Trading and Clearing the *Argus Sour Crude Index ("ASCI")* with ICE

FREQUENTLY ASKED QUESTIONS

ICE *ARGUS SOUR CRUDE INDEX ("ASCI")*

FREQUENTLY-ASKED QUESTIONS

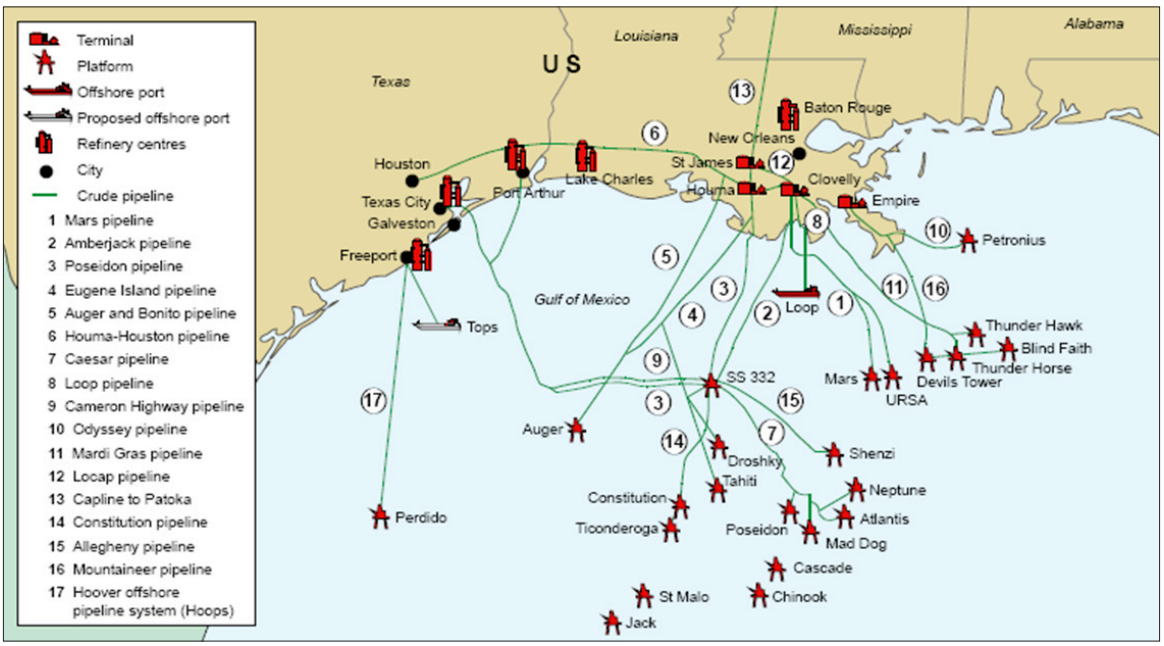
WHAT CONTRACTS IS ICE LAUNCHING?

ICE is offering two futures and two cleared over-the-counter (OTC) contracts to help customers manage exposure to sour crude using the *Argus Sour Crude Index ("ASCI")*. The new futures contracts are the ICE *Argus Sour Crude Index ("ASCI")* Future, which is an outright contract, and the ICE *Argus Sour Crude Index ("ASCI")* Differential Future, which is the differential between the *ASCI* index and the West Texas Intermediate (WTI) price. Both contracts will expire on the same day as the ICE WTI contract. The two new cleared OTC contracts are an *ASCI* index based differential calendar swap contract and an *ASCI* index based differential trade-month swap contract. Contract specifications are available at: www.theice.com

WHAT CRUDE GRADES ARE USED IN THE INDEX?

The *ASCI* index is comprised of three priced crude grades: Mars, Southern Green Canyon and Poseidon. Total U.S. Gulf production is currently estimated to be about 1.2 million b/d, increasing to 1.4 million b/d in 2010 and 1.9milllion b/d in 2013.

U.S. GULF OF MEXICO INFRASTRUCTURE



Source: Argus

WHY IS ICE LAUNCHING U.S. GULF SOUR CRUDE CONTRACTS?

ICE is offering a range of risk management tools to help market participants manage spreads between WTI and sour crude grades in the Gulf of Mexico, as well as outright and flat prices. Recent volatility in WTI-sour crude spreads has prompted both refiners and producers to consider more effective risk management tools to reduce exposure to price swings. Limited storage at Cushing, Oklahoma (the delivery location for WTI futures), along with pipeline bottlenecks, have contributed to very large swings in the relative prices of comparable crude grades at Cushing and on the U.S. Gulf Coast.

HOW DOES THE MARKET TRADE SOUR CRUDE NOW? WHAT PROBLEM DOES AN *ASCI* INDEX CONTRACT HELP SOLVE?

A significant volume of sour crude grades delivered in the U.S. Gulf — whether imported or domestically produced — is priced on a WTI-basis, plus or minus a grade-based differential. A differential contract allows customers to manage the spread between the WTI price and the delivered Gulf Coast crude price. An outright contract allows traders to hedge using a flat-price benchmark.

WHY TRADE THE *ASCI* INDEX ON ICE?

ICE is the only venue offering three major crude benchmarks on the same platform. ICE Brent, ICE WTI and ICE *Argus Sour Crude Index ("ASCI")* futures will all be listed on a single platform, with margin offsets offered between all three contracts to maximize capital efficiencies.

HOW WOULD THE *ASCI* INDEX BE IMPACTED BY THE U.S. HURRICANE SEASON?

While it is difficult to predict any weather-related impact on commodity prices, the inclusion of three distinct crude oil grades in the *ASCI* index price is a mitigating factor against price volatility associated with storm-related events. In the event that a hurricane affected production at one of the *ASCI* index grade fields, the index could still be produced, and the impact on price levels would be general rather than specific to the U.S. Gulf Coast.

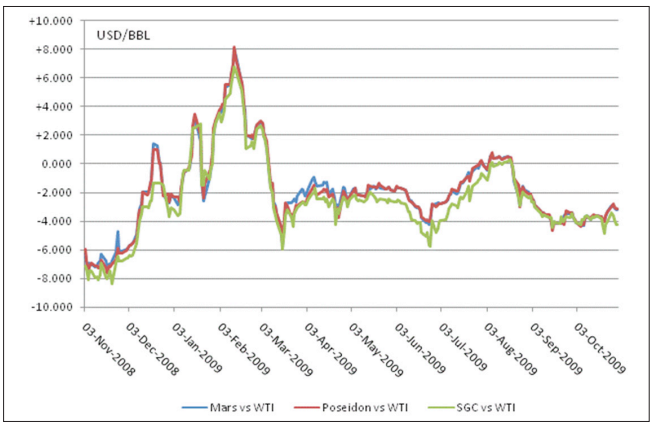
WHAT ARE PRODUCERS' CONCERNS ABOUT WTI?

Because all three *ASCI* index component grades are medium sour — higher in sulphur than light, sweet WTI — they would typically trade at a discount to WTI. In the first quarter of 2009, however, Mars, Poseidon and Southern Green Canyon all traded at significant premiums to WTI: Over a period of two months, U.S. Gulf Coast crude differentials to WTI moved from around -$8/bbl to +$8/bbl. This volatility between the price of sour U.S. Gulf crude and WTI prompted producers such as Saudi Arabia to announce that future oil sales will be priced against the *ASCI* index. Selling oil based on a basket of U.S. Gulf Coast sour crude grades removes some of the issues associated with the inland WTI, especially if the WTI underlying base again dislocates against other U.S. Gulf Coast crude grades.

DOES THIS MEAN THE END OF WTI AS A BENCHMARK?

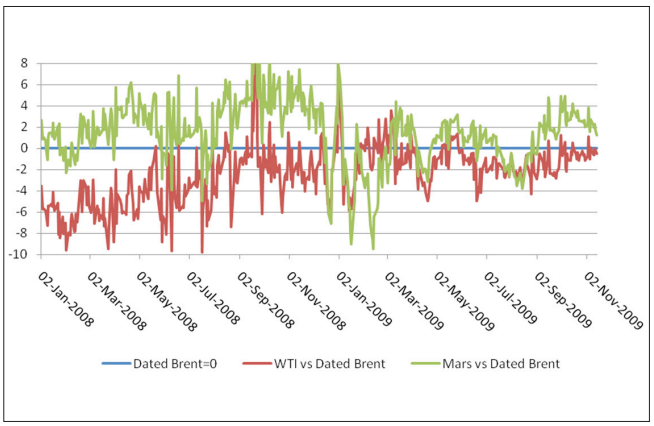
The components of the *Argus Sour Crude Index ("ASCI")* price trade relative to WTI in the spot market. Any future correlation disruptions of inland markers like WTI and U.S. Gulf prices will reinforce the independence of the *ASCI* index flat price through its differentials to WTI. As a physical benchmark, WTI has experienced many well-documented issues for some time, and as WTI production falls, it is becoming less representative of U.S. Gulf Coast deliveries, which tend to be sour. In general, the overall crude slate is becoming more sour and heavier in quality, and therefore the *ASCI* index flat price could become less correlated with WTI over time, with more volatility in the differentials.

PRICING DIFFERENTIALS: WTI TO *ASCI* INDEX CRUDES



Source: Argus Media Limited

***ASCI* CORRELATIONS: BRENT, WTI & *ASCI* INDEX (MARS AS PROXY)**



The graph above demonstrates how well correlated Brent is with Mars, compared to WTI, despite also being light, sweet crude. **Source: Argus Media Limited**

COSTS TO TRADE

WHAT ARE THE COSTS FOR TRADING ICE *ASCI*™ FUTURES AND SWAPS?

For *ASCI* index futures, a standard $0.73 per lot per side fee will apply, with $1.23 per lot per side applying to Blocks, EFPs and EFSs. A $0.09 per lot clearing fee will be charged.

For OTC swaps, the exchange will charge $1.25 per lot for the *ASCI* Index Differential Calendar swap (TAB) and the Differential Trade Month swap (TOB) for blocking. A clearing fee of $0.09 per lot also will be charged.

WILL THERE BE A FEE WAIVER?

Fee waiver details will be announced in the near future.

WHAT WILL THE MARGINS BE?

For the latest on margin rates for cleared OTC and futures contracts please see our website at:
https://www.theice.com/clear_europe_span_parameters.jhtml

For more information please contact:

US: Jeff Barbuto
+1 646 733 5014
Jeff.Barbuto@theice.com

Europe: Paul Wightman
+44 (0)20 7065 7744
Paul.Wightman@theice.com

Asia: Jennifer Ilkiw
+65 6594 0161
Jennifer.Ilkiw@theice.com

US: Yvonne Betts
+1 713.890.1224
Yvonne.Betts@theice.com

Europe: Deborah Pratt
+44 (0)20 7065 7734
Deborah.Pratt@theice.com

Asia: Julius Foo
+65 6594 0162
Julius.Foo@theice.com

web theice.com | **telephone** +44 (0)20 7065 7700

ICE®
Global markets in clear view