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June 16, 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 # 11-227: Notification Regarding the Listing of Three (3) Petroleum Futures Contracts 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 three (3) financially settled petroleum futures contracts for trading on the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, June 19, 2011, for trade date Monday, June 20, 2011.

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.

The specifications for the contracts are provided below for your convenience.

<u>Contract</u>	<u>Code</u>	<u>Rulebook Chapter</u>	<u>First Listed Month</u>	<u>Listing Period</u>
Heating Oil vs. Brent Crack Spread Swap Futures	HOB	1097	Jul-11	Listed through December 2012
Gulf Coast ULSD (Argus) Up-Down BALMO Swap Futures	GUD	1100	Jun-11	One month and the following month listed 10 business days prior to the start of the contract month.
Gulf Coast Jet (Argus) Up-Down BALMO Swap Futures	GBA	1099	Jun-11	One month and the following month listed 10 business days prior to the start of the contract month.

- **Contract Size:** GUD and GBA = 42,000 Gallons; HOB = 1,000 Barrels
- **Termination of Trading:** Trading shall cease on the last business day of the contract month.
- **Minimum Price Tick:** GUD and GBA = \$0.0001; HOB = \$0.001
- **Value per Tick:** GUD and GBA = \$4.20; HOB = \$1.00
- **Final Settlement Price:** GUD and GBA Minimum settlement tick = \$0.0001  
HOB 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).

• **Trading and Clearing Fees:**

<b>Contract</b>	<b>CME ClearPort Rates</b>		<b>NY Trading Floor Rates</b>		<b>Cash Settlement Fee</b>	
Heating Oil vs. Brent Crack Spread Swap Futures	Member	\$0.85	Member	\$0.85	Member	\$0.85
	Non-Member	\$1.35	Non-Member	\$1.35	Non-Member	\$1.35
			Blended Floor	\$1.10		
Gulf Coast ULSD (Argus) Up-Down BALMO Swap Futures	Member	\$0.85	Member	\$0.85	Member	\$0.85
	Non-Member	\$1.35	Non-Member	\$1.35	Non-Member	\$1.35
			Blended Floor	\$1.10		
Gulf Coast Jet (Argus) Up-Down BALMO Swap Futures	Member	\$0.85	Member	\$0.85	Member	\$0.85
	Non-Member	\$1.35	Non-Member	\$1.35	Non-Member	\$1.35
			Blended Floor	\$1.10		

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 contracts comply 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 June 20, 2011.

Should you have any questions concerning the above, please contact Daniel Brusstar at (212) 299-2604, (917) 319-4119 or [Daniel.brusstar@cmegroup.com](mailto:Daniel.brusstar@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 1097**  
**Heating Oil vs. Brent Crack Spread Swap Futures**

**1097.01. 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.

**1097.02. FLOATING PRICE**

(A) The Floating Price for each contract month is equal to the arithmetic average of the New York Harbor No. 2 Heating Oil Futures first nearby contract month settlement price minus the arithmetic average of the Brent Crude Oil (ICE) Futures 1st nearby contract settlement prices, except as set forth in Section (B) below, for each business day that it is determined during the contract month. For purposes of determining the Floating Price, the heating oil price will be converted each day to U.S. dollars and cents per barrel, rounded to the nearest cent (using non-common pricing).

(B) The settlement price of the 1st nearby contract month will be used except on the last day of trading for the expiring ICE Brent Crude Oil Futures contract when the settlement price of the 2nd nearby ICE Brent Crude Oil Futures contract will be used.

**1097.03. CONTRACT QUANTITY AND VALUE**

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

**1097.04. CONTRACT MONTHS**

Trading shall be conducted in contracts in such months as shall be determined by the Exchange.

**1097.05. PRICES AND FLUCTUATIONS**

Prices shall be quoted in U.S. dollars and cents per barrel. The minimum price fluctuation shall be \$0.001 per barrel. There shall be no maximum price fluctuation.

**1097.06. TERMINATION OF TRADING**

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

**1097.07. 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.

**1097.08. EXCHANGE FOR RELATED POSITIONS**

Any Exchange for Related Position (EFRP) transaction shall be governed by the provisions of Exchange Rule 538.

**1097.09. DISCLAIMER**

NYMEX AND ITS AFFILIATES MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF THE ICE BRENT CRUDE OIL FIRST OR SECOND NEARBY CONTRACT MONTH SETTLEMENT PRICES, TRADING BASED ON THE ICE BRENT CRUDE OIL FIRST OR SECOND NEARBY CONTRACT MONTH SETTLEMENT PRICES, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACT, OR, FOR ANY OTHER USE. NYMEX AND ITS AFFILIATES 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 ICE BRENT CRUDE OIL FIRST OR SECOND NEARBY CONTRACT MONTH SETTLEMENT PRICES OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX OR ITS AFFILIATES 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 DAMAGES.

**Chapter 1100**  
**Gulf Coast ULSD (Argus) Up-Down BALMO Swap Futures**

**1100.01. 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.

**1100.02. FLOATING PRICE**

The Floating Price for each contract month is equal to the balance-of-month arithmetic average of the mid-point of the high and low quotations from Argus Media for Gulf Coast ULSD (Pipeline) minus the New York Harbor No. 2 Heating Oil Futures first nearby contract month settlement price starting from the selected start date through the end of the contract month, inclusively (using common pricing).

For purposes of determining the Floating Price, the Argus Media ULSD mean will be rounded each day to the nearest thousandth of a cent.

**1100.03. CONTRACT QUANTITY AND VALUE**

The contract quantity shall be 42,000 gallons. Each contract shall be valued as the contract quantity (42,000) multiplied by the settlement price.

**1100.04. CONTRACT MONTHS**

Trading shall be conducted in contracts in such months as shall be determined by the Exchange.

**1100.05. PRICES AND FLUCTUATIONS**

Prices shall be quoted in U.S. dollars and cents per gallon. The minimum price fluctuation shall be \$0.0001 per gallon. There shall be no maximum price fluctuation.

**1100.06. TERMINATION OF TRADING**

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

**1100.07. 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.

**1100.08. EXCHANGE FOR RELATED POSITIONS**

Any Exchange for Related Position (EFRP) transaction shall be governed by the provisions of Exchange Rule 538.

**1100.09. DISCLAIMER**

NEITHER NYMEX AND ITS AFFILIATES NOR ARGUS GUARANTEES THE ACCURACY AND/OR COMPLETENESS OF THE ASSESSMENT OR ANY OF THE DATA INCLUDED THEREIN. NYMEX AND ITS AFFILIATES AND ARGUS MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF THE ASSESSMENT, TRADING BASED ON THE ASSESSMENT, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACT, OR, FOR ANY OTHER USE. NYMEX AND ITS AFFILIATES AND ARGUS 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 ASSESSMENT OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX AND ITS AFFILIATES OR ARGUS 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 DAMAGES.

Argus Media ("Argus") licenses the New York Mercantile Exchange, Inc. to use various Argus price assessments in connection with the trading of the contract. Argus does not sponsor, endorse, sell or promote the NYMEX contract and Argus makes no recommendations concerning the advisability of investing in the NYMEX contract.

**Chapter 1099**  
**Gulf Coast Jet (Argus) Up-Down BALMO Swap Futures**

**1099.01. 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.

**1099.02. FLOATING PRICE**

The Floating Price for each contract month is equal to the balance-of-month arithmetic average of the mid-point of the high and low quotations from Argus Media for Jet 54 (Pipeline) minus the New York Harbor No. 2 Heating Oil Futures first nearby contract month settlement price starting from the selected start date through the end of the contract month, inclusively (using common pricing).

For purposes of determining the Floating Price, the Argus Media Gulf Coast jet mean will be rounded each day to the nearest thousandth of a cent.

**1099.03. CONTRACT QUANTITY AND VALUE**

The contract quantity shall be 42,000 gallons. Each contract shall be valued as the contract quantity (42,000) multiplied by the settlement price.

**1099.04. CONTRACT MONTHS**

Trading shall be conducted in contracts in such months as shall be determined by the Exchange.

**1099.05. PRICES AND FLUCTUATIONS**

Prices shall be quoted in U.S. dollars and cents per gallon. The minimum price fluctuation shall be \$0.0001 per gallon. There shall be no maximum price fluctuation.

**1099.06. TERMINATION OF TRADING**

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

**1099.07. 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.

**1099.08. EXCHANGE FOR RELATED POSITIONS**

Any Exchange for Related Position (EFRP) transaction shall be governed by the provisions of Exchange Rule 538.

**1099.09. DISCLAIMER**

NEITHER NYMEX AND ITS AFFILIATES NOR ARGUS GUARANTEES THE ACCURACY AND/OR COMPLETENESS OF THE ASSESSMENT OR ANY OF THE DATA INCLUDED THEREIN. NYMEX AND ITS AFFILIATES AND ARGUS MAKE NO WARRANTIES, EXPRESS OR IMPLIED, AS TO THE RESULTS TO BE OBTAINED BY ANY PERSON OR ENTITY FROM USE OF THE ASSESSMENT, TRADING BASED ON THE ASSESSMENT, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE CONTRACT, OR, FOR ANY OTHER USE. NYMEX AND ITS AFFILIATES AND ARGUS 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 ASSESSMENT OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX AND ITS AFFILIATES OR ARGUS 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 DAMAGES.

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## **CASH MARKET OVERVIEW**

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is self-certifying the listing of the following three (3) financially settled residual fuel oil futures contracts for trading on the NYMEX trading floor and for clearing through CME ClearPort.

1. Heating Oil vs. Brent Crack Spread Swap Futures
2. Gulf Coast ULSD (Argus) Up-Down BALMO Swap Futures
3. Gulf Coast Jet (Argus) Up-Down BALMO Swap Futures

The new Heating Oil vs. Brent Crack Spread Swap Futures contract is based on the differential between the NYMEX Heating Oil Futures and Brent (ICE) Calendar Swap Futures contracts. The Gulf Coast ULSD (Argus) Up-Down BALMO Swap Futures is based on the Gulf Coast ULSD (Argus) Up-Down Swap Futures contract while the Gulf Coast Jet (Argus) Up-Down BALMO Swap Futures contract is based on the existing Gulf Coast Jet (Argus) Up-Down Swap Futures contract.

## **BALANCE-OF-MONTH CONTRACTS**

The final settlement for the two new balance-of-month ("BALMO") swap futures contracts is equal to the balance-of-month arithmetic average, starting from the selected start date through the end of the contract month, inclusively.

BALMO swap futures are used by market participants in the over-the-counter ("OTC") market for pricing transactions in periods that are less than a full calendar month. BALMO swap futures contracts are cash-settled, and are settled similarly to the settlement of a calendar month swap futures using a specified index price, such as the Argus price assessment, starting from the day of execution until the last day of the contract month. The user has the flexibility to select the start date (or first day) of the BALMO averaging period. The last day of the period is the last business day of the contract month. In the OTC petroleum market, the BALMO swap futures model is a useful hedging tool that allows the market participants and hedgers to customize the averaging period of the transaction to allow for partial-month average prices. As stated above, the structure of the BALMO swap futures contract is similar to that of a calendar month swap futures, except for the averaging period of the transaction.

## **PRICE SOURCES**

Argus: Argus Media ("Argus") is the price reporting service utilized for one leg of the final settlement for the new Gulf Coast ULSD (Argus) Up-Down BALMO Swap Futures and Gulf Coast Jet (Argus) Up-Down BALMO Swap Futures contracts. 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 a party to a license agreement with Argus to utilize their pricing data.

ICE: The Exchange does not have an information sharing agreement with the Intercontinental Exchange ("ICE"). The ICE Brent Crude Oil Futures contract is the source of the settlement price for one leg of the Heating Oil vs. Brent Crack Spread Swap Futures. The ICE Brent Crude Oil Futures is regulated by the FSA. According to ICE, the average trading activity in the ICE Brent Futures contract represents more than 380,000 contracts traded per day. Based on our discussions with market participants, we believe that there are dozens of active participants in the ICE futures market and that their prices are determined competitively. Since the CFTC has reviewed the FSA regulatory structure and determined it to be comparable to that of the CFTC, the Exchange is assured in placing confidence in the disseminated settlement price for ICE Brent Crude Oil Futures contract.

## **MARKET OVERVIEW**

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

- I. New York Harbor and Gulf Coast Distillate Markets
- II. Brent Crude Oil Market

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

## I. DISTILLATE FUEL OIL MARKET

### Description

The distillate fuel oil market in the U.S encompasses two products: Ultra-low-sulfur diesel (ULSD), which is utilized as a transportation fuel (diesel) for on-highway vehicles, and high-sulfur distillate, which is used for space heating (heating oil) in commercial and residential sectors. It can also be consumed as a fuel for stationary (non transportation) application in the commercial, industrial, and electricity generation sectors. Distillate fuel oil is a general classification for one of the petroleum fractions produced in conventional distillation operations. Products with a categorization number of 1 are diesel fuels that are used in on-highway and off-highway diesel engines, while number 2 and 4 fuel oils are used for space heating and electric power generation.<sup>2</sup> Jet Fuel is a refined product that is utilized in jet aircraft engines. It includes kerosene-type jet fuel and naphtha-type jet fuel.<sup>3</sup>

Heating oil is incorporated into the "distillate" fuel segment, which also includes Ultra-low sulfur diesel (ULSD). Heating oil is used mainly for space heating and electric power generation, and ULSD is used as a diesel fuel for the transportation sector. The main trading hubs for the U.S. distillate fuel oil market are located in the Gulf Coast and New York Harbor regions, where extensive storage capacity and refining infrastructure exists.

### Consumption, Production, Imports and Exports

The U.S. Energy Information Administration (EIA) provides key data on consumption, refinery production, imports, and exports for the "distillate fuel oil" segment, which includes heating oil, and ULSD. According to the EIA data for Petroleum Administration Defense District (PADD) III in Table 1, below, the total average annual consumption of distillate fuel for 2008 through 2010 was approximately 756,000 barrels per day, while average annual refinery production was 2,139,000 barrels per day for the same period. Furthermore, the EIA provides a breakdown of production for kerosene-type Jet Fuel and Distillate Fuel Oil, 15 ppm Sulfur and under (ULSD) production. Over the annual period of 2008 - 2010 refinery production averaged 706,000 barrels per day for the kerosene-type Jet Fuel while Distillate Fuel Oil, 15 ppm Sulfur and under (ULSD) averaged 1.5 million barrels per day. USLD and jet fuel volume

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<sup>2</sup> Distillate Fuel Oil, <http://www.eia.gov/tools/glossary/index.cfm?id=D>.

<sup>3</sup> Jet Fuel, <http://www.eia.gov/tools/glossary/index.cfm?id=J>.



production generated from PADD III is not only consumed in PADD III, but PADD III production is also supplied to other regions. Total average annual imports for the 2008 - 2010 period were at 9,000 barrels per day, which was lower than total average exports of 456,000 barrels per day for the same period.

**Table 1. Selected Statistics for Distillate Fuel Oil: United States Gulf Coast (PADD III)<sup>4</sup>**  
(Thousand Barrels per Day)

Item and Region	2008	2009	2010	Average 2008-2010
Annual Consumption, Distillate Fuel Oil	758	713	796	756
Annual Exports, Distillate Fuel Oil	363	458	547	456
Annual Imports, Distillate Fuel Oil	13	5	9	9
Refinery and Blender Net Production, Distillate Fuel Oil	2,096	2,099	2,221	2,139
Refinery and Blender Net Production, Kerosene-Type Jet Fuel	710	692	715	706
Refinery and Blender Net Production, Distillate Fuel Oil, 15 ppm Sulfur and Under	1,397	1,435	1,707	1,513

Table 2 below reflects the consumption, production, import and export data within the PADD I region, which encompasses the U.S. Eastern seaboard. Over the annual period from 2008-2010, distillate fuel oil consumption averaged 1.2 million barrels per day. Distillate fuel oil imports averaged more than 190,000 barrels per day from 2008 - 2010, while exports averaged 60,000 barrels per day. Over the 2008 - 2010 period, PADD I refinery production of distillate fuel oil was 411 million barrels per day, which is equivalent to 12.3 million barrels per month.

**Table 2. Selected Statistics for Distillate Fuel Oil: United States New York Harbor (PADD I)<sup>5</sup>**  
(Thousand Barrels per Day)

Item and Region	2008	2009	2010	Average 2008-2010
Annual Consumption, Distillate Fuel Oil	1,261	1,188	1,169	1,206
Annual Exports, Distillate Fuel Oil	65	56	60	60
Annual Imports, Distillate Fuel Oil	183	196	193	191
Refinery and Blender Net Production, Distillate Fuel Oil	476	387	369	411

<sup>4</sup> EIA Consumption Data, [http://www.eia.gov/dnav/pet/pet\\_cons\\_psup\\_dc\\_r30\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_cons_psup_dc_r30_mbbldpd_a.htm).

EIA Export Data, [http://www.eia.gov/dnav/pet/pet\\_move\\_exp\\_dc\\_R30-Z00\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_move_exp_dc_R30-Z00_mbbldpd_a.htm).

EIA Import Data, [http://www.eia.gov/dnav/pet/pet\\_move\\_imp\\_dc\\_R30-Z00\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_move_imp_dc_R30-Z00_mbbldpd_a.htm).

EIA Production Data, [http://www.eia.gov/dnav/pet/pet\\_pnp\\_refp\\_dc\\_r30\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_pnp_refp_dc_r30_mbbldpd_a.htm).

<sup>5</sup> EIA Consumption Data, [http://www.eia.gov/dnav/pet/pet\\_cons\\_psup\\_dc\\_r10\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_cons_psup_dc_r10_mbbldpd_a.htm).

EIA Export Data, [http://www.eia.gov/dnav/pet/pet\\_move\\_exp\\_dc\\_R10-Z00\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_move_exp_dc_R10-Z00_mbbldpd_a.htm).

EIA Import Data, [http://www.eia.gov/dnav/pet/pet\\_move\\_imp\\_dc\\_R10-Z00\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_move_imp_dc_R10-Z00_mbbldpd_a.htm).

EIA Production Data, [http://www.eia.gov/dnav/pet/pet\\_pnp\\_refp\\_dc\\_r10\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_pnp_refp_dc_r10_mbbldpd_a.htm).

## Inventories

Table 3 below provides monthly EIA data for PADD III inventories for Distillate Fuel Oil. Over the annual period of 2008 to March 2011, PADD III stocks varied from a high of over 52 million barrels in January 2011 to a low of approximately 29 million barrels in February 2008. According to the most recent EIA data, distillate fuel oil inventory levels were at 50 million barrels in March 2011.

**Table 3. Distillate Fuel Oil Inventories: PADD III<sup>6</sup>**

(Thousand Barrels)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>January</b>	30,232	39,254	44,969	52,564
<b>February</b>	29,344	41,257	44,660	48,041
<b>March</b>	29,925	40,241	45,468	50,540
<b>April</b>	30,852	41,999	44,225	-
<b>May</b>	32,449	43,273	45,507	-
<b>June</b>	32,496	44,893	48,588	-
<b>July</b>	37,303	46,411	50,204	-
<b>August</b>	34,516	49,342	51,079	-
<b>September</b>	33,222	48,541	47,906	-
<b>October</b>	34,563	50,207	47,018	-
<b>November</b>	36,399	45,324	46,079	-
<b>December</b>	39,704	48,854	51,132	-
<b>Total</b>	<b>401,005</b>	<b>539,596</b>	<b>566,835</b>	<b>151,145</b>

Table 4 below provides monthly EIA data for PADD I inventories for Distillate Fuel Oil. Over the annual period of 2008 to March 2011, PADD I stocks varied from a high of over 78 million barrels in November 2009 to a low of approximately 32 million barrels in April 2008. According to the most recent EIA data, distillate fuel oil inventory levels were at 51 million barrels in March 2011.

<sup>6</sup> EIA Inventory Data, [http://www.eia.gov/dnav/pet/pet\\_stoc\\_wstk\\_dc\\_u\\_r30\\_m.htm](http://www.eia.gov/dnav/pet/pet_stoc_wstk_dc_u_r30_m.htm).

**Table 4. Distillate Fuel Oil Inventories: PADD I<sup>7</sup>**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>January</b>	51,617	52,560	67,150	58,916
<b>February</b>	40,922	53,191	61,471	57,104
<b>March</b>	33,615	54,630	56,643	51,227
<b>April</b>	32,876	58,762	57,419	-
<b>May</b>	35,653	64,550	58,355	-
<b>June</b>	42,254	68,929	62,678	-
<b>July</b>	47,572	69,906	67,439	-
<b>August</b>	52,588	71,866	71,620	-
<b>September</b>	50,761	74,842	71,692	-
<b>October</b>	51,419	73,687	71,308	-
<b>November</b>	52,994	78,073	70,744	-
<b>December</b>	56,711	68,275	62,859	-
<b>Total</b>	<b>548,982</b>	<b>789,271</b>	<b>779,378</b>	<b>167,247</b>

**Prices**

Table 5, below, reflects the monthly average final settlement prices provided by NYMEX in U.S. dollars and cents per gallon from January 2008 – May 2011 for the NYMEX Heating Oil Futures contract. Over the three-year period of January 2008 – May 2011, NYMEX Heating Oil Futures prices varied from a high of \$3.8120 in June 2008 to a low of \$1.2752 in February 2009.

<sup>7</sup> EIA Inventory Data, [http://www.eia.gov/dnav/pet/pet\\_stoc\\_wstk\\_dc\\_u\\_r10\\_m.htm](http://www.eia.gov/dnav/pet/pet_stoc_wstk_dc_u_r10_m.htm).

**Table 5. Selected Statistics for Distillate Fuel Oil: Prices**

<b>Year</b>	<b>Date</b>	<b>NYMEX Heating Oil Futures</b>
<b>2008</b>	<b>Jan</b>	2.5613
	<b>Feb</b>	2.6504
	<b>Mar</b>	3.0098
	<b>Apr</b>	3.1874
	<b>May</b>	3.6163
	<b>Jun</b>	3.8120
	<b>Jul</b>	3.7816
	<b>Aug</b>	3.1908
	<b>Sep</b>	2.9318
	<b>Oct</b>	2.2413
	<b>Nov</b>	1.8513
	<b>Dec</b>	1.4212
<b>2009</b>	<b>Jan</b>	1.4655
	<b>Feb</b>	1.2752
	<b>Mar</b>	1.2924
	<b>Apr</b>	1.3758
	<b>May</b>	1.5028
	<b>Jun</b>	1.7880
	<b>Jul</b>	1.6627
	<b>Aug</b>	1.8850
	<b>Sep</b>	1.7594
	<b>Oct</b>	1.9552
	<b>Nov</b>	2.0205
	<b>Dec</b>	1.9977
<b>2010</b>	<b>Jan</b>	2.0609
	<b>Feb</b>	1.9872
	<b>Mar</b>	2.0944
	<b>Apr</b>	2.2304
	<b>May</b>	2.0478
	<b>Jun</b>	2.0467
	<b>Jul</b>	2.0070
	<b>Aug</b>	2.0540
	<b>Sep</b>	2.1126
	<b>Oct</b>	2.2606
	<b>Nov</b>	2.3347
	<b>Dec</b>	2.4869
<b>2011</b>	<b>Jan</b>	2.6093
	<b>Feb</b>	2.7772
	<b>Mar</b>	3.0453
	<b>Apr</b>	3.2062
	<b>May</b>	2.9639

### **Market Activity**

In the OTC market, heating oil swaps typically trade both as outright contracts and as a spread to the NYMEX Heating Oil settlement price. The Heating Oil Futures contract, which is the benchmark for pricing U.S. distillate fuels, is physically delivered in the New York Harbor and is the source of the settlement prices for the various NYMEX Heating Oil swap futures contracts.

In the Gulf Coast and New York Harbor distillates market, there is robust liquidity, where the heating oil is priced in units of dollars per gallon. The Gulf Coast distillates market (the majority consisting of diesel fuel) has daily trading activity of three million to four million barrels per day in diesel fuel, jet fuel, and heating oil. The typical transaction size in the Gulf Coast distillates market is 25,000 barrels, with over 100 transactions per day. The trading volume is broken down as approximately half occurring as spot transactions, and half as forward deals. There is active trading in forward transactions on the Colonial and Explorer Pipelines. The bid/ask spreads are typically in increments of one-quarter cent. The Gulf Coast market is the main supply center for diesel and jet fuels. Domestic U.S. demand for on-road diesel fuel has increased steadily, and is currently more than 1.3 million barrels per day, while jet fuel demand is around 3.3 million barrels per day.

Further, there is an active OTC swaps market with dozens of market participants that utilize heating oil swaps to hedge their fuel price risk. The market participants (listed below) typically are active in both the cash market and the OTC swaps market.

### **Market Participants**

The market participation in the gasoline market is diverse and includes many of the same commercial entities that are active in the New York Harbor and Gulf Coast cash market. The gasoline cash and OTC market's consist of at least 50 to 60 commercial companies, including the following:

**Refiners**

ConocoPhillips  
Valero  
Shell  
ExxonMobil  
BP Corporation  
Total  
Marathon  
Chevron  
Sunoco

**Traders/End Users**

Hess Energy Trading  
Vitol  
Glencore Ltd  
Arcadia  
Northville  
Cargill  
Morgan Stanley  
Goldman Sachs  
Koch  
Trafigura  
Musket Energy  
Noble Energy  
Lukoil  
Pilot Travel Centers  
LDH Energy  
Musket Energy  
Colonial Oil

**Brokers**

GFI Starsupply  
PVM  
Man Financial  
ICAP United Inc.  
Echo Energy  
MOAB Oil Inc.  
TFS Energy  
OceanConnect Inc.  
Sage Refined Products  
Falcon Products Inc.  
TCT Oil Brokers  
First National Oil Brokers

**Financial (Swaps)**

Citibank  
Deutsche Bank  
Barclays  
Bank of America  
JP Morgan  
Credit Suisse

**II. BRENT CRUDE OIL MARKET****Production**

The Brent market is comprised of four North Sea crude oil grades: Brent, Forties, Oseberg, and Ekofisk ("BFOE" or "Brent"). The standard cargo size in the BFOE market is 600,000 barrels. According to Consilience Energy Advisory Group, an oil industry consulting firm based in London, the BFOE accounts for daily crude oil production of over 1.5 million barrels. These four North Sea grades are segregated blends delivered at different locations in the North Sea, and each can be substituted by the seller in the 21-Day BFOE cash market.

**Cash Market**

The underlying Brent crude oil cash market is actively traded by dozens of commercial companies. The Brent spot market is known as Dated Brent, which refers to delivery of any of the BFOE grades within 7 to 21 days forward. The Dated Brent spot market assessment is used to price many grades of physical crude oil in the North Sea, Russia, and West Africa. There are hundreds of commercial and non-commercial participants actively trading in the Brent crude oil market, both in the underlying cash market and futures markets. There is an established futures market, under the regulation of the FSA, in Brent Crude Oil at ICE Futures Europe. The average daily trading volume through November 2007 for the Brent Crude Oil futures, listed on ICE Futures Europe, is approximately 240,000 contracts traded (each contract is 1,000 barrels in size). Further, the NYMEX Brent Crude Oil Last Day

Futures contract is currently trading on the CME Globex® platform under CFTC regulatory authority and utilizes the settlement price of Brent Crude Oil futures listed on ICE Futures Europe.

## Prices

Table 6, below, reflects the final settlement prices provided by the ICE in U.S. dollars and cents per barrel for the ICE Brent Crude Oil Calendar Swap Futures contract. Over the annual period from January 2008 to May 2011, ICE Brent Crude Oil prices varied from a high of \$134.56 in July 2008 to a low of \$43.05 in December 2008. According to the most recent data provided by the ICE, the monthly average price for Brent Crude Oil was at \$114.52 for the month of May 2011.

**Table 6: Selected Statistics for ICE Brent Crude Oil: Prices<sup>8</sup>**

ICE Brent Crude Oil				
Month	2008	2009	2010	2011
Jan	91.91	45.71	77.01	96.91
Feb	94.66	43.87	74.79	104.03
Mar	102.87	47.42	79.93	114.67
Apr	110.43	51.39	85.75	123.09
May	124.68	58.59	77	114.52
Jun	133.74	69.27	75.66	-
Jul	134.56	65.75	75.36	-
Aug	115.24	73.06	77.12	-
Sep	100.79	68.15	78.42	-
Oct	73.68	73.93	83.54	-
Nov	54.75	77.58	86.16	-
Dec	43.05	75.21	92.25	-

## OTC Brent Financial Market

Further, BFOE has active OTC physical and paper markets. The liquidity in the OTC Brent swaps market is robust, with an estimated average daily trading volume of 10 million to 20 million barrels. There are several OTC brokerage firms that are active in the Brent swaps markets, including PVM, Tullet Prebon, TFS, ICAP, Man Financial, Ginga Petroleum, and GFI Group. As discussed above, the OTC market participation is deep and diverse, and includes both cash market and OTC market players. The Brent cash market and OTC market participants include 50 to 70 commercial companies. A partial list of participants is as follows:

<sup>8</sup> ICE Brent Crude Oil Prices, Intercontinental Exchange, Inc.

**Refiners**

ConocoPhillips  
Statoil  
Shell  
ExxonMobil  
BP  
Total  
AGIP (Italy)  
Repsol  
CEPSA  
Chevron  
OMV  
Lukoil (Russia)

**Traders/End Users**

Hess Energy Trading  
Vitol  
Glencore  
Total  
Northville  
Cargill  
Morgan Stanley  
Goldman Sachs  
RWE Trading  
Mabanaft  
Phibro  
Arcadia  
Mercuria

**Brokers**

GFI Starsupply  
PVM  
Man Financial  
ICAP  
Aspen Oil  
Tullet Prebon  
TFS

**Financial (Swaps)**

Deutsche Bank  
Barclays  
BankAmerica



## ANALYSIS OF DELIVERABLE SUPPLY

In its analysis of deliverable supply, the Exchange concentrated on data for the Gulf Coast (PADD III) and New York Harbor (PADD I) refinery production for distillate fuel oil, which are the main production and trading center in the U.S. At this time, 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 of the gasoline 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 the spot trading, because this 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.

For the two new Gulf Coast ULSD and Jet swap BALMO spread swap futures contracts, the Exchange has set the position limits at 1,000 contracts for each of the Gulf Coast ULSD and Jet legs of the spreads, with aggregation into the underlying swap contracts. To be conservative, we have focused on Gulf Coast distillate fuel oil 15 ppm sulfur and under (ULSD) and kerosene-type jet fuel production capacity in PADD III using the EIA data in Table 1 above. Based on the refinery production data, we have estimated the total distillate fuel oil, 15 ppm sulfur and under (ULSD) supply in the Gulf Coast area in the period 2008-2010 was approximately 1.5 million barrels per day, which is equivalent to 45 million barrels per month or 45,000 contract equivalents (contract size: 1,000 barrels). Thus the spot month position limit of 1,000 contract units for the Gulf Coast ULSD leg of the spread, which is equivalent to one million barrels, is approximately 2.2% of the 45,000 contract equivalents of monthly supply. For the Jet leg of the spread, the Exchange focused on refinery production data for kerosene-type jet fuel. Based on the production data, we have estimated the total kerosene-type jet fuel supply in the Gulf Coast area in the period 2008-2010 was approximately 706,000 barrels per day, which is equivalent to 21 million barrels per month or 21,000 contract equivalents (contract size: 1,000 barrels). Thus the spot month

position limit of 1,000 contract units for the Gulf Coast Jet leg of the spread, which is equivalent to one million barrels, is approximately 4.7% of the 21,000 contract equivalents of monthly supply.

With regards to the Heating Oil leg of the three spread contracts, the Exchange has set the position limits at 1,000 contracts, with aggregation into the underlying swap contract. Based on the refinery production data, we have estimated the total distillate fuel oil supply in the New York Harbor region during the period 2008-2010 was approximately 400,000 barrels per day, which is equivalent to 12 million barrels per month or 12,000 contract equivalents (contract size: 1,000 barrels). Thus, the spot month position limit of 1,000 contract units, which is equivalent to 1 million barrels, is approximately 8.3% of the 12,000 contract equivalents of monthly supply. Please note that 42,000 gallons is equivalent to 1,000 barrels.

With regard to the Brent Crude Oil market, in its analysis of deliverable supply, the Exchange concentrated on production data for Brent-related (BFOE) crude oil. To be conservative, the Exchange has set the position limits at 2,000 contracts for the Brent leg of the spread contract, with aggregation into the Exchange's existing underlying Brent futures contract. The production of Brent crude oil is approximately 1.5 million barrels per day, which is equivalent to 45 million barrels per month or 45,000 contract equivalents (contract size: 1,000 barrels). Thus, the spot month position limits of 2,000 contract units, which is equivalent to two million barrels, is less than 5% of the 45,000 contract equivalents of monthly supply.