U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5000
Facsimile: (202) 418-5521

January 25, 1996

Ms. Karen J. Klitzman
Vice President, Research
New York Mercantile Exchange
Four World Trade Center
New York, New York 10048

Re: Applications for Designation as a Contract Market in Palo Verde Electricity Futures and Option Contracts.

Dear Ms. Klitzman:

By submissions dated August 9, 1995 and October 23, 1995 the New York Mercantile Exchange ("NYMEX") applied, pursuant to Sections 4c and 6 of the Commodity Exchange Act (Act), 7 U.S.C. §§ 6c and 8, and Commission Regulation § 33.5, 17 C.F.R. § 33.5, for designation as a contract market in Palo Verde Electricity futures contracts and options on Palo Verde Electricity futures contracts, respectively. Additional materials were submitted through December 21,1995.

The Commission has reviewed the materials submitted by the NYMEX and on January 25, 1996, designated the NYMEX as a contract market in Palo Verde electricity futures contracts and options on that futures contract pursuant to Sections 4c and 5 of the Act, 7 U.S.C. §§ 6c and 7.

Concurrent with designation, the Commission also approved, pursuant to Section 5a(a)(12) of the Act (7 U.S.C. § 7a(12)), proposed amendments to rules 9.26, 9.27 and 9.34, proposed new futures contract rules 410.00 through 410.22, and proposed new option contract rules 390.01 through 390.07.

The Commission notes that the Exchange has proposed Alternative Delivery Procedure (ADP) rules under which buyers and sellers matched for delivery may mutually agree to settle their respective delivery obligations under terms different than those specified in the futures contract. The Commission advises the NYMEX that it should monitor the ADP process.

The Commission also notes that the quality specifications for deliverable electricity are set by an independent third party -- the Western Systems Coordinating Council (WSCC). In this connection, the Commission believes that routine changes in quality standards promulgated by WSCC do not need to be submitted to the Commission for prior approval pursuant to the usual procedures under Section 5a(a)(12) of the Act and Commission Rule 1.41(b). Rather, Commission Rule 1.41(m) provides for expedited treatment of changes in grades or standards for futures contracts where such grade or standard is established by an independent third party for purposes other than solely for use in connection with futures or option contracts. Thus, future changes in WSCC's specifications for electricity may be submitted for Commission review under Commission Rule 1.41(m).

Sincerely,

Jean A. Webb

Jean A. Webb
Secretary of the Commission

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

In the Matter of the Application of the New York Mercantile Exchange for Designation as a Contract Market in the Palo Verde Electricity Futures Option Contract.	)))))

ORDER OF DESIGNATION

The New York Mercantile Exchange (NYMEX) having submitted, pursuant to Sections 4c and 6 of the Commodity Exchange Act (Act), 7 U.S.C. §§ 6c and 8, and Commission Regulation 33.5, 17 C.F.R. §33.5, an application for designation as a contract market in options on Palo Verde Electricity futures contracts and the Commodity Futures Trading Commission having reviewed the application and the complete record in this matter, and for the reasons set forth in the memorandum submitted to the Commission by its staff recommending designation of this contract market, the Commission finds that for purposes of this application the NYMEX has demonstrated compliance with the requirements of Sections 4c and 5 of the Act, 7 U.S.C. §§ 6c and 7, and the regulations thereunder. Therefore,

IT IS HEREBY ORDERED, under Sections 4c and 5 of the Act, 7 U.S.C. §§ 6c and 7, that the application of the NYMEX for designation as a contract market in options on the Palo Verde Electricity futures contract is granted, and

IT IS FURTHER ORDERED that this grant of designation shall be subject to compliance with all sections of the Act applicable to the NYMEX as a contract market under the Act.

Issued in Washington, D.C., this 25th day of January 1996.

By the Commission

Jean A. Webb
Secretary of the Commission

UNITED STATES OF AMERICA
Before the
COMMODITY FUTURES TRADING COMMISSION

In the Matter of the Application)
of the New York Mercantile Exchange)
for Designation as a Contract Market)
in Palo Verde Electricity Futures)

ORDER OF DESIGNATION

The New York Mercantile Exchange (NYMEX) having submitted, pursuant to Section 6 of the Commodity Exchange Act (Act), 7 U.S.C. § 8, an application for designation as a contract market in Palo Verde Electricity futures and the Commodity Futures Trading Commission having reviewed the application and the complete record in this matter, and for the reasons set forth in the memorandum submitted to the Commission by its staff recommending designation of this contract market, the Commission finds that for purposes of this application the NYMEX has demonstrated compliance with the requirements of Section 5 of the Act, 7 U.S.C. § 7, and the regulations thereunder. Therefore,

IT IS HEREBY ORDERED, under Section 5 of the Act, 7 U.S.C. § 7, that the application of the NYMEX for designation as a contract market in Palo Verde Electricity futures is granted, and

IT IS FURTHER ORDERED that this grant of designation shall be subject to compliance with all sections of the Act applicable to the NYMEX as a contract market under the Act.

Issued in Washington, D.C., this 25th day of January 1996.

By the Commission

Jean A. Webb
Secretary of the Commission

U.S. COMMODITY FUTURES TRADING COMMISSION
Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5260
Facsimile: (202) 418-5527

DIVISION OF
ECONOMIC ANALYSIS

January 17, 1996

MEMORANDUM

TO: The Commission

FROM: The Division of Economic Analysis

SUBJECT: Application of the New York Mercantile Exchange for Designation as a Contract Market in Palo Verde Electricity Futures and Option Contracts.

RECOMMENDATION: That the Commission designate the New York Mercantile Exchange as a contract market in Palo Verde electricity futures and option contracts, and that the Commission approve proposed amendments to rules 9.26, 9.27 and 9.34, proposed new futures contract rules 410.00 through 410.22, and proposed new option contract rules 390.01 through 390.07.

CONCURRING: The Division of Trading and Markets
The Office of the General Counsel

STAFF CONTACTS: Richard Shilts and Joseph Storer

I. INTRODUCTION

In correspondence dated August 9, 1995, the New York Mercantile Exchange (NYMEX or Exchange) applied to the Commission for designation as a contract market in Palo Verde electricity futures contracts. In correspondence dated October 23, 1995, the NYMEX applied for designation as a contract market in options on the Palo Verde electricity futures contract. Additional information and amendments to the proposed and existing rules were submitted in correspondence dated through December 21, 1995.

The rules for the subject proposed contracts are included as

Attachments A-1 and A-2.[1/] Notice of availability of the rules for the proposed futures contract, with a request for public comment, was published in the Federal Register on August 31, 1995 (60 Fed. Reg. 45402). Notice of the proposed rules for the proposed futures option contract was published in the Federal Register on November 6, 1995 (60 Fed. Reg. 56053). Five comment letters were received, representing three utilities, one industry group (Edison Electric Institute) and one Federal Agency (the Federal Energy Regulatory Commission). All of the utility commenters supported the proposed Palo Verde futures contract. The Federal Agency commented on certain legal aspects of futures contracts as related to the Federal Power Act. Those issues are discussed below.

The NYMEX, in separate correspondence, applied for designation in California Oregon Border (COB) electricity futures and options contracts. The Division's analysis of those proposed contracts is contained in a separate memorandum to the Commission.

II. SUMMARY OF FUTURES CONTRACT TERMS

The proposed contract provides for the delivery of 736

1/ A list of appendices is included as Attachment B. These appendices are not attached but are available to the Commission upon request. The Division also has separate background materials which are not included as part of this document but are available to the Commission upon request. In addition, proposed orders of designation are included as Attachments C and D, respectively, and a proposed approval letter to the Exchange is included as Attachment E.

megawatt hours (MWh)[2/] of firm, alternating current (AC) electric energy, delivered during peak hours at a rate of two megawatts during all hours of the applicable delivery period. At current electricity prices of about $11.02 per MWh, a 736-megawatt-hours contract size would represent about $8,110. [3/]

The quality specification for deliverable electricity shall be three phase current alternating at a nominal frequency of 60 hertz in conformance with the specifications of the Western Systems Coordinating Council (WSCC), a voluntary organization of electric utilities and Federal power marketing agencies set up to ensure the reliability of the interconnected electricity network in the Western part of the U.S. and Canada.

Futures delivery must represent firm electric energy. Firm energy, in contrast to interruptible power which can be halted, means electric energy that a utility or other producer will make continuously available and will deliver on demand to the buyer, such that interruption of service is allowed only due to uncontrollable forces, emergencies, or for repair and maintenance of generation and transmission facilities.

Futures prices shall be quoted in dollars and cents per MWh, with a minimum price fluctuation of $0.01 per MWh ($7.36 per

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2/ A megawatt-hour is the standard industry measure of electric energy transferred. One megawatt equals one million watts of electric power. One megawatt hour represents the transfer of electric power at a constant rate of one million watts for a one-hour period.

3/ Spot prices for electricity at the Palo Verde delivery point have ranged from $8 from $16 per MWh in recent months.

contract). The maximum daily price limit will be $3.00 per MWh ($2,208 per contract). The proposed rules provide for expansion of the daily price limit to $6.00 per MWh after a limit move. These daily price limits shall not apply to the two contract months nearest to maturity. The Exchange also has proposed a $7.50 per MWh special price fluctuation limit, which shall apply to the two nearby contract months, along with provisions for trading halts when this special price limit is hit.

The delivery point will be the Palo Verde high voltage switchyard,[4/] operated by the Salt River Project Agricultural Improvement and Power District (SRP or Salt River Project). SRP is a political subdivision of the state of Arizona, responsible for operating an irrigation system in that state as well as providing power and water to customers in Arizona. The Palo Verde switchyard, located near Phoenix, Arizona, supports the electricity output of the Palo Verde, AZ nuclear generating plant, and it facilitates the transmission of electricity from other large generation plants in the U.S. Southwest to major markets, mostly in southern California. Four major electric utilities, which serve as control area operators[5/] in Arizona and southern California, are connected to the Palo Verde switchyard; i.e., Salt River Project (the operator of the switchyard), Arizona Public Service, Southern

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4/ A switchyard is an assemblage of electrical equipment for the purpose of tying together two or more electric circuits.

5/ As discussed below, for each control area, there is a designated "control area operator" which is responsible for supplying power to customers within the area.

California Edison and San Diego Gas and Electric. [6/]

Exchange rules provide for delivery of electricity in every calendar month. The last day of trading shall be the third business day prior to the first day of the delivery month. Delivery shall be subject to the scheduling practices of Salt River Project and the WSCC. The seller (buyer) will be responsible for making all arrangements for transmission of electricity to (from) Palo Verde. Delivery generally shall take place over a 23-day period, beginning no earlier than the first business day of the delivery month and must be completed no later than the last calendar day of such month. The Exchange has specified a schedule of delivery days covering months having between 18 and 23 business days.[7/] On each delivery day, delivery shall take place generally during "peak hours" over a 16-hour period, beginning at 6:00 a.m. and ending at 10:00 p.m., Pacific time, at the Exchange-specified two-megawatt-per-hour rate of delivery. Proof of electricity transmission by Salt River Project shall constitute proof of futures delivery and title transfer.

[6/] There are five high voltage (500 Kv) transmission lines connected to the Palo Verde switchyard. Salt River Project operates one line supplying power to over a half million residential, commercial, industrial, mining and agricultural customers in Arizona. Arizona Public Service operates two lines serving their customer base in Arizona. Southern California Edison and San Diego Gas and Electric each operate a line from Palo Verde to their respective service areas in Southern California.

[7/] While futures delivery generally will take place on business days during the delivery month, NYMEX rules provide for delivery on Saturdays and, rarely, on Sundays for those months having fewer than 23 business days.

The NYMEX rules require both the long and short clearing members to obtain from their customers, at least 10 business days prior to the last day of trading, either signed written transmission service agreements to, or from, Palo Verde, as applicable, or verification that appropriate alternative arrangements for transmission to, or from, Palo Verde have been made. If such arrangements have not been made, the rules require the clearing member to enter a liquidating order at the market (market order) for that position no later than one hour prior to the close of trading on the last trading day. [8/]

The NYMEX rules provide for a "Special Transmission Service," whereby matched buyers and sellers can mutually agree to effect futures delivery in one of the four previously mentioned control areas connected to the Palo Verde switchyard. The NYMEX rules also establish an alternative delivery procedure (ADP), which allows the buyer and seller matched for delivery to mutually agree to settle their futures delivery obligations under terms and conditions which differ from those specified in the contract rules. The NYMEX also has proposed rules which govern the exchange of futures for physicals (EFP's) as well as force majeure provisions. The ADP and force majeure provisions are comparable to those specified in NYMEX's existing energy futures contracts.

[8/] For positions established with fewer than 10 business days remaining until the last trading day, clearing members must obtain from their customers, by the close of business on the day the position is established, such documentation of transmission arrangements dated earlier than 10 business days prior to the last trading day.

The speculative position limits for the proposed contact are 350 contracts net long or net short in the maturing future, 3,500 contracts net long or short in any one month other than the spot month, and 5,000 contracts net long or short in all months combined. The maturing future speculative limit goes into effect on the tenth business day prior to the last day of trading of the month which precedes the futures delivery month. An exemption may be granted for bona fide hedge and certain other positions pursuant to existing Exchange rules. The proposed reporting level will be 25 contracts.

III. CASH MARKET OVERVIEW[2/]

Commodity Description

The electric power (bulk power) system is a complex combination of many different facilities. It includes electric generating plants, transmission lines, and distribution lines to customers.

The electric power industry in the U.S. has evolved into three major networks or power grids -- the Eastern Interconnection, covering primarily the eastern two-thirds of the U.S., the Texas Interconnection, covering Texas, and the Western Interconnection (in which lie the delivery points for the NYMEX's proposed

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2/ In preparing this report, the Division relied heavily on various publications and reports from the Department of Energy/Energy Information Administration, the Federal Energy Regulatory Commission, and numerous documents supplied by entities in the electricity industry.

contracts), covering the Southwest and areas west of the Rocky Mountains. The major grids consist of extra-high-voltage connections between individual power producers designed to permit the transfer of electricity from one part of the network to another. Although there is some interconnect capability between the three major power grids, the vast majority of electric power transfers occur between utilities within a particular network.

Virtually all U.S. utilities are connected with at least one other utility within a power grid. Connected utilities continuously synchronize their systems so as to operate at the same electrical frequency, thus maintaining reliability of the total system.[10/]

The physical infrastructure of the bulk power system is comprised of three components: 1) the generating facilities that convert primary energy sources (e.g., oil, coal, natural gas, nuclear energy and hydroelectric) into electric power; 2) the transmission network (or as is generally referred to as the "grid" or "transmission grid") through which electric power flows from the generators to distribution points (load centers); and 3) the distribution system that delivers electric power from the load centers to the ultimate consumer.

Electricity generating facilities can be broadly classified as

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10/ The frequency of electric power supply in the U. S. is almost entirely 60 cycles per second. In order to maintain the reliability of a unified transmission grid or power system, the frequency of electricity from generators to load centers must be consistent and uniform.

utility generators and nonutility generators. Traditional utilities fall into the first classification and are best described as electric utilities that own and operate facilities for the generation, transmission, distribution, or sale of electricity, primarily for use by the public. Traditional electric utilities include: investor owned, publicly owned, Federal electric utilities and electric cooperatives.

Investor owned utilities (IOU's) are privately owned businesses with the objective of producing a return for their investors. They accounted for approximately 75% of total U.S. generating capacity, generation, sales and revenues in 1994.[11/] Investor owned utilities are granted service monopolies within a specified geographic area and are obligated to serve all consumers within that franchised area. The majority of investor owned utilities in the U.S. provide for the generation, transmission and distribution of electricity to their customers.[12/] As monopolies, these utility companies are regulated at the Federal level by the FERC and at the state level by state public utility commissions. Their rates to their consumers are set by law. Wholesale transactions by IOU's, as measured by sales for resale transactions, represent about 40 per cent of the wholesale market.

11/ Investor owned utilities operate in all states except Nebraska. Electric utilities in Nebraska are either municipal systems or public power districts.

12/ Examples of investor owned utilities include Pacific Gas & Electric (PG&E), Southern California Edison and San Diego Gas and Electric in California, Virginia Electric Power Company (VEPCO) in Virginia and Illinois Power Company in Illinois.

Public utilities are nonprofit entities typically established by state or local governments to provide electric service to the state (or some portion of) or to the local community and nearby consumers at rates equal to cost. The approximately 2,000 public utilities in the U.S. represent about 16 per cent of U.S. generating capacity and include the following classes: 1) municipal utilities, 2) public power districts, 3) state power authorities, and 4) irrigation districts.[13/] Wholesale transactions by public utilities represent over 20 per cent of the wholesale market.

Federal electric utilities, representing about two per cent of U.S. generating capacity, were developed as multi-purpose projects financed mainly by the Federal government, with, in some instances, partial support from the states in which they are located. Currently, there are 10 such projects in place, mainly hydroelectric projects. Generation of electricity by Federal power projects is incidental to the main purpose of the projects, which are flood control, navigation and irrigation. Power produced by these entities is marketed in the wholesale market by Federal power marketing administrations such as the Bonneville Power Authority (BPA) in the Pacific Northwest, the Western Power Administration in the West and the Tennessee Valley Authority in the Midwest. Wholesale transactions by Federal utilities represent over 17 per cent of the wholesale market.

13/ The Salt River Project in Arizona, the operator of the Palo Verde delivery switchyard is an example of an irrigation district which produces electric power.

There are approximately 950 electric cooperatives doing business in 47 states. Cooperatives are owned by their members and are established to provide electricity to those members. In 1994, cooperatives accounted for about 8 per cent of the electricity market in terms of sales to final users. Wholesale transactions by cooperatives account for about 22 per cent of the wholesale market.

Nonutility producers of electricity have become substantial suppliers of wholesale bulk power to the market since 1978. Nonutility power producers are broadly defined as entities that own generating capacity but are not one of the classes of electric utilities described above. Nonutility power producers do not have transmission capabilities and do not have a franchised service territory. These entities generally produce and sell bulk (wholesale) electric power to traditional utilities. Between 1992 and 1994 traditional utility purchases of nonutility generated electricity increased from 166,300 MWh's to 200,900 MWh's. All of these transactions are considered wholesale transactions.

Regulatory Environment

At the state level, regulation of utilities began early in this century with the establishment by states of Public Utility Commissions (PUCs). The primary responsibility of the PUCs is to regulate the prices for electricity that privately (investor) owned utilities may charge their retail customers.

At the Federal level, the Federal Power Act of 1935 has been the centerpiece of Federal economic regulation of the electric

utility industry. It was passed to provide a Federal mechanism for regulation of electricity in interstate commerce. Prior to this time, electricity generation, transmission and distribution was almost always a series of intrastate transactions. Administration of the Federal Power Act was entrusted to the Federal Power Commission, later to become the FERC.

In 1978, the National Energy Act was passed. The 1978 Act was comprised of five different statutes. The most significant part of the National Energy Act with regard to the structure of the electric power industry was the Public Utility Regulatory Policies Act (PURPA). In passing PURPA, Congress established a set of incentives to stimulate institutional, technical and economic diversity in the electric power industry. PURPA allowed for limited competition in the generation markets and established several new categories of nonutility generators with mandated access to electricity markets controlled by the traditional utilities. As a result, generation of electricity by nonutilitiy generators more than doubled in a short six year period.

Further efforts to promote competition in the electricity industry followed with the passage of the Energy Policy Act of 1992. Provisions set forth in that Act gave FERC the authority to order utilities to provide to third-party utilities and others point-to-point access to their transmission systems to further encourage competition in the wholesale power market.

In 1995, the FERC proposed rules to promote wholesale competition in the nation's bulk (wholesale) power markets. The

proposed rules would require that public utilities under FERC jurisdiction provide "open access" to their transmission services on a non-discriminatory basis to all wholesale market participants who could obtain transmission services under FERC rules. Among other provisions, the rules would require utilities to separate or "unbundle" their marketing and transmission functions, and to provide ancillary services (e.g., prescheduling, scheduling, dispatching and accounting services) on a non-discriminatory basis. The proposed rules will require utilities to file an open access tariff (OAT) that meets the requirements of the proposed rules.

Although final approval of the proposed rules is not expected until mid 1996 at the earliest, affected utilities have either filed pro forma OATs with the FERC or have adopted policies and procedures that implement the proposed FERC rules. In addition, most non-jurisdictional utilities (those utilities not subject to FERC jurisdiction) such as BPA and Salt River Project have developed OATs that meet the open access and certain other requirements of the proposed rulemaking.

Physical Structure of the Industry

Following a major blackout in 1985 that affected a large part of the U.S. northeast and parts of Quebec, the North American Reliability Council (NERC) was formed for the purpose of coordination, promotion, and communication concerning the

reliability[14/] of the electrical system in North America. NERC is responsible for setting and maintaining the principles, criteria, standards, for planning and operating reliable bulk power electric systems in North America.

NERC is a non-profit corporation operated by ten regional reliability councils (RRC's),[15/] of which the Western System Coordinating Council (WSCC) is the largest. The WSCC's area of responsibility covers approximately 1.8 million square miles with 59 million customers. The WSCC includes all of Arizona, California, Idaho, Nevada, Oregon, Utah, Washington and Wyoming. As discussed below, the NYMEX's proposed delivery points for the Palo Verde contract and the COB contract are located within the WSCC territory.

Within the major interconnections and within the RCC's themselves, certain utilities have formed what are termed control areas. Generally speaking, a control area is an electric power system that may include one or more utility service areas. It is

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14/ Reliability for an electric power system is simply the extent to which consumers can obtain electricity from the system when and in the amount they want.

15/ In the contiguous U.S., there are nine RRC's. For the Eastern Interconnection: Northeast Power Coordinating Council (NPCC), Mid-Atlantic Area Council (MAAC), East Central Area Reliability Council (ECAR), Mid-America Interconnected Network (MAIN), Mid-Continent Area Power Pool (MAPP), Southeastern Electric Reliability Council (SERC), and the Southwest Power Pool (SPP). For the Texas Interconnection: Electric Reliability Council (ERCOT). For the Western Interconnection: the Western Systems Coordinating Council (WSCC). Recently, the Alaska System Coordinating Council (ASCC) has been formed and is the tenth member of NERC.

bounded by interconnections (most of which are interconnections with other control areas) and with metering and telemetry to measure and monitor electricity flows in the system. The primary purpose of each control area is to manage electricity generation to meet demand, maintain reliability of the power system by matching supply and demand on an hour by hour and minute by minute basis and coordinate the frequency of electric current so as not to overload the transmission system, both within the control area and between interconnecting control areas. Across the U.S., there are approximately 150 such control areas, and within the WSCC, there are 32.

Each control area has a designated operator[16/] which coordinates the activities of the separate utilities within its control area into an integrated power supply. In addition, control area operator's are responsible for maintaining electric power interchange schedules (power flow schedules) with other control areas and to report and provide verification of interchanges of electricity flows into and out of their control area.

For the Palo Verde switchyard, the most relevant control area operators are the Salt River Project and Arizona and California utilities adjacent to it. Collectively, these control area

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16/ Among other things, control area operators must operate generating facilities, have metered ties with other control areas and contractual agreements in place that allows access to those ties, have the ability to control generation so as to match actual power flows with scheduled power flows and, at the same time, have the ability and equipment in place to respond to system frequency changes, and have a control center with 24-hour staffing.

operators set the operating guidelines that apply to all bulk power transactions at Palo Verde.

A recent development in the wholesale bulk power market has been the formation of "power pools". Power pools are defined within the industry as an association of two or more interconnected utilities having an agreement in place to coordinate operations and planning for improved reliability and efficiencies of the system. Power pools can be formed in a single state or may be formed to include multi-state utilities.

One of the first power pools formed and currently one of the largest in the U.S. in terms of wholesale bulk power transactions and power flows is the Western Systems Power Pool (WSPP). The WSPP, formed in 1987 as a two year experiment and subsequently approved by the FERC on a permanent basis in 1991, is a multi-state bulk power pool whose members now include not only utilities (both traditional public and non-public utilities) and nonutility generators, but also power marketers.[17/] At present the WSPP has over 100 members, including the Salt River Project and utilities in the adjacent control areas that make up the NYMEX's Palo Verde delivery point, and the BPA and PG&E, the control area operators responsible for the north/south COB intertie delivery point.

17/ Power marketers are business entities engaged in buying and selling electricity. Power marketers do not own generating, transmission or distribution facilities, although some may functionally operate as independent subsidiaries of traditional utilities and nonutility generators. Power marketers, as opposed to brokers, take ownership of electricity and are involved in interstate trade of wholesale bulk power and are regulated by FERC.

Supply and Demand

The capacity to produce electricity is generally referred to as generation capability and is measured in megawatts. In view of this, the potential supply of electricity in the U.S. can be measured by assessing the electric utility industry generating capability. At the end of 1994, the electric power industry, including both utility and nonutility generators, reported a gross generating capability[18/] of almost 765,000 megawatts (703,000 MW's by utilities). Net generation[19/] of electricity by electric utilities in the contiguous United States in 1994 totaled 121.5 million MW, a 1% increase from 1993. Imports of electricity, mainly from Canadian sources, totaled approximately 2 million MW.

On a regional basis, as noted above, the WSCC is the largest of the 10 regional councils in terms of geographic area and serves over 59 million customers. In 1994, the WSCC ranked second in the contiguous U.S. in generating capability (128,897 MW's), and in net generation from utilities (538 MW's).

18/ Gross generation is the amount of power produced by an electric power plant, measured at the terminals of the plant prior to the point that the generated power leaves the plant. Some electric power produced by the plant is used by the plant to operate equipment at the facility.

19/ Net generation is the power available to the system, i.e. gross generation minus that used by the plant. It should be noted that net generation figures are greater than that available to consumers because of losses during transmission and distribution. It is estimated these losses represent approximately 8 to 9 per cent of net generation.

The demand for electricity is typically referred to as "load". Since it not technically possible to directly store alternating current (AC) electricity, electricity must be generated, transmitted to the user, and consumed instantaneously. As such, electricity is a flow commodity, consumed practically at the same instant it is produced. Measurement of load is expressed in megawatt hours.

The best measure of demand is actual sales to ultimate consumers. In 1994, U.S. sales of electricity totaled approximately 2,935 million MWh's. Sales to the residential sector totaled approximately 1,008 million MWh's. The commercial and industrial sectors purchased approximately 1,829 million MWh's, and the "other" sector[20/] category purchased approximately 98 million MWh's.

On a regional basis, sales to ultimate consumers in the WSCC totaled approximately 524 million MWh's. By sector, residential sales totaled roughly 169 million MWh's, commercial/industrial totaled approximately 335 million MWh's, and sales to "other" sector consumers totaled over 19 million MWh's.

The flow of electricity through the transmission grid is unidirectional at any one point in time. On a regional basis, net flows over time tend to show distinctive seasonal patterns. During the winter months in the western U.S., for example, electricity

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20/ The "other" category includes sales for public street and highway lighting, other sales to public authorities, sales to railroads and railways and interdepartmental sales.

flows from the Pacific Northwest to northern California and to other northwestern states. During the summer months, electricity flows from the U.S. southwest including the Palo Verde facility east into southern California. Such flows typically are accomplished via spot and forward cash market transactions between utilities having either excess or deficit generation relative to forecasted demand, as discussed below.

Development of the Cash Market

In the late 1960's and throughout the 1970's, a number of significant events occurred in the electric industry that began a shift to a more competitive marketplace for wholesale (bulk) electric power. During this period of high inflation, residential users and other consumers became more concerned about rising electricity rates, and state regulatory bodies questioned utilities proposed rate increases. Also, the construction of nuclear and other capital-intensive generation facilities resulted in significant cost increases for electricity generation. Many of these generation facilities were built on the assumption that there would be continuing increases in the demand for electricity and continued large increases in the price of oil -- a major input for electricity generation. However, due to the success of conservation by households and industrial users and reduced economic growth, the expected demand increases did not materialize, so that beginning in the 1980's, many utilities unexpectedly found themselves with excess generation capacity. As a result of these developments, environmental and safety concerns about nuclear

power, and given lower oil prices in the 1980's, regulatory bodies questioned utilities' prior decisions to build capital-intensive generation plants. Utilities became reluctant to build new large generating plants.

In addition to economic changes in the industry, there have been significant technological changes in both generation and transmission in the past 30 years. Through the 1960's, utilities were able to capitalize on economies of scale to produce power at lower per-unit costs from larger and larger plants. This resulted in the growth of large, vertically integrated utilities that found it economic to transmit power over longer distances. However, beginning in the 1970's, utilities no longer were able to realize significant economies of scale from large plants, since large generation plants needed relatively greater maintenance and experienced longer downtimes. Further, new technologies allowed utilities to build smaller plants that generated power at lower cost than the large, capital-intensive facilities. As a result, the optimum size of generation plants has shifted from large units to smaller units.[21/]

Significant changes also have occurred in the transmission of electricity. Technological advances have made possible the economic transmission of electric power over long distances at higher voltages. This has allowed utilities with lower cost

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21/ For example, small efficient gas-fired generation facilities can produce power at a cost between 3 and 5 cents per KWh, compared to 9 to 15 cents per KWh for nuclear plants.

generation sources to provide power to neighboring utilities, particularly previously isolated systems where customers had been captive to higher cost generation. Substantial amounts of electricity now move between utilities in the same region as well as between regions through the grid. In that regard, utilities with lower cost generation frequently sell surplus power to utilities whose demand exceeds current generation capacity or to those which have higher cost generation facilities. Such transactions between utilities and non-utility generations make up the wholesale, or bulk, power market.

The wholesale power market has been growing rapidly in recent years in response to the economic and technological changes noted above. Market participants include a large number of utilities and non-utility generators as well as power marketing firms.[22/] As discussed above, growth has been facilitated by FERC actions designed to ensure that utilities, as well as other bulk power traders such as power marketers, have access to the transmission services owned and operated by individual utilities, so that potential electricity buyers have access to many competing suppliers. The most active trading centers for bulk power are at interconnection points (interties) connecting two major control areas, such as the California Oregon Border intertie, and at major generation facilities connected to a number of high-voltage

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22/ Many of the entities which recently entered the power marketing business are affiliates of utility companies or they are divisions of firms that have been active as natural gas marketers. Such firms include Enron, Coastal, Hadson and Portland General Power Marketing.

transmission lines such as the Palo Verde switchyard.

Cash Market Transactions

Wholesale power transactions include purchases, sales for resale, exchanges, and what are termed "wheeling" transactions. Purchases involve purchasing power from utilities and nonutility producers of electricity. Sales for resale refer to bulk power transactions between one utility (seller) to one or more other utilities (buyers) for resale to ultimate consumers. Exchanges involve trading of electricity between interconnected utilities when supply and demand conditions are mutually advantageous to the parties[23/]. Wheeling transactions generally take place when the two utilities involved do not have a direct transmission intertie connection, but can be linked by a third party's transmission intertie. The third party can be thought of as providing the transmission service component of a purchase and sale.

In the cash market, there are two main types of wholesale bulk power transactions: coordination and requirement transactions, with transmission service ranging from firm service to different levels of interruptable service[24/]. Coordination

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23/ Exchange transactions are typically reversible between the parties -- that is, utility "A" will provide electricity to utility "B" for a specified period of time under an agreement that requires utility "B" to return the electricity to utility "A" at some future date.

24/ Firm sales usually include a demand charge which requires the buyer to pay for the electricity whether it is taken or not. By contrast, interruptable sales, since they are (continued...)

transactions involve the sale, exchange and/or transmission of electricity between two utilities that have sufficient generation and transmission capacity to supply their own requirements under usual conditions. The primary reason for utilities to engage in coordination transactions is reported to be differences in production costs between utilities. These transactions range from short term (one year or less) to intermediate term (one to five years) in duration.

Requirement transactions involve utilities that lack or have insufficient generation capacity to meet customer load. These transactions are usually long-term contracts (five or more years) under conditions that obligate the selling utility to provide power and service to the buying utility at a level comparable to the level of service the selling utility provides to its retail customers.

Wholesale bulk power transactions, including spot and forward purchases and sales, represent a significant portion of cash market trading in electricity. One measure of wholesale bulk power trading is the amount of electric power received and delivered between U.S. utilities[25/]. In 1994, a total of 1,920 million MWh's was received and 1,710 million MWh's was delivered by

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24/ (...continued)
subject to curtailment or cessation of delivery, rarely have a demand charge.

25/ Receipts equal the sum of purchased power plus exchanges and wheeling received. Deliveries equal the sum of requirements and nonrequirements sales for resale, exchanges delivered and wheeling delivered.

utilities in the contiguous U.S. On a regional basis, statistics for the WSCC, which is ranked first in receipts and deliveries, showed that utilities within this region received a total of approximately 472 million MWh's and delivered over 429 million MWh's.

Cash market transactions of wholesale electricity may specify delivery at a generation, transmission or distribution facility. Facilities most utilized for deliveries of bulk power are generation plants and substations. A recent development in wholesale cash market trading has been the specification of trading centers or hubs as receipt and delivery points. In most instances, these trading centers are large substations where two or more control areas connect, or where high voltage transmission lines converge and are connected to distribution facilities. These centers facilitate cash market trading by providing a consistent pricing basis for market participants and market liquidity. The most active trading centers in the WSCC are the Palo Verde switchyard and COB. Market participants include all categories of electric utilities, power marketers and brokers.

Palo Verde Cash Market

The Palo Verde switchyard was constructed to support the three unit nuclear generating facility at Palo Verde and to facilitate transmission of high voltage electricity from other generating stations in the southwest to load centers in California, Arizona and Nevada. Facilities at the switchyard include a high voltage

substation connected to five 500 Kv transmission lines -- the Kyrene line which is part of SRP's control area, the Devers line which is connected to Southern California Edison's control area, the Gila line which connects to San Diego Gas and Electric's control area, and two lines connected to Arizona Power and Light Company's Westwing substation. Total transfer capability of the five lines is approximately 9,400 MW.

The Palo Verde switchyard has become a major transaction location for bulk power transactions in the western U.S. In fact, the high voltage 500-Kv switchyard is the most active market center or trading hub for bulk power in the southwest. As previously discussed, the control area operator of the switchyard is the Salt River Project, which is one of seven owners or entitlement holders of transmission capacity at the switchyard. The SRP is a political subdivision of the State of Arizona. SRP is the third largest public power utility in the U.S. and owns and operates an electric system which generates and purchases, transmits and distributes electric energy through the Southwest.

There are three control areas (two to the west and one to the east) adjacent to the switchyard. The two west-side control areas are operated by San Diego Gas and Electric and Southern California Edison. The east-side control area is operated by Arizona Power and Light Company.

With respect to transaction volume and trading activity at Palo Verde, there are no specific data reported. However, an 18-month study commissioned by the NYMEX of market participation at

the Palo Verde switchyard indicated that the number of participants trading wholesale electricity ranged from 22 to 31 and included investor owned utilities, public power companies, municipal power districts, Federal power marketers, and wholesale power marketers/brokers. The study showed that over this 18 month period, a total of 11,951,299 MWh's were sold and 16,258,034 MWh's were purchased. Over two-thirds of the transactions involved firm energy, with almost 39 percent being on-peak firm energy, the majority of which were spot market transactions. This information was confirmed by Division staff during trade interviews.

Available data indicate there is no capacity constraint at Palo Verde, and that, absent transmission line failure or generator breakdowns, which have been very rare, total transfer capacity at Palo Verde has never been reached. There is sufficient redundancy built into the area's power system to mitigate concerns about reliability. In addition, the SRP, as control area operator, has sufficient flexibility to shift generation and transmission load to maintain reliable continuous transfer capability.

IV. CONCLUSION AND RECOMMENDATION WITH RESPECT TO FUTURES

The Division of Economic Analysis (Division) has completed its review of the Exchange's proposed electricity futures contract for delivery at Palo Verde and believes that it meets the requirements of the Commodity Exchange Act (Act), Commission Guideline No. 1, and Commission Regulation 1.61 concerning speculative position limits (see Table 1).

TABLE 1.

NYMEX PALO VERDE ELECTRICITY FUTURES CONTRACT

SUMMARY OF CONTRACT TERMS AND CONDITIONS

Contract Term	Proposed Futures Contract Provision	Comments Regarding Proposed Contract Provision
Commodity Specification	Firm electric energy in the form of three phase current alternating at a frequency of 60 hertz, in conformance with WSCC standards.	Acceptable. Reflects industry standard. (Same specification as natural gas deliverable on the NYMEX contract).
Contract Size	736 megawatt hours delivered at the rate of 2 MWhs per hour during NYMEX-specified peak hours during the delivery month.	Acceptable. Smaller than cash practice, but no impediment to delivery.
Delivery Instrument	Proof of execution of electricity transmission by Salt River Project and any other applicable control area operator.	Acceptable. Represents title transfer procedures employed in the cash market.
Delivery Points	Salt River Project's Palo Verde high voltage switchyard located near Wintersberg Arizona, or at any of four surrounding control ares if mutually agreed.	Acceptable. Potential deliverable supplies include current generation at Palo verde and electricity flows from generation plants connected to the delivery point.
Delivery Procedures	Pursuant to SRP and WSCC scheduling practices . Seller (buyer) must make all arrangements to deliver (receive) electricity.	Acceptable. Conforms to standard industry practices at Palo Verde.
Contract Months	Monthly expirations with a maximum of 18 consecutive calendar months listed for trading at any given time.	Any months acceptable from an economic standpoint.
Delivery Period	A 23-day period (each business day of the delivery month, plus certain weekend days depending on the number of days in the month).	Acceptable. Consistent with Salt River Project scheduling and transmission practices.
Deliverable Supply/Capacity	Electric energy produced at, or flowing through, the Palo Verde switchyard.	Adequate, so that the contract does not appear to be readily susceptible to price manipulation or distortion.
Trading Hours	8:30 a.m. to 2:30 p.m. Eastern time.	Acceptable.
Last Day of Trading	The third business day prior to the first day of the delivery month.	Acceptable. Conforms to nomination deadlines of Salt River project.
Minimum Price Fluctuation	$0.01 per MWh ($7.36 per contract).	Acceptable. Conforms to cash market pricing practices.
Daily Price Fluctuation Limit	$3.00 per MWh, expandable to $6.00 per MWh.	Acceptable. Not overly restrictive in relation to cash price movements.
Speculative Position Limits	5,000 contracts in any one month, 5,000 contracts in all months combined, and 350 contracts in the spot month. Gross nominal limit of 20,000 contracts.	Acceptable. Consistent with standards under Regulation 1.61.

The proposed futures contract is designed to serve as a hedging and pricing instrument for investor-owned, publicly-owned and Federal electric utilities, marketers, and retail end users that produce, transmit, trade or consume electric energy in the U.S. Southwest. Trade sources interviewed by Division staff stated that the Palo Verde delivery point is acceptable as the Exchange-specified delivery point for electricity futures.

The terms and conditions of the proposed contract are generally in conformance with cash market practices. The proposed quality standard for deliverable electricity, including the reference to applicable WSCC standards, reflect industry standards. The proposed contract size, 736 megawatt hours of energy delivered at a two-megawatt-per-hour rate over the delivery month, is significantly smaller than customary cash market transactions. However, this size would not create any impediments to delivery, given that Salt River Project as well as other utilities have metering equipment and accounting procedures to accommodate transactions as small as one megawatt per hour at no additional fee. The proposed rules specifying that the seller shall provide the buyer with all appropriate documents to transfer title of product upon receipt of payment also reflect industry practice[26/].

The last day of futures trading will be the third business day prior to the first day of the delivery month. This is appropriate

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26/ Currently, the documents used are the actual scheduling documents of the control area operators which show the quantity of electricity transferred between the control areas and the timing of the transfers.

and takes into account pre-scheduling and scheduling that must be done between the parties making and taking delivery and the relevant control area operator's that would be involved in the delivery.

The proposed Palo Verde delivery point is the primary trading center for wholesale transactions of bulk power electricity in the U.S. Southwest. There is an active spot market for bulk electric power at Palo Verde involving numerous participants, including public and privately owned utilities as well as electricity marketers. As noted above, the Palo Verde switchyard is directly connected to major electricity generation facilities and consumption areas throughout the Western U.S.

The availability of transmission capacity into and out of the Palo Verde switchyard, where futures delivery is made, also is adequate. The five high voltage transmission lines connected to the Palo Verde switchyard have, in total, adequate capacity to accommodate futures deliveries on the proposed contract. In that regard, the aggregate demand for electricity transmission over these lines never equaled the total available capacity of the lines and access to transmission into, through, and out of Palo Verde will be adequate to meet futures delivery demand.

Deliverable supplies of electric power should be adequate to support futures trading. Given the number and size of the generation facilities connected to the Palo Verde switchyard, the amount of power available for futures delivery is very large. In that regard, the switchyard where futures deliveries are to be made

is connected to the Palo Verde nuclear plant, with a 3,810 MW capacity, and to major generation facilities throughout the U.S. Southwest. In addition, electricity generation capability of about 75,000 MW's also are available in the areas around Palo Verde, including Arizona, New Mexico, California and southern Nevada. As noted above, the transmission lines connected to the Palo Verde have a total transfer capacity of approximately 9,400 MW's.

Based on total transmission capacity through Palo Verde, the Division estimates that potential supplies would be equivalent to about 4,550 contracts per month.[27/] However, part of that transmission capacity is committed and is not available for futures deliveries. Industry sources estimate that transmission capacity available for spot market transactions is, at the minimum, 30 per cent of total available transmission capacity. In view of this, the Division estimates deliverable supply to be at least 1,335 contracts per month.

As noted, futures deliveries must be effected through the Palo Verde switchyard operated by SRP. With respect to access to transmission into, through and out of this facility, SRP, although not a utility under FERC jurisdiction, has stated publicly in FERC filings and in interviews with Division staff, that it plans to conduct its wholesale transmission service transactions consistent

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27/ Estimates of deliverable supply are based on the capacities of the five existing transmission lines, since, given the magnitude of generation capacity connected to the Palo Verde switchyard, transmission availability provides the most significant constraint on deliverable supplies of electricity.

with FERC's open access requirements, including developing and publishing service rate schedules for transmission and ancillary services. According to SRP officials, they currently are finalizing their open access tariff which conforms to FERC's proposed rulemaking. In view of SRP's stated intentions and current operating policy, there should be no impediments to making or taking delivery on the futures contract nor should there be any problem with access to transmission services to, through and out of SRP's control area.

In view of the amount of available generation and transmission capacity at Palo Verde, the open access provisions adopted by the Salt River Project, the proposed spot month speculative limit of 350 contracts (equivalent in total to about 10,700 MWh's of electricity production), and the Exchange's product placement provisions, the Division believes that the proposed terms and conditions are appropriate to minimize the possibility of price manipulation or distortion.

Considering the general conformity of the contract's terms with cash market practices and the proposed speculative position limit provisions, the Division believes that the proposed terms will provide for orderly trading in the contract. Moreover, the Division believes that the proposed individual month and all months combined speculative limit levels, in conjunction with the exemption provisions and the large-trader reporting level, should enable the Exchange to comply with the requirements of Commission Regulation 1.61 regarding speculative position limits.

Information supplied by the Exchange and obtained by the Division from other sources indicates that it is reasonable to expect that the proposed futures contract will be used for hedging or price basing on more than an occasional basis. In this regard, the Division believes that the proposed contract could be used by firms in the electricity industry to hedge price risks associated with spot and forward market transactions in the growing bulk wholesale electricity cash market. As previously noted, there is considerable spot market trading and firms may be long or short electricity as a result of trading imbalances in their accounts. Proposed FERC rulemaking designed to encourage competition should promote further growth in this market. Moreover, the Division is of the opinion that the contract does not appear to be readily susceptible to price manipulation or other distortion and is otherwise consistent with Section 5(7) of the Act, which requires that designation of a contract market not be contrary to the public interest.[28/]

The Division notes that questions have been raised as to whether NYMEX electricity futures contracts may be classified as

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28/ As noted, quality specifications for deliverable electricity are to be set by reference to WSCC standards, an independent third party. The Division believes that routine changes in quality standards promulgated by WSCC need not be submitted to the Commission for approval pursuant to the usual procedures under Commission Rule 1.41(b). Commission Rule 1.41(m) provides for expedited treatment of changes in grades or standards that are established by an independent third party for purposes other than solely for use in connection with futures or option contracts. Thus, future changes in WSCC specifications for electricity may be submitted for Commission review under Commission Rule 1.41(m).

securities pursuant to provisions of the Federal Power Act (FPA). In that regard, section 203 of the FPA provides that without the prior approval of FERC "[n]o public utility shall . . . purchase, acquire, or take any security of any other public utility," while section 204 provides that without FERC approval [n]o public utility shall issue any security, or assume any obligation or liability as guarantor, indorser, surety, or otherwise in respect of any security of another."

To clarify this issue, on September 28, 1995, the NYMEX filed with the FERC a petition for a declaratory order to the effect that the NYMEX's electricity futures contracts do not constitute securities within the meaning of the FPA. The FERC is reviewing this petition, but does not expect to issue a ruling until the second quarter of 1996. Based on the breadth and depth of the cash market in electricity at Palo Verde, the proposed contracts terms and conditions, and considering the uncertainty about the outcome and implications of any FERC action, as noted above, the Division is of the opinion that the designation requirements set forth in the Commission's Guideline No. 1 are satisfied irrespective of any FERC decision in this regard. While a FERC ruling in regard to this issue may have some impact on the ability of FERC-regulated utilities to participate in the proposed futures contract, there are a significant number of nonjurisdictional entities that could participate in the contract and could benefit from the risk management potential that an electricity futures contract offers.

Finally, the Division notes that FERC-regulated utilities that

have not received approval to conduct wholesale transactions at market-based prices could, under certain circumstances, be precluded from futures market participation. This could happen if cash (or futures) prices exceeded the FERC-approved maximum allowable price (as determined by cost-of-service based formulae) set forth in their tariff or pursuant to the WSPP agreement. The Division understands, however, that while theoretically possible, this is unlikely to occur since the currently specified maximums are quite high relative to historic and present cash market prices. This situation is analogous to certain agricultural markets where price support programs administered by the Department of Agriculture effectively set minimum prices for transactions.

V. SUMMARY OF OPTION CONTRACT TERMS

One Palo Verde electricity option will give the holder the right to buy or sell one Palo Verde electricity futures contract at a specified price by a certain expiration date.

Option premiums will be quoted in dollars and cents per MWh. The minimum price fluctuation shall be $.01 per MWh ($7.36 per contract). However, a trade may occur at a price of $.001358 per MWh ($1.00 per contract) if the trade liquidates positions for both parties to the transaction. There will be no maximum daily premium fluctuation limit for Palo Verde electricity options.

Initially, the Exchange will list, at intervals of $1.00 per MWh, the strike price closest to the previous day's underlying future's settlement price plus five strike prices above and below

this strike price. Proposed rules provide for maintenance of at least five strike prices above and below the strike price closest to the previous day's underlying future's settlement price. No new strike prices will be listed on the last day of trading.

The Exchange will list monthly option contracts with a maximum of twelve consecutive calendar months listed for trading at any given time. The last day of trading in an expiring option will be the business day prior to the last trading day for the underlying contract month.

The proposed option is an American-style option; that is, it may be exercised on any business day prior to expiration. Palo Verde electricity options will expire at 4:00 p.m. (New York time) on the last trading day of the option.

The option contract will be subject to joint futures/option speculative position limits of 350 futures-equivalent contracts net on the same side of the market in the spot month, 3,500 futures-equivalent contracts in any one month (other than the spot month), and 5,000 futures-equivalent contracts in all months combined.[29/] The spot month limit becomes effective at the opening of trading on the third business day (inclusive of the last trading day) prior to the termination of trading of the futures contract month. Exemptions from these limits will be available on a case-by-case basis pursuant to proposed rules. The reporting level will be 25

29/ In addition, the Exchange has proposed nominal limits, applicable to a trader's gross position on one side of the market, of 20,000 contracts for the subject futures and option contracts.

contracts for positions held in any month.

VI. CONCLUSION AND RECOMMENDATION WITH RESPECT TO OPTION

The Division is of the opinion that the proposed option contract satisfies all of the applicable requirements for designation found in the Act and the regulations thereunder, including Part 33. In particular, as indicated in Table 2, the Option Designation Checklist, the proposed contract meets all of the seven criteria enumerated in Guideline No. 1.

VII. RULE ENFORCEMENT PROGRAM

The Division of Trading and Markets' (T&M) most recent review of the NYMEX's rule enforcement program was conducted in conjunction with this Division and presented to the Commission in a memorandum dated November 23, 1993. T&M is currently reviewing the NYMEX's rule enforcement program. T&M believes that designation of the NYMEX as a contract market in the subject futures and option contracts would not be inconsistent with the Act.

TABLE 2

NYMEX PALO VERDE ELECTRICITY OPTION CONTRACT

OPTION DESIGNATION CHECKLIST
AND SUMMARY OF CONTRACT TERMS AND CONDITIONS

	Contract Term [Applicable CFTC Regulation]	Standard From Checklist in Guideline No. 1	Description of Term or Condition Meeting Standard [Applicable Exchange Rule(s)]
1.	Speculative limits [Reg. 1.61]	Combined net position in futures and options on a futures-equivalent basis at the futures position levels, with inter-month spread exemptions that are consistent with those of the futures contracts.	Combined with futures on a net futures equivalent basis: 5,000 contracts in any one month, 5,000 contracts in all months combined; 350 contracts in the spot month. plus 20,000 contract nominal limit. [Rules 9.26-9.27]
2.	Aggregation rule [Reg. 1.61(g)]	Same as Regulation 1.61(g) or previously approved language.	Same as Reg. 1.61(g). [Rule 9.34]
3.	Reporting level [Reg. 15.00(b)(2)]	50 contracts or fewer.	25 contracts in any month. [Rule 9.34]
4.	Strike prices [Reg. 33.4(b)(1)]	Procedures for listing strikes are specified and automatic.	Initially, 11 strikes at interval of $1.00 per MWh; maintain minimum of 11 strikes at same interval; delivery months same as futures. [Rules 390.03 and 390.05]
5.	Option expiration [Reg. 33.4(d)(1)]	Options, except for options on cash-settled futures contracts, expire not less than one business day before the earlier of the last trading day or the first notice day of the underlying futures contract.	Last trading day is the business day prior to the last trading day in the expiring future. Options expire at the close on the last trading day. [Rule 390.01]
6.	Minimum tick [Reg. 33.4(d)]	Tick is equal to, or less than, the underlying futures tick.	$.01 per MWh ($7.36 per contract); cabinet trades at $1 per contract. [Rule 390.06]
7.	Daily Price limit, if specified [Reg. 33.4(d)]	Price limit, if any, is equal to, or greater than, underlying futures price limit.	None [Rule 390.07]

ATTACHMENT A

Proposed Terms and Conditions

A-1: Futures Contract Rules

A-2: Option Contract Rules

IV. PALO VERDE ELECTRICITY FUTURES CONTRACT

410.01 SCOPE

The provisions of these rules shall apply to all firm electric energy bought and sold for future delivery on the Exchange with delivery at the ANPP High Voltage Switchyard.

410.02 DEFINITIONS

For the purpose of this Chapter, the terms set forth below shall mean:

(A) ANPP High Voltage Switchyard ("Palo Verde"): The high voltage switchyard located near Wintersburg, Arizona and operated by Salt River Project Agricultural Improvement and Power District (Salt River Project), as operating agent on behalf of participants in Palo Verde.

(B) Firm electric energy: Shall mean electric energy meeting the specifications of this contract delivered in accordance with the rules of this contract, for which the only cause for non-delivery or non-receipt of such electric energy shall be the circumstances set forth in Rule 410.22.

(C) For the purposes of Rule 410.16, the term "business day" shall mean a Monday through Friday that is not an "off-peak" day as designated by the North American Electric Reliability Council.

(D) All times referred to in these rules shall be New York time unless otherwise specified.

410.03 ELECTRICITY ADVISORY COMMITTEE

The Board of Directors shall appoint an Electricity Advisory Committee which shall advise the Board with respect to the futures contracts traded under these rules.

410.04 REFERENCE TO SELLER AND BUYER

(A) Except with respect to Rules 410.15 (D), 410.15 (E), 410.16 (D), 410.17, 410.20 and 410.21, the term "Seller" and "Buyer" shall mean the short Clearing Member and the long Clearing Member respectively.

(B) In Rules 410.15 (D), 410.15 (E), 410.16 (D), 410.17, 410.20 and 410.21, the terms "seller" and "buyer" shall mean the seller and buyer of the firm electric energy.

410.05 CONTRACT UNIT

The contract unit shall be 736 Megawatt hours (MWh) of firm electric energy.

410.06 QUALITY SPECIFICATION

Electric energy delivered under this contract shall be in the form of three phase current alternating at a nominal frequency of 60 hertz, and be in conformance with the specifications of the Western Systems Coordinating Council.

410.07 DELIVERY MONTHS

Trading shall be conducted in contracts providing for delivery in such months as shall be determined by the Board of Directors. Trading in a delivery month shall commence on the day fixed by resolution of the Board of Directors.

410.08 PRICES AND FLUCTUATIONS

(A) Prices shall be quoted in dollars and cents per MWh. The minimum price fluctuation shall be $.01 per MWh The maximum permissible price fluctuation in any one day shall be $3.00 per MWh above or below the preceding day's settlement price (the "basic maximum fluctuation").

(B) If the settlement price for any month shall move by the basic maximum fluctuation in either direction, the maximum permissible fluctuation in either direction for all months during the next business session shall be 200% of the basic maximum fluctuation.

(C) An expanded maximum permissible fluctuation of 200% of the basic maximum fluctuation shall remain in effect for all subsequent business sessions until the business session next following two (2) consecutive trading sessions at which the settling price for no month shall move by the basic maximum fluctuation in either direction. At such next business session the maximum permissible fluctuation in either direction for all months shall be the basic maximum fluctuation.

(D) Except as provided in Rule 410.09, there shall be no maximum limit on price fluctuation for the first two nearby contracts.

410.09 SPECIAL PRICE FLUCTUATION LIMITS

(A) First Special Price Fluctuation Limit

(1) The First Special Price Fluctuation Limit of the Electricity Futures contract, applicable only to the two contract months nearest to the delivery month ("Special Limit Month Contract") shall be $7.50 per MWh above or below the previous day's settlement price. Except as provided in Rule 410.09 (B), (C) and (D), neither of the Special Limit Month contracts may fluctuate in price by more than the First Special Price Fluctuation Limit.

(2) Two minutes after either of the Special Limit Month Contracts trades, or is bid (in the event of upward price moves) or offered (in the event of downward price moves) exclusively at the First Special Price Fluctuation Limit for five minutes ("Triggering Event"), trading in all futures and options contract months shall immediately cease ("Temporary Trading Cessation"); provided, however, that if a Triggering Event occurs during the closing range on any day other than the last day of trading in the contract nearest to the delivery month there shall be no Temporary Trading Cessation.

(3) A Temporary Trading Cessation shall last for one hour. Trading will resume after a Temporary Trading Cessation and continue until the regularly scheduled closing time; provided, however, that if trading resumes less than one-half hour prior to the regularly scheduled closing time, trading hours will be expanded such that there shall be a half-hour of trading after trading is resumed.

(4) If a Temporary Trading Cessation is imposed during the closing range on the last day of trading in the contract month nearest to the delivery month, the closing range for the contract shall include the portions of the closing range prior to the Temporary Trading Cessation and the half hour of trading after trading is resumed.

(B) Second Special Price Fluctuation Limits

When trading is resumed following a Temporary Trading Cessation, Second Special Price Fluctuation Limits will be in effect as follows (notwithstanding the provisions of Rule 410.08):

(1) During the same trading day:

(a) For Special Limit Month Contracts, the Second Special Price Fluctuation Limit shall be $7.50 per MWh above or below the upper (in the event of upward market moves) or lower (in the event of downward market moves) First Special Price Fluctuation Limit. Except as provided in Rule 410.09 (C) and (D), neither of the Special Limit Months may fluctuate in price more than the Second Special Price Fluctuation Limit.

(b) For all other contract months, the Second Special Price Fluctuation Limits shall be $7.50 per MWh above or below the upper (in the event of upward price moves) or lower (in the event of downward price moves) price limits that were in place at commencement of trading on that day. No such contract may fluctuate in price more than the Second Special Price Fluctuation Limit.

(2) During following business sessions:

(a) For Special Month Contracts, the First Special Price Fluctuation Limits will apply.

(b) For all other contract months, the Second Special Price Fluctuation Limit of $7.50 per MWh above or below the previous day's settlement price will apply. This Second Special Price Fluctuation Limit will remain in effect until the day following two consecutive trading sessions in which the settlement price fluctuates by less than the price limits established pursuant to Rule 410.09 (B) at which time the limits established pursuant to that Rule will be in effect.

(C) Third Special Price Fluctuation Limits

If, on the same business day, an opposite price movement from that which caused a Triggering Event results in either Special Limit Month Contract trading, or being bid or offered at the Second Special Price Fluctuation Limit exclusively for five minutes, (i) there will be an additional Temporary Trading Cessation effective two minutes after the five minute period, except that if this limit is reached during the closing range on any day other than the last day of trading in the contract nearest to the delivery month, there shall be no Temporary Trading Cessation; (ii) the provisions of Rule 410.09 (A)(3) and (4) shall apply, and (iii) when trading resumes after this second Temporary Trading Cessation, Third Special Price Fluctuation Limits of $7.50 per MWh above or below the previous day's settlement price will be in place

for Special Limit Month Contract and the Second Special Price Fluctuation Limits that were in place for all other contract months will remain in place. Except provided in Rule 410.09 (D), neither of the Special Limit Month Contracts may fluctuate in price by more than the Third Special Price Fluctuation Limit.

(D) There will be no Second or Third Special Price Fluctuation Limits in the first nearby futures contract in the last half hour of trading on the last day of trading in that contract.

410.10 TERMINATION OF TRADING

Trading in any delivery month shall cease at the close of business three (3) business days prior to the first calendar day of the delivery month.

410.11 PRODUCT PLACEMENT

(A) At least ten (10) business days prior to the last trading day of the expiring contract, a clearing member shall obtain from each customer holding a short (long) position in the expiring month, a copy of a signed written transmission service agreement to (from) Palo Verde, and where such agreement is not for firm transmission for the customer, verification of appropriate alternative arrangements for transmission to (from) Palo Verde, such that a delivery under the terms of this Chapter may be made. For any long or short position established fewer than ten business days from the last trading day, a clearing member shall, by the close of business the day after the position is established, but in any event prior to the last trading day, obtain such signed firm transmission service agreement, or appropriate alternative arrangements which must be dated earlier than ten business days prior to the last trading day.

(B) In the event a clearing member fails to obtain copies of the transmission service agreement, or appropriate alternative arrangements as required by this Rule, the clearing member shall, one hour before the time established for the beginning of the closing range of the expiring contract, insure that a liquidating order is entered on the Exchange floor. Such liquidating order shall be a market order to be executed prior to the expiration of trading.

(C) In addition, a clearing member shall fulfill its obligation under Rule 9.19 on a maturing contract only if, prior to one hour before the time established for beginning of the closing range of the applicable delivery month, the clearing member has received a certification from its customer that (1) if a seller, the

customer has generation capacity or a purchase agreement for a quantity and quality of electric energy sufficient to meet such customer's obligations to make delivery when and as prescribed in these Rules; and (2) if a buyer, the customer has load or a resale commitment sufficient to meet such customer's obligations to take delivery when and as prescribed in these Rules; and (3) whether a seller or buyer, such customer has a reasonable basis to believe that transmission service will be available to satisfy the needs of the customer.

410.12 DELIVERY

(A) Except as provided in Rule 410.15(E) delivery shall be made at Palo Verde. Delivery shall be made in accordance with all applicable Federal, State and Local laws and regulations. The seller shall provide firm electric energy which is free from all liens, encumbrances, unpaid taxes, fees and other charges.

(B) Proof of execution of the schedule by the relevant control area operators shall constitute proof of delivery and title transfer.

(C) All deliveries made in accordance with these rules shall be final and there shall be no appeal.

410.13 DELIVERY RATE

The delivery rate shall be 2 Megawatts (MW) during all hours of the delivery period.

410.14 SCHEDULING

The parties to this contract shall adhere to the applicable scheduling practices of Salt River Project and the Western Systems Coordinating Council.

410.15 DELIVERY PROCEDURES

(A) Notice of Intention to Deliver and Notice of Intention to Accept

By 3:00 p.m. on the first business day after the final day of trading:

(1) Each Clearing Member holding an open short position shall file with the Exchange a properly completed and signed Notice of Intention to Deliver. The Notice of Intention to Deliver shall be in the form prescribed by the Exchange and shall include:

(a) Name of Seller's customer;
(b) Number of contracts to be delivered;
(c) Any additional information as may be required by the Exchange.

(2) Each Clearing Member holding an open long position shall file with the Exchange a properly completed and signed Notice of Intention to Accept. The Notice of Intention to Accept shall be in the form prescribed by the Exchange and shall include:

(a) Name of Buyer's customer;
(b) Number of contracts to be accepted; and
(c) Any additional information as may be required by the Exchange.

(B) NOTICE DAY

(1) The Clearing House shall allocate Notices of Intention to Deliver and Notices of Intention to Accept by matching size of positions, to the extent possible.

(2) The Clearing House shall provide Tender Allocation Notices to the respective Clearing Members on the morning of the second business day after the final day of trading.

(3) The day the Tender Allocations Notices are provided to the Clearing Members shall be referred to as "Notice Day". Tender Allocations are not transferrable.

(C) SETTLEMENT PRICE

The settlement price on the final day of trading shall be the basis for delivery.

(D) TRANSMISSION

Seller shall be required to make all transmission arrangements to deliver electric energy to Palo Verde and buyer shall be required to make all transmission arrangements to receive electric energy at Palo Verde.

(E) SPECIAL TRANSMISSION SERVICE

If Buyer and Seller agree, delivery may take place in the control area(s) operated by Arizona Public Service Company, Salt River Project, San Diego Gas and Electric

Company, and Southern California Edison Company, according to any valid transmission service agreement applicable to the relevant control area(s).

410.16 TIMING OF DELIVERY

(A) On each delivery day, delivery shall commence with the hour ending 0700 and end with the hour ending 2200 prevailing local time at Palo Verde.

(B) Delivery shall take place no earlier than the first business day of the delivery month except that delivery shall commence with the first Saturday or Sunday of the delivery month, in accordance with Rule 410.16(C), below. Delivery shall be completed no later than the last calendar day of the delivery month.

(C) The following schedule shall be used to determine the days for delivery in months having business days as set forth below:

23 business days:	each business day of the month
22 business days:	each business day of the month plus the first Saturday in the delivery month.
21 business days:	each business day of the month plus the first and second Saturday in the delivery month
20 business days:	each business day of the month plus the first, second, and third Saturdays in the delivery month.
19 business days:	each business day of the month plus the first, second, third and fourth Saturdays in the delivery month.
18 business days:	each business day of the month plus the first, second, third, fourth and fifth Saturdays in the delivery month; or, in the event that there are only four Saturdays then the first Sunday of the delivery month.

(D) The seller shall give the buyer all appropriate documents to transfer title to the firm electric energy upon receipt of payment.

410.17 AMENDMENTS TO DELIVERY

Upon mutual agreement, in writing, buyer and seller may amend provisions of this contract related to:

(A) Delivery Rate; and

(B) Timing of Delivery, except that no amendment shall be permitted that would allow the delivery to take place outside the delivery month.

410.18 DELIVERY MARGINS AND PAYMENT

(A) For the purposes of this Rule 410.18,

(1) "Payment Date" shall mean the twenty-fifth calendar 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;

(2) "Long" shall mean the customer of a long clearing member or the long clearing member if such clearing member is acting for its own account;

(3) "Short" shall mean the customer of a short clearing member or the short clearing member if such clearing member is acting for its own account.

(B) On the second business day following the last day of trading, the long clearing member shall obtain from the Long margin equal to the full value of the electric energy to be delivered. Such margin shall consist of cash, United States Treasury Bills or a letter of credit. Any U.S. Government obligation so deposited shall be valued at ninety five percent (95%) 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.

(C) The short clearing member shall obtain from the Short margin in the amount fixed, from time to time, by the Board.

(D) The long clearing member and the short clearing member shall deposit with the Clearing House margins in such amounts and in such form as required by the Exchange. Such margins, which shall not be greater than the margins charged to the Longs and the Shorts respectively, shall be returned on the business day following notification to the Exchange that delivery and payment have been completed.

(E) Not later than 12:00 o'clock noon on the third business day prior to the payment date, the Short shall advise, by telex, the short clearing member of the name and address of the bank, and the name of the account to which payment shall be made. The short clearing member shall advise the long clearing member who shall advise the Long. On the payment date, the Long shall pay the Short by federal funds wire transfer to the account of the short at the bank nominated by the Short. Not later than 12:00 noon the Long shall advise, by telex, the long clearing member of the federal funds wire transfer number and the name of the sending bank. The long clearing member shall advise, by telex, the short clearing member who shall similarly advise the Short.

(F) Not later than the business day following the payment date, the Short if any, shall advise the short clearing member of receipt of payment. The short clearing member shall deliver a notice of payment to the long clearing member with a copy to the Clearing House not later than the business day following the payment date. Upon receipt of such notice by the long clearing member, the delivery shall be complete.

(G) Any payment made on payment date shall be based on electric energy actually delivered. If a determination of MWh actually delivered is unavailable prior to the time established in the rules for payment, a pro-forma payment based on 736 MWh per contract shall be made. Payment adjustments based on the amount of electric energy actually delivered shall be completed by 12:00 noon on the tenth business day after initial payment.

(H) In the event that the short clearing member receives notification that payment has not been received, it shall advise the Exchange and the long clearing member in writing. On the following business day, unless the Long or long clearing member has advised the Exchange in writing that the Short failed to deliver, the Exchange shall liquidate the margins held and, when the

liquidation is complete, shall pay the short clearing member which shall pay the Short. If the Long or the long clearing member has advised the Exchange in writing that the Short failed to deliver, the matter shall be referred to the Delivery Committee for resolution.

410.19 VALIDITY OF DOCUMENTS

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

410.20 EXCHANGE OF FUTURES FOR OR IN CONNECTION WITH PRODUCT

(A) An exchange of futures for or in connection with the product (EFP) consists of two discrete, but related, transactions; a cash transaction and a futures transaction. At the time such transaction is effected, the buyer and seller of the futures must be the seller and buyer of the quantity of the physical product covered by this Section (or any derivative, by-product or related product). The quantity of physical product must be approximately equivalent to the quantity covered by the futures contracts.

(B) Except as provided below, an EFP must take place during the hours of futures trading for the electricity futures contract. An EFP is permitted in the expiring futures contract at any time before 2:00 p.m. on the first business day following termination of trading in a futures contract, provided, however, that an EFP which establishes a futures position for both the buyer and the seller shall not be permitted during the first business day following termination of trading in a futures contract.

(C) A report of such EFP transaction shall be submitted to the Exchange by each Clearing Member representing the buyer and seller. Such report shall identify the EFP as made under this Rule and shall contain the following information: a statement that the EFP has resulted or will result in a change of ownership, the kind and quantity of the futures, the price at which the futures transaction is to be cleared, the names of the Clearing Members and customers and such other information as the Exchange may require. Such report (form) shall be submitted to the Compliance Department by 12:00 noon, no later than two (2) Exchange business days after the day of posting the EFP on the Floor of the Exchange.

(D) Each buyer and seller must satisfy the Exchange, at its request, that the transaction is a legitimate EFP transaction. All documentary evidence relating to the exchange, including, without limitation, evidence as to change of ownership of the cash commodity or a commitment therefore shall be obtained by the Clearing Members from the buyer or seller and made available by the Clearing Members for examination by the Exchange upon request.

(E) A report of such EFP transaction shall be given, and notice thereof shall be posted on the floor of the Exchange, on the day that the transaction thereto was made or if such agreement was made after the close of trading, then on the next business day. EFP transactions shall be cleared through the exchange in accordance with normal procedures, shall be clearly identified as EFP transactions, and shall be recorded as such by the Exchange and by the Clearing Members involved.

410.21 ALTERNATIVE DELIVERY PROCEDURE

A seller or buyer may agree with the buyer or seller with which it has been matched by the Exchange under Rule 410.15(B)(1) 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 Delivery Notice 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 Delivery Notice to the Exchange shall release the Clearing Members and the Exchange from their respective obligations under the Exchange contracts.

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 Delivery Notice, the Exchange will return to the Clearing Members all margin monies held for the account of each with respect to the contracts involved.

410.22 FORCE MAJEURE, LATE PERFORMANCE AND FAILURE TO PERFORM

(A) DEFINITIONS. As used in this Rule 410.22 the following terms, as well as variations thereof, shall have the meanings described below.

(1) "Force Majeure" shall mean any circumstance (including but not limited to a strike, lockout, national emergency, governmental action,

liable to the other party for any damages awarded pursuant to Section (E) of this Rule and to the Exchange for any assessments made pursuant to Section (D) of this Rule.

(C) Delivery Committee

(1) Force Majeure and Failure to Perform shall be determined by a Panel of the Delivery Committee as set forth below.

(2) The Chairman of the Delivery Committee shall appoint a panel, which shall consist of three (3) members of the Committee, to review a delivery:

(a) when the Chairman is advised by the President or any person designated by the President that it appears that a party to the delivery has failed or may fail to perform;

(b) upon the written request of both the buyer and seller;

(c) when the President or any person designated by the President requests such appointment; or

(d) if either party to the delivery notifies the Exchange that circumstances constituting force majeure prevent the performance of delivery obligations at the time and site designated by the parties.

(3) The Chairman shall not appoint to any Panel any person who has a direct or indirect interest in the delivery in question. Each Panel Member shall disclose to the Chairman any such interest which might preclude such Panel Member from rendering a fair and impartial determination. Any Panel so appointed shall retain jurisdiction over the delivery in question until the delivery has been completed or a party has been found to have failed to perform such delivery. Exchange Counsel shall serve as Advisor to the Panel.

(4) The Panel shall meet within one business day of its notification of the circumstances set forth in Section (2). Unless good cause for delay exists, within one business day the Panel shall determine whether force majeure exists or whether a buyer or a seller has failed

or act of God) which is beyond the control of the buyer or seller, and which prevents the buyer or seller from making or taking delivery of electric energy or effecting payment when and as provided for in this Chapter and which by exercise of due diligence the affected Party could not have been reasonably expected to avoid and which by exercise of due diligence said Party is unable to overcome.

(2) "Late Performance" shall mean the failure of a long, as defined in Rule 410.18(A)(2), to make payment on the payment date as defined in Rule 410.18(A)(1).

(3) "Failure to Perform" shall mean the failure of the seller to make or the buyer to receive delivery of firm electric energy in accordance with the requirements set forth in these Rules.

(4) "Contract Value" means the amount equal to the settlement price on the last day of trading in a futures contract times seven hundred and thirty six (736) times the number of contracts to be delivered.

(5) "Party" means a buyer or seller.

(6) "Other party" means the corresponding buyer when a seller has failed to perform and the corresponding seller when a buyer has failed to perform.

(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 obligations;

(3) When a long, as defined in Rule 410.18(A)(2) is late in performance, the buyer shall be liable to the seller for any damages awarded pursuant to Section (E) of this Rule and to the Exchange for any assessments made pursuant to Section (D) of this Rule.

(4) When a buyer or a seller has failed to perform, the buyer or the seller, respectively, through which the delivery is effected shall be

to perform its obligations as provided in the Rules, and advise the Compliance Department of such determination and its findings in support thereof immediately. The Panel shall cause its determination to be communicated to the parties to the delivery as expeditiously as possible.

(5) Upon a finding of a failed performance, the Panel shall:

(a) in the case of a failure to perform by a seller: (i) notify the President of its determination, who shall instruct the Exchange's Clearing House to retain all delivery margins deposited by the seller for the delivery until any amounts determined to be due to the Exchange or the buyer pursuant to Sections (D) or (E) of this Rule have been paid; and (ii) apprise the buyer of the remedies provided pursuant to Section (E) of this Rule.

(b) in the case of a failure to perform by a buyer: (i) notify the President of its determination, who shall instruct the Exchange's Clearing House to issue a delivery margin call to the buyer in an amount equal to the original margin then in effect for an Electricity futures contract carried at the Clearing House on the last day of trading in such contract times the number of contracts to be delivered and to retain such delivery margin until any amounts determined to be due to the Exchange or the seller pursuant to Sections (D) and (E) of this Rule have been paid; and (ii) apprise the seller of the remedies provided pursuant to Section (E) of this Rule.

(6) Upon a finding of force majeure, the Panel may take any one or combination of the following actions as it deems suitable:

(a) grant an extension of time for delivery up to two months from the scheduled time;

(b) change the Buyer's or Seller's transmission arrangements, provided that the Buyer and Seller can secure related transmission.

(c) allocate deliveries,

(d) modify the method or timing of payment; or

(e) refer the matter to the Board of Directors for consideration of emergency action pursuant to Article 7.

(D) EXCHANGE ACTION

(1) Whenever a buyer or a seller is found by the Panel to have failed to perform a delivery, the Exchange, represented by the Compliance Department, shall issue a Notice of Assessment specifying the findings of the Panel with respect to the failed delivery and assessing a penalty of twenty percent of the contract value against such party to be paid to the Exchange.

(2) Whenever a long is late in performance, the Compliance Department shall issue a Notice of Assessment assessing a penalty to the buyer of $1,000.

(3) (a) A party may appeal a Notice of Assessment by filing a Notice of Appeal with the Hearing Registrar of the Exchange and by serving a copy of the same on the Exchanges's Compliance Counsel, within two business days of receipt of Notice of Assessment from the Compliance Department. The party filing the appeal ("Appellant") shall file, within twenty (20) days after filing the Notice of Appeal, a Memorandum of Appeal setting forth the factual and legal basis for the appeal. The Memorandum of Appeal must be filed with the Hearing Registrar and a copy of the same served upon the Exchange's Compliance Counsel.

(b) The Compliance Department may file with the Appellant and the Hearing Registrar an Answering Memorandum to the Memorandum of Appeal within ten (10) days of receipt of that memorandum.

(c) Failure by the party to file a Notice of Appeal or a Memorandum of Appeal within the time specified in subsection (D)(3)(a) of this Rule shall constitute a waiver, and the penalties shall be paid within five days to the Exchange. Failure to pay such penalties in accordance with this Rule shall subject the party to the sanctions set forth in By-Law 106. In the event a party fails to appeal, organize the

opportunity to appeal a Notice of Assessment, the Assessment and findings of the Delivery Committee shall constitute a final disciplinary action of the Exchange.

(4) Within ten (10) days after receipt of the Compliance Department's reply, the Appellant shall be entitled to examine all books, documents and other tangible evidence in possession or under the control of the Exchange that are to be relied on by the Compliance Department or are otherwise relevant to the matter.

(5) In the event of an appeal by a party, the Chairman of the Exchange, or his designee, shall appoint a Performance Appeal Panel to hear and decide the appeal. The Panel shall be composed of three members of the Exchange, at least one of whom shall be a member of the Board of Directors. No member of the Panel may have a direct or indirect interest in the matter under the appeal. Each Panel Member shall disclose to the Chairman any such interest which might preclude such Panel Member from rendering a fair an impartial determination. The formal Rules of Evidence shall not apply to such appeal, and the Panel shall be the sole Judge with respect to the evidence presented to it. Exchange outside counsel shall advise the Panel.

(6) The procedures for the hearing of the appeal before the Assessment Appeal Panel shall be as follows:

(a) At a date to be set by order of the Panel, and prior to such hearing, the Appellant and the Compliance Department shall furnish each other with a list of witnesses expected to be called at the hearing, and a list of documents and copies thereof expected to be introduced at the hearing.

(b) At such hearing the Appellant may appear personally and may be represented by counsel or other representative of his choice at the appeal.

(c) The Compliance Department shall be entitled to offer evidence relating to the delivery and shall be entitled to call witnesses and introduce documents in support thereof. It shall be the burden of the Compliance Department to demonstrate, by the weight of the evidence, the

appropriateness of the sanction set forth in the Notice of Assessment.

(d) The Appellant shall be entitled to rebut the Compliance Department's evidence and shall be entitled to call witnesses and introduce documents in support thereof.

(e) The Compliance Department and the Appellant shall be entitled to cross-examine any witness called by the opposing party at the hearing.

(f) The Notice of Assessment, the Notice of Appeal, the Memorandum of Appeal, any Answering Memorandum, the stenographic transcript of the appeal, any documentary evidence or other material presented to and accepted by the Panel shall constitute the record of the hearing. The decision of the panel shall be based upon the record of hearing.

(g) The Panel shall have the power to impose a penalty against any person who is within the jurisdiction of the Exchange and whose actions impede the progress of a hearing.

(h) The Assessment Appeal Panel shall issue a written decision in which it may affirm, reduce or waive the charges assessed against the Appellant and shall state the reasons therefor.

(i) The decision of the Assessment Appeal Panel shall be a final decision of the Exchange, and shall constitute a final disciplinary action of the Exchange. The fine is payable on the effective date of the decision or as specified. The effective date shall be fifteen (15) days after a copy of the written decision has been delivered to the Appellant and to the Commission.

(7) The Assessment Appeal Panel shall consider and make recommendations to the Board concerning acceptance or rejection of, any offer of settlement submitted by Appellant. In the case of an offer of settlement, acceptance by the Board shall constitute the final disciplinary action of the Exchange.

(E) ARBITRATION PROCEDURE

(1) Any claim for damages arising between a Buyer and a Seller as a result of a delivery pursuant to this contract shall be settled by arbitration in accordance with these Rules.

(2) Notice of Intent to Arbitrate must be submitted to the Secretary of the Exchange within three business days of the occurrence upon which the claim is based or the decision of the Energy Delivery Committee with respect to a late or failed performance. Failure to submit a Notice of Intent to Arbitrate within the prescribed period will be deemed a waiver of a party's rights to arbitrate such a delivery dispute under the Special or Regular Arbitration Rules.

(3) The Arbitration will be governed by Chapter 5 of the Rules except that the Chairman of the Exchange or his designee shall appoint an Arbitration Panel composed of three Members of the Exchange, at least one of whom shall be a Member of the Board of Directors.

II. PROPOSED RULE CHANGES

Proposed Amendment to Exchange Rule 9.26
(shading indicates additions; ~~strikeouts~~ indicates deletions.)

Rule 9.26 ALL MONTH/ANY ONE MONTH POSITION LIMITS

(A) Subsection (A) remains unchanged.

(B) The limits for each futures contract traded on the Exchange are:

		Futures Contract	Net Position
(i) through (xi) remain the same.			
(xii)		Permian Basin Natural Gas	5,000 contracts
(xiii)	~~(xii)~~	Liquefied Propane Gas	1,500 contracts
(xiv)	~~(xiii)~~	Residual Fuel Oil	5,000 contracts
(xv)	~~(xiv)~~	Palladium	625 contracts
(xvi)	~~(xv)~~	Platinum	1,500 contracts
(xvii)		California Oregon Border Electricity	5,000 contracts
(xviii)		Palo Verde Electricity	5,000 contracts

Notwithstanding the limits set forth in this Subsection (B), no person may hold or control more than 5,000 Light Sweet or Sour Crude Oil contracts in any one month, more than 5,000 New York Heating Oil contracts in any one month, more than 5,000 New York Harbor Unleaded Gasoline contracts in any one month, more than 5,000 New York Harbor Conventional Gasoline Contracts in any one month, more than 5,000 Natural Gas contracts in any one month, more than 3,500 Permian Natural Gas contracts in any one month, ~~or~~ more than 500 Liquefied Propane Gas contracts in any one contract month, more than 3,500 COB Electricity contracts in any one month, or more than 3,500 Palo Verde Electricity contracts in any one month.

(C) Notwithstanding the limits set forth in this Subsection (B), no person may hold or control a gross long futures position or a gross short futures position the greater side of which is in excess of the amounts set forth below:

		Futures Contract	Gross Position
Remains the same through (xi).			
(xii)		Permian Basin Natural Gas	20,000 contracts
(xiii)	~~(xii)~~	California Oregon Border Electricity	20,000 contracts

[xiv]	~~(xiii)~~	Palo Verde Electricity	20,000 contracts
[xv]	~~(xiv)~~	Platinum	6,000 contracts

(D) Notwithstanding the limits set forth in Subsection (B), no person may hold or control a gross option position per option quadrant which is in excess of the amounts set forth below:

		Option Contract	**Gross Position/ Option Quadrant**
Remains the same through (vi)			
(vii)		Permian Basin Natural Gas	20,000
[viii]	~~(vii)~~	California Oregon Border Electricity	20,000
[ix]		Palo Verde Electricity	20,000
[x]		Platinum	20,000

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II. PALO VERDE ELECTRICITY OPTION CONTRACT

390.01 PALO VERDE ELECTRICITY OPTION CONTRACTS

A Palo Verde Electricity Option contract on the Exchange shall expire at the close of trading on the business day immediately preceding the expiration of the underlying futures contract. The expiration date shall be announced prior to the listing of the option contract.

390.02 TRADING UNIT FOR PALO VERDE OPTION CONTRACTS

A Palo Verde Electricity Put or Call Option contract traded on the Exchange represents an option to assume a short or long position in the underlying futures contract traded on the Exchange.

390.03 TRADING MONTHS FOR PALO VERDE OPTION CONTRACTS

Trading in Palo Verde Electricity Option contracts shall be conducted in the months as shall be determined by the Board of Directors. Trading shall commence on the day fixed by resolution of the Board of Directors.

390.04 HOURS OF TRADING IN PALO VERDE OPTION CONTRACTS

The hours of trading in Palo Verde Electricity Option contracts on the Exchange shall be the same as the hours of trading for Palo Verde Electricity Futures contracts. All such trading shall take place on the trading floor of the Exchange within the hours prescribed by the Board.

390.05 STRIKE PRICES FOR PALO VERDE OPTION CONTRACTS

(A) Trading shall be conducted for options with strike prices in increments of one dollar ($1.00) per megawatt hour.

(B) On the first business day of trading in an option contract month, trading shall be at the following eleven strike prices: (i) the previous day's settlement price for Palo Verde Electricity Futures contracts in the corresponding delivery month rounded off the nearest strike price, unless such settlement price is precisely midway between two strike prices, in which case it shall be rounded off to the lower strike price, and (ii) the five strike prices which are five increments higher than the strike price described in (i) of this Rule 390.05(B), and (iii) the five strike prices which are five increments lower than the strike price described in (i) of this Rule 390.05(B).

(C) Thereafter, on any business day no later than one day prior to the expiration of the option, new strike prices for both puts and calls will be added, such that at all times there will be at least five strike prices above and below the at-the-money strike price available for trading in all option contract months. The at-the-money strike price will be determined in accordance with the procedures set forth in Subsection (B) of this Rule 390.05.

(D) Notwithstanding the provisions of subsections (A) through (C) of this Rule, if the Board determines that trading in Palo Verde Electricity Options will be facilitated thereby, the Board may, by resolution, change the increments between strike prices, the number of strike prices which shall be traded on the first day in any new option contract month, the number of new strike prices which will be introduced on each business day or the period preceding the expiration of a Palo Verde Electricity Option in which no new strike prices may be introduced.

390.06 PRICES IN PALO VERDE ELECTRICITY OPTION CONTRACTS

Prices shall be quoted in dollars and cents per megawatt hour and prices shall be in multiples of $0.01 (1 cent) per megawatt hour. A cabinet trade may occur at a price of $0.001358 per megawatt hour, or $1.00 per contract, however, if it results in the liquidation of positions for both parties to the trade.

390.07 ABSENCE OF PRICE FLUCTUATION LIMITATIONS FOR PALO VERDE OPTION CONTRACTS

Trading in Palo Verde Option contracts shall not be subject to price fluctuation limitations.

Proposed Amendment to Exchange Rule 9.27
(shading indicates additions; ~~strikeouts~~ indicates deletions.)

Rule 9.27 CURRENT DELIVERY MONTH POSITION LIMITS

(A) through (B) remain the same.

(C) The current delivery month position limits for petroleum~~,~~ and Natural Gas and Electricity futures contracts are:

(i) through (ix) remain the same.

xii		Permian Basin Natural Gas	350	contracts
(xiii)	~~(xii)~~	Liquefied Propane Gas	250	contracts
(xiv)	~~(xiii)~~	Residual Fuel Oil	400	contracts
(xiv)		California Oregon Border Electricity	350	contracts
(xvi)		Palo Verde Electricity	350	contracts

Proposed Amendment to Exchange Rule 9.34
(shading indicates additions; ~~strikeouts~~ indicates deletions.)

Rule 9.34 REPORTING LEVELS

(A) remains the same through (xiii).

(xiv)		Permian Basin Natural Gas	25 contracts
(xv)	~~(xiv)~~	Palladium	25 contracts
(xvi)	~~(xv)~~	Platinum	50 contracts
(xvii)	~~(xvi)~~	COB Electricity	25 contracts
(xviii)	~~(xvii)~~	Palo Verde Electricity	25 contracts
(xix)	~~(xiii)~~	Crude Oil L.S. Options Long Put	50 contracts
(xx)	~~(xix)~~	Crude Oil L.S. Options Long Call	50 contracts
(xxi)	~~(xx)~~	Crude Oil L.S. Options Short Put	50 contracts
(xxii)	~~(xxi)~~	Crude Oil L.S. Options Short Call	50 contracts
(xxiii)	~~(xxii)~~	New York Heating Oil Long Put	50 contracts
(xxiv)	~~(xxiii)~~	New York Heating Oil Long Call	50 contracts
(xxv)	~~(xxiv)~~	New York Heating Oil Short Put	50 contracts
(xxvi)	~~(xxv)~~	New York Heating Oil Short Call	50 contracts
(xxvii)	~~(xxvi)~~	N.Y.H. Unleaded Gasoline Long Put	25 contracts
(xxviii)	~~(xxvii)~~	N.Y.H. Unleaded Gasoline Long Call	25 contracts
(xxix)	~~(xxviii)~~	N.Y.H. Unleaded Gasoline Short Put	25 contracts
(xxx)	~~(xxix)~~	N.Y.H. Unleaded Gasoline Short Call	25 contracts
(xxxi)	~~(xxx)~~	Platinum Options Long Put	25 contracts
(xxxii)	~~(xxxi)~~	Platinum Options Long Call	25 contracts
(xxxiii)	~~(xxxii)~~	Platinum Options Short Put	25 contracts
(xxxiv)	~~(xxxiii)~~	Platinum Options Short Call	25 contracts
(xxxv)	~~(xxxiv)~~	Heating Oil-Crude Oil L.S. Spread Long Put	25 contracts
(xxxvi)	~~(xxxv)~~	Heating Oil-Crude Oil L.S. Spread Long Call	25 contracts
(xxxvii)	~~(xxxvi)~~	Heating Oil-Crude Oil L.S. Spread Short Put	25 contracts
(xxxviii)	~~(xxxvii)~~	Heating Oil-Crude Oil L.S. Spread Short Call	25 contracts
(xxxix)	~~(xxxviii)~~	N.Y.H. Unleaded Gas-Crude Oil L.S. Spread Long Put	25 contracts
(xl)	~~(xxxix)~~	N.Y.H. Unleaded Gas-Crude Oil L.S. Spread Long Call	25 contracts
(xli)	~~(xl)~~	N.Y.H. Unleaded Gas-Crude Oil L.S. Spread Short Put	25 contracts
(xlii)	~~(xli)~~	N.Y.H. Unleaded Gas-Crude Oil L.S. Spread Short Call	25 contracts
(xliii)	~~(xlii)~~	Natural Gas Options Long Put	25 contracts
(xliv)		Natural Gas Options Long Call	25 contracts
(xlv)		Natural Gas Options Short Put	25 contracts

Natural Gas Options Short Call	25 contracts
Permian Natural Gas Options Long Put	25 contracts
Permian Natural Gas Options Long Call	25 contracts
Permian Natural Gas Options Short Put	25 contracts
Permian Natural Gas Options Long Call	25 contracts
California Oregon Border Electricity Options Long Put	25 contracts
California Oregon Border Electricity Options Long Call	25 contracts
California Oregon Border Electricity Options Short Put	25 contracts
California Oregon Border Electricity Options Short Call	25 contracts
Palo Verde Electricity Options Long Put	25 contracts
Palo Verde Electricity Options Long Call	25 contracts
Palo Verde Electricity Options Short Put	25 contracts
Palo Verde Electricity Options Short Call	25 contracts

this Rule 9.26, option quadrants are : (a) long call; (b) short call; (c) long put; (d)

ATTACHMENT B

List of Appendices

1. Dated August 9, 1995: Exchange application for contract market designation: Palo Verde electricity futures contract.

2. August 31, 1995: Federal Register notice requesting public comment on the proposed futures contract designation (60 Fed. Reg. 45402).

3. Dated October 23, 1995: Exchange application for contract market designation: Palo Verde electricity futures option contract.

4. November 6, 1995: Federal Register notice requesting public comment on the proposed futures contract designation (60 Fed. Reg. 56053).

5 Dated November 2, 1995: Supplemental Exchange submission containing resolutions associated with the proposed designations and speculative limit provisions.

6. Dated September 28, 1995: Joint comment letter from Salt River Project and Arizona Public Service Company.

7. Dated September 29, 1995: Comment letter from the Federal Energy Regulatory Commission.

8. Dated September 29, 1995: Comment letter from the Lower Colorado River Authority.

9. Dated October 2, 1995 and December 2, 1995: Comment letters from the Edison Electric Institute.

10. Dated December 21, 1995: Exchange submission containing supplemental information.

New York
Mercantile Exchange

NYMEX/COMEX. Two divisions, one marketplace

August 9, 1995

Commodity Futures Trading Commission
2033 K Street, NW
Washington, D.C. 20581

Attn: Office of the Secretariat

Re: Application for Designation as a Contract Market in Palo Verde Electricity Futures Contracts

By Federal Express

Dear Commissioners:

The New York Mercantile Exchange ("Exchange" or "NYMEX") hereby submits to the Commodity Futures Trading Commission ("Commission"), pursuant to Section 5a(12) of the Commodity Exchange Act, and Regulation 1.41(b) of the Commission's Regulations an application for designation as a contract market in Palo Verde Electricity Futures Contracts. Also enclosed is a check in the amount of $9,600 to cover the application fee for this submission.

This document is submitted in fulfillment of the requirements contained in Advisory Guideline No. 1, Appendix A of the Commission's Regulations.[1]

[1] This submission for contract designation, including several of the Appendices annexed hereto and incorporated herein, has been submitted under a FOIA Confidential Treatment Request pursuant to Sections 8 and 8(a) of the Commodity Exchange Act, as amended, ("CEA") and Commission Regulation Section 145.9(d). The FOIA Confidential Treatment Request has been filed with Edward M. Colbert, Esq., Assistant Secretary of the Commission for FOIA, Privacy and Sunshine Act Compliance, along with a copy of this submission. In addition, in order to specifically designate those areas of the submission for which confidential treatment is being sought, a copy of the submission with those areas shaded in gray, and a copy with those areas redacted have been filed with the office of Mr. Colbert. Copies of all of the aforementioned documents have been filed with the Office of the Secretariat on this date as well.

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Four World Trade Center
New York, NY 10048
(212) 938-2222

If there are any questions regarding this submission, please contact the undersigned at (212) 938-7967, Bradford G. Leach at (212) 938-2880 or Daniel McElduff at (212) 938-2881.

Sincerely,

Karen J. Klitzman
Vice President
Research

KJK:bm
enclosures

cc: Howard Bodenhamer, Eastern Region
Steve Braverman, Division of Trading and Markets
John Lawton, Division of Trading and Markets
Richard Shilts, Division of Economic Analysis
Vincent White, Eastern Region