increment will be one cent (\$0.01) per MWh.

#### 407.07 ABSENCE OF PRICE FLUCTUATION

Trading in ISO New England Internal Hub Peak LMP Option on Calendar Futures Strip contract shall not be subject to price fluctuation limitations.

## **CASH MARKET OVERVIEW**

### **ISO New England**

ISO New England is a regional transmission organization (RTO), serving Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. ISO New England is an independent, not-for-profit corporation. ISO New England has three primary responsibilities:

- Provides centrally dispatched direction for the generation and flow of electricity across the region's interstate high-voltage transmission lines and thereby ensuring the constant availability of electricity for New England's residents and businesses.
- Development, oversight and administration of New England's wholesale electricity marketplace, through which bulk electric power has been bought, sold and traded since 1999.
- Management of comprehensive bulk electric power system and wholesale markets' planning processes that address New England's electricity needs well into the future.

ISO New England has operated as a Regional Transmission Organization since February 1, 2005. The ISO operates the Day-Ahead and Real-Time Energy Markets, the Forward Capacity Market (FCM), the Regulation Market, the reserve markets, and the annual and monthly auctions of Financial Transmission Rights (FTRs).

### **Internal Hub**

The Internal Hub (Mass Hub) is the single hub developed and launched by ISO-New England. The 36 nodes that comprise the Internal Hub are located in Massachusetts.

### **Cash Market/OTC Market Data**

Exchange staff has reviewed both the relevant cash and over-the-counter (OTC) markets for these products. We believe that the cash markets are sufficiently robust to provide underlying support for the listing of futures contracts.

Table 1, below, indicates the size of the physical and commercial markets for the ISO New England Internal Hub. The latest available data of 2010 fourth quarter is derived from quarterly power marketer filings required by the Federal Energy Regulatory Commission (FERC). These filings report provide the total MWh volume at named delivery locations. Reporting of market-based activity to FERC includes both cash and OTC markets. The filings do not segment the reported transactions by peak/off-peak or transaction duration. Platts obtains the quarterly filings and publishes the aggregation. That said, on average, Day-Ahead load represents approximately 60% of total system load as opposed to 40% for Real-Time, and of that, about 50% are for peak-hour transactions. A peak day shall mean a Monday through Friday, excluding North American Electric Reliability Corporation holidays. Peak hours shall cover from Hour Ending (HE) 0800 Eastern Prevailing Time (EPT) through HE 2300 EPT.

**Table 1: 2010 Q4 MWh Volume of Internal Hub**

Location	MWh	MWh Per Month	60% Day-Head Adjustment	50% Peak-Hour Adjustment
Internal Hub	13,845,408	4,615,136	2,769,082	1,384,541

### Market Participants

Table 2 below includes some of the active participants in the ISO New England market.

**Table 2: Market Participants of ISO New England Internal Hub**

Market Participants	Financial Participants	OTC Brokers
Dominion Resources	Merrill Lynch	Amerex
Constellation Energy Commodities & Affiliates	Goldman Sachs	ICAP
PSEG Energy Resources & Trade	Deutsche Bank	Prebon
Nextera Energy Resources	UBS	IVG
JP Morgan Chase Bank Affiliates	JP Morgan	TFS
RBS Sempra Commodities		
Macquarie Energy		
Morgan Stanley Capital Group		
Mach Gen Project Companies		
Db Energy Trading		
PSEG Deregulated Affiliates		
Duke Energy Affiliates		

## Futures Market

The underlying futures contract of the proposed option is the ISO New England Internal Hub Peak LMP Swap Futures (Exchange Code NI), which is one of the most actively traded markets. Table 3 below shows the monthly volume and end of month open interest for the futures contract. The volume has averaged about 2,300 contracts per month and the open interest has averaged a healthy number of about 18,700 contracts.

**Table 3: Futures Monthly Volume and End of Month Open Interest**

Year Month	Monthly Volume	End of Month Open
200901	6,048	22,920
200902	2,364	22,696
200903	4,528	20,968
200904	3,017	21,703
200905	1,630	21,615
200906	2,726	22,415
200907	1,760	22,346
200908	1,130	21,308
200909	3,638	19,121
200910	4,066	19,782
200911	4,308	20,251
200912	3,010	19,975
201001	982	19,318
201002	770	18,409
201003	2,554	18,602
201004	572	18,168
201005	1,846	17,566
201006	2,506	17,044
201007	1,554	16,549
201008	1,398	15,974
201009	2,378	15,798
201010	2,232	16,118
201011	1,362	15,898
201012	1,168	16,311
201101	353	15,716
201102	970	15,536
201103	3,676	15,279

## ANALYSIS OF DELIVERABLE SUPPLY

The proposed option contract under this submission is a peak real-time contract. The underlying unit is 2.5 megawatts per hour. For a month of 340 peak hours, the contract size will be 850 MWh per month.

In Table 1 above, the total volume of ISO New England Internal Hub is presented. The estimated deliverable supply for Peak Day-Ahead market is 34,614 MWh. This is equivalent to approximately 1,648 contract units of the underlying monthly futures.

The underlying contract of the proposed option and its current spot month position limit is as follows:

ISO New England Internal Hub Peak LMP Peak LMP Swap Futures: 200 contracts

Therefore, the Exchange proposes to set the spot month position limit for the option to be the same as, and aggregate into, the underlying futures contract. Please note that the spot month position limit represents approximately 12% of the average monthly deliverable supply.