
Chicago Climate Futures Exchange, LLC

Delivery Procedures

Sulfur Financial Instrument Futures

Nitrogen Financial Instruments – Ozone Season Futures

Nitrogen Financial Instruments – Annual Futures

Version 2.3
October 2007

Overview

This document addresses the delivery process for the following Chicago Climate Futures Exchange, LLC (“CCFE”) products:

- Sulfur Financial Instruments (SFI)
- Nitrogen Financial Instruments – Ozone Season (NFI-OS)
- Nitrogen Financial Instruments – Annual (NFI-A)

The contract specifications for the products may be found on the Chicago Climate Exchange website at http://www.ccfex.com/about_ccfe/products.html and in the CCFE rulebook which is also available on the website at http://www.ccfex.com/membership_ccfe/rulebook.html.

CCFE will offer its short position futures holders the opportunity to initiate the delivery process during an extended period within the expiration month for an expiring contract in order to take advantage of favorable market conditions. Short position holders may elect to make delivery any time during the designated delivery period. The delivery periods for the products are:

- SFI futures: The last ten (10) trading days of an expiring contract.
- NFI – OS futures: The last seven (7) trading days of an expiring contract.
- NFI – A futures: The last seven (7) trading days of an expiring contract.

A delivery tender notice will be matched against the oldest dated long position holder on record with The Clearing Corporation (“CCorp”), CCFE’s clearing service provider, as of the close of business on the day the delivery tender notice is submitted.

Market participants holding positions at the expiration of a contract will be required to participate in the delivery process.

Eligibility to Participate in the Delivery Process

All market participants that hold open positions at the first Position Day must have the means and ability to make or take delivery of the instrument(s) underlying the CCFE futures contract.

For CCFE futures products delivered into general accounts held at the U.S. Environmental Protection Agency (“EPA”), CCFE clearing and non-clearing members and all their market participants that make or take delivery of CCFE futures products must have a general account at the EPA in the Allowance Tracking System (“ATS”) for SO₂ allowances, and the NO_x Allowance Tracking System (“NATS”) for NO_x allowances. (The EPA is in the process of developing its CAIR Annual NO_x Allowance Tracking System. CCFE market participants that will be making or taking delivery in the NFI-A will be expected to have general accounts established with the EPA.) All account holders must also have the capability to transfer and receive emission allowances through the EPA’s Clean Air Markets Division Business System (“CAMD Business System”). For information regarding the EPA’s ATS, you may contact Alex Salpeter of the EPA at 202.343.9157 or visit the EPA website at <http://www.epa.gov/airmarkets/business/forms.html> (for information about opening a general account for SO₂ and NO_x) and <http://www.epa.gov/airmarkets/business/industry/cbs.html> (for information on accessing the CAMD Business System).

The EPA has requested that participants first establish a “general” allowance account before requesting the ability to electronically transfer allowances via the CAMD Business System. Application for a general allowance account requires submission of hard copy forms to the EPA and can be found at the link to the EPA website above. EPA “compliance” accounts should not be used for delivery of CCFE products. Such accounts are frozen at certain times during the year

which prohibits the transfer of allowances to and from these accounts in the time frames required by CCFE

Delivery Process for Futures Contracts

Delivery is a three day process consisting of Position Day, Notice Day and Delivery Day. The three days occur over three consecutive business days. See Exhibit A for a delivery example.

Position Day

First Position Day

SFI Futures

The tenth 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 tenth trading day prior to expiration, by trade date, must be reported to CCorp in the time frame and format required by CCorp.

NFI – OS Futures

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 day prior to expiration, by trade date, must be reported to CCorp in the time frame and format required by CCorp.

Subsequent Position Days

Each trading day from the First Position Day through the last position day, CCFE clearing members must submit updated long futures position reports to CCorp.

Last Position Day

The last position day is the last trading day for the expiring contract.

Short Futures Position Delivery Tender Notice

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 CCorp, in a format acceptable to CCorp.

Oldest Dated Long Position Delivery Assignment

CCorp will provide notice to the clearing member(s) (hereafter referred to as "buyer") holding the oldest dated open long futures position(s) of the delivery assignment. CCFE clearing members will assign the delivery to the oldest open long futures position on their books based on the current day's long position report that was submitted to CCorp.

Delivery Assignment

CCorp assigns the oldest dated buyer to the seller and the details of the delivery notice, e.g. number of contracts, delivery price (current trading day's settlement price) and delivery value.

Notice Day

No later than the business day following the applicable Position Day, CCorp notifies buyers and sellers of delivery assignments. (May occur at close of business on the applicable position day.)

The assigned CCFE clearing members will exchange the following information:

1. The seller clearing member provides to the buyer clearing member(s) a description of the underlying allowances to be delivered, e.g. emissions type (Sulfur Dioxide), vintage(s) and quantity.

2. The buyer clearing member(s) will provide the following information to the seller clearing member:
 - CCFE Clearing Member's or its customer's ATS Account # (for SO₂) or NATS Account # (for NO_x)
 - EPA Authorized Account Representative (AAR) ID#
 - AAR email address
 - AAR phone number

CCFE has created Exhibit B as an example of a format that could be used by the seller and buyer for exchanging this information. (*Note: Exhibit B is not to be used to confirm delivery to CCorp. See procedures below for confirming deliveries to CCorp.*)

The above information must be exchanged between the seller and buyer clearing members by 4:00 p.m. Central Time ("CT") on Notice Day.

The seller clearing member must have the appropriate emission allowances deposited in its or its customer's ATS account by the close of business on the Notice Day.

Delivery Day

A. Buyer Clearing Member Pays for Delivery

At 6:40 a.m. CT, CCorp will issue payment instructions to the buyer clearing member for the full contract value based upon the Position Day's settlement price in a means and manner prescribed by CCorp.

B. Positions

CCorp removes delivery positions from margined positions.

C. Delivery

No later than 3:00 p.m. CT, the seller clearing member or its customer must electronically submit the allowance transfer instructions via the EPA's CAMD Business System. The EPA's CAMD Business System (electronic transfer system) is available 24 hours a day, 7 days a week.

The EPA automatically effects transfer upon receipt of the transfer instructions immediately upon receipt and issue an email confirmation of the allowance transfer to the seller clearing member (or its customer depending on which party placed the instruction) and buyer clearing member (or its customer depending on the ATS account number provided for receiving the allowances)

If the seller clearing member's customer was responsible for providing the delivery instructions to the EPA, the customer must forward the EPA's email confirmation to the seller clearing member.

D. Confirmation of Delivery to CCorp

Effective for the October 07 contract deliveries, CCorp implemented the following delivery confirmation requirements.

- The buying clearing member will create a separate CCFE Receipt of Delivery Confirmation form for each selling clearing member.
- No money will be released to the selling clearing member for any transfers not contained on the confirmation document.
- This form should be completed electronically and e-mailed to CSS at css@clearingcorp.com or faxed to 312-986-3444. This form should be sent to CCorp by an authorized individual known by CSS. The buyer clearing member should contact CSS via telephone at 312-786-5718 to verify receipt of the e-mail.

CSS reserves the right to contact the buying clearing member to verify the validity of any form received from the buying clearing member.

Payment

CCorp will release the delivery proceeds to the seller clearing member on the following schedule:

- Confirmation documents received at CCorp by 12:30 p.m. will result in money released at midday. This time may be adjusted earlier if CCorp runs its midday process earlier.¹
- Confirmation documents received after 12:30 will result in money being release for end of day.
- If a confirmation document is not received at CCorp by 4:00 p.m. on the delivery day, the money will NOT be released to the Selling CP. The Buying CP should contact CCorp and CCFE ASAP if this deadline cannot be met. Failure to authorize the release of money on delivery day will be considered to be a default on delivery and will be referred to CCFE.

Please refer to CCorp Bulletins for more detailed information and the CCFE Receipt of Delivery Confirmation at <http://www.clearingcorp.com/bulletins/2007/bulletins/b27-064.html#TopOfPage>.

Underlying Emission Allowances Eligible for Delivery

The CCFE Rulebook and Member Advisories provide details regarding emission allowances eligible for delivery purposes.

Delivery Disputes and Resolutions

The CCFE Rulebook and Member Advisories address delivery disputes and resolutions.

Delivery Fees

CCFE and CCorp may assess transaction fees to CCFE clearing members for delivery transactions. Communication of such fees will be through CCFE Member Advisories and CCorp's communication process.

¹ On occasion, at CCorp's discretion, Mid-day Variations may be run earlier than CCorp's regularly scheduled mid-day settlement. CCorp will release delivery proceeds to a selling clearing member during the earlier mid-day settlement provided that CCorp receives the applicable confirmation sufficiently prior to the earlier mid-day settlement. Otherwise, CCorp will release the delivery proceeds at the 6:40 a.m. CT on the next business day.

Exhibit A
CCFE Emission Futures Contract Delivery Example

Emissions Contract – 25 emission allowances per contract

September 2004 Futures Contract

Position Day Settlement Price for September 2004 futures contract: \$500 / allowance

Seller and Buyer Clearing Members coordinate the delivery between themselves

	Clearing Member A		Clearing Member B		
	Position	Trade Date	Position	Trade Date	
Customer A1	100 S		60 L	9/1/04	Customer B1
Customer A2	50 L	9/18/04	40 L	8/20/04	Customer B2
Customer A3	75 L	9/15/04	50 L	7/2/04	Customer B3
			50 S		Customer B4
			25 S		Customer B5

Position Day

1. Report long positions to CCorp

Clearing Member A	75 long 9/15/04
	50 long 9/18/04
Clearing Member B	50 long 7/2/04
	40 long 8/20/04
	60 long 9/1/04

2. Clearing Member A submits delivery tender notice for 100 contracts (2500 emission allowances) on behalf of Customer A1

3. End of day, CCorp informs Clearing Member A and Clearing Member B (clearing member with oldest open long position) of delivery assignment.

7/2/04	50
8/20/04	40
9/1/04	10

Notice Day

1. Clearing Member A informs Clearing Member B of intention to deliver 2500 emission allowances of Vintage 2005 emission allowances.

2. Clearing Member B provides Clearing Member A with its EPA ATS account and contact information.

3. Clearing Member A must have 2500 emission allowances of Vintage 2005 emission allowances in its EPA ATS account by the close of business on Notice Day for delivery the next day.

Delivery Day

1. CCorp issues payment instructions to the respective buyer clearing members for full contract value (\$1.25 million) from Clearing Member B based on settlement price on Position Day.
2. By 3:00 p.m. CT, Clearing Member A submits electronic allowance transfer instruction to the EPA. (Instructions include e-mail contact information for seller and buyer clearing members.)
3. EPA sends both parties (Clearing Members A and B) e-mail confirmation of transfer.
4. Buyer clearing member submits CCFE Receipt of Delivery Confirmation to CCorp.

Payment

CCorp remits delivery proceeds (\$1.25 million) to Clearing Member A's non-segregated settlement account.



Chicago Climate Futures Exchange

Appendix B

CHICAGO CLIMATE FUTURES EXCHANGE, LLC
EPA ALLOWANCE TRACKING SYSTEM ("ATS")/NOx Allowance Tracking System ("NATS")
DELIVERY INSTRUCTIONS

Date:
Futures Contract:

Product (Circle one) Sulfur Financial Instrument (SFI) Nitrogen Financial Instrument - Ozone Season (NFI-OS) Nitrogen Financial Instrument - Annual (NFI-A)
Month (Circle one) January February March April May June July August September October November December
Year _____
Specific Vintage (if applicable) _____
Quantity _____

Seller Clearing Member Name: _____

Vintage(s) to be Delivered:

Table with 2 columns: Vintage, Quantity. Includes a Total Quantity column at the end.

Seller Clearing Member Representative: _____
Phone Number _____
Fax Number _____

Buyer Clearing Member Name: _____

ATS/NATS Account Information:

Account # _____
AAR² ID # _____
AAR email _____
AAR phone # _____
AAR fax # _____

Buyer Clearing Member Representative: _____
(If different from AAR)
Phone Number _____
Fax Number _____

² Authorized Account Representative
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