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November 17, 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 40.2 Certification. New York Mercantile Exchange, Inc. Submission # 11-426:
Notification Regarding the Listing of Two (2) New Swap 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 two new financially settled futures contracts for SME Biodiesel and Iso-butane futures trading on the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, November 20, 2011, for trade date Monday, November 21, 2011. The SME biodiesel contract will be listed for the current year plus 3 years, and the Iso-butane will be listed for current year plus 4 years.

The futures contract specifications are as follows:

Contract	Code	Chapter
Biodiesel SME Houston B-100 (Argus) Swap Futures	GSI	1187
Mont Belvieu LDH Iso-Butane (OPIS) Swap Futures	MBL	1188

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.

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:

Exchange Fees					
	Member Day	Member	Cross Division	Non-Member	IIP
Pit	N/A	\$0.85	\$1.10	\$1.35	
Globex	NA	NA	NA	NA	NA
ClearPort		\$0.85		\$1.35	

Processing Fees			
	Member	Non-Member	
Cash Settlement	\$0.85	\$1.35	<i>*only applies to financially settled contracts</i>
Futures from E/A	NA	NA	<i>*applies to futures contracts</i>
	House Acct	Cust Acct	
Options E/A Notice	NA	NA	<i>*applies to physical options</i>
Delivery Notice	NA	NA	<i>*applies to physical futures</i>
Additional Fees and Surcharges			
EFS Surcharge	NA		<i>*\$2.50 fee typically only charged on our core physical contracts</i>
Block Surcharge	NA		<i>*\$0.10 fee charged on block trades</i>
Facilitation Desk Fee	\$0.20		<i>*fee applies to CPC trades entered by ClearPort Market Ops</i>

The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the new futures contracts into the Position Limit, Position Accountability and Reportable Level Table and Header Notes located in the Interpretations and Special Notices Section of Chapter 5 of the NYMEX Rulebook in relation to the listing of the new contracts. These terms and conditions establish the all month/any one month accountability levels, expiration month position limit, reportable level, and aggregation allocation for the new contracts.

NYMEX business staff responsible for the new products and the NYMEX legal department collectively reviewed the designated contract market core principles ("Core Principles") as set forth in the Commodity Exchange Act ("CEA"). During the review, NYMEX staff identified that the new products may have some bearing on the following Core Principles:

- **Prevention of Market Disruption:** Trading in these contracts will be subject to the NYMEX rules ("Rulebook") Chapters 4 and 7 which include prohibitions on manipulation, price distortion and disruptions of the delivery or cash-settlement process. As with all products listed for trading on one of CME Group's designated contract markets, activity in the new products will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department.
- **Contracts not Readily Subject to Manipulation:** The new contracts are not readily subject to manipulation due to the deep liquidity and robustness in the underlying cash market, which provides diverse participation and sufficient spot transactions to support the final settlement indices as assessed by Argus Media and OPIS (methodology provided herewith under Cash Market Overview).
- **Compliance with Rules:** Trading in these contracts will be subject to the rules in Rulebook Chapter 4 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in these contracts will also be subject to the full panoply of trade practice rules, the majority of which are contained in Chapter 5 and Chapter 8 of the Rulebook. As with all products listed for trading on one of CME Group's designated contract markets, activity in the new products will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department.

The Market Regulation Department has the authority to exercise its investigatory and enforcement power where potential rule violations are identified.

- Position Limitations or Accountability: The spot month position limits for the new products are set at conservative levels that are less than 25% (GSI) and 9% (MBL) of the monthly deliverable supply in the respective underlying markets.
- Availability of General Information: The Exchange will publish information on the contracts' specification on its website, together with daily trading volume, open interest and price information.
- Daily Publication of Trading Information: Trading volume, open interest and price information will be published daily on the Exchange's website and via quote vendors.
- Financial Integrity of Contracts: All contracts traded on the Exchange will be cleared by the Clearing House of the Chicago Mercantile Exchange Inc. which is a registered derivatives clearing organization with the Commission and is subject to all Commission regulations related thereto.
- Execution of Transactions: The new contracts are dually listed for clearing through the CME ClearPort platform and on the NYMEX trading floor for open outcry trading. The CME ClearPort platform provides a competitive, open and efficient mechanism for novating transactions that are competitively executed by brokers. In addition, the NYMEX trading floor is available as an additional venue to provide for competitive and open execution of transactions.
- Trade Information: All required trade information is included in the audit trail and is sufficient for the Market Regulation Department to monitor for market abuse.
- Protection of Market Participants: Rulebook Chapters 4 and 5 contain multiple prohibitions precluding intermediaries from disadvantaging their customers. These rules apply to trading on all of the Exchange's competitive trading venues and will be applicable to transactions in these products.
- Disciplinary Procedures: Chapter 4 of the Rulebook contains provisions that allow the Exchange to discipline, suspend or expel members or market participants that violate the Rulebook. Trading in these contracts will be subject to Chapter 4, and the Market Regulation Department has the authority to exercise its enforcement power in the event rule violations in these products are identified.
- Dispute Resolution: Disputes with respect to trading in these contracts will be subject to the arbitration provisions set forth in Chapter 6 of the Rulebook. Chapter 6 allows all nonmembers to submit a claim for financial losses resulting from transactions on the Exchange to arbitration. A member named as a respondent in a claim submitted by a nonmember is required to participate in the arbitration pursuant to Chapter 6. Additionally, the Exchange requires that members resolve all disputes concerning transactions on the Exchange via arbitration.

Pursuant to Section 5c(c) of the Commodity Exchange Act ("Act") and CFTC Regulation 40.2, 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. A description of the cash market for these new products is attached.

The Exchange certifies that this submission has been concurrently posted on the Exchange's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

Should you have any questions concerning the above, please contact the undersigned at (312) 930-8167 or Sean.downey@cmegroup.com.

Sincerely,

/s/Sean Downey
Associate Director and Assistant General Counsel

Attachments: Appendix A: Rule Chapter
Appendix B: Chapter 5 Table
Appendix C: Cash Market Overview and Analysis of Deliverable Supply

Chapter 1187
Biodiesel SME Houston B-100 (Argus) Futures

1187100. SCOPE OF CHAPTER

The provisions of these rules shall apply to all 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.

1187101. CONTRACT SPECIFICATIONS

The Floating Price for the contract month shall be the arithmetic average of the Argus Media assessment for Biodiesel SME Houston B-100 for each trading day of the contract month.

1187102. TRADING SPECIFICATIONS

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

1187102.A. Trading Schedule

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

1187102.B. Trading Unit

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

1187102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per gallon. The minimum price fluctuation shall be \$0.0001 per gallon.

1187102.D. Position Limits and Position Accountability

For purposes of position limits and position accountability levels, contracts shall diminish ratably as the contract month progresses toward month end.

In accordance with Rule 559, no person shall own or control positions in excess of 100 contracts net long or net short in the spot month.

In accordance with Rule 560:

1. the all-months accountability level shall be 2,000 contracts net long or net short in all months combined;
2. the any-one month accountability level shall be 1,500 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.

1187102.E. Termination of Trading

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

1187103. 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.

1187104. DISCLAIMER

Argus Media ("Argus") licenses the New York Mercantile Exchange, Inc. ("NYMEX") to use various Argus price assessments in connection with the trading and/or clearing of the contract.

NYMEX, 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 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, 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 PRICE ASSESSMENT OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL NYMEX, 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.

Chapter 1188
Mont Belvieu LDH Iso-Butane (OPIS) Swap Futures

1188100. SCOPE OF CHAPTER

The provisions of these rules shall apply to all 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.

1188101. CONTRACT SPECIFICATIONS

The Floating Price for the contract month shall be the arithmetic average of the OPIS any-month assessment for Mont Belvieu Louis Dreyfus Highbridge (LDH) Iso-Butane for each trading day of the contract month.

1188102. TRADING SPECIFICATIONS

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

1188102.A. Trading Schedule

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

1188102.B. Trading Unit

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

1188102.C. Price Increments

Prices shall be quoted in U.S. dollars and cents per gallon. The minimum price fluctuation shall be \$0.00001 per gallon.

1188102.D. Position Limits and Position Accountability

For purposes of position limits and position accountability levels, contracts shall diminish ratably as the contract month progresses toward month end.

In accordance with Rule 559, no person shall own or control positions in excess of 250 contracts net long or net short in the spot month.

In accordance with Rule 560:

1. the all-months accountability level shall be 2,000 contracts net long or net short in all months combined;
2. the any-one month accountability level shall be 1,500 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.

1188102.E. Termination of Trading

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

1188103. 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.

1188104. DISCLAIMER

OPIS licenses the New York Mercantile Exchange, Inc. ("NYMEX") to use various OPIS price assessments in connection with the trading and/or clearing of the contract.

NYMEX, ITS AFFILIATES AND OPIS 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, ITS AFFILIATES AND OPIS 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, ITS AFFILIATES OR OPIS HAVE ANY

Appendix A

LIABILITY FOR ANY LOST PROFITS OR INDIRECT, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

Appendix B

NYMEX Rulebook Chapter 5 Position Limit Table
(Bold/underlining indicates additions)

<u>Contract Name</u>	<u>Rule Chapter</u>	<u>Commodity Code</u>	<u>Diminishing Balances Contracts</u>	<u>All Month Accountability Level</u>	<u>Any One Month Accountability Level</u>	<u>Expiration Month Limit</u>	<u>Reporting Level</u>	<u>Aggregate Into (1)</u>
				<u>Rule 560</u>	<u>Rule 560</u>	<u>Rule 559</u>	<u>Rule 561</u>	
<i>Petroleum</i>								
<i>Europe</i>								
<i>Northwest Europe</i>								
<u>Biodiesel SME Houston B-100 (Argus) Swap Futures</u>	<u>1187</u>	<u>GSI</u>	<u>*</u>	<u>2,000</u>	<u>1,500</u>	<u>100</u>	<u>25</u>	<u>GSI</u>
<i>Light Hydrocarbons</i>								
<i>Mont Belvieu</i>								
<u>Mont Belvieu LDH Iso-Butane (OPIS) Swap Futures</u>	<u>1188</u>	<u>MBL</u>	<u>*</u>	<u>2,000</u>	<u>1,500</u>	<u>250</u>	<u>25</u>	<u>MBL</u>

CASH MARKET OVERVIEW

Biodiesel Supply

Biodiesel is a renewable fuel that can be used instead of, or in combination with, petroleum-based diesel fuel, and is made out of vegetable oils or animal fats for use diesel engines.

Biodiesel is manufactured by a process called "trans-esterification", which uses alcohol to convert the base plant oil or animal fat into a fatty-acid, with glycerin as a byproduct¹. Chemically, biodiesel is a mono-alkyl methyl ester of long chain fatty acids.

The EIA defines pure biodiesel as B-100, a fuel that is not mixed with any petroleum-based diesel², and it is the fastest growing alternative fuel in the United States. The specification for B-100 is ASTM (American Society for Testing and Materials) D6751³.

Most biodiesel produced in the U.S. uses soybean oil as feedstock, which represents approximately half of all biodiesel volume produced, according to industry and government sources⁴. Soybeans are expected to continue to make up the largest feedstock in the production of B-100.

While pure biodiesel can be blended into petroleum-based diesel in any proportion, the EPA notes that the industry has substantial experience with the 20% biodiesel to 80% petroleum diesel (B-20) blend. B-20 is also the minimum blend allowed for compliance with the Energy Policy Act ("EPA Act") of 2005, which requires the use of renewable fuels by certain federal and State fleet⁵. The remaining 80% blend can be No.1 or No.2 diesel, kerosene, jet fuel, heating oil, or any other distillate fuel.

Biodiesel supply and demand are largely driven by financial incentives, such as producer tax credits, and renewable fuels regulations and mandates at the State and Federal levels. Biodiesel typically contains less than 15 parts per million of sulfur, meeting existing and upcoming sulfur regulations enforced by the US Environmental Protection Agency (EPA) as well as State-level rules in New York, New Jersey, as well as others.

¹ <http://www.epa.gov/otaq/renewablefuels/420b07019.pdf>

² http://www.eia.gov/energyexplained/index.cfm?page=biofuel_home

³ <http://www.astm.org/Standards/D6751.htm>

⁴ http://www.usda.gov/oce/commodity/archive_projections/USDAAGgriculturalProjections2020.pdf
<http://www.epa.gov/otaq/renewablefuels/420b07019.pdf>

⁵ <http://www.nrel.gov/vehiclesandfuels/pdfs/43672.pdf>

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The American Jobs Creation Act of 2004 created tax incentives for biodiesel retailers and blenders, totaling \$1/gallon produced for agricultural biodiesel, and 50-cents/gallon for waste-grease biodiesel. In 2005, EPA extended these incentives until 2008, and created the first Renewable Fuel Standard (RFS) pursuant to the Clean Air Act.

The RFS program began in 2006, but the statutory requirements of the program were modified over time, and on July 1, 2010, the RFS2 program became effective. Per the original RFS, 7.5 billion gallons of renewable fuel were to be blended into gasoline by 2012. The RFS2 modified existing rules to include diesel fuel in addition to gasoline⁶. Furthermore, the Energy Independence and Security Act of 2007 set separate volume requirement for each type of renewable fuel and increased the target level to 36 billion gallons of renewable fuel added to transportation fuels by 2022.

Each year by the end of November, the EPA sets annual renewable fuel standards for the upcoming year based on gasoline and diesel projections from the EIA, supply projections actual production data. For 2012, the EPA proposed an applicable volume of 1 billion gallons of biomass-based diesel to be blended into diesel⁷. Table 1 below presents historical and proposed RFS levels for biodiesel.

Table 1. EPA RFS Mandates for Biodiesel, in Millions of Gallons

<u>Year</u>	<u>Volume</u>
2009	500
2010	650
2011	800
2012*	1,000
2013*	1,280

* proposed

Biodiesel production has exhibited significant variability over the years, depending on demand conditions arising from the availability of incentives and EPA mandates. The EIA reported 144 facilities

⁶ <http://www.epa.gov/otaq/fuels/renewablefuels/index.htm>

⁷ <http://www.epa.gov/otaq/fuels/renewablefuels/420f11018.pdf>

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producing B-100 as of December 2009. As of October 2011, there were 177 biodiesel production facilities⁸ registered with the National Biodiesel Board, the largest industry group for biodiesel. Production capacity significantly exceeds actual production, with estimates for 2011 varying between 2 billion to 2.4 billion gallons, according to EIA and National Biodiesel Board data.

Pure biodiesel production averaged at 311 million gallons in 2010, but production is expected to rise to more than 800 million gallons in 2011 as the industry recovers from the “unique circumstances” of the previous year associated with the expiration of production tax credits, according to the EPA⁹. Table 2 below represents, actual and estimates B-100 production levels from 2008-2012.

Table 2. B-100 Production¹⁰

Production	
(Millions of gallons)	B-100/ Biodiesel
2008	678
2009	506
2010	311
2011*	860
2012*	940

* Estimated level

Regionally, the US Gulf Coast assumes a large share in overall US biodiesel production. The EIA reported a total capacity of 456 million gallons, or 22% of total, in Texas alone as of December 2009, making it the largest producer in the country. A total of 409.5 million gallons of capacity had registered with the National Biodiesel Board as of October 2011¹¹.

The EIA production data do not break down biodiesel production by region, but given a capacity share of more than 20% of total US, it is expected that Texas production will continue to supply a significant portion of the US biodiesel market.

With historical production levels significantly behind existing capacity, the EPA expects producers to ramp up volumes relatively easily and comply with its mandates in the upcoming years. According to the EPA: “Projections of production for 2012 strongly suggest that 1.0 bill gallons of biomass-based

⁸ <http://www.biodiesel.org/buyingbiodiesel/plants/showall.aspx?AspxAutoDetectCookieSupport=1>

⁹ <http://www.epa.gov/otaq/fuels/renewablefuels/420f11018.pdf>

¹⁰ <http://www.eia.gov/totalenergy/data/annual/showtext.cfm?t=ptb1004>

¹¹ <http://www.biodiesel.org/buyingbiodiesel/plants/showall.aspx?AspxAutoDetectCookieSupport=1>

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diesel is achievable,"¹². In line with historical and recent production, the Exchange believes that EPA mandates will dictate production levels in the upcoming years. Further, the USDA¹³ projects soy-based feedstock will enhance the biodiesel production by adding 400 million gallons in 2012, contributing 40% of total biodiesel production.

In recommending position limits, the Exchange staff has focused on the Texas production, which has a 20% market share of total biodiesel supply. Hence, Texas production is currently around 200 million gallons per year, or 16.7 million gallons per month, which is equivalent to approximately 400 contracts per month.

Isobutane

Natural Gas Liquids (NGL) are by-products extracted from natural gas and petroleum processing, and include various hydrocarbons such as ethane, butane, natural gasoline and isobutane. Isobutane is a gaseous hydrocarbon extracted from natural gas or refinery gas streams¹⁴ and is a component of gasoline octane blends.

NGLs are removed from natural gas stream in gas treatment facilities, where the composition of natural gas is altered to meet specific pipeline specifications. The extracted NGLs are sent to a fractionation unit, where they are separated into smaller components, to eventually be used in various industrial processes and blending.

The primary end-users for the various NGLs are petrochemicals, plastics and rubber manufacturers. The manufacturing sector purchases NGLs to use as feedstock, or inputs, in production. Refineries are both major consumers and producers of NGLs.

Given that NGLs are a by-product and are not directly produced, their production is not elastic, or responsive to changes in demand and/or prices. However, according to the US Department of Energy's Energy Information Administration, "Because NGLs sell at a premium to natural gas, there is often an

¹² <http://www.epa.gov/otaq/fuels/renewablefuels/420f11018.pdf>

¹³ http://www.usda.gov/oce/commodity/archive_projections/USDAAGgriculturalProjections2020.pdf

¹⁴ http://www.eia.gov/dnav/pet/TblDefs/pet_pnp_refp2_tbldef2.asp

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economic incentive for operators to focus exploration and development activities on areas that have natural gas with a high liquids [NGL] content.¹⁵

As shale gas plays became an increasingly important source of domestic gas production in the last decade, NGL production has increased in tandem as developers sought returns on this relatively more expensive production method.

A key component of NGL supply is product in storage, which is more flexible than production in adjusting to price and demand conditions. NGL products move in and out of storage depending on market conditions. Mont Belvieu, Texas is the top trading and storage hubs for NGLs in the U.S., and reflects the reference point for pricing NGLs in North America. Mont Belvieu is the largest storage area for NGLs in the world, with storage capacity of more than 100 million barrels. At Mont Belvieu, several companies operate storage and connecting pipeline systems from USGC refining centers to demand centers in the South, Northeast and Midwest. Roughly 70,000 miles of pipelines are committed to the movement of NGLs in the U.S. market. In addition to pipeline delivery, NGLs are also transported via rail cars, highway transports, delivery trucks, barges, and ocean tankers.

Mont Belvieu is located within Petroleum Administration for Defense District (PADD) III. In 2009, the latest year for which data were available from the EIA, Texas represented approximately 42%, 300,000 million barrels, of NGL production in the U.S.¹⁶

The data contained in Table 1 below reflect supply and demand statistics for Isobutane in 2008-2010 in PADD III. The EIA uses "Product Supplied" data as proxy to consumption as it measures the "disappearance of these products from primary sources, i.e., refineries, natural gas processing plants, blending plants, pipelines, and bulk terminals."

Field Production represents production at natural gas processing plants, and is the largest source of isobutane supply. Field Production of NGLs set an all-time high record in 2010, topping at more than 2 million b/d. Isobutene represented approximately 9% of all NGL production in the U.S.¹⁷, and at 135,000 b/d in 2010, PADD III was the largest isobutane producing region. PADD III field production of isobutane

¹⁵ <http://www.eia.gov/todayinenergy/detail.cfm?id=1150>

¹⁶ http://www.eia.gov/dnav/ng/ng_prod_ngpl_s1_a.htm

¹⁷ http://www.eia.gov/dnav/pet/pet_sum_snd_a_epl0_mbbldpd_m_cur.htm

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peaked at 179,000 b/d in 2002, and at 154,000 b/d in August 2011, has jumped to its highest level since July, 2005¹⁸.

Refinery and blender-level consumption in PADD III represented the largest isobutane demand at 94,000 b/d, according to EIA's 2010 data. While imports make up a sizable portion of available supply, particularly in manufacturing regions in the Midwest (PADD II) and North Atlantic Coast, the market for isobutane is predominantly driven by pipeline movements, and the product is not exported.

Table 1. Selected Statistics for Isobutane: U.S Gulf Coast (PADD III)¹⁹
(Annual, Thousand Barrels per Day)

Isobutane/Isobutylene	2008	2009	2010	Average 2008-2010
Field Production	121	135	135	130
Net Receipts from Other PADDs (pipeline, tanker, barge)	-2	-2	2	-1
Imports	10	2	1	4
Refinery/Blender Net Inputs	112	106	94	104
Consumption (Product Supplied)	22	29	40	30

On a monthly aggregate level, PADD III consumption averaged 1,113 thousand barrels²⁰ in the period August 2008-2011, whereas production was reported at 4,062 thousand barrels²¹ in the same time period.

The EIA also provides detailed production and stocks statistics for the various sub-sections within PADD regions. For PADD III, data can be obtained for Texas Inland, Texas Gulf Coast and the Louisiana Gulf Coast. For the Mont Belvieu market, we believe that the best estimate of supply comes from Texas Inland and Gulf Coast regions; a practice that conforms with the Exchange's other Mont Belvieu-based NGL contracts.

Table 2 below provides production statistics for the vicinity of Mont Belvieu: Texas Inland and Gulf Coast in comparison with the United States data on a monthly level between August, 2008 and August, 2011. This area has direct pipeline connectivity to the Mont Belvieu hub, and provides a good

¹⁸ http://www.eia.gov/dnav/pet/pet_sum_snd_a_epllb0i_mbbldpd_m_cur.htm

¹⁹ http://www.eia.gov/dnav/pet/pet_sum_snd_a_epllb0i_mbbldpd_a_cur.htm

²⁰ <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MBIUPP31&f=M>

²¹ <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MBIFPP31&f=M>

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estimate of supply that is available for the Mont Belvieu market. Accordingly, averaging at 41,000 b/d, more than 55% of US monthly isobutane production in the last four years was concentrated in inland and coastal Texas.

Table 2. Isobutane Field Production: Texas Inland, Texas Gulf Coast, United States²²
(Monthly, Thousand Barrels per Day)

	TX-Inland	TX-Gulf Coast	US
Aug-2008	39	49	170
Sep-2008	33	32	130
Oct-2008	38	57	172
Nov-2008	39	63	181
Dec-2008	38	61	167
Jan-2009	39	74	182
Feb-2009	38	63	181
Mar-2009	39	51	170
Apr-2009	39	57	181
May-2009	40	72	198
Jun-2009	40	74	203
Jul-2009	39	79	206
Aug-2009	39	72	193
Sep-2009	39	70	189
Oct-2009	39	72	195
Nov-2009	40	68	188
Dec-2009	38	61	172
Jan-2010	39	51	164
Feb-2010	41	48	172
Mar-2010	42	58	179
Apr-2010	41	61	180
May-2010	42	75	199
Jun-2010	41	82	208
Jul-2010	42	75	198
Aug-2010	42	73	197
Sep-2010	43	63	187
Oct-2010	44	62	191
Nov-2010	43	62	178
Dec-2010	43	71	188
Jan-2011	41	64	175
Feb-2011	38	56	173
Mar-2011	44	77	210

²² <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MBIFP3A2&f=M>

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Apr-2011	44	78	212
May-2011	46	78	215
Jun-2011	45	72	207
Jul-2011	47	69	204
Aug-2011	48	77	214
Average	41	66	187

Table 3 below indicates monthly isobutane stocks during August 2008-2011 in PADD III and PADD II (Midwest), the second largest consuming region for which consumption was reported at 6,000 b/d in 2010²³. During the time period for which data were provided below, stocks in PADD II varied between a high of 2,513,000 barrels in August, 2008 to a 1,517,000 barrels in August 2011. In the same range, PADD III stocks reached a high of 5,782,000 in October, 2010, barrels after having dropped to a 3,656,000 barrels low in April, 2010.

²³ http://www.eia.gov/dnav/pet/pet_cons_psup_dc_r20_mbbldpd_a.htm

Table 3. Total Isobutane Stocks, PADD II and PADD III²⁴
(Monthly, Thousand Barrels)

Date	PADD II	PADD III
Aug-2008	2,513	5,540
Sep-2008	2,372	5,726
Oct-2008	2,278	4,963
Nov-2008	2,358	4,062
Dec-2008	2,156	4,000
Jan-2009	2,174	4,217
Feb-2009	2,014	4,744
Mar-2009	1,809	4,454
Apr-2009	1,882	4,283
May-2009	1,850	4,246
Jun-2009	1,790	4,027
Jul-2009	1,924	4,093
Aug-2009	1,919	3,975
Sep-2009	2,041	3,871
Oct-2009	1,951	4,460
Nov-2009	2,059	3,909
Dec-2009	1,826	4,160
Jan-2010	1,911	3,929
Feb-2010	2,207	3,845
Mar-2010	2,319	3,745
Apr-2010	2,130	3,656
May-2010	2,242	3,979
Jun-2010	2,036	4,350
Jul-2010	1,921	4,784
Aug-2010	1,789	4,947

²⁴ http://www.eia.gov/dnav/pet/pet_stoc_tpy_a_EPLLB01_SAE_mbb1_m.htm

Appendix C

Sep-2010	1,767	5,772
Oct-2010	2,225	5,782
Nov-2010	2,406	4,441
Dec-2010	1,998	4,136
Jan-2011	1,699	4,335
Feb-2011	1,722	4,318
Mar-2011	1,924	4,489
Apr-2011	1,934	4,597
May-2011	2,025	5,044
Jun-2011	1,950	4,818
Jul-2011	1,616	4,384
Aug-2011	1,517	4,085
Average	2,007	4,437

ANALYSIS OF DELIVERABLE SUPPLY

The Exchange has set a spot month position limit of 100 contracts for the SME Biodiesel Contract. As explained in the cash market overview, Texas biodiesel production is approximately 200 million gallons per year, or 16.7 million gallons per month, which is equivalent to approximately 400 contract equivalents. Further, with the EPA mandates, the biodiesel production will increase in the following years as EPA mandates rise. Therefore, in an effort to remain conservative, and given historical variability of actual production relative to capacity, the Exchange has set a position limit of 100 contracts, which is equivalent to 25% of the monthly deliverable supply in Texas.

In its analysis of isobutane deliverable supply, the Exchange concentrated on data for field production in the vicinity of Mont Belvieu, using the same methodology as other NGL contracts. with isobutene production of 107,000 b/d, and equivalent to 3,242,000 barrels per month, Texas Inland and Gulf Coast production represent more than 3,000 contracts per month. Thus, the spot month limit of 250 contracts per month is less than 9% of the 3,000 contract equivalents of monthly supply.

At this time, the Exchange is not including stocks or imports data, which can increase supply, in its analysis of deliverable supply. Imports and stocks tend to show high variability depending on market fundamentals and spot availability, and are not necessarily an accurate reflection of market demand, which can be seasonal.

Therefore, we believe that it is not necessary to adjust the deliverable supply estimate on the basis of spot trading, because this does not restrict deliverable supply, and spot trading volume can expand to allow for more supply to flow if needed in the spot market.