



December 15, 2010

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 # 10-366: Notification Regarding the Listing of Three (3) New Balance-of-Month 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) new balance-of-month ("BALMO") 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, December 19, 2010 for trade date Monday, December 20, 2010.

The contracts, commodity codes, rule chapters, and listing schedules are as follows:

<u>Contract</u>	<u>Code</u>	<u>Rule Chapter</u>	<u>First Listed Month</u>	<u>Listing Period</u>
New York 1% Fuel Oil (Platts) Crack Spread BALMO Swap Futures	NFC	217	January 2011	One month and the following month listed 10 business days prior to the start of the contract month.
Gulf Coast No. 6 Fuel Oil (Platts) Crack Spread BALMO Swap Futures	GFC	218	January 2011	One month and the following month listed 10 business days prior to the start of the contract month.
New York 1% Fuel Oil vs. Gulf Coast 3% Fuel Oil (Platts) BALMO Swap Futures	NFG	219	January 2011	One month and the following month listed 10 business days prior to the start of the contract month.

These new petroleum futures contracts will be available during normal trading hours on the NYMEX trading floor and through CME ClearPort. Open outcry trading is conducted Monday through Friday from 9:00 a.m. until 2:30 p.m. (New York prevailing time), except on Exchange holidays. Clearing is conducted

from 6:00 p.m. Sunday until 5:15 p.m. Friday (New York prevailing time). There is a 45-minute halt each day between 5:15 p.m. (current trade date) and 6:00 p.m. (next trade date).

In addition, 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.

Although the analysis of deliverable supply attached herewith includes the recommended position limits for these contracts, a separate filing will be submitted to the Commission to self-certify those position limits.

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. This submission will be made effective on trade date December 20, 2010.

Should you have any questions concerning the above, please contact Daniel Brusstar at (212) 299-2604 or the undersigned at (212) 299-2200.

Sincerely,

/s/ Christopher K. Bowen
Managing Director, Chief Regulatory Counsel

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

Chapter 217
New York 1% Fuel Oil (Platts) Crack Spread BALMO Swap Futures

217.01. 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.

217.02. FLOATING PRICE

The Floating Price for each contract month is equal to the balance-of-month arithmetic average of the mid-point between the high and low quotations from Platts Oilgram Price Report for New York No. 6 1%S Max Fuel (Waterborne Cargo) minus the NYMEX Light Sweet Crude Oil Futures first nearby contract month settlement price starting from the selected start date through the end of the contract month, inclusive.

217.03. 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.

217.04. CONTRACT MONTHS

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

217.05. 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.

217.06. TERMINATION OF TRADING

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

217.07. 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.

217.08. EXCHANGE FOR RELATED POSITION

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

217.09. DISCLAIMER

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Chapter 218
Gulf Coast No. 6 Fuel Oil (Platts) Crack Spread BALMO Swap Futures

218.01. 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.

218.02. FLOATING PRICE

The Floating Price for each contract month is equal to the balance-of-month arithmetic average of the mid-point between the high and low quotations from Platts Oilgram Price Report for Gulf Coast No. 6 3.0%S (Waterborne) Fuel Oil minus the NYMEX Light Sweet Crude Oil Futures first nearby contract month settlement price starting from the selected start date through the end of the contract month, inclusive.

218.03. 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.

218.04. CONTRACT MONTHS

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

218.05. 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.

218.06. TERMINATION OF TRADING

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

218.07. 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.

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Chapter 219

New York 1% Fuel Oil vs. Gulf Coast 3% Fuel Oil (Platts) BALMO Swap Futures

219.01. 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.

219.02. FLOATING PRICE

The Floating Price for each contract month is equal to the balance-of-month arithmetic average of the mid-point between the high and low quotations from Platts Oilgram Price Report for New York No. 6 1%S Max Fuel Oil (Cargo) minus the mid-point of the high and low quotations from Platts Oilgram Price Report for Gulf Coast No. 6 3.0%S Fuel Oil (Waterborne) starting from the selected start date through the end of the contract month, inclusive.

219.03. 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.

219.04. CONTRACT MONTHS

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

219.05. 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.

219.06. TERMINATION OF TRADING

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

219.07. 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.

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CASH MARKET OVERVIEW

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is self-certifying the listing of three (3) financially settled petroleum balance-of-month ("BALMO") futures contracts (listed in the table below) for trading on the NYMEX trading floor and for clearing through CME ClearPort.

<u>Contract</u>	<u>Code</u>	<u>Rule Chapter</u>	<u>First Listed Month</u>	<u>Listing Period</u>
New York 1% Fuel Oil (Platts) Crack Spread BALMO Swap Futures	NFC	217	January 2011	One month and the following month listed 10 business days prior to the start of the contract month.
Gulf Coast No. 6 Fuel Oil (Platts) Crack Spread BALMO Swap Futures	GFC	218	January 2011	One month and the following month listed 10 business days prior to the start of the contract month.
New York 1% Fuel oil vs. Gulf Coast 3% Fuel Oil (Platts) BALMO Swap Futures	NFG	219	January 2011	One month and the following month listed 10 business days prior to the start of the contract month.

BALANCE-OF-MONTH CONTRACTS

The final settlement for the three new 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 Platts 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

Platts, a division of The McGraw-Hill Companies, Inc. ("Platts") is the price reporting service used for the final settlement of the three new petroleum futures contracts. Platts is one of the major pricing services used in the over-the-counter (OTC) market for the pricing of swap contracts, and the methodology utilized by Platts is well-known in the oil industry. Their pricing methodology¹ is derived from telephone surveys and electronic data collected from multiple market participants to determine market value. Platts has a long-standing reputation in the industry for price benchmarks that are fair and not manipulated. CME Group is a party to license agreements with Platts to utilize their pricing data.

Specifically, the New York 1% Fuel oil vs. Gulf Coast 3% Fuel Oil (Platts) BALMO Swap Futures contract utilizes Platts' settlement indices for the pricing of both legs of the spread. The Gulf Coast No. 6 Fuel Oil (Platts) Crack Spread BALMO Swap Futures and New York 1% Fuel Oil (Platts) Crack Spread BALMO Swap Futures contracts utilize the Platts settlement indices for the pricing of the first leg of the spread and the NYMEX Crude Oil Futures contract settlement for the pricing of the second leg of the spread.

MARKET OVERVIEW

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

- I. New York Harbor and Gulf Coast Fuel Oil Markets
- II. WTI Crude Oil Market

I. New York and Gulf Coast Fuel Oil Markets

Description

Fuel oil², also called residual fuel oil, is a liquid petroleum product less volatile than gasoline and used as an energy source. It is generally used in the production of electric power, space heating, vessel bunkering, and various industrial purposes. Fuel oil is classified into six categories varying from number 1 through 6 according to its boiling point, composition and purpose.

The Exchange will list the following three new residual fuel oil contracts: 1) New York 1% Fuel Oil (Platts) Crack Spread BALMO Swap Futures; 2) Gulf Coast No. 6 Fuel Oil (Platts) Crack Spread BALMO

¹ <http://www.platts.com/IM.Platts.Content/MethodologyReferences/MethodologySpecs/usoilproductspecs.pdf>.

² <http://www.eia.doe.gov/glossary/index.cfm?id=F>.

Swap Futures; and 3) New York 1% Fuel oil vs. Gulf Coast 3% Fuel Oil (Platts) BALMO Swap Futures, which are based on the spread between existing NYMEX residual fuel oil and crude oil futures contracts. The New York 1% Fuel Oil (Platts) Crack Spread BALMO Swap Futures is based on the New York Harbor Residual Fuel (Platts) Crack Spread Swap Futures. The Gulf Coast No. 6 Fuel Oil (Platts) Crack Spread BALMO Swap Futures and the New York 1% Fuel oil vs. Gulf Coast 3% Fuel Oil (Platts) BALMO Swap Futures are based on the Gulf Coast No. 6 Fuel Oil (Platts) Crack Spread Swap Futures and 1% Fuel oil vs. Gulf Coast 3% Fuel Oil Spread (Platts) Swap Futures contracts.

A. New York Fuel Oil Market

Consumption, Production, Imports and Exports (PADD I)

The New York fuel oil market, located within Petroleum Administration Defense District I (PADD I), represents the largest hub in the Northeast for residual fuel oil, with extensive storage capacity and refining capacity. The Department of Energy's *Energy Information Administration* ("EIA") is the main source for data related to the underlying residual fuel oil cash markets. Table 1 below illustrates selected statistics for residual fuel oil. According to the EIA, the New York Harbor residual fuel oil market is an active trading and import hub, with fuel oil imports of an average of approximately 200,000 barrels per day for the 2007 – 2009 period. During the 2007 to 2009 period, the total average exports for residual fuel oil was over 60,000 barrels per day. For the 2007 to 2009 period, the total average demand for fuel oil in PADD I was approximately 280,000 barrels per day. The estimated daily trading volume of fuel oil in the New York Harbor cash market is 300,000 to 400,000 barrels per day.

Table 1: Selected Statistics for Residual Fuel Oil – PADD I

(Thousand Barrels per Day)

Residual Fuel Oil, PADD I	2007	2008	2009	Average 2007-2009
Consumption ³	345	271	224	280.0
Imports ⁴	214	200	191	201.7
Exports ⁵	42	67	84	64.3
4-Week Average	11/5/2010	11/12/2010	11/19/2010	11/26/2010
Weekly Refiner & Blender Net Production ⁶	46	44	42	41

³ EIA Consumption Data, http://www.eia.gov/dnav/pet/pet_cons_psup_dc_r10_mbbldpd_a.htm

⁴ EIA Import Data, http://tonto.eia.doe.gov/dnav/pet/pet_move_imp_dc_R10-Z00_mbbldpd_a.htm.

⁵ EIA Export Data, http://tonto.eia.doe.gov/dnav/pet/pet_move_exp_dc_R10-Z00_mbbldpd_a.htm.

⁶ EIA Production Data, http://tonto.eia.doe.gov/dnav/pet/pet_pnp_wprodrb_dc_r10_4.htm.

Inventories

Table 2 below provides monthly EIA data for PADD I inventories for residual fuel oil. The EIA data on residual fuel stocks are available by PADD and for the Central Atlantic region (where the New York Harbor is located). The Central Atlantic region represents roughly two thirds of the stocks located within the PADD I region. Over the annual period of 2007 through September 2010, PADD I stocks varied from a high of over 18.5 million barrels in May 2010 to a low of approximately 12.4 million barrels in January 2009. According to the most recent EIA data, residual inventory levels were at 14.9 million barrels in September 2010.

Table 2: Selected Statistics for Residual Fuel Oil – Stocks PADD I⁷

(Monthly – Thousand Barrels)

Month	2007	2008	2009	2010
Jan	18,047	15,667	12,413	14,411
Feb	13,655	14,911	14,221	14,257
Mar	14,651	13,457	14,704	14,641
Apr	14,618	14,817	14,161	15,918
May	15,485	16,252	15,638	18,500
Jun	14,813	15,423	14,911	15,979
Jul	14,382	13,779	13,915	16,468
Aug	13,727	13,990	12,999	14,802
Sep	15,307	14,105	14,004	14,938
Oct	14,809	14,077	14,624	-
Nov	14,803	14,150	14,103	-
Dec	14,673	13,261	13,003	-

B. Gulf Coast Fuel Oil Market

Consumption, Production, Imports and Exports (PADD III)

The EIA provides detailed consumption, production, stocks, and trade statistics for Gulf Coast fuel oil. Table 3 below provides annual data for the U.S. Gulf Coast (PADD III) region for consumption, and imports/exports. According to the EIA, during the 2007 – 2009 period, Gulf Coast consumption averaged 136,000 thousand barrels per day. Further, the EIA reported that during the annual period of 2007 – 2009, exports of fuel oil were approximately 260,000 barrels per day, while imports were over 100,000 barrels per day.

⁷ EIA Stock Data - http://tonto.eia.doe.gov/dnav/bet/pet_stoc_tpy_d_r10_SAE_mbbbl_m.htm.

Table 3: Selected Statistics for Residual Fuel Oil – PADD III

(Thousand Barrels per Day)

Residual Fuel Oil, PADD III	2007	2008	2009	Average 2007-2009
Consumption ⁸	166	143	100	136.3
Imports ⁹	116	109	95	106.7
Exports ¹⁰	234	255	301	263.7

According to Table 4 below, the Gulf Coast is an active trading and production center, with residual fuel oil production of approximately 270,000 barrels per day for the weekly period ranging from May 30, 2008 to December 3, 2010. The estimated daily trading volume of fuel oil in the Gulf Coast cash market is 300,000 to 400,000 barrels per day.

Table 4: Four-Week Average Gulf Coast Weekly Refiner & Blender Net Production

(Thousand Barrels per Day)

Date	4-Week Average Gulf Coast Weekly Refiner & Blender Net Production ¹¹
May 30, 2008	341
Jun 06, 2008	339
Jun 13, 2008	326
Jun 20, 2008	320
Jun 27, 2008	313
Jul 04, 2008	291
Jul 11, 2008	299
Jul 18, 2008	300
Jul 25, 2008	295
Aug 01, 2008	282
Aug 08, 2008	274
Aug 15, 2008	261
Aug 22, 2008	254
Aug 29, 2008	258
Sep 05, 2008	246
Sep 12, 2008	225
Sep 19, 2008	181
Sep 26, 2008	155
Oct 03, 2008	161
Oct 10, 2008	182
Oct 17, 2008	222
Oct 24, 2008	256
Oct 31, 2008	268
Nov 07, 2008	273
Nov 14, 2008	278

⁸ EIA Consumption Data, http://www.eia.gov/dnav/pet/pet_cons_psup_dc_r30_mbbldpd_a.htm.

⁹ EIA Import Data, http://tonto.eia.doe.gov/dnav/pet/pet_move_imp_dc_R30-Z00_mbbldpd_a.htm.

¹⁰ EIA Export Data, http://tonto.eia.doe.gov/dnav/pet/pet_move_exp_dc_R30-Z00_mbbldpd_a.htm.

¹¹ EIA Production Data, http://tonto.eia.doe.gov/dnav/pet/pet_pnp_wprodrb_dcu_r30_4.htm.

Date	4-Week Average Gulf Coast Weekly Refiner & Blender Net Production
Nov 21, 2008	276
Nov 28, 2008	265
Dec 05, 2008	267
Dec 12, 2008	265
Dec 19, 2008	285
Dec 26, 2008	291
Jan 02, 2009	277
Jan 09, 2009	269
Jan 16, 2009	249
Jan 23, 2009	245
Jan 30, 2009	258
Feb 06, 2009	262
Feb 13, 2009	251
Feb 20, 2009	260
Feb 27, 2009	251
Mar 06, 2009	254
Mar 13, 2009	235
Mar 20, 2009	227
Mar 27, 2009	223
Apr 03, 2009	221
Apr 10, 2009	226
Apr 17, 2009	215
Apr 24, 2009	210
May 01, 2009	184
May 08, 2009	210
May 15, 2009	226
May 22, 2009	243
May 29, 2009	277
Jun 05, 2009	287
Jun 12, 2009	295
Jun 19, 2009	292
Jun 26, 2009	287
Jul 03, 2009	280
Jul 10, 2009	276
Jul 17, 2009	299
Jul 24, 2009	308
Jul 31, 2009	313
Aug 07, 2009	326
Aug 14, 2009	331
Aug 21, 2009	338
Aug 28, 2009	325
Sep 04, 2009	320
Sep 11, 2009	298
Sep 18, 2009	289
Sep 25, 2009	317
Oct 02, 2009	331
Oct 09, 2009	346
Oct 16, 2009	355
Oct 23, 2009	343
Oct 30, 2009	332

Date	4-Week Average Gulf Coast Weekly Refiner & Blender Net Production
Nov 06, 2009	332
Nov 13, 2009	334
Nov 20, 2009	346
Nov 27, 2009	369
Dec 04, 2009	365
Dec 11, 2009	360
Dec 18, 2009	347
Dec 25, 2009	329
Jan 01, 2010	333
Jan 08, 2010	343
Jan 15, 2010	352
Jan 22, 2010	368
Jan 29, 2010	364
Feb 05, 2010	363
Feb 12, 2010	351
Feb 19, 2010	315
Feb 26, 2010	316
Mar 05, 2010	310
Mar 12, 2010	300
Mar 19, 2010	294
Mar 26, 2010	266
Apr 02, 2010	252
Apr 09, 2010	257
Apr 16, 2010	253
Apr 23, 2010	262
Apr 30, 2010	271
May 07, 2010	287
May 14, 2010	300
May 21, 2010	302
May 28, 2010	287
Jun 04, 2010	268
Jun 11, 2010	256
Jun 18, 2010	244
Jun 25, 2010	249
Jul 02, 2010	249
Jul 09, 2010	239
Jul 16, 2010	226
Jul 23, 2010	205
Jul 30, 2010	190
Aug 06, 2010	191
Aug 13, 2010	188
Aug 20, 2010	179
Aug 27, 2010	179
Sep 03, 2010	213
Sep 10, 2010	230
Sep 17, 2010	277
Sep 24, 2010	289
Oct 01, 2010	274
Oct 08, 2010	281
Oct 15, 2010	244

Date	4-Week Average Gulf Coast Weekly Refiner & Blender Net Production
Oct 22, 2010	234
Oct 29, 2010	216
Nov 05, 2010	217
Nov 12, 2010	228
Nov 19, 2010	230
Nov 26, 2010	257
Dec 03, 2010	263

Inventories

Table 5 below provides monthly EIA data for PADD III inventories for residual fuel oil. Over the annual period of 2007 through September 2010, PADD III stocks varied from a high of over 20.7 million barrels in April 2010 to a low of approximately 13.5 million barrels in May 2007. According to the most recent EIA data, residual inventory levels were at 18.7 million barrels in September 2010.

Table 5: Selected Statistics for Residual Fuel Oil – Stocks PADD III¹²
(Monthly – Thousand Barrels)

Month	2007	2008	2009	2010
Jan	16,722	16,285	14,387	19,871
Feb	15,462	17,679	17,662	20,454
Mar	17,622	18,612	16,991	19,175
Apr	16,394	16,649	14,444	20,702
May	13,548	16,888	16,922	20,051
Jun	14,459	18,894	15,825	20,024
Jul	17,933	16,649	15,712	18,513
Aug	15,553	17,594	14,417	17,425
Sep	14,814	18,408	15,551	18,681
Oct	16,796	18,489	14,640	-
Nov	16,962	18,025	17,108	-
Dec	17,276	16,442	18,719	-

Market Activity for New York and Gulf Coast Fuel Oil Markets

In the OTC swaps market, New York Harbor and Gulf Coast fuel oil are liquid derivative instruments, with trading volume of approximately one million to 1.5 million barrels per day. The typical OTC transaction size consists of 25,000 barrels. According to conversations with market participants, there are 40 to 50 transactions traded daily in the OTC swaps market. The bid/ask spreads are typically in increments of 10 cents to 20 cents per barrel, which reflects robust liquidity in the OTC market.

¹² EIA Stock Data - <http://tonto.eia.doe.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MRESTP31&f=M>.

Market Participants for New York and Gulf Coast Fuel Oil Markets

The New York Harbor and Gulf Coast fuel oil markets are diverse and actively traded by refiners, traders, importers, and smaller distributors. Below is a list of the market participants that are active in the fuel oil cash market. The cash market and OTC market participants are diverse and number around 25 to 30 commercial companies. A partial listing is as follows:

Refiners

ConocoPhillips
Valero
Shell
ExxonMobil
BP
Sunoco
Amerada Hess
Citgo
Chevron

Traders/Importers

Statoil
Vitol
Glencore
Trafigura
Koch
Cargill
Morgan Stanley
Goldman Sachs (J. Aron)
Irving Oil
Lukoil Getty
Global
Sprague
Hess Energy Trading

Brokers

Bruggemann
ICAP
Amerex
PVM
United
TFS Brokers
GFI Starsupply

Financial (Swaps)

Citibank
Deutsche Bank
Barclays
Merrill Lynch
BankAmerica

II. WTI Crude Oil Market

The West Texas Intermediate ("WTI") crude oil market, also called "domestic sweet", is traded at the hub in Cushing, Oklahoma which consists of storage facilities and major pipelines for distribution of crude oil from West Texas to refineries in the Midcontinent. Sweet crude 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 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).

Table 6 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 companies with the majority of storage amounting to roughly 75%. There are several pipelines that are directly connected to the Cushing hub in Oklahoma.

Table 6. Selected Statistics for Crude Oil: Cushing, Oklahoma Storage Capacity¹³

CRUDE STORAGE CAPACITY AT CUSHING (Million Barrels)		
	January 2009 Shell Capacity	November 2009 Shell Capacity
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
Total	46.3	51.5

¹³ Purvin & Gertz Inc. Study, 2009.

The refineries in PADD II are connected via various pipeline systems that supply both domestic and foreign crude. 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. 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.

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 from Cushing, Canadian crude 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 ChicCap 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 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 7 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 2007-2009 period, the refinery input of crude oil in PADD II was approximately 3.2 million barrels per day. Further, crude oil production averaged 529,000 barrels per day during the 2007-

2009 period. Also, there was a net import balance of approximately 1.15 million barrels of crude oil during the three year period.

Table 7. EIA PADD II Statistics for Crude Oil¹⁴

(Thousand Barrels per Day)

Item and Region	2007	2008	2009	Average 2007-2009
Refinery Input, Crude Oil	3,226	3,221	3,135	3,194
Annual Production, Crude Oil	470	538	580	529
Annual Imports of Crude Oil	1,129	1,188	1,204	1,174
Annual Exports, Crude Oil	16	22	35	24

Inventories

Table 8 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 37.2 million barrels in May 2010. 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 8. EIA Stocks for Crude Oil: Cushing, Oklahoma¹⁵

(Thousand Barrels)

	2007	2008	2009	2010
January	21,416	13,579	32,394	31,994
February	21,976	13,718	31,938	30,739
March	27,034	14,814	31,198	31,583
April	28,031	17,337	30,328	36,138
May	26,324	18,450	29,603	37,222
June	23,441	18,066	30,458	36,070
July	19,754	16,166	33,916	37,578

¹⁴ EIA Refinery Input Data, http://www.eia.gov/dnav/pet/pet_pnp_inpt2_dc_r20_mbbldp_a.htm

EIA Production Data, http://www.eia.gov/dnav/pet/pet_crd_crpdn_adc_mbbldp_a.htm

EIA Import Data, http://www.eia.gov/dnav/pet/pet_move_imp_dc_R20-Z00_mbbldp_a.htm

EIA Export Data, http://www.eia.gov/dnav/pet/pet_move_exp_dc_R20-Z00_mbbldp_a.htm

¹⁵EIA Inventory Data, http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MCRST_YCUOK_1&f=M

	2007	2008	2009	2010
August	18,066	15,966	30,273	35,540
September	14,033	11,691	25,505	35,921
October	13,804	14,786	25,718	NA
November	17,150	20,481	32,978	NA
December	16,742	30,001	35,645	NA

Prices

Table 9, below, illustrates the prices for the NYMEX WTI futures contract from the period beginning January 2007 through November 2010. During this period crude oil futures traded at a record high of \$145.29 on July 3, 2008 and a record low of \$33.87 on December 8, 2008. According to the most recent data provided by the CME Group, the monthly average price for NYMEX WTI crude oil was at \$84.31 for the month of November 2010. The average daily trading volume in 2009 was 544,877 contracts and 679,290 contracts for year-to-date 2010 through November.

Table 9. NYMEX Light Sweet WTI Prices¹⁶

WTI Crude Oil Futures				
Monthly Average	2007	2008	2009	2010
January	\$54.67	\$92.93	\$41.92	\$78.40
February	\$59.39	\$95.35	\$39.26	\$76.45
March	\$60.74	\$105.42	\$48.06	\$81.29
April	\$64.04	\$112.46	\$49.95	\$84.58
May	\$63.53	\$125.46	\$59.21	\$74.12
June	\$67.53	\$134.02	\$69.70	\$75.40
July	\$74.15	\$133.48	\$64.29	\$76.38
August	\$72.36	\$116.69	\$71.14	\$76.67
September	\$79.63	\$103.76	\$69.47	\$75.55
October	\$85.66	\$76.72	\$75.82	\$81.97
November	\$94.63	\$57.44	\$78.15	\$84.31
December	\$91.74	\$42.04	\$74.60	--

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

¹⁶ WTI Crude Oil Futures Prices, CME Group.

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.

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:

<u>Refiners</u>	<u>Traders/Importers</u>	<u>Brokers</u>	<u>Financial</u>
ConocoPhillips	Occidental Petroleum	United	Citibank
Valero	Vitol	GFI Starsupply	Deutsche Bank
Shell	Glencore	United	Barclays
ExxonMobil	Plains	PVM	BankAmerica
BP	Koch	United	Wachovia Bank
Sunoco	Cargill	ARC Oil	JP Morgan Chase
Amerada Hess	Morgan Stanley	Oil Brokers Inc.	Credit Suisse
Marathon	Goldman Sachs (J. Aron)		
Murphy Oil	Trafigura		
Chevron	Hess Energy Trading		
Total	Conagra		
	Noble Energy		
	Phibro		
	Sempra		
	Mercuria		
	Anadarko		
	BHP Billiton		

ANALYSIS OF DELIVERABLE SUPPLY

The three BALMO petroleum contracts contained in the submission are set up as spreads of two different but related petroleum markets. The markets are: 1) Gulf Coast Fuel Oil; 2) New York Harbor Fuel Oil; and 3) WTI Crude Oil.

Please note that for all three markets, 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 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.

With regard to the Gulf Coast Fuel Oil market, in its analysis of deliverable supply, the Exchange concentrated on data for the Gulf Coast (PADD III) refinery production for residual fuel oil, which is the main production and trading center for the U.S. For the leg of the spread that is based on the Gulf Coast Fuel Oil market, the Exchange has set the position limits at 1,000 contracts, with aggregation into the underlying swap contracts. To be conservative, we have focused on the Gulf Coast residual fuel oil production capacity in PADD III using the EIA data in Table 4 above. Based on the refinery production data provided by the EIA, we believe that the total residual fuel supply in the Gulf Coast area for the weekly period ranging from May 30, 2008 to December 3, 2010 was approximately 270,000 barrels per day, which is equivalent to 8.1 million barrels per month or 8,100 contract equivalents (contract size: 1,000 barrels). Thus, the spot month position limits of 1,000 contract units, which is equivalent to one million barrels, is approximately 12% of the 8,100 contract equivalents of monthly supply.

For the leg of the spread that is based on the New York Harbor fuel oil market (PADD I), the Exchange has set the position limits at 1,000 contracts, with aggregation into the underlying swap

contracts. In its analysis of deliverable supply, the Exchange concentrated on the total average demand for fuel oil in PADD I, which, according to EIA data in Table 1 above, was approximately 280,000 barrels per day for the 2007 to 2009 period, which is equivalent to 8.4 million barrels per month or 8,400 contract equivalents (contract size: 1,000 barrels). Thus, the spot month position limits of 1,000 contract units, which is equivalent to one million barrels, is approximately less than 12% of the 8,400 contract equivalents of monthly supply.

With regard to the light sweet West Texas Intermediate (WTI) type crude oil market, in its analysis of deliverable supply, the Exchange concentrated on the physical flow estimates of light, sweet WTI 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 in Cushing is approximately 600,000 barrels. Please note that 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. As stated above, 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. 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). For the leg of the spread that is based on the WTI crude oil market, the Exchange has set the position limit at 3,000 contract units, with aggregation into the underlying swap contract. Therefore, the position limit of 3,000 contracts is set at 17% of the total monthly supply of 18,000 contract equivalents.