CME Group | Advisory Notice

TO: Clearing Member Firms
Back Office Managers
Service Providers

FROM: CME Clearing

ADVISORY #: 15-042

DATE: February 9, 2015

SUBJECT: Monthly-to-Daily Conversion for Power Contracts begins on May 29, 2015

Beginning with the June 2015 contract month and pending regulatory approvals, we are introducing an important enhancement in the way that the majority of monthly NYMEX power contracts are processed at maturity. Please see Special Executive Report 7253RR at: http://www.cmegroup.com/tools-information/lookups/advisories/ser/files/SER-7253RR.pdf

Currently, the last day of trading for these monthly cash-settled contracts is the last business day of the contract month. With this change, the monthly contracts will terminate trading prior to the start of the contract month and positions in the monthly contracts will be transformed automatically into strips of positions in the corresponding daily contracts, thereby allowing individual daily positions to be managed separately.

The new last day of trading will be the first business day immediately prior to the contract month for real-time monthly contracts and the second business day immediately prior to the contract month for day-ahead monthly contracts. Specifically, for the June 2015 contract month, the last trade date will be May 29, 2015, for real-time monthly contracts and May 28, 2015, for day-ahead monthly contracts. The conversion of day-ahead monthlies to dailies will occur on the morning (Central Time) of the last business day prior to the contract month. The conversion of the real-time monthlies to dailies will occur on the morning (Central Time) of the first business day of the contract month. The morning of Friday, May 29 2015, is the first time this process will run. The conversion of positions from monthly futures to strips of daily contracts will occur for subsequent contract months just prior to becoming the spot month.

The 'monthly-to-daily' conversion will first be applied to the subset of 5MW power products specified in Table 1 below and will gradually be expanded each month until the full set of monthly 5MW products has been migrated to the new behavior. The full list of 58 monthly products and their corresponding daily products is provided in Appendix A below.

Position quantities in the monthly peak-hour contracts are provided as multiples of the number of peak days in the specified calendar month. For example, you cleared a buy for 10 MW per hour in the June 2015 PJM AEP Dayton Hub Day-Ahead LMP Peak Calendar-Month 5 MW Futures contract. Because the contract unit is 5 MW per hour and there are 22 peak days in June 2015, your cleared position will be long 44 contracts. (22 times 10/5)

When this long position in the peak monthly futures is converted into the corresponding strip of dailies, the monthly position quantity is divided by the number of peak days in the month. In this example, each daily contract will get a long position of 2 contracts (44 divided by 22), where the corresponding daily futures contract is the PJM AEP Dayton Hub Day-Ahead Peak Calendar-Day 5 MW Futures.

The process is similar as it applies to monthly off-peak contracts, with the difference being that off-peak contracts are traded in multiples of the number of off-peak hours in the contract month. Off-peak hours cover every calendar day in the month – both peak days (which have 8 off-peak hours each) and off-peak days (which have 24 off-peak hours each). So, for example, a given June 2015 off-peak monthly contract has a total of 368 off-peak hours in the month, and the position quantities will always be in even multiples of 368. Note that in the case of daylight savings,

there is one less hour in March 2015; this accounts for the odd number of total off-peak hours. Specifically, one day will have 23 off-peak hours on the day when daylight savings becomes effective. Correspondingly, there will be 25 off-peak hours in October 2015 when daylight savings time ends. Positions in off-peak monthly contracts also will be transformed into strips of positions in the associated daily contracts, with position quantities in each daily contract being equal to the number of off-peak hours in that particular day and noting the daylight savings exception, if applicable. Thus, position quantities are a given off-peak daily contract may be either 8, 23, 24, or 25 contracts.

**The monthly to daily conversion process will operate in a manner exactly analogous to the way the new Eurodollar bundle futures transform in a strip of quarterly Eurodollar contracts, and should not require any systems changes to clearing firm bookkeeping systems or incur any fees.**

The monthly contracts are processed exactly as they currently are, except that their last day of trading is moved up to the last business day immediately prior to the contract month for the real-time contracts and the second to last business day immediately prior to the contract month for the day-ahead contracts. On that day, positions in the monthly contract are marked to market one final time. On the next morning of the next business day, those positions are removed and replaced with the strip of positions in the dailies, at the last daily settlement price of the monthly determined the day before.

**To make it as simple as possible for firms to create the strips of daily power contracts in books, CME will feed to clearing firms FIXML transaction messages which can be loaded directly to books.** The account number on each such message will be as specified by the firm, so that the transactions will directly load to the desired accounts. Firms may specify such account numbers by providing delivery intents in the Deliveries Plus application, either by directly keying the intents or by uploading a simple CSV-format data file (in the same format as used for CBOT Deliverable Swap Futures). Note that providing intents is optional. If such intents are not provided, the daily power positions made in delivery will be created with an account ID of **DLVRY**. The format for the intents file is provided at:
http://www.cmegroup.com/clearing/files/delivery-intents-file-for-deliverable-swap-futures-and-eurodollar-bundle-futures-2014-08-19.pdf

To distinguish daily power futures exposures made via deliveries on expiring monthly power futures from daily power futures exposures made in the normal course of trading in daily power futures, daily power futures positions assigned in delivery will be provided as **transfers**, with a trade subtype value of **200** to indicate that they result from delivery. **There will be no fees associated with these transactions or with any other aspect of the conversion process.**

Clearing firms will be able to test the conversion process using CME Clearing's "New Release" environment on March 2, as if the process first applied to the March 2015 contracts.

The Globex notice for the monthly power contract modifications will be available in April.

For questions or further information, please contact CME Clearing Services (CCS) at 312-207-2525 or ccs@cmegroup.com.

**Monthly Power Products Converting to Corresponding Dailies on May 29, 2015**

**Table 1. Monthly and Daily Futures Contracts**

| Clearing Code | Chapter | Monthly Futures | Clearing Code | Chapter | Corresponding Daily Futures | Conv Date |
|---|---|---|---|---|---|---|
| D7 | 156 | PJM AEP Dayton Hub Day-Ahead LMP Peak Calendar-Month 5 MW Futures | PAP | 953 | PJM AEP Dayton Hub Day-Ahead Peak Calendar-Day 5 MW Futures | May 29 2015 |
| R7 | 157 | PJM AEP Dayton Hub Day-Ahead Off-Peak Calendar-Month 5 MW Futures | PEO | 954 | PJM AEP Dayton Hub Day-Ahead Off-Peak Calendar-Day 5 MW Futures | May 29 2015 |
| H5 | 859 | MISO Indiana Hub (formerly Cinergy Hub) Day-Ahead Peak | PDD | 1074 | MISO Indiana Hub Day-Ahead Peak Calendar-Day 5 MW | May 29 2015 |

| Clearing Code | Chapter | Monthly Futures | | Clearing Code | Chapter | Corresponding Daily Futures | Conv Date |
|---|---|---|---|---|---|---|---|
| | | Calendar-Month 5 MW Futures | | | | Futures | |
| H3 | 802 | MISO Indiana Hub (formerly Cinergy Hub) 5 MW Peak Calendar-Month Real-Time Futures | | PTD | 1075 | MISO Indiana Hub Real-Time Peak Calendar-Day 5 MW Futures | June 1 2015 |
| K2 | 893 | MISO Indiana Hub (formerly Cinergy Hub) Day-Ahead Off-Peak Calendar-Month 5 MW Futures | | FAD | 1076 | MISO Indiana Hub Day-Ahead Off-Peak Calendar-Day 5 MW Futures | May 29 2015 |
| H4 | 803 | MISO Indiana Hub (formerly Cinergy Hub) Real-Time Off-Peak Calendar-Month 5 MW Futures | | FTD | 1077 | MISO Indiana Hub Real-Time Off-Peak Calendar-Day 5 MW Futures | June 1 2015 |
| OPM | 960 | Ontario Peak Calendar-Month Futures | | OPD | 964 | Ontario Peak Calendar-Day Futures | June 1 2015 |
| OFM | 961 | Ontario Off-Peak Calendar-Month Futures | | OFD | 965 | Ontario Off-Peak Calendar-Day Futures | June 1 2015 |