



IPE Gas Oil
futures Contract
January 04, 2006

IPE Gas Oil futures Contract

Background

The IPE Gas Oil futures contract is designed to provide users with an effective hedging instrument and trading opportunities. Its underlying physical market is heating oil barges delivered in ARA (Antwerp, Rotterdam, Amsterdam). It is used as the pricing reference for all distillate trading in Europe and beyond.

Features of the Gas Oil Futures Contract

Delivery mechanism

The IPE Gas Oil futures contract offers users the opportunity to make or take physical delivery of gas oil. This can be achieved upon expiry of the contract through the Standard Delivery Mechanism or Alternative Delivery Procedure. Prior to contract maturity, physical delivery can be achieved through the Exchange of Futures for Physical (EFP).

Price transparency

Real-time prices are available through the major information vendors. As a result, the price at which a particular contract is trading can be known instantly by all participants.

Contract security

The London Clearing House Ltd (LCH) acts as the central counterparty for trades conducted on the London exchanges. This enables it to guarantee the financial performance of every contract registered with it by its members (the clearing members of the exchanges) up to and including delivery, exercise and/or settlement. LCH has no obligation or contractual relationship with its members' clients who are non-member users of the exchange markets, or non-clearing members of the exchanges.

Contract Specification

Date of launch

6 April 1981.

Trading hours

Open 01:00 - London local time

Close 22:00 - London local time

Scope

Contracts are for the future delivery of gas oil into barge or coaster or by in-tank or inter-tank transfer from Customs and Excise bonded storage installations or refineries in the Amsterdam, Rotterdam, Antwerp (ARA) area (including Vlissingen and Ghent) between the 16th and the last calendar day of the delivery month.

Unit of trading

One or more lots of 100 metric tonnes of gas oil, with delivery by volume namely 118.35 cubic metres per lot being the equivalent of 100 tonnes of gas oil at a density of 0.845 kg/litre in vacuum at 15°C.

Specification

Gas oil shall be delivered in bulk and free of all liens and claims, be of merchantable quality conforming to the quality specification below.

Origin

Any origin, EU qualified.

Quotation

The contract price is in US dollars and cents per tonne (on an EU import duty paid basis).

Minimum price fluctuation

25 cents per tonne, equivalent to a tick value of \$25.

Maximum daily price fluctuation

There are no limits.

Daily margin

All open contracts are marked-to-market daily.

Trading period

Up to twelve consecutive months forward, then quarterly out to twenty-four months, then half-yearly out to 36 months.

Position limits

There are no limits to the size of position.

Delivery Mechanism

Cessation of trading

Trading shall cease at 12:00 hours, 2 business days prior to the 14th calendar day of the delivery month. These dates are published by the Exchange. This date is also the tender day.

Exchange delivery settlement price (EDSP)

- (i) The price is inclusive of all cost of loading (additional costs for deliveries below 500 tonnes paid by the nominating party).
- (ii) VAT, Excise Duty and compulsory stock requirements are for the account of the Buyer.
- (iii) If tender documents do not show that the material is EU qualified or exempt, the import duty is deducted from the payment.
- (iv) Deliveries through Vlissingen are discounted by US\$0.50 per tonne, Ghent by US\$1.25 per tonne.

Sequence of events

The following delivery guidelines generally refer to delivery into barge. However, delivery may also be made into coaster (up to 10,000 tonnes dwt); by inter-tank transfer at the Buyer's expense where there is a connecting pipeline and the pipeline operator agrees; by in-tank transfer without movement of gas oil where the Seller's facility permits.

Business days are those on which the market is open in London. All times are London times.

a) Tender day

By 14:00 hours Sellers submit Sellers notice of Tender to LCH which include geographical location of product (e.g. Rotterdam) and Buyers submit Notices of Preference (optional) to LCH and Certificates of Availability to the Exchange.

As soon as possible after 14:00 hours, LCH matches Buyers with Sellers and advises each of the other's identity.

b) Nomination of delivery ranges

By 10:00 hours the following business day the Buyer nominates his preferred 5-day delivery

range. The Seller accepts or rejects the range by 12:00 hours. Rejection must be supported by evidence of congestion from the loading installation for the period nominated by 14:00 hours. In the event of a valid rejection and failure of the Buyer and Seller to agree an alternative, the Buyer nominates a second 5-day range, wholly outside of the first by 16:00 hours. This second nomination must be accepted by the Seller.

c) Nomination of installation

The Seller notifies the Buyer of the installation no later than 12:00 hours on a business day which is a minimum of 48 hours before the commencement of the delivery range.

d) Nomination of delivery day

The Buyer nominates to the Seller the delivery day, the name and registration number of the barge on a business day a minimum of 48 hours before the delivery day. The notice includes the Buyer's choice of two inspectors from which the Seller must select one by 16:30 hours. If the nomination is received after 14:00 hours it is deemed received the following business day.

e) Payment

The Seller lodges delivery documents with LCH within six days of completion of loading. As soon as possible LCH informs the Buyer that the documents are available. The Buyer makes payment to LCH by 12:00 hours on the next business day. LCH then makes payment to the Seller.

Quality inspection and quantity measurement

Two independent inspectors are selected from a panel by the Buyer, subject to selection of one by the Seller. If no selection is made by the Seller, the first inspector named is deemed to have been accepted. If neither of the two is acceptable to the Seller and the parties cannot agree an alternative, the Exchange will nominate an inspector which shall be binding upon both parties. Samples of the product being delivered are analysed and the results reported, together with the quantity measurement, to the Buyer and Seller.

Property and risk

Risk passes to the Buyer when the product passes the vessel's flange and the property passes to the Buyer upon payment.

Seller's obligations

In respect of contracts still open at the cessation of trading in the current month the Seller shall:

- a) Deliver to LCH all tender documents stipulated in the Administrative Procedures and Certificate(s) of Availability of Product to the Exchange
- b) Accept the Buyer or Buyers to whom LCH passes tenders
- c) Subject to any default on the part of the Buyer, make delivery of gas oil
- d) Ensure that such gas oil is of the required quality and quantity
- e) In accordance with good industry practice pay any additional storage charges, delivery fees and demurrage if delivery is not completed in the time allowed at the installation
- f) Pass to LCH promptly all documents relating to payment

Buyer's obligations

In respect of contracts still open at the cessation of trading in the current month the Buyer shall:

- a) Accept any tender passed to him by LCH.
- b) Subject to any default on the part of the Seller, take delivery of the gas oil.
- c) Take up documents and make payments to LCH in US dollars against documents.

Alternative delivery procedure (ADP)

The contract provides for matched Buyers and Sellers, by agreement, to deliver gas oil of a different specification, or in a manner or in a location, or on terms other than those specified. In the event of an ADP LCH liquidates the contract at a settlement price agreed between the parties and ceases to have any obligation to the Buyer or Seller.

Exchange of Futures for Physical (EFP) and Exchange of Futures for Swaps (EFS)

EFPs and EFSs may be reported to the Exchange during trading hours and registered by LCH up to one hour after cessation of trading in the delivery month in which the EFP or EFS is traded. These allow more effective hedging opportunities for market participants with over-the-counter positions.

Security of contract

- a) The contract provides that selling Members must have in their possession by 13:00 hours on the day that trading ceases in the delivery month, confirmation, in a form approved by the Exchange, that gas oil of the quantity and quality will be available, in one or more storage tanks in one or more installations no later than 00:01 hours on the day nominated as the delivery day by the Buyer sufficient to meet the delivery requirement for that specific day.
- b) The contract makes provision for LCH to call for such additional securities as may be necessary. Buyers are required to pay Buyer's Security of full contract value plus ½% to LCH the day prior to the first day of the appropriate 5-day delivery range.
- c) In the event of the delivery of Gas Oil, which is subsequently found to be off-specification, LCH may withhold 10% of the payment due to the Seller pending resolution of the matter.

Law

The contract is governed by English law and includes provisions regarding force majeure, trade emergencies and embargoes.

Clearing and Regulation

Clearing

LCH guarantees financial performance of all IPE contracts registered with it by its clearing Members. All IPE Floor Member companies are either members of LCH, or have a clearing agreement with a Floor Member who is a member of LCH.

Regulation

The IPE is regulated in the UK by the Financial Services Authority (FSA) as a recognised investment exchange (RIE) under Part XVIII of the Financial Services and Markets Act 2000 (FSMA). Further, in April 2003, the IPE received no-action relief from the US Commodity Futures Trading Commission under Sections 5 and 5a of the Commodity Exchange Act to make all of its contracts available in the UK on the ICE Platform during the course of the entire trading day.

In accordance with the FSMA, all IPE General Participants based in the UK will be authorised and regulated by the FSA. Where General Participants are incorporated overseas, they will be regulated by the relevant regulatory authority in that jurisdiction.

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Contact Details

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Gas Oil quality specification

Gas Oil shall be delivered in the contract month, in bulk and free of all liens and claims, be of merchantable quality conforming to the following specification.

Specification	Units	Limits	Test Method
Density at 15°C	kg/litre	max. 0.860 min. 0.820	ASTM D 1298 (in a vacuum) ASTMD 4052 (in a vacuum)
Distillation	% vol		ASTM D 86
Evaporated at 250°C		max. 65	
Evaporated at 350°C		min. 85	
Colour		max. 2.0	ASTM D 1500
Flash Point Pensky Martens "Closed Cup"	°C	min. 55	ASTM D 93
Total Sulphur	%mass	max. 0.20	ASTM D 1552 ASTM D 2622 ASTM D 4294 IP 336
Kinematic Viscosity	cSt at 20°C	max. 6.0	ASTM D 445
Cloud Point	°C	max. + 3	DIN EN 23015
Cold Filter Plugging Point	°C		DIN EN 116
	if cloudpoint ≤ 3°C	≤ - 12°C	
	if cloudpoint ≤ 2°C	≤ - 11°C	
	if cloudpoint ≤ 1°C	≤ - 10°C	
Oxidation Stability	mg/100ml	max. 3	ASTM D 2274
Cetane Index		min. 45	ASTM D 976/80
Sediment	mg/kg	max. 24	DIN 51419
Water	mg/kg	max. 200	ASTM D 1744
Strong Acid Number	mg KOH/g	max. 0.1	ASTM D974
Halogenated Hydrocarbons	mg/kg	Not detected	DIN 51577-3