

# SUBMISSION COVER SHEET

Registered Entity Identifier Code 12-044R Date: February 9, 2012

**IMPORTANT:** CHECK BOX IF CONFIDENTIAL TREATMENT IS REQUESTED. ☐

## ORGANIZATION

New York Mercantile Exchange, Inc.

## FILING AS A: ECM/SPDC

☒ DCM ☐ SEF ☐ DCO ☐ SDR ☐

## TYPE OF FILING

### • Rules and Rule Amendments

- ☐ Certification under § 40.6 (a) or § 41.24 (a)
- ☐ “Non-Material Agricultural Rule Change” under § 40.4 (b)(5)
- ☐ Notification under § 40.6 (d)
- ☐ Request for Approval under § 40.4 (a) or § 40.5 (a)
- ☐ Advance Notice of SIDCO Rule Change under § 40.10 (a)

### • Products

- ☒ Certification under § 39.5(b), § 40.2 (a), or § 41.23 (a)
- ☐ Swap Class Certification under § 40.2 (d)
- ☐ Request for Approval under § 40.3 (a)
- ☐ Novel Derivative Product Notification under § 40.12 (a)

## RULE NUMBERS

Chapters 1156, Position Limit, Position Accountability and Reportable Level Table and Header Notes of the NYMEX Rulebook, Rule 588.G.

## DESCRIPTION

Revisions to NYMEX Submission No. 12-044 regarding the listing of Henry Hub Natural Gas Last Day Physically-Delivered futures contract, its terms and conditions and analysis of the underlying market.



Sean M. Downey  
Associate Director and Assistant General Counsel  
Legal Department

February 9, 2012

**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(a) Certification. Notification Regarding the Listing of Henry Hub Natural Gas Last Day Physically-Delivered Futures Contract for Trading on the CME Globex, NYMEX Trading Floor and for Clearing through CME ClearPort  
NYMEX Submission 12-044R**

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 Henry Hub Natural Gas Last Day Physically-Delivered futures contract for electronic trading on CME Globex, open outcry trading on the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, February 12, 2012, for trade date Monday, February 13, 2012. Please note that a black lined copy of this revised submission reflecting the changes from submission 12-044 may be found in Appendix E.

Certain Bentek onshore production numbers under Section V. A. (NYMEX's Updated Deliverable Supply Estimate and Supporting Data – Data for Natural Gas Production), and in Table 6 under Section V. D. (NYMEX's Updated Deliverable Supply Estimate and Supporting Data – Updated Deliverable Supply Estimate) of the deliverable supply analysis of natural gas, were revised to correct typographical errors for production levels. These changes do not result in any change in the estimate of deliverable supply. Also, an additional table was added immediately after Table 6 to explicitly outline Bentek's estimates for 2009, 2010 and 2011 (through December 30) of daily onshore production for Louisiana, Texas, Mississippi and Alabama.

Tables 3 and 4 under Section V. D. were revised to reflect the most updated Texas Natural Gas marketed production and Louisiana Natural Gas underground storage volume as reported by the U.S. Energy Information Administration. All revisions to the deliverable supply analysis referenced above have been black lined and are contained in Appendix D.

**SPECIFICATION SUMMARY:**

**Contract Name:** Henry Hub Natural Gas Last Day Physically-Delivered Futures

**Code:** MNG

**Rule Chapter:** 1156

**Contract Size:** The unit of trading shall be 2,500 MMBtu. Transaction sizes in any delivery month shall be restricted to whole number multiples of the number of calendar days in the contract month, provided however, this restriction on transaction size does not apply to Exchange for Related Position (EFRP) transactions, pursuant to Rule 538. A delivery tolerance of two percent (2%) above or below the unit of trading is permitted.

**Minimum Price Fluctuation:** The minimum fluctuation shall be in multiples of one tenth of one cent (\$0.001) per MMBtu (\$2.50 per contract), including spreads. Prices shall be quoted in dollars and cents per MMBtu. The maximum price fluctuation shall be consistent with the prevailing price limits of the Henry Hub Natural Gas futures contract.

**First Contract Listed:** March 2012

**Listing Schedule:**

*NYMEX Floor & CME ClearPort:* The current year plus the next twelve years. A new calendar year will be added following the termination of trading in the December contract of the current year.

*CME Globex:* Thirty-six (36) consecutive months.

**Last Trading Day:** The third business day prior to the first day of the delivery month. In the event that the official Exchange holiday schedule changes subsequent to the listing of a Henry Hub Natural Gas Last Day Physically-Delivered futures, the originally listed expiration date shall remain in effect. In the event that the originally listed expiration day is declared a holiday, expiration shall move to the business day immediately prior.

**Trading and Clearing Hours:**

Open Outcry: Monday – Friday 9:00 a.m. – 2:30 p.m. (8:00 p.m. – 1:30 p.m. Chicago Time/CT).

CME Globex and CME ClearPort: Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. CT).

**Fee Schedule:**

Exchange Fees					
	Member Day	Member	Cross Division	Non-Member	IIP
Pit	0.1125	0.175	0.2375	0.3625	
Globex	0.1125	0.175	0.2375	0.3625	0.1875
ClearPort		0.175		0.3625	
Other Processing Fees					
	Member	Non-Member			
Cash Settlement			*only applies to financially settled contracts		
Futures from E/A	0.175	0.3625	*applies to futures contracts		
	House Acct	Customer Acct			
Options E/A Notice			*applies to physical options		
Delivery Notice	0.125	0.25	*applies to physical futures		
Additional Fees and Surcharges					
EFS Surcharge	0.625	*\$2.50 fee typically only charged on our core physical contracts			
Facilitation Desk Fee	0.05	*fee applies to CPC trades entered by ClearPort Market Ops			

The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the new futures contract 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 contract. The terms and conditions establish the all month/any one month accountability levels, expiration month position limit, reportable level, diminishing balance and aggregation allocation for the new contract. Please note that the Exchange has updated its

analysis of deliverable supply of the natural gas market but has kept the position limits for the new contract consistent with the historic position limits applied to the Henry Hub Natural Gas futures contract (NG) into which this new contract aggregates. In addition, the Exchange is self-certifying the insertion of the non-reviewable range ("NRR") for the futures contract into Rule 588.G

As the maximum price fluctuation limits of this contract shall be consistent with the prevailing price limits of the NG contract, under separate cover, the Exchange shall notify the CFTC of an amendment to Rule 220.08A ("Special Price Fluctuation Limits for Henry Hub Natural Gas Futures") in order to include this contract in the "Associated Products Appendix" of Rule 220.08A.

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 product may have some bearing on the following Core Principles:

- Prevention of Market Disruption: Trading in this contract 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 product will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department.
- Contracts not Readily Subject to Manipulation: The new contract is 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.
- Compliance with Rules: Trading in this contract will be subject to the rules in Rulebook Chapter 4 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in this contract 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 product 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 product is 11% of the updated monthly Henry Hub deliverable supply.
- Availability of General Information: The Exchange will publish information on the contract's 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 contract is dually listed for clearing through the CME ClearPort platform and for trading on the CME Globex trading platform and the NYMEX trading floor. The CME ClearPort platform provides a competitive, open and efficient mechanism for novating transactions that are competitively executed by brokers. The CME Globex electronic trading platform provides for a competitive and open execution of transactions due to its advanced functionality, high reliability and global connectivity. It runs continuously, so it is not

restricted by borders or time zones. CME Globex remains among the fastest global electronic trading systems. 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 this product.
- 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 this contract 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 this product are identified.
- Dispute Resolution: Disputes with respect to trading in this contract 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 contract complies with the Act, including regulations under the Act. There were no substantive opposing views to this proposal. A description of the cash market for this new product 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](mailto:Sean.Downey@cmegroup.com).

Sincerely,

/s/Sean M. Downey  
Associate Director and Assistant General Counsel

Attachments:   Appendix A:   Rule Chapter  
                  Appendix B:   Chapter 5 Table  
                  Appendix C:   Rule 588.G. No Bust Ranges  
                  Appendix D:   Deliverable Supply Analysis  
                  Appendix E:   NYMEX Submission No. 12-044R (Black-line)

## Chapter 1156

### Henry Hub Natural Gas Last Day Physically-Delivered Futures

#### 1156100. SCOPE OF CHAPTER

This chapter is limited in application to Henry Hub Natural Gas Last Day Physically-Delivered futures. The procedures for trading, clearing, delivery and settlement not specifically covered herein or in Chapter 7B shall be governed by the general rules of the Exchange.

The provisions of these rules shall apply to all natural gas bought or sold for future delivery on the Exchange with delivery at the Henry Hub.

The terms "short position holder" and "long position holder" shall mean the seller of the physical product and the buyer of the physical product, respectively.

The terms "seller" and "buyer" shall mean the short clearing member and the long clearing member, respectively.

For purposes of these rules, unless otherwise specified, times referred to herein shall refer to and indicate New York time.

#### 1156101. CONTRACT SPECIFICATIONS

The contract grade for delivery on futures contracts shall be "natural gas" which shall mean any mixture of hydrocarbons, or hydrocarbons and noncombustible gases, in a gaseous state, consisting essentially of methane, meeting the specifications set forth in the FERC-approved tariff of Sabine Pipe Line Company as then in effect at the time of delivery and shall be deliverable in satisfaction of futures contract delivery obligations.

The futures contract delivery point shall be the Henry Hub which refers to piping and related facilities owned and/or leased by Sabine Pipe Line Company at Chevron Corp.'s Henry Gas Processing Plant near Erath, Louisiana.

#### 1156102. TRADING SPECIFICATIONS

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

##### 1156102.A. Trading Schedule

The hours for trading shall be determined by the Exchange.

##### 1156102.B. Trading Unit

The unit of trading shall be 2,500 MMBtu. Transaction sizes in any delivery month shall be restricted to whole number multiples of the number of calendar days in the contract month, provided however, this restriction on transaction size does not apply to Exchange for Related Position (EFRP) transactions, pursuant to Rule 538. A delivery tolerance of two percent (2%) above or below the unit of trading is permitted.

The term Btu (British thermal unit) shall mean the amount of heat required to raise the temperature of one (1) pound of avoirdupois pure water from fifty-eight and five tenth degrees (58.5) Fahrenheit to fifty-nine and five tenths degrees (59.5) Fahrenheit at a constant pressure of 14.73 pounds per square inch absolute. MMBtu shall mean one million (1,000,000) Btu.

##### 1156102.C. Price Increments

The minimum fluctuation shall be \$0.001 (one tenth of one cent) per MMBtu (\$2.50 per contract). Prices shall be quoted in dollars and cents per MMBtu.

##### 1156102.D. Special Price Fluctuation Limits

1. Initial Price Fluctuation Limits for All Contract Months. At the commencement of each trading day, there shall be price fluctuation limits in effect for each contract month of this futures contract of \$3.00 per MMBtu above or below the previous day's settlement price for such contract month.
2. (a) Triggering Event and Temporary Trading Halt Related to Trading on Globex®. If a market for any of the first three (3) contract months is bid or offered at the upper or lower price fluctuation limit, as applicable, on Globex it will be considered a Triggering Event which will halt trading for a five (5) minute period ("Temporary Trading Halt") in all contract months of the Henry Hub Natural Gas Last Day Physically-Delivered futures contract, as well as all contract months in all products cited in the Associated Products Appendix of this rule. Trading in any option related to this contract or in an option contract related to any products cited in the Associated Products Appendix which may be available for trading on either Globex or on the trading floor shall additionally be subject to a coordinated Temporary Trading Halt.

(b) Expansion of Limits Following Temporary Trading Halt. Following the end of the 5-minute Temporary Trading Halt, the affected markets shall re-open simultaneously in all contract months of these futures contracts. When trading resumes, price fluctuation limits for each contract month shall be expanded an additional increment of the price fluctuation limits, above and below the previous day's settlement price for each contract month in the affected contracts on Globex and on the trading floor (as applicable).

(c) Each instance in which a Triggering Event occurs, a Temporary Trading Halt will commence as provided by subsections (a) and (b) of this rule above and the price fluctuation limits for all contract months shall be expanded by an additional increment of the price fluctuation limits for Henry Hub Natural Gas Last Day Physically-Delivered futures as well as all products cited in the Associated Products Appendix in this rule.

(d) End of Day Lifting of Price Fluctuation Limits. On any Exchange business day, regardless of any prior action concerning price fluctuation limits during the trading session, commencing sixty (60) minutes before the close of the Regular Trading Hours (RTH) session, there shall be no price fluctuation limits on any contract month in Henry Hub Natural Gas Last Day Physically-Delivered futures or in any products cited in the Associated Products Appendix of this rule. The Price Fluctuation Limits shall be reinstated after the close of RTH for trading on Globex and shall be in effect through to the conclusion of the current trading day's Globex trading session.

3. Price Fluctuation Limits on the Trading Floor (Floor Trading)

(a) The price fluctuation limits cited in subsection 1156102.D.1 of this rule shall be applicable on the trading floor. All markets on the trading floor shall be limited to trading at these price levels (locked limit); however, such trading shall not constitute a Triggering Event for purposes of a Temporary Trading Halt on Globex.

(b) In all instances when a Triggering Event in Henry Hub Natural Gas Last Day Physically-Delivered futures occurs on Globex, floor trading in Henry Hub Natural Gas Last Day Physically-Delivered futures and any products cited in the Associated Products Appendix of this rule shall immediately halt. Additionally, trading in any option related to this contract or in an option contract related to any products cited in the Associated Products Appendix shall be subject to a coordinated Temporary Trading Halt.

(c) Whenever Globex markets are expanded and re-opened pursuant to the provisions of subsection 1156102.D.2 of this rule, affected markets on the trading floor shall re-open with the expanded limits in place.

4. Associated Products Appendix

MNG	Henry Hub Natural Gas Last Day Physically-Delivered Futures
NG	Henry Hub Natural Gas Futures
QG	E-mini Natural Gas Futures
NP	Henry Hub Natural Gas Penultimate Financial Futures
HH	Henry Hub Natural Gas Look-Alike Last Day Financial Futures
NN	Henry Hub Natural Gas Last Day Financial Futures

**1156102.E. Position Limits**

For purposes of calculating compliance with position limits, each contract will be aggregated with positions held in Henry Hub Natural Gas futures. Each position in the contract shall be deemed equivalent to 0.25 of the quantity of the Henry Hub Natural Gas futures contract into which it aggregates.

In accordance with Rule 559, no person shall own or control positions in excess of 4,000 Henry Hub Natural Gas Last Day Physically-Delivered futures contracts net long or net short in the spot month.

In accordance with Rule 560:

1. the all-months accountability level shall be 48,000 Henry Hub Natural Gas Last Day Physically-Delivered futures contracts net long or net short in all months combined;
2. the any-one month accountability level shall be 24,000 Henry Hub Natural Gas Last Day Physically-Delivered 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.

### **1156102.F. Termination of Trading**

No trades in Henry Hub Natural Gas Last Day Physically-Delivered futures deliverable in the current month shall be made after the third business day prior to the first day of the delivery month. In the event that the official Exchange holiday schedule changes subsequent to the listing of a Henry Hub Natural Gas Last Day Physically-Delivered futures, the originally listed expiration date shall remain in effect. In the event that the originally listed expiration day is declared a holiday, expiration will move to the business day immediately prior. Any contracts remaining open after the last day of trading must be either:

- (a) Settled by delivery which shall take place no earlier than the first calendar day of the delivery month and shall be completed no later than the last calendar day of the delivery month; or
- (b) Liquidated by means of a bona fide Exchange for Related Position ("EFRP") pursuant to Rule 538. An EFRP is permitted in the expiring futures contract until two (2) hours after trading terminates on the last day of trading of the expiring futures contract. An EFRP which establishes a futures position for either the buyer or the seller shall not be permitted during the two-hour period following the termination of trading of an expired futures contract.

### **1156103. MEASUREMENT**

The natural gas delivered hereunder shall be measured at the long position holder's point of interconnection at the Henry Hub in accordance with transporting pipeline practices.

### **1156104. DELIVERY**

Delivery shall be made free-on-board ("F.O.B.") at the long position holder's interconnection point at the Henry Hub. Delivery shall be made in accordance with all applicable Federal executive orders and all applicable Federal, State and Local laws and regulations. Delivery shall have occurred when product passes through the long position holder's interconnection point, at which time the long position holder shall bear the risk of loss.

The short position holder shall provide natural gas which is free from all liens, encumbrances, unpaid taxes, fees and other charges.

### **1156105. DELIVERY PROCEDURES**

#### **1156105.A. Notices of Intention to Deliver and Notices of Intention to Accept**

By 11:30 a.m. on the first business day after the final day of trading:

1. Exchange Clearing Members having open short positions shall provide the Clearing House with a Notice of Intention to Delivery. The Notice of Intention to Delivery must be in the form prescribed by the Exchange and must include: the name of the short position holder(s), the pipeline(s) through which the short position holder(s) will transport the product to the Henry Hub, the number of contracts to be delivered, and shall also provide any additional information as may be required by the Exchange.
2. Exchange Clearing Members having open long positions shall provide the Clearing House with a Notice of Intention to Accept. The Notice of Intention to Accept must be in the form prescribed by the Exchange and must include: the name of the long position holder(s), the pipeline(s) through which the long position holder(s) will receive the product at the Henry Hub, the number of contracts to be accepted, and shall also provide any additional information as may be required by the Exchange.

#### **1156105.B. Notice Day**

The Clearing House shall allocate Notices of Intention to Deliver and Notices of Intention to Accept by matching size of positions, and the designated delivery and receiving pipelines to the extent possible. The Clearing House shall provide copies of the notices to the respective clearing members by 2:00 p.m. on the first business day after the final day of trading. The day on which the notices are provided to the clearing members shall be referred to as the Notice Day. Thereafter, a buyer or seller may amend the name(s) of the pipeline(s) for their respective long position holder(s) or short position holder(s) in a form prescribed by the Exchange to the counterparty and the Exchange no later than 4:30 p.m. on the Notice Day.

#### **1156105.C. Clearance and Non-Clearance**

1. Notice of Scheduled Clearance. No later than 3:00 p.m. on the last business day prior to the delivery month, the seller shall give the buyer and the Exchange a properly completed Notice of Scheduled Clearance. The Notice of Scheduled Clearance must be in the form prescribed by the Exchange, indicate that the product and transportation are in place to enable the delivery to occur in accordance with the provisions of the Notice of Intention to Deliver and Notice of Intention to Accept.



2. Non-Clearance. In the event that either the short position holder or the long position holder is unable to make or take delivery in accordance with the Notice of Intention to Deliver and Notice of Intention to Accept because of a good faith inability to receive clearance from the Henry Hub facility, the short position holder's clearing member or the long position holder's clearing member, as applicable, shall, no later than 3:00 p.m. on the last business day prior to the delivery month, notify the opposite clearing member and the Exchange, in a form prescribed by the Exchange, of the reasons for inability to make or take, as applicable, delivery in accordance with the Notice of Intention to Deliver and Notice of Intention to Accept. Such notification shall contain an alternate or preferred delivery site and set forth a revised designation of the pipeline(s) at the Henry Hub through which delivery will be completed.

### **1156105.D. Settlement Price**

The final settlement price shall be the basis for delivery.

## **1156106. TIMING OF DELIVERY**

Delivery shall take place no earlier than the first calendar day of the delivery month and shall be completed no later than the last calendar day of the delivery month.

All deliveries shall be at as uniform an hourly and daily rate of flow over the course of the delivery month as is possible under the operating procedures and conditions of the transporting pipelines. Deliveries shall be subject to the transporting pipelines' variation in daily flow rate and balancing of receipts and deliveries of the transporting pipelines.

The short position holder shall give the long position holder, upon request, within one business day, copies of Henry Hub transportation confirmations and invoices issued by Sabine Pipe Line Co. related to a standard delivery involving both parties.

The short position holder shall give the long position holder all appropriate documents to transfer title of product upon receipt of payment.

## **1156107. DELIVERY MARGINS AND PAYMENTS**

### **1156107.A. Definitions**

For the purposes of this Rule 1156107,

"Payment Date" shall mean the twentieth day of the month following the delivery month or if such date is a Saturday or an Exchange or New York bank holiday other than Monday, payment shall be made on the preceding day which is not an Exchange or New York bank holiday. If such day is a Sunday or an Exchange or New York bank holiday which occurs on a Monday, payment shall be made on the next day which is not an Exchange or New York bank holiday.

### **1156107.B. Margin**

On the third business day following the last day of trading, the clearing member shall obtain from any long position holder margin equal to the full value of the product to be delivered. Such margin shall consist of cash, securities issued by the United States Treasury Department maturing within ten (10) years from the date of deposit and guaranteed as to principal and interest by the United States Government or a letter of credit. Any Treasury securities so deposited shall be valued at ninety percent (90%) of the par value of such instruments. Any letter of credit so deposited shall be in a form approved by the Exchange, shall be issued or confirmed by an Exchange approved original margin depository, and, shall be drawn in favor of the Exchange.

### **1156107.C. Payment**

No later than 12:00 p.m. on the third business day prior to the Payment Date, the short position holder shall advise its clearing member of the name and address of the bank, and the name of the account to which payment shall be made. The clearing member shall advise the opposite clearing member who shall advise the long position holder. On the Payment Date, the long position holder shall pay the short contract value by federal funds wire transfer to the account of the short position holder at the bank nominated by the short position holder. No later than 12:00 p.m. on the Payment Date, the long position holder shall advise its clearing member of the federal funds wire transfer number and the name of the sending bank. The clearing member representing the long position holder shall advise the opposite clearing member who shall similarly advise the short position holder.

No later than the business day following the Payment Date, the short position holder shall advise its clearing member of receipt of payment, who shall deliver a notice of payment to the clearing member representing the long position holder and the Clearing House no later than the business day following the Payment Date. Upon receipt of such notice, the delivery shall be complete.

Any payment made on the required Payment Date shall be based on British thermal units actually delivered. If quantitative results are unavailable prior to the time established in the rules for

payment, a pro-forma payment based on transaction size shall be made. Payment adjustments based on the actual quantity delivered shall be completed by 12:00 p.m. on the tenth business day after initial payment.

In the event that the seller receives notification that payment has not been received, the seller shall advise the Exchange and the buyer in writing. On the following business day, unless the long position holder or the buyer has advised the Exchange in writing that the short position holder failed to deliver, the Exchange shall liquidate the margins held and, when the liquidation is complete, shall pay the seller which shall pay its short position holder. If the long position holder or the buyer has advised the Exchange in writing that the short position holder failed to deliver, the matter shall be deemed a failure to deliver pursuant to Rule 7B.14.

### **1156108. VALIDITY OF DOCUMENTS**

The Exchange makes no representation respecting the authenticity, validity, or accuracy of any inspection certificate, Notice of Intention to Deliver, Notice of Intention to Accept, check or any document or instrument delivered pursuant to these rules.

### **1156109. ALTERNATIVE DELIVERY PROCEDURE**

A short position holder and long position holder matched by the Exchange under Rule 1156105.B may agree to make and take delivery under terms or conditions which differ from the terms and conditions prescribed by this Chapter. In such a case, Clearing Members shall execute an Alternative Notice of Intention to Deliver on the form prescribed by the Exchange and shall deliver a completed executed copy of such Notice to the Exchange. The delivery of an executed Alternative Notice of Intention to Deliver to the Exchange shall release the Clearing Members and the Exchange from their respective obligations under the rules of this Chapter and any other rules regarding physical delivery. In executing such Notice, Clearing Members shall indemnify the Exchange against any liability, cost or expense it may incur for any reason as a result of the execution, delivery or performance of such contracts or such agreement, or any breach thereof or default thereunder. Upon receipt of an executed Alternative Notice of Intention to Deliver, the Exchange will return to the Clearing Members all margin monies held for the account of each with respect to the contracts involved.

### **1156110. LATE PERFORMANCE AND FAILURE TO PERFORM**

#### **1156110.A. Definitions**

"Late Performance" shall mean the failure of a long position holder to make payment on the Payment Date as defined in Rule 1156107.A.

"Failure to Perform" shall mean the failure of the short position holder to make, or the long position holder to receive, delivery of crude oil in accordance with the requirements set forth in these rules.

"Contract Value" shall mean the amount equal to the settlement price on the last day of trading in a futures contract times the transaction size.

"Party" means a long position holder or a short position holder;

"Other Party" means the corresponding long position holder when a short position holder has failed to perform and the corresponding short position holder when a long position holder has failed to perform.

#### **1156110.B. Responsibilities of Parties to the Delivery**

1. The parties to a delivery shall make commercially reasonable efforts to perform their respective delivery obligations at all times until a party has failed to perform.
2. A Party which has failed to perform its obligations may no longer perform such obligation.
3. In the event that a Party has failed to perform, the Other Party shall be responsible to provide written notification to the Exchange.
4. When a long position holder or a short position holder has failed to perform or is late in performance, the clearing firm representing the long position holder or the short position holder, as applicable, through which the delivery is effected, shall be liable to the Other Party for any damages awarded pursuant to Exchange arbitration and/or disciplinary procedures.

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

<u>Contract Name</u>	<u>Rule Chapter</u>	<u>Commodity Code</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</u>
			<u>Rule 560</u>	<u>Rule 560</u>	<u>Rule 559</u>	<u>Rule 561</u>	
<i>Petroleum</i>							
<u>Henry Hub Natural Gas Last Day Physically-Delivered Futures</u>	<u>1156</u>	<u>MNG</u>	<u>12,000</u>	<u>6,000</u>	<u>1,000</u>	<u>25</u>	<u>NG</u>

**RULE 588.G.**

(Bold/underline Indicates Additions)

NAME	NON-REVIEWABLE RANGE	NRR INCLUDING UNIT OF MEASURE	NRR TICKS
<u>Henry Hub Natural Gas Last Day Physically-Delivered Futures</u>	<u>100</u>	<u>\$.10 per MMBtu</u>	<u>100</u>

### Deliverable Supply Analysis for Henry Hub Natural Gas

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") has undertaken an analysis of deliverable supply for the Henry Hub, the delivery location of the Henry Hub Natural Gas Last Day Physically-Delivered Futures ("MNG") contract, referenced in this submission. This analysis updates the Henry Hub deliverable supply to reflect current market circumstances.

In 1996, the Commodity Futures Trading Commission ("Commission" or "CFTC") approved an increase in the expiration month position limits for the Henry Hub Natural Gas Futures (Henry Hub Contract or "NG") contract from 750 to 1,000 contracts (contract unit: 10,000 MMBtu's). Over the past fifteen years, key components of the deliverable supply for the Henry Hub delivery location South of Erath, Louisiana, storage facilities, ("Henry Hub" or the "Plant") and cash market have evolved substantially and, in our view, require that deliverable supply estimates be updated and increased. In accordance with Commission precedent, as reflected in the recently adopted CFTC rules for position limits on physical commodity derivatives, NYMEX is submitting updated deliverable supply estimates for the Henry Hub.

As evidenced in the analysis below, NYMEX estimates the deliverable supply for the Henry Hub Natural Gas Last Day Physically-Delivered futures to be approximately 35,547 contract equivalents per month<sup>1</sup>. The proposed expiration month position limits of 4,000 contracts for MNG, which will be aggregated into NG for position limit purposes, would therefore constitute 11% of the deliverable supply. The proposed position limits for MNG are identical to those of the Henry Hub Contract.

#### **I. Methodology and Data Sources: Key Components of Estimated Deliverable Supply**

In estimating Henry Hub deliverable supply we relied on Commission long-standing precedent, which provides that the key component in estimating deliverable supply is the portion of typical production and supply stocks that could reasonably be considered to be reliably available for delivery. Most recently, the Commission stated in its final position limit rulemaking that:

In general, the term "deliverable supply" means the quantity of the commodity meeting a derivative contract's delivery specifications that can reasonably be expected to be readily available to short traders and saleable by long traders at its market value in normal cash marketing channels at the derivative contract's delivery points during the specified delivery period, barring abnormal movement in interstate commerce.<sup>2</sup>

Accordingly, there are three factors NYMEX considered in updating the existing Henry Hub deliverable supply estimates:

- (1) Natural gas production that can flow to the delivery location;
- (2) Delivery capacity of the delivery mechanism; and
- (3) Storage information.

While we considered all of the above factors, the determination of deliverable supply with respect to the Henry Hub has historically been subject to being defined by the delivery capacity of the delivery mechanism; in other words, delivery capacity has historically served as a constraint that defines deliverable supply. As detailed below, due to the fact that production levels and stored product with ready access exceed delivery capacity, this continues to be the case.

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<sup>1</sup> The contract unit for the Henry Hub Natural Gas Physically-Delivered Futures (commodity code "MNG", rule chapter 1156) is 2,500 MMBtu's. Unless otherwise specified, all subsequent contract references shall be in this unit.

<sup>2</sup> 76 Fed. Reg. 71633 (November 18, 2011)

### A. Natural Gas Production

To determine production estimates, NYMEX reviewed information gathered from two sources: Bentek, a wholly owned subsidiary of Platts and the U.S. Department of Energy (“DOE”) Energy Information Administration (“EIA”).

Bentek is an industry leader in the provision of data aggregation and collation from the Interstate Natural Gas Pipelines’ electronic bulletin boards.<sup>3</sup> Interstate natural gas pipelines are subject to Federal Energy Regulatory Commission (“FERC”) oversight and jurisdiction. As part of its regulatory oversight, FERC requires interstate pipelines to operate publicly accessible electronic bulletin boards which provide information on scheduling, available capacity and natural gas flows on a near real-time basis. Among other things, Bentek collects and disseminates collated data from these electronic bulletin boards daily. Given this, the Bentek data presented can be more current than the EIA data, which are typically subject to a minimum two-month delay in publication.

EIA data are a definitive source for production information and EIA does provide marketed production data for Federal U.S. Gulf Coast offshore production as well as onshore production for individual states such as Louisiana or Texas; these data include, however, some onshore production that would not be able to readily access the delivery point.

Bentek provides greater geographic detail than the EIA data by providing both U.S. Gulf Coast offshore and onshore production and we believe that the Bentek data provides only onshore or offshore natural gas production that has ready access to the delivery point. In any event, as is discussed below, NYMEX believes that the Bentek data underestimates the total production with ready access to the Henry Hub but, nonetheless, represents a reasonable basis for production estimates.

### B. Henry Hub Delivery Capacity

In addition to production that can readily access the delivery point, the Exchange takes into account the delivery capacity of the delivery facility, the Henry Hub. Generally, deliverable supply is mathematically bounded by production and stored product (with ready access) and delivery capacity. Excepting for the coincidence where these equal each other, then either one or the other is the binding factor in determining deliverable supply. In terms of the Henry Hub, delivery capacity is the binding factor and this will be detailed further below. The source of the Henry Hub pipeline receipt and delivery capacity is the Sabine Pipe Line Co. website. As part of FERC regulation, interstate pipelines are required to provide daily capacity information that includes receipt and delivery design, scheduled and available for all certificated interconnections.<sup>4</sup>

### C. State of Louisiana and Producing Area Natural Gas Storage

Storage data are provided on a weekly basis by EIA and are approximately four business days old upon release. These data are provided by general region—East, West and Producing. Producing includes the U.S. Gulf Coast region which includes the delivery location for the MNG contract. The EIA also collates data at the individual state level but provides these data with a time lag of approximately six months. At these frequencies of release, there are no official storage data with greater geographic detail than either the Producing region or state level. We did not try to estimate which portion of stored natural gas was readily accessible to the delivery location.

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<sup>3</sup> Bentek collects details on the flow of interstate pipeline natural gas from the production source, commonly known as the wellhead, to the local distribution company’s (including municipal operated distributors) delivery point, commonly known as its city-gate, beyond which point the pipeline ceases to be a federally regulated interstate pipeline.

<sup>4</sup> Information available at <http://www.sabinepipeline.com>.

### II. The Henry Hub Physical Delivery Mechanism

Terminating obligations in the NYMEX Henry Hub Natural Gas Last Day Physically-Delivered futures contract are fulfilled by delivering pipeline quality natural gas to the Henry Hub. The Henry Hub consists of interconnections with 12 interstate and intrastate pipelines and related infrastructure. The Plant is owned and operated by Chevron Corporation. Of the 12 pipelines, 11 have interconnections to receive natural gas at the Henry Hub and 10 to deliver processed “dry” natural gas from the Henry Hub. The deliveries pipelines source their natural gas from the U.S. Gulf Coast region, both onshore and offshore, which extends from Texas to Alabama. Henry Hub has two compressor stations that enable natural gas to move from lower pressure pipeline Henry Hub receipt interconnections to higher pressure downstream Henry Hub pipelines.

Henry Hub also offers an intra-Hub tracking and transfer service, a form of in-system title transfer and documentation, to accommodate trading and delivery needs of its customers. This service, which is offered by Sabine Hub Services Company, a non-federal jurisdictional subsidiary of Chevron, enhances the natural gas trading environment for producers, marketers, and end users with respect to meeting their physical and financial requirements. In addition, the number of interruptible transportation customers of Henry Hub has grown to approximately 160 market participants.

### III. Physical Market Trading Structure and Term Contracts

#### A. Physical Market Trading Structure

Typically, there is a chronology of sales and purchases of natural gas in the U.S. market that starts with a sale from producer and finishes with a purchase by an end-user to consume the natural gas, typically far downstream of the U.S. Gulf Coast. First-sales are from producers to marketers or other middleman-type firms with delivery at the production point or where natural gas first enters the pipeline system (or liquids processing facility attached to the system). The first-sale buyer transports it from the point of sale downstream. Typically, the first-sale buyer resells the natural gas to someone other than the end-user. Sales to end-users, who do not further resell the natural gas but ultimately consume it, are final-sales.

As implied, sometimes end users also resell natural gas, frequently during the same commercial cycle in which they purchased it. Other buyers of resold natural gas also either resell it or store it and resell it later. A common commercial practice is the first-sale and multiple subsequent re-sales occurring in the same delivery cycle; this line of re-sales usually includes a final sale, but not always, since a significant portion of natural gas is stored.

Henry Hub is essentially an active reseller market where buyers either: resell the natural gas to someone else at Henry Hub; transport it downstream for delivery and re-sale to someone else; transport it downstream to consume it; or transport it downstream to store it. Most of the sales and deliveries in the Henry Hub are comprised of volumes for re-sale, storage or final-sales. In fact, the commercial physical market in Henry Hub sales is estimated to be 6-10 times the multiple of physical natural gas that flows through Henry Hub, which is a direct indication that most sales are for re-sale. *Gas Daily* and *Inside F.E.R.C.* publish transaction information for delivery at Henry Hub but do not capture all transactions that occur at the Henry Hub.

#### B. Term Contracts

The Exchange contacted and surveyed natural gas market participants regarding common commercial practices, including the use of term contracts, in the North American natural gas market.<sup>5</sup> The responses we received were consistent and can be summarized as follows:

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<sup>5</sup> The Exchange contacted 15 firms, surveying 10, as well as a market participant group that included several dozen members. The individually contacted firms included major producers and marketers. The Energy Market Participant Group was organized through Hunton & Williams LLP to discuss and comment on regulatory issues.

- Most first-sales of production are sold term, as indicated above, typically for delivery on the producing property or nearest entry to the pipeline system, including liquids processing plants, and typically to middleman-firms. These middleman-firms typically resell the natural gas to other middleman-firms or to market participants performing that function or to end-users. Gulf Coast market participants estimated re-sales ranging from 50% to over 90%—skewing towards the higher end. Some market participants indicated they did not know of exceptions but did not estimate 100% of first sales to be ultimately resold.
- No restrictions typically apply to the resale of natural gas bought first-sale on a term basis from producers. In fact, restrictions would clearly not be applicable because sales are typically to marketers or others acting in a middleman-firm role with the expressed responsibility of reselling the natural gas. The participants with whom we spoke indicated that they had not encountered any restrictions. Several market participants did point out that “burner-tip” sales—i.e. to utilities—could entail a restriction on the utility from reselling the natural gas; however, they made clear that such sales, in their experience, were downstream of first-sales and first re-sales as well, especially in the U.S. Gulf Coast.
- Henry Hub is largely downstream of first-sales; some first-sales take place there but, typically, not as part of a term sale. Consequently, natural gas production that is readily accessible to Henry Hub in terms of transportation is also readily accessible commercially. Natural gas that has readily accessible transportation to Henry Hub is not otherwise committed and unavailable to be delivered at Henry Hub.
- Term sales do not result in reductions to the deliverable supply for Henry Hub. All market participants agreed that natural gas purchased on a term sale is available for re-sale and delivery, including to the Henry Hub and that all market participants downstream of first-sales participate in the market for resale (as some first-sellers do).
- Our sources expressly advised us that any production sold long-term was available for re-sale, which is especially the case in the U.S. Gulf Coast market and the Henry Hub.

#### **IV. The 1996 Deliverable Supply Estimate Underlying the Existing Position Limit and Market Changes Since 1996**

##### **A. The 1996 Position Limit Approval and Deliverable Supply Estimate**

In October 1996, NYMEX received approval from the Commission for its currently effective spot month position limits for the Henry Hub Contract. The determinative factor for the deliverable supply estimate at that time was capacity. The receipt capacity at that time was approximately 6,705 Henry Hub Contract equivalents (NG contract unit: 10,000 MMBtu).

##### **B. Market Changes since the 1996 Position Limit Approval**

Since the approval of the position limits for the Henry Hub Contract in 1996, deliverable supply has been materially impacted by a number of important and significant changes in the domestic natural gas market and the operation of Henry Hub including: a change of ownership in Chevron Corporation’s acquisition of Texaco Corporation; interconnection increases at Henry Hub; and storage capacity increases near the Henry Hub.

#### **V. NYMEX’s Updated Deliverable Supply Estimate and Supporting Data**

As indicated above, the factors that NYMEX considered in updating deliverable supply are natural gas production, delivery capacity at the Henry Hub, and natural gas storage. The following sections set forth recent data regarding each of these components and identify the updated deliverable supply estimate supported by the data.

##### **A. Data for Natural Gas Production**

In performing our analysis of deliverable supply at the Henry Hub, we first reviewed EIA data and determined that certain production levels reported by EIA, while containing relevant data, would include production that would not



be accessible to be delivered at the Henry Hub. Tables 1-3 provide EIA data on Federal Offshore Louisiana and Texas marketed natural gas production by month from January 2008 through November 2011. Federal Offshore production is a subset of production that is readily accessible to be delivered at the Henry Hub but the onshore Louisiana and Texas production includes production from parts of each state that would not be readily accessible to the Henry Hub.

Federal Offshore Production since 2008 has ranged from 24,784 contract equivalents in September 2008, when Hurricane Ike disrupted oil and natural gas production in the U.S. Gulf Coast, to 96,424 contracts equivalent in January 2008. Since 2008, the monthly average has been 73,726 contract equivalents, and in 2011 through November (the most recent month available at the time the analysis was performed), the monthly average was 60,890 contract equivalents. During 2011 (through November), the monthly production ranged from 49,170 contract equivalents in September to 72,028 contract equivalents in January.

Since 2008, the range for onshore Louisiana is 35,264 contract equivalents in September 2008 (again during Hurricane Ike) to 110,814 contract equivalents in October 2011. For onshore Texas, the range (since 2009) is 199,872 contract equivalents in February 2011 to 251,037 contract equivalents in January 2009.

As indicated above, NYMEX believes that not all onshore Louisiana and Texas is readily accessible to the Henry Hub. Consequently, even though EIA is the pre-eminent official source for production data, we reviewed the Bentek production estimates in order to identify information for specific offshore and onshore areas that are accessible to the Henry Hub.

Table 6 provides Bentek's estimates for 2009, 2010 and 2011 (through December 30) of daily production for Onshore and Offshore Louisiana, Texas, Mississippi and Alabama in million cubic feet. Applying daily average offshore production accessible to the Henry Hub as estimated by Bentek over 30-day periods for each of these years, yielded totals that were comparable to EIA's monthly average of Federal offshore production: 2009—87,936 (Bentek) contract equivalents versus 80,964 (EIA) respectively; 2010—78,936 (Bentek) contract equivalents versus 74,908 (EIA) respectively; and 2011—65,220 contract equivalents (Bentek through December 30) versus 60,890 contract equivalents (EIA through November) respectively.

One reason for the differences between Bentek's and EIA's data is that Bentek's data would also include state offshore production that is directed to the Interstate pipeline system, which is a base source from which Bentek retrieves data. Bentek's average 30-day period estimate of onshore production that was accessible to the Henry Hub during this period was: 2009—~~29,064~~ 29,628 contract equivalents; 2010—~~22,248~~ 23,304 contract equivalents; 2011 (through December 30)—23,184 contract equivalents. Therefore, in terms of the total production for offshore and onshore regions accessible to the Henry Hub, Bentek estimates that the average number of contract equivalents of production per 30-day periods was 117,564 in 2009, ~~102,252~~ 102,216 in 2010, and 88,404 in 2011 (through December 30). We believe that Bentek's estimates underestimate production that can readily access the Henry Hub because we believe additional in-State production areas would not be included in Bentek's U.S. Gulf Coast estimates. Consequently, we believe that any estimates based on the use of these data are conservative.

Declining natural gas production levels in the U.S. Gulf Coast area over the past several years reflect a supply response to relatively low prices—in nominal terms, levels last seen in 2001-2. Contemporaneously, natural gas production levels have increased in other areas, including areas that have reasonable access to the Henry Hub. The Exchange monitors production regularly and, in light of the continued production in the Gulf Coast region and other areas, anticipates the continuing central role provided by the Henry Hub as a delivery mechanism for natural gas. For instance, the EIA reported in July 2011 that, in the U.S. Gulf Coast region, there is 100 trillion cubic feet of recoverable natural gas resource in shale formations. (The analysis was current as of the time EIA's study was published but based on drilling data available in January 2009; additional recoverable natural gas reserves since then would not have been included.)

The production quantities included in these estimates represent production that is tendered in the secondary (or spot) market and which could easily access the Henry Hub delivery mechanism to dependably fulfill a secondary (or spot) market delivery there. The actual delivery path for production depends on the actual commercial activity each month in the secondary market, including delivery obligations for NYMEX natural gas contracts. There are multiple delivery points (including the Henry Hub) where such secondary market deliveries can take place for this production and the actual delivery locations for specific production each month fluctuates with its corresponding secondary market transactions.

### **B. Data for Henry Hub Delivery Capacity**

The inflowing natural gas daily receipts capacity at the Henry Hub is 2,955,000 MMBtu which converts into 1,182 contracts per day and 35,460 contracts per 30-day month. The daily deliveries capacity at Henry Hub, outflowing natural gas, is 2,570,000 MMBtu which converts into 1,028 contracts per day and 30,840 contracts per month.

Additionally, displacements<sup>6</sup> via counterflow scheduling are common in both the natural gas pipeline system and at the Henry Hub. By way of illustration, between January 1, 2008 and September 30, 2011, the highest daily displacement expressed as a percentage of capacity experienced at 7 of the 11 receipts pipeline interconnections was 80% and higher—four over 100% and one as high as 196%. Over the same time period for the 10 delivery pipelines, five of them have been 66% or higher than—including 106% and 188%. These numbers indicate both the importance of displacement overall and to how high a level of displacement can be reached across multiple interconnection points. The Exchange has confirmed with the pipeline operator that incorporating displacement into a calculation of delivery capacity is both reasonable and appropriate. The pipeline operator also confirmed that recognizing a system capability of displacement which equaled 100% of design capacity for each interconnection point was reasonable (and the highest daily displacement levels reached between January 1, 2008 and September 30, 2011 reinforce this).

The Exchange has incorporated displacement into its estimate of delivery capacity. Rather than basing it on *capability* as referenced above, the Exchange has based it on historically achieved levels of displacement. To determine this component of the estimate, the Exchange analyzed the displacement for each receipts and deliveries interconnection for each day as a percent of interconnection capacity from January 2008 through September 30, 2011. As part of this analysis, the Exchange calculated the cumulative distribution of daily displacement levels that were obtained over the period. The Exchange then measured, in terms of highest levels of displacement achieved, which level of displacement was achieved at least 25% of the time during the period for each interconnection point for receipts and deliveries. These 25 percentile displacement levels were incorporated into the delivery capacity for each interconnection point for both receipts and deliveries. The 25<sup>th</sup> percentile was used because it constituted levels that had been frequently achieved over the 45 consecutive month period evaluated, but which were also conservative in terms of both maximum levels reached and system *capability*.

Based on the methodology described immediately above, the Exchange incorporated base displacement estimates of 682,200 MMBtu per day for the receipts interconnection points and 392,250 MMBtu per day for the deliveries interconnection points.<sup>7</sup> Combining the design capacity with the displacement estimates results in total receipts capacity of 3,637,200 MMBtu per day and deliveries capacity of 2,962,250 MMBtu per day. In terms of 30-day monthly contracts equivalents, this converts into 43,646 contracts for receipts capacity and 35,547 contracts for deliveries capacity. We have confirmed with the pipeline operator that our use of displacement is fundamentally

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<sup>6</sup> Displacement refers to the common practice of accommodating the scheduling and transportation of natural gas in opposite directions at some pipeline interconnection points. Where such bi-directional flows are common, displacement increases the effective flow capacity. The use of displacement is common at the Henry Hub.

<sup>7</sup> These estimates are equal to 23% and 15%, respectively, of the design capacity of the receipts and deliveries interconnection points. However, as stressed above, they were derived from different percentages for each receipts and deliveries interconnection points based on the methodology described above.

conservative. Applying the displacement capacity to deliveries capacity, which is less than the receipts capacity, yields a delivery capacity of 35,547 contracts.<sup>8</sup>

### C. Data for Natural Gas Storage in State of Louisiana and Producing Area

Tables 4 and 5 provide storage information from EIA for Louisiana and Producing Regions respectively. Producing regions include: Alabama, Arkansas, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas. For Louisiana, since 2008, the number of contract equivalents stored has ranged from 160,296, for March 2008, to 247,488, for November 2009. EIA does not provide storage levels at greater geographic detail than these levels on a regular basis. As previously indicated, we believe that the combination of production and storage is not the determinative factor in estimating deliverable supply for the Henry Hub—delivery capacity is.

### D. Updated Deliverable Supply Estimate

As indicated in Table 6, the monthly production with ready access to Henry Hub delivery location has averaged 88,404 contract equivalents year-to-date in 2011 (through December 30). In 2009, the production averaged 117,564 contracts and, in 2010, it averaged 102,252 contracts.<sup>9</sup> (We believe these also underestimate production readily accessible to the Henry Hub, which is consistent with our intent to estimate conservatively.) As noted above, the delivery capacity is equal to 35,547 contracts per 30-day month. Due to the fact that production levels (and stored product) exceed delivery capacity, delivery capacity is the binding factor in estimating deliverable supply, which has been the case since the Henry Hub Contract was introduced in 1990. Accordingly, the Exchange's estimate of deliverable supply is 35,547 contract equivalents.

**Table 1**  
**Federal Offshore--Gulf of Mexico Natural Gas Marketed Production**  
**(Million Cubic Feet)<sup>10</sup>**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2008	241,064	228,507	239,263	209,165	208,428	219,044	230,193	211,888	61,961	133,579	157,377	173,874
2009	195,525	184,696	207,335	195,000	203,298	210,961	223,920	211,532	200,721	207,439	190,220	198,268
2010	201,639	189,429	208,786	193,472	193,665	178,800	179,379	190,069	177,066	183,593	170,806	180,591
2011	180,074	153,824	170,101	162,341	163,262	150,481	146,467	148,626	122,926	141,222	135,411	

<sup>8</sup> We have deliberately strived to apply conservative estimates in this analysis. The use of the 25<sup>th</sup> percentile as the base for applying displacement estimates has resulted in substantial discounts in capacity from what would obtain had we employed either the system *capability* estimate (of design capacity) or the maximum achieved levels of displacement over the January 1, 2008 – September 30, 2011 period we examined. As we continue to monitor the market, we may approach the Commission on applying less conservative displacement estimates.

<sup>9</sup> The recent reduction in production constitutes a market supply response to historically low prices; the U.S. Gulf Coast region remains a vital source of natural gas.

<sup>10</sup> Source: EIA

**Table 2**  
**Louisiana Natural Gas Marketed Production**  
**(Million Cubic Feet)<sup>11</sup>**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>2008</b>	116,750	109,119	117,523	114,700	121,073	118,955	123,401	119,936	88,164	114,570	116,842	116,935
<b>2009</b>	117,724	109,038	121,175	120,190	126,861	123,191	130,019	135,035	132,683	142,318	143,288	147,086
<b>2010</b>	157,587	150,124	173,696	171,716	184,138	182,879	191,654	200,096	198,496	204,545	209,053	222,391
<b>2011</b>	226,144	209,577	246,748	243,629	257,618	246,494	259,803	267,460	265,037	277,034	272,286	

**Table 3**  
**Texas Natural Gas Marketed Production**  
**(Million Cubic Feet)<sup>12</sup>**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>2008</b>	560,422	525,439	572,389	561,741	593,781	574,002	599,241	601,936	548,192	607,763	596,417	619,369
<b>2009</b>	627,592	549,812	611,626	577,383	589,499	563,018	568,827	576,556	539,050	550,208	521,418	543,985
<b>2010</b>	548,449	503,090	567,023	547,822	568,423	541,282	563,418	566,898	554,889	570,372	561,563	583,196
<b>2011</b>	579,964	499,681	589,392	576,136	603,167	<a href="#">576,694</a>	<a href="#">594,501</a>	<a href="#">594,887</a>	<a href="#">584,335</a>	<a href="#">611,151</a>	<a href="#">596,832</a>	

**Table 4**  
**Louisiana Natural Gas Underground Storage Volume**  
**(Million Cubic Feet)<sup>13</sup>**

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>2008</b>	441,485	409,647	400,748	408,237	426,746	443,089	459,331	475,946	464,882	497,794	506,816	497,737
<b>2009</b>	452,507	431,435	446,092	468,629	512,236	525,006	546,002	559,792	584,165	592,970	597,335	544,794
<b>2010</b>	478,745	424,400	431,861	456,821	477,745	499,720	514,261	522,673	554,156	604,482	618,728	585,028
<b>2011</b>	532,098	480,824	495,672	508,687	536,394	541,089	530,500	<a href="#">527,092</a>	<a href="#">551,562</a>	<a href="#">607,363</a>	<a href="#">623,948</a>	

<sup>11</sup> Ibid.

<sup>12</sup> Ibid

<sup>13</sup> Source: EIA

**Table 5**  
**Producing Region Natural Gas Working Underground Storage**  
**(Billion Cubic Feet)<sup>14</sup>**

Year-Month	Week 1		Week 2		Week 3		Week 4		Week 5	
	End Date	Value	End Date	Value	End Date	Value	End Date	Value	End Date	Value
2008-Jan	01/04	864	01/11	858	01/18	809	01/25	720		
2008-Feb	02/01	670	02/08	643	02/15	606	02/22	571	02/29	535
2008-Mar	03/07	512	03/14	490	03/21	494	03/28	498		
2008-Apr	04/04	498	04/11	503	04/18	506	04/25	531		
2008-May	05/02	549	05/09	576	05/16	595	05/23	622	05/30	650
2008-Jun	06/06	660	06/13	667	06/20	685	06/27	703		
2008-Jul	07/04	717	07/11	742	07/18	752	07/25	752		
2008-Aug	08/01	745	08/08	736	08/15	752	08/22	777	08/29	793
2008-Sep	09/05	795	09/12	802	09/19	808	09/26	832		
2008-Oct	10/03	867	10/10	892	10/17	918	10/24	938	10/31	939
2008-Nov	11/07	963	11/14	974	11/21	965	11/28	963		
2008-Dec	12/05	955	12/12	933	12/19	909	12/26	888		
2009-Jan	01/02	902	01/09	899	01/16	856	01/23	808	01/30	758
2009-Feb	02/06	721	02/13	737	02/20	723	02/27	708		
2009-Mar	03/06	690	03/13	698	03/20	709	03/27	731		
2009-Apr	04/03	744	04/10	756	04/17	779	04/24	805		
2009-May	05/01	824	05/08	846	05/15	870	05/22	900	05/29	934
2009-Jun	06/05	957	06/12	985	06/19	997	06/26	1,001		
2009-Jul	07/03	1,013	07/10	1,032	07/17	1,043	07/24	1,059	07/31	1,068
2009-Aug	08/07	1,073	08/14	1,074	08/21	1,079	08/28	1,086		
2009-Sep	09/04	1,099	09/11	1,110	09/18	1,126	09/25	1,145		
2009-Oct	10/02	1,169	10/09	1,182	10/16	1,187	10/23	1,188	10/30	1,189
2009-Nov	11/06	1,199	11/13	1,208	11/20	1,211	11/27	1,219		
2009-Dec	12/04	1,195	12/11	1,120	12/18	1,067	12/25	1,044		
2010-Jan	01/01	1,006	01/08	906	01/15	810	01/22	807	01/29	796
2010-Feb	02/05	736	02/12	673	02/19	607	02/26	580		
2010-Mar	03/05	548	03/12	562	03/19	581	03/26	596		
2010-Apr	04/02	627	04/09	665	04/16	696	04/23	727	04/30	760
2010-May	05/07	787	05/14	814	05/21	845	05/28	868		
2010-Jun	06/04	896	06/11	919	06/18	935	06/25	943		
2010-Jul	07/02	962	07/09	986	07/16	992	07/23	987	07/30	979
2010-Aug	08/06	970	08/13	954	08/20	949	08/27	956		
2010-Sep	09/03	974	09/10	1,010	09/17	1,029	09/24	1,050		
2010-Oct	10/01	1,082	10/08	1,124	10/15	1,161	10/22	1,192	10/29	1,218
2010-Nov	11/05	1,233	11/12	1,238	11/19	1,240	11/26	1,254		
2010-Dec	12/03	1,237	12/10	1,194	12/17	1,138	12/24	1,117	12/31	1,079
2011-Jan	01/07	1,059	01/14	968	01/21	912	01/28	856		
2011-Feb	02/04	789	02/11	698	02/18	687	02/25	696		
2011-Mar	03/04	703	03/11	700	03/18	715	03/25	740		
2011-Apr	04/01	742	04/08	763	04/15	780	04/22	793	04/29	817
2011-May	05/06	839	05/13	864	05/20	902	05/27	920		
2011-Jun	06/03	938	06/10	944	06/17	960	06/24	970		
2011-Jul	07/01	987	07/08	1,001	07/15	995	07/22	987	07/29	982
2011-Aug	08/05	961	08/12	953	08/19	960	08/26	957		
2011-Sep	09/02	959	09/09	981	09/16	1,003	09/23	1,036	09/30	1,060

Producing Region: Alabama, Arkansas, Kansas, Louisiana, Mississippi, New Mexico, Oklahoma, and Texas.

<sup>14</sup> Source: EIA

**Table 6**  
**US Gulf Natural Gas Production Accessible to Henry Hub**  
**(Production in million cubic feet per day)<sup>15</sup>**

Available LA/TX/MS/AL Natural Gas Supply	2011	2010	2009	Available LA/TX/MS/AL Natural Gas Supply	2011	2010	2009
Bentek LA Offshore YTD	3,902	4,763 <del>1</del>	5,382	Bentek LA, TX, MS Offshore YTD	5,435	6,578	7,328
Bentek LA Onshore YTD	805	773 <del>2</del>	888	30-Day Month Daily Contract Equivalent (CE)	163,050	197,340	219,840
Bentek TX Offshore YTD	268	237	292	30-Day Month Contract Equivalent	65,220	78,936	87,936
Bentek TX Onshore YTD	1044	1,073	1,472				
Bentek MS Offshore YTD	477	744	761				
Bentek MS Onshore YTD	83	97	109				
Bentek AL Offshore YTD	788	834	893				
Total Bentek LA, TX, MS/AL	7,367	8,521	9,797				
Daily Contract Equivalent (CE)	2,947	3,408	3,919				
30-Day Month CE	88,404	102,252 <del>16</del>	117,564				

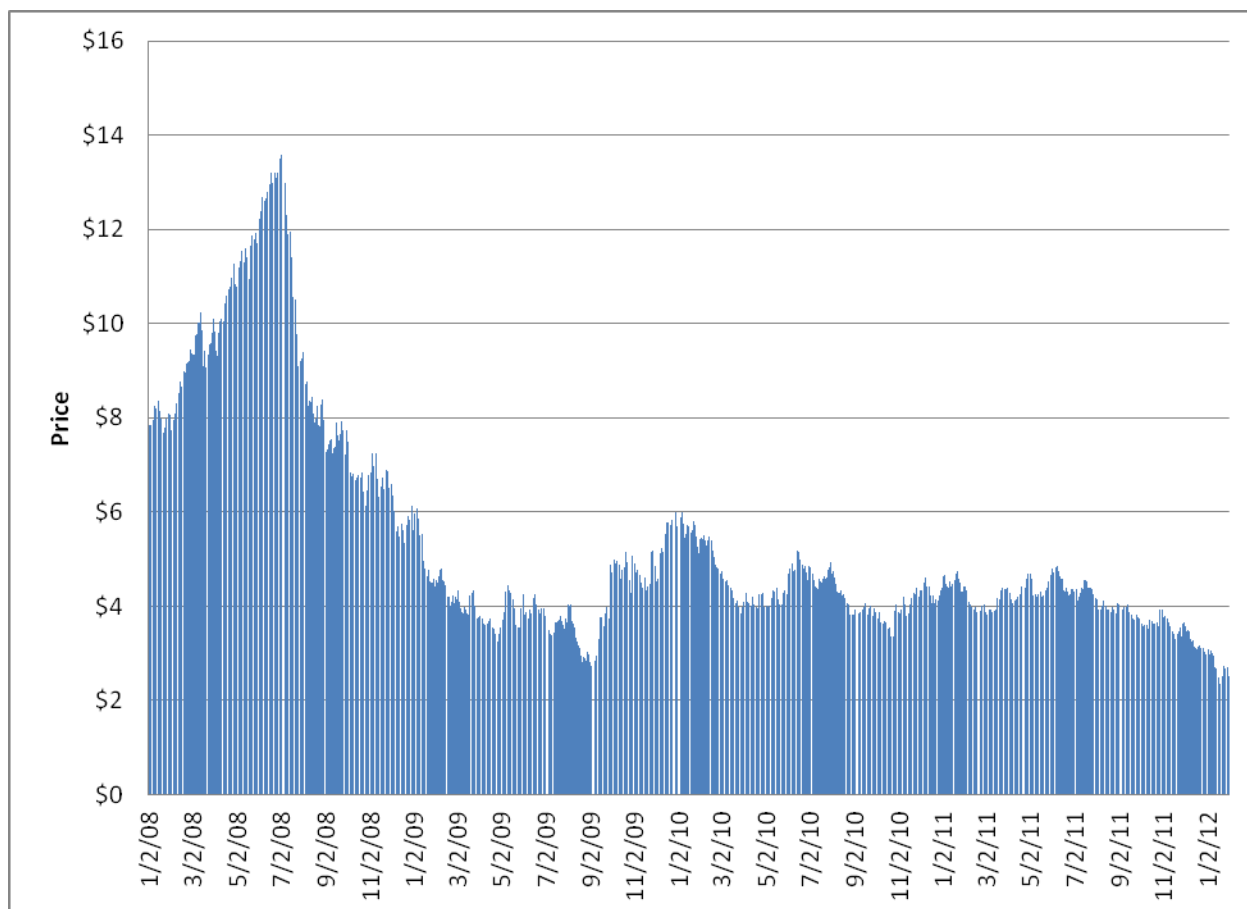
Available LA/TX/MS/AL Natural Gas Supply	2011	2010	2009
Total Bentek Onshore LA, TX, MS/AL	1,932	1,942	2,469
Daily Contract Equivalent (CE)	773	777	988
30-Day Month CE	23,184	23,304	29,628

<sup>15</sup> Source: Bentek

**Prices**

Chart 1 provides daily Henry Hub Natural Gas futures (NG) settlement price series for the period beginning January 1, 2008 through January 31, 2012. The price series are reflected in U.S. dollars per MMBtu.

**Chart 1**  
**Henry Hub Natural Gas Futures Price**





Sean M. Downey  
Associate Director and Assistant General Counsel  
Legal Department

February 9, 2012

**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(a) Certification. Notification Regarding the Listing of Henry Hub Natural Gas Last Day Physically-Delivered Futures Contract for Trading on the CME Globex, NYMEX Trading Floor and for Clearing through CME ClearPort  
NYMEX Submission 12-044R**

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 Henry Hub Natural Gas Last Day Physically-Delivered futures contract for electronic trading on CME Globex, open outcry trading on the NYMEX trading floor and for submission for clearing through CME ClearPort beginning at 6:00 p.m. on Sunday, February 12, 2012, for trade date Monday, February 13, 2012. [Please note that a black lined copy of this revised submission reflecting the changes from submission 12-044 may be found in Appendix E.](#)

[Certain Bentek onshore production numbers under Section V. A. \(NYMEX's Updated Deliverable Supply Estimate and Supporting Data – Data for Natural Gas Production\), and in Table 6 under Section V. D. \(NYMEX's Updated Deliverable Supply Estimate and Supporting Data – Updated Deliverable Supply Estimate\) of the deliverable supply analysis of natural gas, were revised to correct typographical errors for production levels. These changes do not result in any change in the estimate of deliverable supply. Also, an additional table was added immediately after Table 6 to explicitly outline Bentek's estimates for 2009, 2010 and 2011 \(through December 30\) of daily onshore production for Louisiana, Texas, Mississippi and Alabama.](#)

[Tables 3 and 4 under Section V. D. were revised to reflect the most updated Texas Natural Gas marketed production and Louisiana Natural Gas underground storage volume as reported by the U.S. Energy Information Administration. All revisions to the deliverable supply analysis referenced above have been black lined and are contained in Appendix D.](#)

**SPECIFICATION SUMMARY:**

**Contract Name:** Henry Hub Natural Gas Last Day Physically-Delivered Futures

**Code:** MNG

**Rule Chapter:** 1156

**Contract Size:** The unit of trading shall be 2,500 MMBtu. Transaction sizes in any delivery month shall be restricted to whole number multiples of the number of calendar days in the contract month, provided however, this restriction on transaction size does not apply to Exchange for Related Position (EFRP) transactions, pursuant to Rule 538. A delivery tolerance of two percent (2%) above or below the unit of trading is permitted.



## Appendix E

**Minimum Price Fluctuation:** The minimum fluctuation shall be in multiples of one tenth of one cent (\$0.001) per MMBtu (\$2.50 per contract), including spreads. Prices shall be quoted in dollars and cents per MMBtu. The maximum price fluctuation shall be consistent with the prevailing price limits of the Henry Hub Natural Gas futures contract.

**First Contract Listed:** March 2012

### Listing Schedule:

*NYMEX Floor & CME ClearPort:* The current year plus the next twelve years. A new calendar year will be added following the termination of trading in the December contract of the current year.

*CME Globex:* Thirty-six (36) consecutive months.

**Last Trading Day:** The third business day prior to the first day of the delivery month. In the event that the official Exchange holiday schedule changes subsequent to the listing of a Henry Hub Natural Gas Last Day Physically-Delivered futures, the originally listed expiration date shall remain in effect. In the event that the originally listed expiration day is declared a holiday, expiration shall move to the business day immediately prior.

### Trading and Clearing Hours:

Open Outcry: Monday – Friday 9:00 a.m. – 2:30 p.m. (8:00 p.m. – 1:30 p.m. Chicago Time/CT).

CME Globex and CME ClearPort: Sunday – Friday 6:00 p.m. – 5:15 p.m. (5:00 p.m. – 4:15 p.m. CT) with a 45-minute break each day beginning at 5:15 p.m. (4:15 p.m. CT).

### Fee Schedule:

Exchange Fees					
	Member Day	Member	Cross Division	Non-Member	IIP
Pit	0.1125	0.175	0.2375	0.3625	
Globex	0.1125	0.175	0.2375	0.3625	0.1875
ClearPort		0.175		0.3625	
Other Processing Fees					
	Member	Non-Member			
Cash Settlement			*only applies to financially settled contracts		
Futures from E/A	0.175	0.3625	*applies to futures contracts		
	House Acct	Customer Acct			
Options E/A Notice			*applies to physical options		
Delivery Notice	0.125	0.25	*applies to physical futures		
Additional Fees and Surcharges					
EFS Surcharge	0.625	*\$2.50 fee typically only charged on our core physical contracts			
Facilitation Desk Fee	0.05	*fee applies to CPC trades entered by ClearPort Market Ops			

The Exchange is also notifying the CFTC that it is self-certifying the insertion of the terms and conditions for the new futures contract 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 contract. The terms and conditions establish the all month/any one month accountability levels, expiration month position limit, reportable level, diminishing balance and aggregation allocation for the new contract. Please note that the Exchange has updated its analysis of deliverable supply of the natural gas market but has kept the position limits for the new

contract consistent with the historic position limits applied to the Henry Hub Natural Gas futures contract (NG) into which this new contract aggregates. In addition, the Exchange is self-certifying the insertion of the non-reviewable range ("NRR") for the futures contract into Rule 588.G

As the maximum price fluctuation limits of this contract shall be consistent with the prevailing price limits of the NG contract, under separate cover, the Exchange shall notify the CFTC of an amendment to Rule 220.08A ("Special Price Fluctuation Limits for Henry Hub Natural Gas Futures") in order to include this contract in the "Associated Products Appendix" of Rule 220.08A.

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 product may have some bearing on the following Core Principles:

- Prevention of Market Disruption: Trading in this contract 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 product will be subject to extensive monitoring and surveillance by CME Group's Market Regulation Department.
- Contracts not Readily Subject to Manipulation: The new contract is 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.
- Compliance with Rules: Trading in this contract will be subject to the rules in Rulebook Chapter 4 which includes prohibitions against fraudulent, noncompetitive, unfair and abusive practices. Additionally, trading in this contract 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 product 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 product is 11% of the updated monthly Henry Hub deliverable supply.
- Availability of General Information: The Exchange will publish information on the contract's 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 contract is dually listed for clearing through the CME ClearPort platform and for trading on the CME Globex trading platform and the NYMEX trading floor. The CME ClearPort platform provides a competitive, open and efficient mechanism for novating transactions that are competitively executed by brokers. The CME Globex electronic trading platform provides for a competitive and open execution of transactions due to its advanced functionality, high reliability and global connectivity. It runs continuously, so it is not restricted by borders or time zones. CME Globex remains among the fastest global electronic

## Appendix E

trading systems. 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 this product.
- 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 this contract 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 this product are identified.
- Dispute Resolution: Disputes with respect to trading in this contract 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 contract complies with the Act, including regulations under the Act. There were no substantive opposing views to this proposal. A description of the cash market for this new product 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](mailto:Sean.Downey@cmegroup.com).

Sincerely,

/s/Sean M. Downey  
Associate Director and Assistant General Counsel

Attachments: Appendix A: Rule Chapter  
Appendix B: Chapter 5 Table  
Appendix C: Rule 588.G. No Bust Ranges  
Appendix D: Deliverable Supply Analysis  
Appendix E: [NYMEX Submission No. 12-044R \(Black-line\)](#)