CME Group

A CME/Chicago Board of Trade/NYMEX Company

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MEMORANDUM IN OPPOSITION

Comments on Connecticut General Assembly Bill No. 382:

AN ACT REQUIRING BIODIESEL BLENDED HEATING OIL AND LOWERING THE SULFUR CONTENT OF HEATING OIL

The CME Group is concerned about the impact of lower sulfur specifications on the heating oil market, and urges the Connecticut General Assembly to act in concert with the New Jersey Department of Environmental Protection (NJDEP) to harmonize the implementation schedule for lower sulfur specifications in heating oil. The current proposal to require a lower sulfur content of 50 parts per million (ppm) on July 1, 2011 and 15 ppm on July 1, 2014 will be disruptive to the heating oil market, and could lead to price spikes. To this end, the CME Group supports the New Jersey DEP's proposal to reduce the sulfur content in heating oil to 500 parts per million (ppm) on July 1, 2014, and to 15 ppm in 2016 or possibly later, subject to further comment from stakeholders on the feasibility of the refinery production of 15 ppm heating oil.

In addition, the CME Group encourages the Connecticut Legislature to provide more lead-time and to coordinate with New Jersey and New York to avoid disruptive price spikes. The petroleum products market in the "New York Harbor" area is the internationally recognized hub for petroleum products trading, and encompasses the Tri-state area of New Jersey, New York, and Connecticut. Therefore, it is critical to have identical sulfur specifications in the Tri-State area to avoid supply problems and price spikes for heating oil consumers.

Further, the CME Group asks the Connecticut Legislature to defer the implementation of the proposed biodiesel requirement until the states of New Jersey and New York each adopt similar requirements. The proposed biodiesel requirement represents a big step that has not been matched by New York or New Jersey. Given that Connecticut is an integral part of the New York Harbor area, it is critical that the biodiesel standards be unified in the Tri-state area to ensure the efficient functioning of the heating oil market.

BACKGROUND

CME Group Inc. ("CME Group"), on behalf of its four futures exchanges, known as designated contract markets ("DCMs"), appreciates the opportunity to comment on the proposed rules to lower the maximum sulfur content for home heating oil sold in Connecticut. These proposed regulations will have far-reaching impact on the consumers in New York, as well as to the consumers in New Jersey.

The CME Group exchanges are federally regulated by the Commodity Futures Trading Commission (CFTC), an independent regulatory agency. CME Group is the parent company of four DCMs: (1) the New York Mercantile Exchange, Inc. ("NYMEX"); (2) Chicago Mercantile Exchange, Inc ("CME"); (3) the Board of Trade of the City of Chicago, Inc. ("CBOT"); and (4) the Commodity Exchange, Inc. ("COMEX").

CME is the largest energy and derivatives clearing organization in the world, and CME Clearing includes CME ClearPort®, a set of flexible clearing services for energy market participants to substantially mitigate counterparty risk and provide capital efficiencies across asset classes. The CME Group exchanges serve the risk management needs of customers around the globe.

As an international marketplace, the CME Group exchanges bring buyers and sellers together on the CME Globex electronic trading platform and on trading floors in Chicago and New York. The CME Group exchanges offer the widest range of benchmark products available across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, emissions, agricultural commodities, and metals. In particular, the NYMEX New York Harbor No. 2 Heating Oil futures contract is the key futures benchmark for heating oil pricing in the U.S., and New Jersey is the delivery hub for this vital futures contract. As the benchmark for heating oil prices, trading on CME Group exchanges is transparent, open and fully regulated.

The New York Harbor area is the main hub for petroleum products trading and commerce, with both oil refineries and import terminals that are strategically important to the economy. The New York Harbor area consists of fuel terminals in Connecticut, New York and Northern New Jersey, and serves as the delivery point for the NYMEX New York Harbor No. 2 Heating Oil futures contract, which is the key benchmark for pricing heating oil, diesel fuel, and jet fuel. The New York Harbor area spans across Connecticut, New Jersey, and New York. The fuel terminals in Bridgeport and New Haven are an integral part of the New York Harbor marketplace.

The New York Harbor market functions as one unified, common market for petroleum products, where fuel specifications are uniform across Connecticut, New Jersey and New York. It is critical to have uniform fuel specifications in the Tri-state area to maintain the efficient functioning of the vibrant New York Harbor market, and the end result is the lowest possible fuel prices for consumers.

As a regulated futures exchange, NYMEX provides a forum for trading in futures and options for various energy fuels, including No. 2 heating oil. On average, futures contracts that are purchased and sold each day at NYMEX are equivalent to approximately 75 million barrels of heating oil, with a daily market value of $7 billion. This activity represents legal commitments to make or take delivery of No. 2 heating oil in the New York Harbor market with maximum 2000ppm sulfur in future months through August 2012. Currently, the commercial oil marketplace has locked-in the prices for 330 million barrels of heating oil deliverable in New York Harbor through August 2012; however, the majority of open positions in futures contracts are generally offset prior to the end of trading in an expiring contract month and thus do not necessarily result in a physical delivery obligation.

The fuel market is responsive to a complex array of fundamental economic and commercial factors, and government regulation will have a definite price impact on home heating oil. Given adequate lead-time of at least four years advance notice, the marketplace will work efficiently to adjust to the lower sulfur requirement.

In addition, the price hedging function of NYMEX is used by the petroleum industry in the supply chain to help provide a competitive and efficient market price. This is particularly important for those companies that seek to hold inventories of fuel oil. Without a means to hedge effectively, they are less likely to hold inventories, leading to potential shortage conditions and greater price volatility. The effective functioning of the NYMEX futures market thus helps to assure that heating oil and fuel oil are supplied to the market in an economically rational manner, and this serves to moderate price fluctuations. In order for the price discovery and hedging functions of the Exchange to work effectively, it is critical that legislators and regulators pursue policies that provide adequate lead-time and uniformity across Connecticut, New York and New Jersey, so that the marketplace can work efficiently to meet the energy demands of Connecticut consumers.

I thank you for the opportunity to share our viewpoint from a market perspective. If you have any questions, please do not hesitate to call me at (212) 299-2604 or email me at Daniel.Brusstar@CMEgroup.com.