"Energizing the Future"
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It gives me great pleasure to have been asked to keynote the LDC Gas Forum Southeast. I'm honored to represent our company, along with a number of my colleagues in the audience whom I'd like to acknowledge: Bob Levin, Felix Carabello, Brad Leach, Chris Jackson, Tom Holleran and Angie DiCarlo, among others.

Natural gas is an incredibly important industry today. It is at the epicenter of future energy production for our country and the world. As such, there have been significant developments in exploration and capacity that have created a dynamic supply situation; the net result being significant price risks for industry participants over the past several years. This is where CME Group and our products come into the picture.

At CME Group, we provide our customers with the ability to manage price risk through our efficient, flexible and safe futures markets. As many of you know, we started this exchange more than 160 years ago for grain farmers who were looking for a way to lock in prices for their crops.

Today we are CME Group – which includes the Chicago Mercantile Exchange, the Chicago Board of Trade and the New York Mercantile Exchange, and constitutes the most diverse derivatives marketplace in the world. We offer hedging and risk management products not only on agricultural commodities, but also on foreign currencies, government debt, short-term interest rates, stock indexes, metals and energy, as well as a wide array of other instruments. In the midst of industry uncertainty, our natural gas markets enable our customers to reduce price risk in their businesses.

CME Group is here to support this industry, as it has for the past 20 years. We recognize the important role of utilities in the U.S. natural gas market and we look forward to continuing to support your industry with our contracts. In fact, April third was the 20th Anniversary of the launch of the industry flagship natural gas futures contract – the Henry Hub futures contract. Since its launch by NYMEX in 1990, the Henry Hub natural gas futures contract has been one of the exchange's most successful energy futures contracts in terms of volume and commercial participation.

This contract brought price risk management opportunities to a newly deregulated marketplace, which had struggled under price controls and transportation restrictions for decades. It became the benchmark for natural gas pricing in the United States, and it is looked to around the world. The Henry Hub futures contract also spurred development of numerous other contracts designed to meet the needs of regional producers and consumers. One example is Henry Hub options contracts, which expand risk management opportunities for commercial participants. Another example is basis contracts, which enable market participants to lock in the price difference between the Henry Hub and multiple regional gas market locations.

Over the past five years, there have been significant changes in the supply equation for North America. Five years ago, U.S. production of natural gas was waning, prices were surging and an energy-hungry America was pressing for new sources of natural gas. LNG was viewed as the future source of U.S. natural gas needed to meet future growth of natural gas demand. Since 2000, LNG import capacity has increased 7-fold to reach 14 Bcf per day, but last year, LNG imports totaled 452 Bcf or 1.2 Bcf per day, well below the maximum import capacity. This increased U.S. LNG gasification capacity significantly expands access to international natural gas supply sources.

Meanwhile, as you know, fracing and horizontal drilling have unlocked vast tracts of gas-bearing shale – such as the Barnett Shale formation. Now we may have enough gas under our soil to inspire dreams of self-sufficiency. Other parts of the world may also be sitting on lots of gas.

Last year the Potential Gas Committee of the Colorado School of Mines announced that total U.S. natural gas resources increased an unprecedented 35 percent from 2006 to 2008. Shale gas accounts for the majority of this dramatic resource-base increase. In 2008, natural gas produced from shale accounted for 10 percent of the U.S. production total. Some estimate that gas produced from shale could account for 50 percent of total U.S. production in 10 years.

This has had an impact on price. North American gas prices have slumped from more than $13 per million British thermal units in mid-2008 to less than $5. Indeed, the natural gas industry has experienced significant price risk over the past several years. First, there is the straight-forward price risk that has characterized the industry – the precipitous decline in price.

In addition, there is risk associated with the investments in import capacity – investments that may not be materializing into returns as soon as anticipated. Prospectively, if and when arbitrage leads to greater international pricing parity, there will be the matter of combined commodity – e.g. natural gas – and currency – e.g. dollars versus euros – risk. We, the entire CME Group, are uniquely qualified to serve the market in managing these and other related risks.

Over the years, you've known us as NYMEX. But as CME Group, we have combined NYMEX with the Chicago Mercantile Exchange and the Chicago Board of Trade to form the world's leading derivatives exchange – with more resources to help you manage risks when, where and how you want.

The NYMEX acquisition put us in a better position to compete globally with other cash, OTC and regulated markets and to participate in the fast-growing global energy market. By adding the energy suite of products, we now offer the widest range of futures and options products across all major asset classes – including interest rates, equity indexes, foreign exchange, agricultural commodities, metals, credit and alternative investments such as weather and real estate. This makes CME Group unique among exchanges. For example, it enables our natural gas customers also to manage both their currency and weather-related risks.

Today, our business is truly global. So no matter where you are located, you can access our markets. We have offices in New York, Houston, Chicago and Washington, D.C., as well as London, Singapore, Sao Paulo and Tokyo. We operate local telecommunication hubs in Asia, Europe and Latin America that directly connect customers to CME Globex – the most distributed electronic trading platform and network in the world. CME Globex

operates 24/7 and serves customers in more than 85 countries. Just to give you a sense of scale, last year we facilitated the trading of more than 2.6 billion futures and options contracts, representing an underlying value of more than $800 trillion.

Our energy markets are liquid, efficient and reliable, with an average daily volume exceeding 1.6 million contracts, making us the largest energy market in the world. Since energy futures and options were listed on our CME Globex electronic trading platform in mid-2006, we have seen explosive growth. Today, approximately 90 percent of energy futures are traded electronically on CME Globex. Our energy product suite includes global benchmarks and more – natural gas (Henry Hub), light sweet crude oil (WTI), Heating oil, Brent crude oil, RBOB gasoline, electricity, ethanol, petrochemicals, propane and uranium. Products are either physically delivered or financially settled.

During the tumultuous and difficult economic times we just been through, the value of our markets has become increasingly apparent. One of the key themes we hear is that customers value the safety and security of the unique credit risk mitigation facilities of centralized clearing, which allow them to trade with a broad range of counterparties, unencumbered by credit constraints.

Indeed, the crisis has brought forth growing interest in clearing across virtually every asset class, and CME Group has two very significant services that address current market and regulatory needs. One is CME Clearing. A second significant asset was acquired in our merger with NYMEX, and that is CME ClearPort.

CME Clearing is the largest derivatives clearing organization in the world. It holds more than $80 billion of collateral to support the transactions that are being made in our markets. Twice a day, we move between $6 and $10 billion of funds to and from market participants. In more than a century, no customer has ever lost a penny as the result of a clearing member default at CME Group – including during the Great Depression and up through the most recent economic failure. We also offer 3,000 margin offsets which help improve your capital efficiency by lowering your margin costs.

CME ClearPort essentially is a service that couples bi-lateral execution with centralized counterparty clearing. CME ClearPort is best known in the energy markets and was instrumental in solving many of the problems posed by the merchant energy crisis brought about by the Enron debacle.

CME ClearPort enables us to take OTC contracts and convert them into regulated futures or options contracts, so they have the same protections as all exchange-traded futures and options. The CME ClearPort system currently facilitates over-the-counter trades in more than 800 OTC products in energy, metals, environmental commodities, agricultural commodities and credit.

The platform is extremely flexible, enabling traders to negotiate their own prices and submit the transactions through CME ClearPort to CME Clearing. Building on the success in energy markets, we have the opportunity to leverage ClearPort capabilities to serve other markets, such as interest rates and foreign exchange. We also launched a solution for the credit default swap market, where $30 trillion or more of exposures change hands annually.

CME Group's NYMEX physically delivered Henry Hub contract is the industry standard. Its settlement price is an integral component to approximately 80 percent of downstream North American natural gas physical-market transactions. Open interest for futures

based wholly on the Henry Hub contract is 1.8 million contracts (NYMEX). Options on this contract have another 6 million in open interest (NYMEX).
At present we have nearly 170 natural gas products. Of our total 2009 natural gas futures and options volume, 57 percent was submitted through ClearPort. When NYMEX introduced novation to CME Clearing through ClearPort in 2002, it provided critical support to stem the counterparty risk wreaking havoc on the energy merchant sector due to the Enron crisis.

From May 1, 2001 through Oct 15, 2002, 15 leading companies in the energy sector lost $246 billion in market cap, brought down by the credit risk inherent in the OTC bilateral market as Enron unraveled and others started to follow it. Had NYMEX not stepped in with the novation process through ClearPort, it is possible that sector would have been nearly eliminated.
CME Group's natural gas products provide certainty in pricing and managing risk for products at dozens of locations across North America on a daily as well as monthly basis. Both futures and options are offered. In fact, we trade or clear more than 60 percent of all North American on-exchange natural gas contracts today. Except for the flagship physically delivered Henry Hub contract, the current products that are offered are cash-settled. We are very pleased to say that we are working with the marketplace to introduce by mid-year additional physical delivery contracts in response to customer demand.

CME Group's combination of products uniquely qualifies us to help market participants hedge or lock in profits from international LNG trade. In May of last year, we launched a futures contract that settles on the difference between the U.K. National Balancing Point and the Henry Hub. This contract provides a means to lock in the difference, or basis, between European and U.S. natural gas prices. The contract incorporates CME Group foreign currency pricing related to the pound-to-dollar conversion.

LNG that is destined for Europe and priced in dollars while in transit can use both the NYMEX flagship contract to hedge the natural gas price and CME currency contracts to hedge the dollar-Euro risk. This is a trade that is going to grow in importance and can be conducted nearly seamlessly on CME Globex.

Before closing I would like to comment briefly on another significant variable in affecting our industry, and that is financial services regulatory reform. To start, it is worth reiterating that there are some segments of our financial market system that provided a place of shelter from the most damaging parts of the global economic crisis. Futures and options markets are chief among them. They functioned flawlessly – providing liquidity, transparency and central counterparty clearing services that work.

Throughout the crisis, there were no clearing member defaults and every customer was fully protected at all times. Therefore, it is important that regulators recognize the value of well regulated markets; they are safe, sound, secure and reliable.

While many focused on vilifying the role of the OTC markets in the crisis, we instead believe that some OTC markets functioned relatively well. Throughout the crisis, we were reminded that OTC markets are complementary to and have a symbiotic relationship with exchange-traded markets. Therefore, we do not favor artificial and prescriptive government action, such as mandatory clearing.

Rather, we support legislative policies and regulatory frameworks that promote market integrity, customer protection, and the ability of the financial system to function without

governmental support. Finally, we must all recognize that regulatory frameworks in the U.S. must always allow exchanges, brokers, and other financial intermediaries to compete globally.

The Commodity Futures Trading Commission (CFTC) has issued a proposal for public comment by April 26 that would establish a new structure of federally set position limits across all contract months in exchange-traded contracts in certain identified energy commodities, including Crude Oil, Heating Oil, RBOB Gasoline Blendstock, and Natural Gas.

Of primary concern is that virtually all OTC contracts, including exempt commercial market (ECM) contracts that are not designated by the CFTC as significant price discovery contracts (SPDCs), would be excluded from the limits. Foreign boards of trade also fall outside the scope of the rule making.

This heightens our concern (also expressed by some of the CFTC Commissioners) that the imposition of position limits in the highly regulated exchange space will, contrary to the current trend of encouraging exchange trading and enhanced transparency, cause market users to seek out less restrictive and less transparent venues. This could shift business away from the risk-management efficiencies inherent in exchange-traded futures and options.

From a general perspective, the CFTC's proposal would establish a new and arguably complex system of multiple layers of restrictions on positions in exchange-traded futures and SPDCs. Additionally, this proposal may have a significant impact on your current business models and lines of business.

For example, an entity that engages in both trading in the physical cash commodity and in trading as a swap dealer – and who applies for a bona fide hedge exemption to hedge its physical activity generally – would thus be crowded out from engaging in any speculative trading or in obtaining a separate risk exemption to hedge its swap activity.

You should also consider the systems changes and other costs that may be incurred in order to monitor compliance with the multiple sets of limits that are proposed. There is currently pending legislation that seeks to expand the scope of the CFTC's authority over the OTC market and some non-U.S. boards of trade. In the absence of such legislation, however, it is likely that the limits could result in trading moving from open, transparent markets to the less transparent OTC market or non-U.S. trading venues.

This change could reduce liquidity, which in turn could widen the bid-ask spread – thus increasing costs for market participants. Additionally, the reduced liquidity could result in greater price volatility.

CME Group supports the CFTC's mission to ensure that energy markets effectively serve their important economic functions for the benefit of all market participants. However, the evidence is clear that speculative position limits in the energy markets, beyond those already in place, are not warranted. Any steps taken to impose hard position limits must support the national policy of enhancing transparent markets and central counterparty clearing.

In addition, they should prevent market participants from moving away from the best regulated, most transparent, safest marketplace to less regulated or even completely

unregulated markets that are and will continue to be beyond the control of the Commission and Congress.

Consequently, any hard limits applied to U.S. exchanges should apply to exempt commercial markets (ECMs) and foreign boards of trade as well for all similar contracts. Any imposition of hard limits on energy products must be balanced. They must ensure that such limits do not have a detrimental effect on the price discovery and hedging functions of futures markets or drive trading to unregulated markets.

Going forward, we need to be vigilant about re-regulation while continuing to make strides in advancing the industry. We at CME Group will continue to work with the natural gas community to develop risk management products and services that best meet your needs as the industry continues to evolve. This is critical to the future for all of us, given the increasingly pivotal role the natural gas industry is playing in the long-term energy strategy of our country.

Thank you.