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August 4, 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 # 11-292:  
Notification Regarding the Listing of Micro Crude Oil 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 Micro Crude Oil 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, August 7, 2011, for trade date Monday, August 8, 2011.

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

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

<b>Contract Title</b>	<b>Micro Crude Oil Futures</b>
<b>Commodity Code</b>	MCL
<b>Contract Size</b>	1 U.S. barrel
<b>First Listed Month</b>	September 2011
<b>Listing Period</b>	Current year and next 8 consecutive calendar years
<b>Settlement Prices</b>	Based on the NYMEX Light Sweet Crude Oil futures contract.
<b>Termination of Trading</b>	Trading shall cease one business day prior to the termination date of the NYMEX Light Sweet Crude Oil futures contract for the delivery month.
<b>Minimum Price Intervals</b>	\$0.01
<b>Value per Tick</b>	\$0.01
<b>Settlement Tick</b>	\$0.01
<b>Rule Chapter</b>	1116

• **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>	
	Micro Crude Oil Futures	Member	\$0.0007	Member	\$0.0007	Member
Non-Member		\$0.00145	Non-Member	\$0.00145	Non-Member	\$0.00145
		Blended Floor	\$0.00095			

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 August 8, 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 1116 Micro Crude Oil Futures

### 1116100. SCOPE OF CHAPTER

The provisions of these rules shall apply to all futures contracts bought or sold on the Exchange for cash settlement based on the Floating Price. The procedures for trading, clearing and cash settlement of this contract, and any other matters not specifically covered herein shall be governed by the general rules of the Exchange.

### 1116101. CONTRACT SPECIFICATIONS

The Floating Price is equal to the NYMEX Light Sweet Crude Oil futures 1<sup>st</sup> nearby contract settlement price on the penultimate trading day for the contract month.

### 1116102. TRADING SPECIFICATIONS

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

#### 1116102.A. Trading Schedule

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

#### 1116102.B. Trading Unit

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

#### 1116102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per barrel. The minimum price fluctuation shall be \$0.01 per barrel.

#### 1116102.D. Position Limits and Position Accountability

For purposes of calculating compliance with position limits, each contract will be aggregated with positions held in the Crude Oil Financial futures contract. Each position in Micro Crude Oil futures contract shall be deemed equivalent to 0.001 of the quantity of the Crude Oil Financial futures contract into which each Micro Crude Oil futures contract aggregates.

In accordance with Rule 559, no person shall own or control positions in excess of 2,000 Crude Oil Financial futures-equivalent contracts (or 2,000,000 Micro Crude Oil futures contracts) net long or net short in the spot month.

In accordance with Rule 560:

1. the all-months accountability level shall be 20,000 Crude Oil Financial futures-equivalent contracts (or 20,000,000 Micro Crude Oil futures contracts) net long or net short in all months combined;
2. the any-one month accountability level shall be 20,000 Crude Oil Financial futures-equivalent contracts (or 20,000,000 Micro Crude Oil futures contracts) net long or net short in any single contract month excluding the spot month.

Refer to Rule 559 for requirements concerning the aggregation of positions and allowable exemptions from the specified position limits.

#### 1116102.E. Termination of Trading

Trading shall cease one business day prior to the termination date of the NYMEX Light Sweet Crude Oil futures contract for the contract month.

### 1116103. FINAL SETTLEMENT

Final settlement 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.

### 1116104. 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 PRICE ASSESSMENT, TRADING AND/OR CLEARING BASED ON THE PRICE ASSESSMENT, OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING AND/OR CLEARING 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 PRICE ASSESSMENT 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.

## **CASH MARKET OVERVIEW**

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is self-certifying the listing of Micro Crude Oil futures contract for trading on the NYMEX trading floor and for clearing through CME ClearPort. The new Micro Crude Oil futures contract is based on the Exchange's existing Crude Oil Financial futures contract.

## **WTI CRUDE OIL MARKET OVERVIEW**

The West Texas Intermediate ("WTI") crude oil market, also called "domestic sweet", is traded at the hub in Cushing, Oklahoma. The Cushing hub consists of storage facilities and major pipelines for distribution of crude oil from West Texas to refineries in the Midcontinent. Sweet crude oil is defined as having an API gravity of 30 or higher with sulfur content of less than 1%, whereas heavy crude has an API gravity below 28, and contains sulfur of greater than 1%.

### **Description of Cushing**

Cushing, Oklahoma is one of the largest commercial crude oil storage terminals in the United States and is the physical delivery point for the NYMEX West Texas Intermediate crude oil contract – the Light Sweet Crude Oil futures (CL). It is located in the Midcontinent region which is within Petroleum Administration Defense District 2 (PADD II). The Cushing hub is directly connected to several pipelines.

Table 1 below provides storage capacity by operator in Cushing, Oklahoma. As of late 2009, working capacity reached 51.5 million barrels. Ownership of the Cushing storage is comprised of a total of 8 operators. Enbridge, Plains, and Magellan (formerly BP storage) are the main operators with the majority of storage amounting to roughly 75%.

**Table 1. Selected Statistics for Crude Oil: Cushing, Oklahoma Storage Capacity<sup>1</sup>**

<b>CRUDE STORAGE CAPACITY AT CUSHING (Million Barrels)</b>		
<b>Operator</b>	<b>January 2009 Shell Capacity</b>	<b>November 2009 Shell Capacity</b>
Enbridge	15.7	14.9
Plains	10.8	10.8
SemGroup	7.8	4.1
Blueknight	--	6.7
BP	7.8	7.8
Enterprise/TEPPCO	3.1	6.1
ConocoPhillips	0.8	0.8
Sunoco	0.3	0.3
<b>Total</b>	<b>46.3</b>	<b>51.5</b>

The refineries in PADD II are connected via various pipeline systems that supply both domestic and foreign crude oil. Refineries are located in Oklahoma, Kansas, Illinois, Indiana and Texas. Below are a summary of the refineries in each state associated with the Midcontinent PADD II region.

Oklahoma

- ConocoPhillips owns the largest refinery located in Ponca City with capacity of 190,000 barrels per day. It is supplied with crude oil from Cushing, via a northbound pipeline.
- There are two refineries located in Tulsa with production capacity of 70,000 and 85,000 barrels per day, respectively. The plants are supplied by the West Tulsa pipeline from Cushing and are owned by Holly Corporation.
- Southern Oklahoma has two refineries: the Ardmore refinery, owned by Valero, with capacity of 84,000 barrels per day and the Wynnewood refinery, owned by Gary Williams Energy, with capacity of 72,000 barrels per day. The refineries are primarily supplied by regional crude production and by pipelines from Cushing.

<sup>1</sup> Purvin & Gertz Inc. Study, 2009.

### Kansas

There are three refineries located in Kansas, the Frontier refinery, and the NCRA refinery and the Coffeyville refinery.

- The Frontier refinery in El Dorado and the NCRA refinery in McPherson have capacities of 118,000 barrels and 81,000 barrels per day, respectively. These refineries are supplied by the Osage Pipeline and others from Cushing.
- The Coffeyville refinery, located in Coffeyville and owned by Coffeyville Resource, LLC, has a capacity of 122,000 barrels supplied by the Plains pipeline from Cushing.

### Illinois/Indiana

- The primary locations of refineries in Illinois are concentrated in two areas: Chicago and the central part of Illinois. The two terminals, located in Patoka and Wood River, receive domestic crude oil from Cushing, Canadian crude oil from the north and foreign cargoes from the Gulf Coast.
- The Wood River refinery is owned by Encana, ConocoPhillips, and WRB Refining with a capacity of 306,000 barrels per day. The Marathon refinery in Illinois has a capacity of 204,000 barrels per day. Both refineries are located in the central part of the state and are supplied with crude from various sources.
- Three refineries are located in the Chicago area. The largest is owned by BP in Whiting, IN with a capacity of 410,000 barrels per day. ExxonMobil owns a refinery located in Joliet, IL with a capacity of 239,000 barrels per day. CITGO's refinery located in Lemont, IL has a capacity of 167,000 barrels per day. These refineries can receive both domestic and foreign crude oil from the Wood River area via the Chi-Cap pipeline and Canadian crude via the Lakehead system.

### Texas

There are two refineries located in the Texas Panhandle that are supplied by Cushing.

- The WRB Refining, LLC Borger refinery (Encana and ConocoPhillips) receives crude from Cushing and West Texas and also had the ability to receive foreign crude through company-owned pipelines. It has a capacity of roughly 146,000 barrels per day.

- The second refinery is located in Sunray, TX and owned by Valero. Crude oil is supplied via pipeline from regional areas as well as Cushing and the refinery can receive foreign crudes delivered via the Gulf Coast.

### Production, Consumption and Import/Export

The production of domestic sweet WTI is mainly concentrated in West Texas, Oklahoma, and Kansas. According to estimates from Purvin & Gertz Inc., an independent energy industry consultancy, and other industry sources, production of domestic sweet WTI is approximately 500,000 barrels per day. In addition, according to industry sources, the pipeline flow of imported foreign "light-sweet" crude oil from Canada and other sources is approximately 100,000 barrels per day. Imported crude oil is transported to Cushing via the Seaway Pipeline from Houston, and via the Enbridge Spearhead line, which brings Canadian crude oil from the Chicago area. In addition, the Keystone Pipeline was recently completed connecting Hardisty, Alberta to the Cushing market.

Table 2 below provides annual U.S. Department of Energy's Energy Information Administration (EIA) production, consumption, and import/export data for crude oil in PADD II. According to EIA data, for the annual average 2008-2010 period, the refinery input of crude oil in PADD II was approximately 3.2 million barrels per day. Further, crude oil production averaged 606,000 barrels per day during the 2008-2010 period. Also, there was a net import balance of approximately 1.17 million barrels of crude oil during the three year period.

**Table 2. EIA PADD II Statistics for Crude Oil<sup>2</sup>**

(Thousand Barrels per Day)

Item and Region	2008	2009	2010	Average 2007-2009
Refinery Input, Crude Oil	3,221	3,135	3281	3,212
Annual Production, Crude Oil	538	591	690	606
Annual Imports of Crude Oil	1,188	1,204	1211	1,201
Annual Exports, Crude Oil	22	35	33	30

<sup>2</sup> EIA Refinery Input Data, [http://www.eia.gov/dnav/pet/pet\\_pnp\\_inpt2\\_dc\\_r20\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_pnp_inpt2_dc_r20_mbbldpd_a.htm)  
EIA Production Data, [http://www.eia.gov/dnav/pet/pet\\_crd\\_crpdn\\_adc\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldpd_a.htm)  
EIA Import Data, [http://www.eia.gov/dnav/pet/pet\\_move\\_imp\\_dc\\_R20-Z00\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_move_imp_dc_R20-Z00_mbbldpd_a.htm)  
EIA Export Data, [http://www.eia.gov/dnav/pet/pet\\_move\\_exp\\_dc\\_R20-Z00\\_mbbldpd\\_a.htm](http://www.eia.gov/dnav/pet/pet_move_exp_dc_R20-Z00_mbbldpd_a.htm)

## Inventories

Table 3 below provides monthly EIA inventory data for crude oil in the Cushing area of PADD II. In the past three years, the Cushing stocks have fluctuated from a low of approximately 11.7 million barrels in September 2008 to a record high of approximately 42.3 million barrels in March 2011. The EIA also reports the weekly stocks in the Cushing area. Although the EIA does not provide a breakdown of sweet vs. sour crude oil in their stocks data, we estimate that WTI accounts for approximately one third of the Cushing stocks, so at current inventory levels there are approximately 12 million barrels of WTI in Cushing storage.

**Table 3. EIA Stocks for Crude Oil: Cushing, Oklahoma<sup>3</sup>**

(Thousand Barrels)

	2008	2009	2010	2011
January	13,579	32,394	31,994	38,620
February	13,718	31,938	30,739	39,552
March	14,814	31,198	31,583	42,310
April	17,337	30,328	36,138	40,926
May	18,450	29,603	37,222	39,278
June	18,066	30,458	36,070	
July	16,166	33,916	37,578	
August	15,966	30,273	35,540	
September	11,691	25,505	35,921	
October	14,786	25,718	33,444	
November	20,481	32,978	35,143	
December	30,001	35,645	37,832	

## Prices

Figure 1, below, illustrates the prices for the NYMEX WTI futures contract from the period beginning January 2008 through June 2011. During this period crude oil futures traded at a record high of \$134.02 on June 2008 and a record low of \$39.26 February 2009. According to the most recent data provided by the CME Group, the monthly average price for NYMEX WTI crude oil was at 96.29.31 for the month of June 2011. The average daily trading volume in 2010 was 669,565 contracts and 755,285 contracts for year-to-date 2011 through June.

<sup>3</sup>EIA Inventory Data, [http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRST\\_YCUOK\\_1&f=M](http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRST_YCUOK_1&f=M)



Figure 1. NYMEX Light Sweet WTI Prices<sup>4</sup>.

WTI Crude Oil Futures				
Monthly Average	2008	2009	2010	2011
January	92.93	41.92	78.4	89.58
February	95.35	39.26	76.45	89.74
March	105.42	48.06	81.29	102.98
April	112.46	49.95	84.58	110.04
May	125.46	59.21	74.12	101.36
June	134.02	69.7	75.4	96.29
July	133.48	64.29	76.38	97.34
August	116.69	71.14	76.67	-
September	103.76	69.47	75.55	-
October	76.72	75.82	81.97	-
November	57.44	78.15	84.31	-
December	42.04	74.6	89.23	-

#### Cash Market/Over-the-Counter Market

The estimated trading volume of WTI crude oil in the Cushing cash market is approximately 4.0 million to 5.0 million barrels per day. The typical transaction size is 30,000 barrels, with hundreds of separate transactions conducted daily. In addition, all domestic crude oil grades, such as Light Louisiana Sweet (LLS), Mars and West Texas Sour (WTS), are traded and priced at a differential to WTI, and consequently, every physical crude oil transaction in the U.S. crude oil market involves a buy/sell transaction with WTI as one leg in the cash transaction. Typically, the crude oil cash market uses WTI as a unit of currency to establish a differential between WTI and other domestic grades. The volume of spot transactions is more than half of all cash transactions, and the balance of trades are longer-term contracts. There is active trading in forward cash deals at the Cushing trading hub. Additionally, based on conversations with over-the-counter (OTC) market participants, the OTC market for WTI crude oil is very active and highly robust.

<sup>4</sup> WTI Crude Oil Futures Prices, CME Group.

## Market Participants

The WTI crude oil cash market and OTC market participants are diverse and include around 40 to 50 commercial companies. A partial listing is as follows:

### Refiners

ConocoPhillips  
Valero  
Shell  
ExxonMobil  
BP  
Sunoco  
Amerada Hess  
Marathon  
Murphy Oil  
Chevron  
Total

### Traders/Importers

Occidental Petroleum  
Vitol  
Glencore  
Plains  
Koch  
Cargill  
Morgan Stanley  
Goldman Sachs (J. Aron)  
Trafigura  
Hess Energy Trading  
Conagra  
Noble Energy  
Phibro  
Mercuria  
Anadarko  
BHP Billiton

### Brokers

United  
GFI Starsupply  
United  
PVM  
United  
ARC Oil  
Oil Brokers Inc.

### Financial

Citibank  
Deutsche Bank  
Barclays  
BankAmerica  
Wachovia Bank  
JP Morgan Chase  
Credit Suisse

## ANALYSIS OF DELIVERABLE SUPPLY

In its analysis of deliverable supply, the Exchange concentrated on the physical flow estimates of light, sweet West Texas Intermediate (WTI) type crude oil in Cushing, Oklahoma. According to consultants at Purvin & Gertz Inc., daily production of domestic sweet WTI is approximately 500,000 barrels per day in Cushing. In addition, there is pipeline flow of imported foreign "light-sweet" crude from Canada and other sources, equivalent to approximately 100,000 barrels per day. Therefore, the total daily flow of light sweet crude is approximately 600,000 barrels per day in Cushing.

At this time, the Exchange is not including stocks data in its analysis of deliverable supply. The EIA does not provide a breakdown of light, sweet crude in the stocks data, but we estimate the light, sweet crude oil to account for approximately one-third of total stocks in Cushing. Stocks data tend to vary, and market participants can draw down on stocks, if needed, in the short run. However, at least initially, we prefer to not utilize stocks in the supply estimates for setting position limits.

Further, the Exchange has determined not to adjust the deliverable supply estimate based on the spot availability of the crude oil 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.

Therefore, based on the physical flow estimates of light, sweet WTI type crude oil in Cushing, we have estimated the daily supply to be approximately 600,000 barrels per day, or 18 million barrels per month (or 18,000 contract equivalents). The Exchange has set the position limit for the Micro Crude Oil futures contract at 2 million Micro Crude Oil futures contracts (contract size 1 barrel) or 2,000 Crude Oil Financial futures contract-equivalent units (contract size 1,000 barrels), with aggregation into the underlying Crude Oil Financial futures contract. Therefore, the position limit of 2,000 contracts is set at 11% of the total monthly supply of 18,000 Crude Oil Financial futures contract equivalents.