



Chicago Climate Exchange®

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March 24, 2009

Mr. David Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: **Chicago Climate Futures Exchange, LLC**
Submission No. 09-07

Dear Mr. Stawick:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended (the "Act") and Part 40.6 of the regulations promulgated by the Commodity Futures Trading Commission ("CFTC") under the Act, Chicago Climate Futures Exchange, LLC ("CCFE") hereby submits amendments to the CCFE Rulebook (the "Rulebook") amending the contract specifications for its Nitrogen Financial Instrument Ozone Season futures contract.

CCFE intends to make this amendment effective as of Thursday, March 26, 2009. The Exchange certifies that this amendment neither violates nor is inconsistent with any portion of the Act or of the rules thereunder.

A marked copy of the amended Chapter 13, revised contract specifications and a member advisory regarding the changes is attached hereto.

Should you require additional information regarding this submission, please contact me at 312.229.5177. Please reference our submission number 09-07 in any related correspondence.

Very truly yours,

Satish Nandapurkar
President

bal
enc.

cc: Riva Adriance
Tom Leahy
Jon Hultquist

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U.S. DEPARTMENT OF COMMERCE

CHAPTER 13
NITROGEN FINANCIAL INSTRUMENT (OZONE SEASON)
FUTURES CONTRACT

1301. Scope of Chapter

This Chapter applies to trading in Nitrogen Financial Instrument (Ozone Season) (“NFI-OS”) futures contracts. The procedures for clearing, trading, settlement, and any other matters not specifically covered herein shall be governed by the generally applicable rules of the Exchange.

1302. Eligibility

Clearing members and Trading Privilege Holders trading in Nitrogen Financial Instruments (Ozone Season) futures contracts must have ~~NO_x (Nitrous Oxides) general accounts~~ Acid Rain Program general accounts for NO_x Clean Air Interstate Rule Ozone-Season Trading Program established with the U.S. Environmental Protection Agency (“EPA”).

1303. Contract Specifications

(a) *Contract size.* The contract size for the Nitrogen Financial Instrument (Ozone Season) futures contract is 5 of U.S. EPA NO_x Clean Air Interstate Rule Ozone-Season (CAIROS) ~~SIP~~ Call-emission allowances (“NO_x Emission Allowances”) under the U.S. EPA Clean Air Interstate Rule NO_x Budget Trading Program.

(b) *Schedule.*

(i) Standard-cycle Contract Listing The Exchange may list for trading up to six consecutive quarterly contract months on the March quarterly cycle (March, June, September, December) for the Nitrogen Financial Instrument (Ozone Season) futures contract as well as up to four annual September contracts after the last listed quarterly contract; and the front two serial calendar months.

(ii) CCFE may list any other calendar month contract off the standard-cycle listing schedule through the last annual September contract.

(iii) The trading hours for the Nitrogen Financial Instrument (Ozone Season) futures contract shall be determined by the Exchange from time to time.

(c) *Products.* Within any listed contract, the Exchange may offer one or more vintage-year specific products having different delivery specifications as follows:

- (i) Bank Vintage (all vintages prior to the current compliance year)
- (ii) Current Compliance Year Vintage
- (iii) 1-Year Deferred Vintage

- (iv) 2-Year Deferred Vintage
- (v) 3-Year Deferred Vintage
- (vi) 4-Year Deferred Vintage
- (vii) 5-Year Deferred Vintage
- (viii) ~~Additional Deferred~~ Specified Vintages as determined by the Exchange

(d) *Termination of Trading (Contract Expiration).* The last day of trading of a contract is the third to the last business day of the expiration month at the normal Trading Session closing time.

(e) *New Contract Listing.* A new standard-cycle contract month will be listed on the next Business Day following a Contract Expiration.

(f) *Minimum Tick Increment.* The minimum tick increment of the Nitrogen Financial Instrument (Ozone Season) futures contract is \$1.00 per NO_x CAIROS SIP Call Emission Allowance, which is equal to \$5.00 per contract.

(g) *Reportable Position.* Pursuant to Commission Regulation §15.03 and Commission Regulation Part 17, the position level that is required to the Commission is any open position in Nitrogen Financial Instrument (Ozone Season) futures products at the close of trading on any trading day equal to or in excess of twenty-five contracts on either side of the market.

If one product within a contract month has a reportable position, all contract months' positions must be reported.

(h) *Position Limits.* ~~With the exception of the 2-Year Deferred Vintage contract, a~~ person may not own or control more than 4,000 contracts, equivalent to 20,000 NO_x CAIROS SIP Call Emission Allowances, net long or net short, in each nearby month expiring futures product. ~~A person may not own or control more than 1,000 of the 2-Year Deferred Vintage contracts, equivalent to 5,000 NO_x SIP Call Emission Allowances, net long or net short, in each nearby month expiring futures product.~~

For the purposes of this rule, the positions of all accounts for which a person directly or indirectly controls trading shall be included, as described in Rule 409(f).

The foregoing position limit shall not apply to bona fide hedge positions meeting the requirements of the Commission Regulation § 1.3(z)(1) and the Rules of the Exchange.

(i) *Contract Modifications.* Specifications are fixed as of the first day of trading of a contract. If any U.S. Government agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

(j) *Daily Price Limits.* Nitrogen Financial Instrument (Ozone Season) futures contracts do not have daily price limits.

(k) *Exchange of Future for Physical.* There is no minimum size for an Exchange of Future for Physical transaction with respect to Nitrogen Financial Instrument (Ozone Season) futures contracts. The Exchange of Future for Physical must meet all requirements of, and must be reported to the Exchange in accordance with, Rule 411.

(l) *Block Trades.* Pursuant to Rule 412(a)(i), the minimum Block Trade quantity for the Nitrogen Financial Instrument (Ozone Season) futures contract shall be determined by the Exchange from time to time. If the Block Trade is executed as a spread or a combination, one leg must meet the minimum Block Trade quantity for the Nitrogen Financial Instrument (Ozone Season) futures contract and the other legs(s) must have a contract size that is reasonably related to the leg meeting the minimum Block Trade quantity. The Block Trade must meet all requirements of, and must be reported to the Exchange in accordance with, Rule 412.

~~1304. Settlement Price Calculations~~

~~Contract month settlement prices will be based on the following criteria:~~

~~(a) A single traded price during the pre-close.~~

~~(b) If more than one trade occurs during the pre-close, the trade volume weighted average of the prices, rounded to the nearest tick.~~

~~(c) If no trade occurs during the pre-close, the following will be given consideration:~~

~~(i) the volume weighted average of the last two trade prices, rounded to the nearest tick;~~

~~(i) the mid point between the best bid and offer (volume weighted) in the pre-close, rounded to the nearest tick;~~

~~(ii) spread price relationships; and~~

~~(iii) time value between the contract months.~~

~~(d) The Exchange reserves the right to take into account other factors in determining settlement prices.~~

~~1305~~1304. Deliverable Instruments

U.S. Environmental Protection Agency ("EPA") NOx CAIROS SIP Call Emission Allowances equal to the contract size.

(a) *Contracts without a specified vintage year*

Applicable for Bank Vintage contract expirations, the NOx SIP ~~Call~~CAIROS emission allowances acceptable for delivery are allowances having a vintage of any year prior to the current compliance year.

(b) *Contracts with a specified vintage year*

The NOx SIP ~~Call~~CAIROS Emission Allowances acceptable for delivery are allowances having the specified vintage corresponding to the specific vintage year.

13065. Delivery Procedures

(a) *Delivery.* Delivery is a three day process consisting of Position Day, Notice Day and Delivery Day. The three days occur over three consecutive Business Days.

(i) *Position Day.* The ~~tenth~~seventh trading day prior to a Nitrogen Financial Instrument futures contract's expiration is the first day that Clearing Members must report their long futures positions by trade date to the Clearing Service Provider as of the close of business on the ~~tenth~~seventh trading day prior to expiration. Starting on the first Position Day, Clearing Members holding open short positions (hereafter referred to as "seller Clearing Member") may submit delivery tender notices to the clearing Service Provider on their own behalf or on the behalf of their open short futures position holders, as applicable, in a format acceptable to the Clearing Service Provider. Upon receipt of a delivery tender notice, the Clearing Service Provider will make the appropriate delivery assignment.

(ii) *Notice Day.* On the Business Day after the delivery tender notice has been submitted and the delivery assignment has been made by the Clearing Service Provider, the seller Clearing Member must provide to the buyer Clearing Member(s) a description of the underlying EPA NOx SIP ~~Call~~CAIROS Emission Allowances to be delivered. The buyer Clearing Member(s) must provide EPA Acid Rain Program general ~~NOx Allowance Tracking System ("NATS")~~ account information for the NOx CAIROS Trading Program to the seller Clearing Member. This information exchange must be completed by 4:00 p.m. (Central time) on Notice Day. The seller Clearing Member must ensure the appropriate emission allowances are on deposit in its or its customer's EPA ~~NATS~~ Acid Rain Program general account by 5:00 p.m. (Central time) on the Notice Day.

(iii) *Delivery Day* On the Delivery Day, the Clearing Service Provider shall issue payment instructions to the respective buyer Clearing Member(s) for the full contract value based upon the Position Day's settlement price in a means and manner prescribed by the Clearing Service Provider. By 3:00 p.m. (Central time) on the Delivery Day, the seller Clearing Member must ensure that it or its customer has electronically submitted the NOx SIP ~~Call~~CAIROS Emission Allowances transfer instructions via the EPA's Clean Air Market Division

(CAMD) Business System. ~~The seller Clearing Member must forward the EPA confirmation of transfer to the Clearing Service Provider as verification that the delivery has been completed.~~

(iv) *Payment* ~~After receipt of the EPA confirmation of transfer from the seller Clearing Member, the Clearing Service Provider will release the delivery proceeds to the seller Clearing Member according the following schedule:~~

~~EPA confirmation received by the Clearing Service Provider at or prior to 12:45 p.m. (Central time) — same day in the Clearing Service Provider’s mid-day variation cycle, if applicable.~~

~~EPA confirmation received by the Clearing Service Provider after 12:45 p.m. (Central time) — next business day through the 6:40 a.m. (Central time) settlement cycle.~~

The Clearing Service Provider will release the delivery proceeds to the seller Clearing Member upon receipt of the “CCFE Receipt of Delivery Confirmation” from the buyer Clearing Member.

13076. Validity of Documents

The Exchange makes no representation regarding the authenticity, validity or accuracy of any delivery tender notice, description of underlying EPA NOx CAIROS SIP Call Emission Allowance transfer instructions, EPA confirmation of transfer or other document or instrument delivered pursuant to these rules.



Chicago Climate Futures Exchange

**Chicago Climate Futures Exchange, LLC
Nitrogen Financial Instrument (Ozone Season) Contract Specifications**

Contract Size	5 U.S. EPA NOx Clean Air Interstate Rule Ozone-Season (CAIROS) emission allowances
Quotation	US dollars
Minimum Tick Increment	\$1.00 per ton = \$5.00 per contract
Symbol	NFI-OS (OS = Ozone Season)
Trading Hours	7:00 a.m. – 3:00 p.m. Central Time
Delivery Months	<p>Standard-cycle contract listings:</p> <ul style="list-style-type: none"> a. Six consecutive quarterly contracts on a March, June, September, December cycle; b. Front two serial calendar months; and c. Up to four annual September contracts <p>CCFE may list any other calendar month contract off the standard-cycle listing schedule through the last annual September contract.</p>
Products	<p>Within any listed contract, CCFE may offer one or more vintage-year specific products having different delivery specifications as follows:</p> <ul style="list-style-type: none"> 1. Bank Vintage (all vintages prior to the current compliance year) 2. Current Compliance Year Vintage (December 1st is the first day of the next compliance year) 3. 1-Year Deferred Vintage 4. 2-Year Deferred Vintage 5. 3-Year Deferred Vintage 6. 4-Year Deferred Vintage 7. 5-Year Deferred Vintage 8. Additional Specified Vintages as determined by CCFE
First Trading Day	The first trading day of a contract is the first business day following an expiration day.
Last Trading Day	The last trading day will be the third to last business day of the expiration month.
Deliverable Instruments	<p>Environmental Protection Agency NOx CAIROS emission allowances equal to the contract size</p> <p>The eligible allowances for delivery are: Bank Vintage – all NOx CAIROS emission allowances having vintages prior to the current compliance year (<i>December expirations of Bank Vintage contracts will include the allowances having a current calendar year Vintage i.e. allowances that as of December 1 switch from current year vintage to bank vintage</i>)</p> <p>Current Compliance Year Vintage, 1-Year Deferred Vintage through the 5-Year Deferred Vintage – NOx CAIROS emission allowances with the vintage year corresponding to the specific product vintage</p>
Delivery Process	Clearing participants and parties trading the market must have an Acid Rain Program

	<p>general account for the NO_x CAIROS Trading Program established with the U.S. EPA. Delivery is a three day process consisting of Position Day, Notice Day and Delivery Day. The three days occur over three consecutive business days.</p> <p><u>Position Day</u> The seventh trading day prior to a contract's expiration (expiration occurring after the close on the final trading day) is the first day that CCFE clearing members must report their long futures positions in the expiring contract. The long positions as of the close of business on the seventh trading prior to expiration, by trade date, must be reported to the CCFE Clearing Service Provider ("CCFE CSP") in the time frame and format required by the CCFE CSP.</p> <p>Starting on the First Position Day, CCFE clearing members (hereafter referred to as "seller") on behalf of their short futures position holders may submit delivery tender notices to CCFE CSP, in a format acceptable to CCFE CSP.</p> <p><u>Notice Day</u> Business day after the delivery tender notice has been submitted and the delivery assignment made by the CCFE CSP, the seller clearing member provides to the buyer clearing member(s) a description of the underlying EPA Emission Allowances to be delivered. The buyer clearing member(s) provides EPA Acid Rain Program general account information for the NO_x CAIROS Trading Program to the seller clearing member. Information exchange is to be completed by 4:00 p.m. Central Time. The seller clearing member must ensure the appropriate emission allowances are on deposit in its or its customer's EPA Acid Rain Program general account for the NO_x CAIROS Trading Program by 5:00 p.m. Central Time.</p> <p><u>Delivery Day</u> CCFE CSP will issue payment instructions to the respective buyer clearing member for the full contract value based upon the Position Day's settlement price in a means and manner prescribed by CCFE CSP. By 3:00 p.m. Central Time, the seller clearing member must ensure that it or its customer has electronically submitted the allowance transfer instructions via the EPA's CAMD Business System.</p> <p><u>Payment</u> The Clearing Service Provider will release the delivery proceeds to the seller Clearing Member upon receipt of the "CCFE Receipt of Delivery Confirmation" from the buyer Clearing Member.</p>
Price Limits	No daily price limits
Reportable Position	25 contracts, equivalent to 125 allowances
Nearby Expiration Month Speculative Position Limits	4,000 contracts, equivalent to 20,000 allowances
Minimum Block Size	20 contracts

Contract specifications and related rules are subject to revision. If CCFE determines that revisions to the contract specifications and related rules are warranted, reasonable efforts will be taken to provide appropriate advance notification of such revisions.

This document is a summary of the CCFE contract specification rules; see the CCFE Rulebook for complete contract specification rules.



CCFE Advisory 2009-10

March 25, 2009

Re: NFI-OS Futures Contract – Modified Contract Specifications

CCFE has modified its NFI-OS futures contract specifications and rules to reflect the impending conversion of allowances in the Environmental Protection Agency's ("EPA") NO_x Ozone-Season Budget Trading Program into the NO_x Clean Air Interstate Rule Ozone-Season ("CAIROS") program. Effective immediately, the CCFE NFI-OS futures contract specifications clarify that only EPA NO_x CAIROS emission allowances are eligible for delivery against the CCFE NFI-OS futures contract.

The EPA developed CAIR to create three distinct compliance programs to regulate air emissions: an annual NO_x program, an ozone-season NO_x program, and an annual SO₂ program. The first compliance year for the CAIR ozone-season and annual NO_x programs is 2009. The CAIR ozone-season program ("CAIROS") is an expansion of the existing regional cap-and-trade NO_x ozone-season program administered by the EPA, the NO_x Budget Trading Program ("NBP"), with broader geographic scope and more stringent emissions reduction targets.

States regulated under NBP will transition into CAIROS in 2009. CAIROS permits sources to bank and use pre-2009 NBP allowances for the CAIROS compliance on a 1:1 basis. Sources outside of the NBP region can also buy and use pre-2009 NBP allowances for CAIROS compliance. Progressive flow control, a feature in NBP that established the percentage of banked allowances that could be used for compliance on a 1:1 basis, will be eliminated under CAIROS.

The EPA is converting remaining NBP allowances to CAIROS allowances in March 2009 under the following guidelines:

- Allowances will maintain the same serial numbers, including the "vintage" (use year)
- EPA has "frozen" all (Unit, Overdraft, and General) NBP accounts, as of March 6, 2009. This means that these allowances are no longer available for transfer under the NBP.
- EPA is in the process of retiring the NBP allowances and reissuing the allowances as CAIR ozone season ("CAIROS") allowances.
- If the NBP allowances are being held in a unit account, they will be reissued into the corresponding CAIR facility account. If the facility does not have a CAIROS account, because it has no units subject to CAIROS, the NBP Authorized Account Representative ("AAR") needs to send an e-mail to cair-camr-allocations@epa.gov identifying a CAIROS general account into which the allowances converted from the NBP should be reissued.
- If the NBP allowances are being held in a general account, they will be reissued into a CAIROS general account designated for that purpose by the NBP AAR. The AAR needs to send an e-mail to cair-camr-allocations@epa.gov identifying the CAIROS general account into which the converted from the NBP should be reissued.

- An Acid Rain Program general account for NOx CAIROS allowances may be established through the CAMD Business System or by submitting the paper form found on CAMD's web site at <<http://www.epa.gov/airmarkets/business/forms.html#cair>>. Questions about establishing a general account under CAIR can be referred to Paula Branch at branch.paula@epa.gov or (202) 343-9168.
- The allowance transfers which convert NBP allowances to CAIR allowances will be assigned the transaction code, "Conversion of NBP allowances into CAIROS".

The contract specifications can be found at http://www.ccfе.com/about_ccfe/products.html

Questions pertaining to this advisory may be addressed to:

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