



A CME/Chicago Board of Trade/NYMEX Company

July 9, 2009

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OFFICE OF THE SECRETARIAT
C.F.T.C.

VIA E-MAIL

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

Re: Rule Certification. New York Mercantile Exchange, Inc. Submission # 09.131.: Notification Regarding the Listing of SO₂ Emission 25-Allowance Futures and Option Contracts on CME ClearPort®, NYMEX Trading Floor and Globex®

Dear Mr. Stawick:

The New York Mercantile Exchange, Inc. ("NYMEX" or "Exchange") is notifying the the Commodity Futures Trading Commission ("CFTC" or "Commission") that it is self-certifying the listing of SO₂ Emission 25-Allowance Futures and SO₂ Emission 25-Allowance Option contracts on CME ClearPort, Globex and the NYMEX trading floor.

The SO₂ Emission 25-Allowance Futures contract will be listed for clearing and trading on CME ClearPort beginning on Sunday, July 12, 2009 for trade date Monday, July 13, 2009. In addition, the SO₂ Emission 25-Allowance Futures contract will be listed for trading on Globex on trade date July 27, 2009.

The SO₂ Emission 25-Allowance Option contract will be available on Tuesday, July 14, 2009 for trading on the NYMEX trading floor and for clearing on CME ClearPort.

The first listed month for these contracts will be August 2009. For contracts without a specified vintage year, monthly contracts will list thirty-six months, consecutively. For contracts with a specified vintage year, monthly contracts will list two consecutive front months and, the December of the current year and the December of the year following the current year. A vintage December of the current year will not be listed due to non-vintage December coverage.

The chapter number for the SO₂ Emission 25-Allowance Futures contract is 554. The commodity codes are as follows:

SO ₂ Emission 25-Allowance Futures Contract Vintage	Globex Commodity Code	Clearing Product Code
Current Vintage or earlier	SNV	09
Vintage 2010	V10	10
Vintage 2011	V11	11
Vintage 2012	V12	12
Vintage 2013	V13	13
Vintage 2014	V14	14

The chapter number for the SO₂ Emission 25-Allowance Option contract is 606. The commodity code is S2.

Although the supplemental market information attached herewith includes the recommended position limits for these contracts, a separate filing will be submitted to the Commission to self-certify those position limits.

Pursuant to Section 5c(c) of the Commodity Exchange Act ("Act") and CFTC Rules 40.2 and 40.6, the Exchange hereby certifies that the attached contracts comply with the Act, including regulations under the Act. The listing of these contracts will become effective on trade dates July 13, 2009 (futures contract), July 14, 2009 (option contract), and July 27, 2009 (listing of futures contract on Globex).

Should you have any questions concerning the above, please contact Brad Leach at (212) 299-2609, or me at (312) 338-2483.

Sincerely,

/s/ Lisa A. Dunsky
Director and Associate General Counsel

Attachments: Appendix A – Contract Terms and Conditions
Appendix B – Supplemental Market Information

SO₂ Emission 25-Allowance Futures

554.01 Scope

The provisions of these rules shall apply to all SO₂ emission allowances bought or sold for future delivery on the Exchange with the delivery at the U.S Environmental Protection Agency's (EPA) Allowance Management System (AMS).

554.01A Definitions

- (A) EPA means the U.S. Environmental Protection Agency or any successor agency with similar jurisdiction.
- (B) SO₂ Emission Allowance refers to a tradable permit to emit SO₂ as specified further by EPA.
- (C) SO₂ Allowance Management System (AMS) means the system established by the EPA for recording the transfer of Allowances among various entities under the Clean Air Act as set.
- (D) Vintage Year means the first calendar year for which the allowance may be utilized for compliance.
- (E) The Clean Air Markets Division (CAMD) Business System is the EPA's electronic platform for recording information submitted by regulated entities and other Program participants, including the electronic transfer of allowances between accounts.
- (F) The terms "Seller" and "Buyer" shall mean the short Clearing Member and the long Clearing Member, respectively.
- (G) The terms "Seller's Customer" and "Buyer's Customer" shall mean the seller and buyer of the physical product or swap transaction.
- (H) The term "Settlement Price" shall mean the final settlement price used as the price for delivery of the product, which shall be the settlement price for the last trading day of the expiring delivery month. The settlement price for the last day of the trading shall be determined in accordance with the procedures set forth in NYMEX Rule 813.

554.02 Time References

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

554.03 Contract Unit

The contract unit shall be twenty five (25) SO₂ emission allowances for delivery made by transfer through AMS.

554.04 Deliverable Allowances

1) *Contracts without a specified vintage year*

- (a) For March through December contract terminations, SO₂ emission allowances acceptable for delivery are allowances with either a vintage corresponding to the calendar year of the terminating contract month or a vintage of any year prior to the calendar year of the terminating contract month.
- (b) For January and February contract terminations, SO₂ emission allowances acceptable for delivery are allowances with a vintage of any year prior to the calendar year of the terminating contract month.

2) *Contracts with a specified vintage year*

SO₂ emission allowances acceptable for delivery are allowances with a vintage corresponding to the specific vintage year of the terminating contract month or a vintage of any year prior to the specified vintage year of the terminating contract month.

554.05 Delivery

SO₂ Emission allowance delivery shall comply with all the requirements for the electronic transfer of SO₂ emission allowances on the AMS through CAMD Business System. All deliveries made under these rules shall be final and there shall be no appeal.

554.06 Delivery Months and Contract Vintages

Trading shall be conducted in contracts providing for delivery of SO₂ emission allowances with and without specified vintage years in such months as shall be determined by the Exchange.

554.07 Minimum Price Fluctuations

Prices shall be quoted in dollars and cents per allowance. The minimum price fluctuation shall be \$0.10 per SO₂ emission allowance (\$2.50 per contract). There shall be no maximum price fluctuation.

554.08 Termination of Trading

With the exception of February contracts, trading in the current delivery month shall cease on the last business day of the contract month.

Trading in the February contracts shall cease on the third to last business day of the expiring contract month.

554.09 Product Placement

For purposes of Rule 9A.19, the Seller and Buyer shall fulfill their respective contractual obligation on a maturing contract unless, by 12:00 noon on the day preceding the last trading day in the applicable delivery month, such Seller and Buyer have received AMS account certification from his customer, in the form prescribed by the Exchange stating that the Customer has an account with AMS, with access to CAMD Business System.

The receipt of such certification shall not relieve the Seller or Buyer, or their respective Customers of any obligations under any Rule other than Rule 9A.19.

554.10 Delivery Procedures

(A) Responsibilities of Clearing Members Having Open Long Positions

Notice of Intention to Accept:

By 11:30 a.m. on the first business day after the termination of the delivery month, a Buyer having an open 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 the Name of the Buyer's Customer, Number of contracts to be accepted, and any additional information as may be required by the Exchange;

By 4:00 p.m. on Notice Day, the Seller shall provide the Buyer with the following information: AMS Account Number, Vintage Year, Name, Phone Number and e-mail address of the Authorized Account Representative (AAR) or the authorized alternate for that AMS account.

(B) Responsibilities of Clearing Members Having Open Short Positions

Notice of Intention to Deliver:

By 11:30 a.m. on the first business day after the termination of the delivery month, a Seller having 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 such form prescribed by the Exchange and shall include: Name of the Seller's Customer, Number of contracts to be delivered, AMS Account Number, Vintage Year, Name, Phone Number and e-mail address of the Authorized Account Representative (AAR) or the authorized alternate for that AMS account, Any additional information as may be required by the Exchange.

(C) Use of Settlement Price

The final settlement price used for the delivery shall be the settlement price from the final day of trading.

(D) 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 by 2:00 PM on the first business day after the termination of the delivery month.
- (3) The day the Tender Allocation Notices are provided to the Clearing Members shall be referred to as "Notice Day". Tender Allocation Notices are not transferable.

(E) Payment and Delivery Margins

Definitions

- (1) "Payment" shall include the settlement price times the number of contracts times 25.
- (2) "Payment Date" shall mean the business day after the Buyer's Customer receipt of proper notification from the AMS that allowances have been transferred from the Seller's Customer account to the Buyer's Customer account, provided documentation is supplied to the Buyer's Customer by no later than 2:00 P.M. Documentation supplied by the Seller's Customer to Buyer's Customer after 2:00 PM on any Exchange business day, shall be considered received on the following Exchange business day.
- (3) On the business day following the last day of trading, the long clearing member shall obtain from the long, if any, margin equal to the full value of the product to be delivered. Such margin shall consist of cash, securities issued by the United States Treasury Department maturing within ten (10) years from the date of deposit and guaranteed as to principal and interest by the United States Government or a letter of credit. Any Treasury securities so deposited shall be valued at ninety percent (90%) of the par value of such instruments. Any letter of credit so deposited shall be in a form approved by the Exchange, shall be issued or confirmed by an Exchange approved original margin depository, and shall be drawn in favor of the Exchange.
- (4) The Buyer shall pay the Seller at the office of the Seller by a certified check or electronic funds transfer, or any other method acceptable to both parties by 12:00 PM on the payment date.
- (5) The Buyer and Seller shall deposit with the Exchange 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 Buyer's Customer and Seller's Customer, shall be returned on the business day following notification to the Exchange that delivery and payment have been completed.
- (6) On the Payment Date, The Seller shall deliver a Notice of Payment to the Buyer with a copy to the Exchange by 4:30 PM. Upon receipt of such notice the delivery shall be complete.
- (7) Any payment made on Payment Date shall be based on SO₂ emission allowances actually delivered.
- (8) Delivery Day. The day the Buyer receives the allowances shall be referred to as the Delivery Day.

554.11 Delivery Period

Delivery shall take place on the second business day after the termination of the delivery month.

554.12 Validity of Documents

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

554.13 Exchange of Futures for, or in Connection with Product and Exchange of Futures for, or in Connection with, Swap Transactions

- (A) An exchange of futures for, or in connection with, the product (EFP) or exchange of futures for, or in connection with, swap (EFS) transactions consist of two discrete, but related, transactions: a physical commodity or swap transaction and a futures transaction. At the time such transaction is effected, the Buyer's Customer and Seller's Customer of the futures must be respectively the Seller's Customer and Buyer's Customer of a quantity of the physical product or swaps agreement covered by this Section (or any derivative, by-product or related product). The quantity of physical product or swap agreement must be approximately equivalent to the quantity covered by the futures contract.
- (B) Except as provided below, an EFP or EFS must take place during the hours of futures trading for the SO2 Emission 25-Allowance Futures contract. An EFP or EFS is permitted in the expiring futures contract until two hours after trading terminates on the last day of trading of the expiring futures contract. An EFP or EFS which establishes a futures position for both the buyer and the seller shall not be permitted during the two hour period following the termination of trading of expired futures contract.
- (C) Any EFP or EFS transaction shall be governed by the provisions of this Rule and by the provisions of Exchange Rules 6.21 and 6.21A, respectively.
- (D) Each Buyer's Customer and Seller's Customer must satisfy the Exchange, at its request, that the transaction is a legitimate EFP or EFS transaction. All documentary evidence relating to the EFP or EFS, including, without limitation, evidence as to change of ownership of the physical commodity or swap commitment, shall be obtained by the Clearing Members from their customers and made available by the Clearing Members for examination by the Exchange upon request.
- (E) A report of each EFP or EFS transaction shall be entered 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 or EFS transactions shall be cleared through the Exchange in accordance with normal procedures, shall be clearly identified as EFP or EFS transactions, and shall be recorded as such by the Exchange and by the Clearing Members involved.

554.14 Alternative Delivery Procedure

A Seller's Customer or Buyer's Customer may, agree with the Buyer's Customer or the Seller's Customer with which it has been matched by the Exchange under Rule 554.10 (D) to make and take delivery under terms or conditions which differ from the terms and conditions prescribed by this Chapter. In such a case, Clearing Members shall execute an Alternative Notice of Intention to Deliver on the form prescribed by the Exchange and shall deliver a completed executed copy of such Notice to the Exchange. The delivery of an executed Alternative Notice of Intention to Deliver to the Exchange shall release the Clearing Members and the Exchange from their respective obligations under the 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 there under. Upon receipt of an executed Alternative Notice of Intention to Deliver, the Exchange will return to the Clearing Members all margin monies held for the account of each with respect to the contracts involved.

554.15 Force Majeure, Late Performance and Failure to Perform

- (A) DEFINITION. As used in this Rule 554.13, the following terms, as well as variations thereof, shall have the meaning described below.
 - (1) "Late Performance" shall mean the failure of a Buyer or a Seller to complete a material act with respect to a delivery obligation imposed by, and within the time period established in, the Rules. Late Performance shall be restricted to three business days. Late Performance beyond three business days by, a Seller or a Buyer will be deemed a Failure to Perform.
 - (2) "Day of Late Performance" shall mean the twenty-four hour period commencing immediately after a Buyer or a Seller was to have performed. Each subsequent Day of Late Performance shall commence twenty-four hours after the beginning of the prior Day of Late Performance. When a Party is late in performance, the day when the act was to have performed shall be a Day of Late Performance.

- (3) "Failure to Perform" shall mean the failure of a Buyer or a Seller to complete a material act with respect to a delivery obligation prior to the expiration of the period allowed for the late performance of such act.
- (4) "Contract Value" shall mean the amount equal to the settlement price on the last day of trading in a futures contract times 25 (the number of SO₂ emission allowances per contract) times the number of contracts to be delivered.
- (5) (a) "Party" shall mean a Buyer or Seller and such Buyer and Seller are each responsible to the Exchange for their obligations under these Rules and further responsible to the Exchange for the obligations of their respective customers under the Rules of this Chapter.
(b) "Other Party" shall mean the corresponding Buyer when the Seller is late in performance or has failed to perform and the corresponding Seller when the Buyer is late in performance or has failed to perform.
- (6) "Force Majeure" shall mean any circumstance (including but not limited to a strike, lockout, national emergency, governmental action, or act of God) which is beyond the control of such Buyer or Seller, and which prevents the Buyer or Seller from making or taking delivery of product when and as provided for in these Rules.

(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; provided, however, that a Buyer which has failed to make a payment shall make such payment.

(C) EMISSIONS ALLOWANCE DELIVERY COMMITTEE

- (1) Force Majeure, Late Performance and Failure to Perform shall be determined by a Panel of the Emissions Allowance Delivery Committee as set forth below. The Chairman of the Emissions Allowance Delivery Committee shall appoint a Panel, which shall consist of three (3) members of the Committee, to review a delivery:
 - (a) When the Chairman of the Emissions Allowance Delivery Committee is advised by the President or any person designated by the President that it appears that the performance of a Party to the delivery is late;
 - (b) Upon the written request of both the Buyer and the Seller;
 - (c) When the President or any person designated by the President requests such appointment;
or
 - (d) When either Party to the delivery notifies the Exchange that circumstances exist constituting Force Majeure.
- (2) The Chairman of the Emissions Allowance Delivery Committee shall not appoint to any Panel any person who has a direct or indirect interest in the delivery in question. 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.
- (3) The Panel shall meet within one business day of notification as provided in these Rules. Unless good cause for delay exists, within one business day the Panel shall determine whether force majeure exists, whether a Buyer or Seller is late in performing or has failed to perform its obligations as provided in the Rules, and advise the Market Regulation 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.
- (4) Upon a finding of force majeure, the Panel may take any one or combination of the following actions as it deems suitable order: an extension of time not to exceed ten days from the date of

the scheduled delivery; or, refer the delivery to the Exchange, represented by the Market Regulation Department, for emergency action.

(D) EXCHANGE ACTION

- (1) Whenever a Buyer or a Seller is found by the Panel to be late in the performance of a delivery obligation, the Exchange, represented by the Market Regulation Department, shall issue a Notice of Assessment, assessing a penalty of 10% of contract value for each applicable day of Late Performance.
- (2) Whenever a Buyer or Seller is found by the Panel or otherwise deemed to have a "Failure to Perform" the Exchange, represented by the Market Regulation Department shall issue a Notice of Assessment assessing penalties of twenty percent (20%) of the contract value, in addition to any penalties assessed pursuant to subparagraph (1) above, to be paid to the Exchange.
- (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 Exchange's Market Regulation Department, within two business days of receipt of the Notice of Assessment from the Market Regulation 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 Market Regulation Department may file with the Appellant and 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 with the time specified in subsection (D)(3)(a) of this Rule shall constitute a waiver, and the penalties set forth in the Notice of Assessment 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 Chapter 4. In the event a party fails to Appeal, or waives the opportunity to appeal a Notice of Assessment, the Assessment and findings of the Emissions Allowance Delivery Committee shall constitute a final disciplinary action of the Exchange.
- (4) Within ten (10) days after receipt of Market Regulation 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 Market Regulation Department or are otherwise relevant to the matter.
- (5) In the event of an appeal by a Party, the President, or his designee, shall appoint an Assessment Appeal Panel to hear and decide the appeal. 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 President, or his designee, any such interest which might preclude such Panel Member from rendering a fair and 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 Market Regulation 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 counselor other representative of his choice at the appeal.
 - (c) The Market Regulation 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 Market Regulation 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 Market Regulation Department's evidence and shall be entitled to call witnesses and introduce documents in support thereof.
 - (e) The Market Regulation 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 the 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 therefore.
 - (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 day of the decision or as specified. The effective day shall be fifteen (15) days after a copy of the written decision has been delivered to the appellant and to the Commission.
- (8) The Assessment Appeal Panel shall consider, and make recommendations to the President, or his designee concerning acceptance or rejection of, any offer of settlement submitted by Appellant. In the case of an offer of settlement, acceptance by the President 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 Emissions Allowance 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 6A of the Rules except that the President or his designee shall appoint an Arbitration Panel.

SO₂ Emission 25-Allowance Option

606.01 Expiration

An SO₂ Emission 25-Allowance Option contract listed on the Exchange shall expire at the close of trading three business days prior to the expiration of the underlying SO₂ Emission 25-Allowance Futures contract.

606.02 Trading Unit

An SO₂ Emission 25-Allowance option contract is European-style option. An SO₂ Emission 25-Allowance put or call option contract traded on the Exchange represents an option to assume a short or long position in the underlying SO₂ Emissions 25-Allowance Futures contract without a specified vintage year traded on the Exchange.

606.03 Trading Months

Trading in an SO₂ Emission 25-Allowance Option contract shall be conducted in the contract months as shall be determined by the Exchange. Trading shall commence on the day fixed by resolution of the Exchange.

606.04 Hours of Trading

The SO₂ Emission 25-Allowance Option contract is available for open outcry trading on the Exchange trading floor between 9:00 a.m. and 2:30 p.m. (New York prevailing time) Monday through Friday, except on Exchange Holidays.

The SO₂ Emission 25-Allowance Option contract is available for clearing on CME ClearPort[®] clearing system from 6:00 p.m. Sunday through 5:15 p.m. Friday (New York prevailing time), with a 45-minute halt in trading each day between 5:15 p.m. and 6:00 p.m., except on Exchange Holidays.

606.05 Strike Prices

Trading shall be conducted for options with strike prices in increments as set forth below.

- (A) On the first business day of trading in an option contract month, trading shall be at the following strike prices: (i) the previous day's settlement price for SO₂ Emission 25-Allowance Futures contracts in the corresponding delivery month rounded off to the nearest one dollar increment strike price; (ii) the ten one-dollar increment strike prices which are ten increments higher than the strike price described in (i) of this Rule 606.05(A); and (iii) the ten one-dollar increment strike prices which are ten increments lower than the strike price described in (i) of this Rule 606.05(A).
- (B) Thereafter, on any business day prior to the expiration of the option, new consecutive strike prices for both puts and calls will be added such that there will be ten increments above and below the at-the-money option.
- (C) Notwithstanding the provisions of subsections (A) and (B) of this Rule, if the Exchange determines that trading in SO₂ Emission 25-Allowance Option contracts will be facilitated thereby, the Exchange may, by resolution, change the increments between strike prices, the number of strike prices which shall be traded in 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 an SO₂ Emission 25-Allowance Option contract in which no new strike prices may be introduced.

606.06 Prices and Price Fluctuations

Prices shall be quoted in dollar and cents per allowance. The minimum price fluctuation is \$0.10 per allowance. A cabinet trade may occur at a price of \$1.00 per contract, however, if it results in the liquidation of positions for both parties to the trade.

606.07 Absence of Price Fluctuation Limitations

Trading in SO₂ Emission 25-Allowance Option contracts shall not be subject to price fluctuation limitations.

Supplemental Market Information

SO₂ Reductions and Allowance Trading Under the Acid Rain Program Acid Rain Program SO₂ Allowances

The market-based sulfur dioxide (SO₂) allowance trading component of the Acid Rain Program allows utilities to adopt a cost-effective strategy to reduce SO₂ emission at units in their systems. Affected utilities are required to install systems that continuously monitor emission of SO₂, nitrogen oxides (NO_x), and other related pollutants in order to track progress, ensure compliance, and provide credibility to the trading component of the program. In any year that compliance is not achieved, excess emission penalties will apply, and sources either will have allowances deducted immediately from their accounts or may submit a plan to U.S. Environmental Protection Agency (EPA) that specifies how the excess SO₂ emission will be offset.

Overview

The Clean Air Act Amendments of 1990 set a goal of reducing annual SO₂ emission by 10 million tons below levels previously set in 1980. In order to achieve these reductions, the law required a two-phase implementation of the restrictions placed on fossil fuel-fired power plants:

- Phase I (began in 1995)
Affected 263 units at 110 mostly coal-burning electric utility plants located in 21 Eastern and Mid-Western states. An additional 182 units joined Phase I of the program as substitution or compensating units, bringing the total of Phase I affected units to 445.
- Phase II (began in 2000)
Tightened the annual emissions limits imposed on large, higher emitting plants and also set restrictions on smaller, cleaner plants fired by coal, oil, and gas, encompassing over 2,000 units in all. The program affects existing utility units serving generators with an output capacity of greater than 25 megawatts and all new utility units.

Reductions in SO₂ emissions are facilitated through a market-based system for capping and trading—the centerpiece of EPA's Acid Rain Program. The allowance trading system creates low-cost rules of exchange that minimize government intrusion and make allowance trading a viable compliance strategy for reducing SO₂.

Introduction

Allowance trading is the centerpiece of EPA's Acid Rain Program, and allowances are the currency with which compliance with the SO₂ emission requirements is achieved. Through the market-based allowance trading system, utilities regulated under the program rather than a governing agency, decide the most cost-effective way to use available resources to comply with the acid rain requirements of the Clean Air Act. Utilities can reduce emissions by employing energy conservation measures, increasing reliance on renewable energy, reducing usage, employing pollution control technologies, switching to lower sulfur fuel, or developing other alternate strategies. Units that reduce their emissions below the number of allowances they hold may trade allowances with other units in their system, sell them to other utilities on the open market or through EPA auctions, or bank them to cover emissions in future years. Allowance trading provides incentives for energy conservation and technology innovation that can both lower the cost of compliance and yield pollution prevention benefits.

The Acid Rain Program established a precedent for solving other environmental problems in a way that minimizes the costs to society and promotes new technologies.

At the end of the year, sources must hold in their compliance accounts a quantity of allowances equal to or greater than the amount of SO₂ emitted during that year. To cover their emissions for the previous year, sources must finalize allowance transactions and submit them to EPA by March 1 (February 29 - leap year) to be recorded in their compliance accounts. The amount of emissions is determined in accordance with the monitoring and reporting requirements described in the Continuous Emission Monitoring Rule.

After the March 1 deadline and the final submitted transfers are recorded, EPA deducts allowances from each source's compliance account in an amount equal to its SO₂ emissions for that year. If the source's emissions do not exceed its allowances, the remaining allowances are carried forward, or banked for future use. If a source's emissions exceed its allowances, the source must pay a penalty and surrender allowances for the following year to EPA as excess emission offsets.

Allowance Definition

An allowance authorizes a utility or industrial source to emit one ton of SO₂ during a given year or any year thereafter. At the end of each year, the source must hold an amount of allowances at least equal to its annual emissions, i.e., a source that emits 5,000 tons of SO₂ must hold at least 5,000 allowances that are usable in that year. However, regardless of how many allowances a source holds, it is never entitled to exceed the limits set under Title I of the Clean Air Act to protect public health.

Allowances are fully marketable commodities. Once allocated, allowances may be bought, sold, traded, or banked for use in future years. Allowances may not be used for compliance prior to the calendar year for which they are allocated.

Allowances may be bought, sold, and traded by any individual, corporation, or governing body, including brokers, municipalities, environmental groups, and private citizens. The primary participants in allowance trading are officials designated and authorized to represent the owners and operators of electric utility plants that emit SO₂.

Any person or group, including brokers and investors, wishing to purchase allowances may open a general Allowance Management System (AMS) account.

Allocation of Allowances

Allowances were allocated for each year beginning in 1995. Phase I included certain electricity generating units. EPA allocated allowances at an emission rate of 2.5 pounds of SO₂/mmBtu (million British thermal units) of heat input, multiplied by the unit's baseline mmBtu (the average fossil fuel consumed from 1985 through 1987). These allowance allocations are listed in Table A of the Clean Air Act and codified in the Allowance System Regulations (Part 73, Table 1). Alternative or additional allowance allocations were made for various units, including affected units in Illinois, Indiana, and Ohio, which were allocated a pro rata share of 200,000 additional allowances each year from 1995 to 1999.

In Phase II, which began in the year 2000, EPA expanded the group of affected sources to include virtually all units over 25 megawatts (MW) in generating capacity, and tightened the allowance allocation. Allowance allocation calculations were made for various types of units, such as coal- and gas-fired units with low and high emissions rates or low fuel consumption. EPA allocated allowances to each unit at an emission rate of 1.2 pounds of SO₂/mmBtu of heat input, multiplied by the unit's baseline. Beginning in 2010, the Act places a cap at 8.95 million on the number of allowances issued to units each year. This effectively caps emissions at 8.95 million tons annually and ensures that the mandated emissions reductions are maintained over time.

In addition to annual allocations, allowances are also available upon application to three EPA reserves. In Phase I, units could apply for and receive additional allowances by installing qualifying Phase I technology (a technology that can be demonstrated to remove at least 90 percent of the unit's SO₂ emissions) or by reassigning their reduction requirements among other units employing such technology. A second reserve provides allowances as incentives for units achieving SO₂ emission reductions through customer-oriented conservation measures or renewable energy generation. The third reserve contains allowances set aside for auction, which are sponsored annually by EPA. Anyone can participate in the annual allowance auction which is held at the end of March each year.

Units that began operating in 1996 or later are not allocated allowances. Instead, they have to purchase allowances from the market or from the EPA auction to cover their SO₂ emissions.

Annual Auction

Once a year, EPA auctions a certain number of SO₂ allowances at the end of March. Utilities, environmental groups, allowance brokers, and anyone else interested in purchasing allowances can participate.

Allowance Tracking System

The role of the EPA in allowance trading is to record allowance transfers that are used for compliance and ensure at the end of the year that a source's emissions do not exceed the number of allowances it holds. As such, the EPA maintains an Allowance Management System (AMS). Each affected utility source, corporation, group, or individual holding allowances holds an account in the AMS. Parties must notify the EPA in order to have transfers recorded in their AMS account, but it is not necessary to record all transfers with the EPA until such time that the allowances are to be used to meet a source's SO₂ emissions limitation requirement. AMS accounts are, however, the official records for allowance holdings and transfers used for compliance purposes. To facilitate tracking and recording, the EPA assigns every account an identification number and every allowance a serial number.

Any person or group, including brokers and investors, wishing to purchase allowances may open a general AMS account.

Allowance transfer requests and all correspondence with the EPA concerning compliance with the Acid Rain Program must be performed by authorized account representatives. For a source account, the Designated Representative, who represents the owners and operators of that unit, performs this function. For a general account, the Authorized Account Representative is the person who represents the parties with an ownership interest in the allowances, and who executes the Account Information Form to open the account.

Information Contained in AMS Accounts

AMS accounts track the following information:

- Issuance of all allowances.
- Number of allowances held in the account.
- Number of allowances held in various allowance reserves, such as the EPA Auction Reserve and the Conservation and Renewable Energy Reserve.
- Deduction of allowances for compliance purposes.
- Transfer of allowances between accounts.

Spot Month Position Limit

Table 1 below represents the total SO₂ allowances held at EPA as of June 18, 2009.

Table 1

Vintage Year	Total Acid Rain Allowances Held as of 06/18/09	Monthly Adjustment	NYMEX Equivalent	25%	Cumulative Total ARA Held as of 06/18/09	Monthly Adjustment	NYMEX Equivalent	25%
1995	277,305	23,109	924	231	277,305	23,109	924	231
1996	183,632	15,303	612	153	460,937	38,411	1,536	384
1997	167,748	13,979	559	140	351,380	29,282	1,171	293
1998	197,802	16,484	659	165	365,550	30,463	1,219	305
1999	383,808	31,984	1,279	320	581,610	48,468	1,939	485
2000	1,700,000	141,667	5,667	1,417	2,083,808	173,651	6,946	1,737
2001	1,424,712	118,726	4,749	1,187	3,124,712	260,393	10,416	2,604
2002	1,479,478	123,290	4,932	1,233	2,904,190	242,016	9,681	2,420
2003	1,708,559	142,380	5,695	1,424	3,188,037	265,670	10,627	2,657
2004	2,034,060	169,505	6,780	1,695	3,742,619	311,885	12,475	3,119
2005	3,127,800	260,650	10,426	2,607	5,161,860	430,155	17,206	4,302
2006	4,044,096	337,008	13,480	3,370	7,171,896	597,658	23,906	5,977
2007	5,280,417	440,035	17,601	4,400	9,324,513	777,043	31,082	7,770
2008	7,977,784	664,815	26,593	6,648	13,258,201	1,104,850	44,194	11,049
2009	11,497,507	958,126	38,325	9,581	19,475,291	1,622,941	64,918	16,229
2010	8,882,190	740,183	29,607	7,402	20,379,697	1,698,308	67,932	16,983
2011	8,389,892	699,158	27,966	6,992	17,272,082	1,439,340	57,574	14,393
2012	8,390,040	699,170	27,967	6,992	16,779,932	1,398,328	55,933	13,983
2013	8,384,145	698,679	27,947	6,987	16,774,185	1,397,849	55,914	13,978
2014	8,404,422	700,369	28,015	7,004	16,788,567	1,399,047	55,962	13,990
2015	8,148,660	679,055	27,162	6,791	16,553,082	1,379,424	55,177	13,794
2016	8,178,912	681,576	27,263	6,816	16,327,572	1,360,631	54,425	13,606
2017	8,174,901	681,242	27,250	6,812	16,353,313	1,362,818	54,513	13,628
2018	8,201,152	683,429	27,337	6,834	16,376,053	1,364,671	54,587	13,647
2019	8,191,083	682,590	27,304	6,826	16,392,235	1,366,020	54,641	13,660
2020	8,195,140	682,928	27,317	6,829	16,386,223	1,365,519	54,621	13,655

The spot month position limit of the NYMEX SO₂ Emission 25-Allowances Futures contract is 10,000 contracts, which is less than 25% of the cumulative monthly allowances held at EPA as of June 18, 2009.

Market Participants

Below is the list of the SO₂ market participants:

AES	Evolution Markets
ALPower	First Energy
Alcoa Allowance Mgt	Fortis Energy marketing
Allegheny Power System	GA Power
Alpha Energy Partners	JPM Futures
Ameren	Keystone
Bear Energy	LDES
Cantor	MF Global
CF Brokerage	Macquarie Cook
Colstrip	Man Financial NY
Conemaugh	ML Commodities
Conesville	Mirant
ConEd	MSCG
Constellation Power Sys	Natsource
CS	NRG
Dayton P&L	PEPCO
Dominion	PPL
Duke	PruBache Commodities
Dynegy	PSEG
Edison Mission Energy	Reliant
Element Markets	Saracen Energy
Evolution Markets	Sempra Energy Trading
First Energy	Southern Co Services
Fortis Energy marketing	Swiss Re
GA Power	Transalta Energy Marketing
JPM Futures	TXU Portfolio
Keystone	VEPCO

Reference

<http://www.epa.gov/airmarkt/progsregs/arp/index.html>