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July 16, 2015

**VIA PORTAL**

Melissa Jurgens, Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, NW  
Washington, DC 20581

**Re: CFTC Regulation 40.2(a) Certification: Notification of Products Offered  
for Trading on Nodal Exchange, LLC**

Dear Ms. Jurgens:

Nodal Exchange, LLC ("Nodal Exchange" or "Exchange") is notifying the Commodity Futures Trading Commission ("CFTC" or "Commission") that pursuant to Commission Regulation 40.2(a), the Exchange is self-certifying the listing of 80 new power futures contracts for trading on Nodal Exchange and for submission for clearing through LCH.Clearnet Limited ("LCH") beginning on July 20, 2015. The new rules and contract specifications describing these new Exchange futures contracts are attached to this letter as Exhibit A, to be added to the Nodal Exchange Rulebook Appendix A – Contract Specifications.

The new Exchange contracts address new hedging requirements in PJM, one of the key markets served by Nodal Exchange. On June 1, 2015, PJM changed the price at which most load serving entities buy power. Historically, PJM calculated the load zone price by using an average of all the load nodes within the zone. Load serving entities are given the choice of paying for load at their unique load node(s) or at the average load zone price. The load zone average was historically not adjusted to account for that portion of load that had selected load node specific pricing.

PJM's new policy change is to adjust zonal average price when load node specific pricing has been selected. Beginning in June, instead of using the average price across the entire zone, entities opting for the average price will now receive a price that excludes the node prices generated for any entities that have opted out of the average pricing methodology. PJM is terming this new price a "residual aggregate" price – it is the residual of all the nodes within the zone that are not separately priced. In most cases, PJM defines one residual aggregate zone for a physical load zone, e.g., PSEG\_RESID\_AGG is the residual aggregate zone of PSEG zone. However,

for other cases, PJM has defined multiple residual aggregate zones for a legacy physical zone. For example, there are four residual aggregate zones for AEP zone, and each of them is served by an individual Electric Distribution Company. The 80 residual aggregate zonal contracts that Nodal Exchange plans to launch account for 20 contract locations, each of which has four monthly contracts: day-ahead power peak/off-peak contracts and energy + congestion peak/off-peak contracts.

Exchange management has assessed the Exchange's contracts compliance with applicable provisions of the Commodity Exchange Act ("Act"), including the Commissions Regulations thereunder and the Core Principles. Regulatory compliance of Nodal Exchange's futures contracts are mostly addressed in the Nodal Exchange Rulebook, concisely explained as follows:

**Core Principle 2 - Compliance with the Rules:** Trading in the Exchange's contracts will be subject to the Nodal Exchange Rulebook in Section IV, describing trading procedures, and Section VI, which establishes trading codes of conduct, sound trading practices, and identifies prohibited trading behavior and abuses. In addition, trading behavior and activity will be subject to extensive monitoring and surveillance by the Exchange's Division of Market Administration and Surveillance. The Exchange's Compliance Department has the authority to address disciplinary matters through investigation and enforcement procedures in accordance with Section VII of the Exchange Rulebook.

**Core Principle 3 - Contracts not Readily Susceptible to Manipulation:** Nodal Exchange's new contracts settle to power prices published by either PJM. These PJM markets are regulated by the Federal Energy Regulatory Commission ("FERC") and are closely monitored by market monitors responsible to FERC. The day ahead and real time markets that generate the prices to which the Exchange contracts settle are directly related to the physical generation, and demand for, electricity as well as the physical capacity constraints of the grid. A description of the underlying cash markets and deliverable supply analysis for the Exchange's new contracts is provided in attached Exhibit B, which demonstrates compliance that the Exchange's new contracts are not readily susceptible to manipulation.

**Core Principle 4 - Prevention of Market Disruption:** Trading in the Exchange's contracts will be subject to the Nodal Exchange Rulebook Section VI, which prohibits disruptive trading behavior and manipulation, subject to monitoring and surveillance by the Exchange's Division of Market Administration and Surveillance.

**Core Principle 5 - Position Limitations or Accountability:** The Exchange is proposing position accountability levels for the new contracts because the underlying cash market is federally regulated and not readily susceptible to manipulation. The spot-month speculative position limits for the Exchange's contracts are set at 25% of the deliverable supply in the respective underlying market. The new contract reporting

levels, accountability levels and position limits are provided in attached Exhibit C, to be added to the Nodal Exchange Rulebook Appendix C – Reporting Levels, Position Accountability Levels and Position Limits.

Core Principle 7 - Availability of General Information: The Exchange will post general information, including the contract specifications for the new contracts, Exchange fees, and the Nodal Exchange Rulebook, on the Exchange's website: [www.nodalexchange.com](http://www.nodalexchange.com).

Core Principle 8 - Daily publication of Trading Information: The Exchange will publish daily information on settlement prices, volume, open interest and opening and closing ranges for the Exchange's actively traded contracts on its website.

Core Principle 9 - Execution of Transactions: The Exchange's new contracts will be available on the Exchange's electronic trading screen that is a central limit order book ("CLOB"). The CLOB provides the market with the ability to execute the Exchange's contracts from the interaction of multiple bids and multiple offers within a predetermined, nondiscretionary automated trade matching and execution algorithm.

Core Principle 10 - Trade Information: The CLOB will maintain all information with respect to each order and each consummated trade, as well as all other information relating to the trade environment that determines the matching and clearing of trades. As such, any order submitted to the CLOB can be tracked from the time it is entered into the system until the time that it is matched, canceled or otherwise removed.

Core Principle 11 - Financial Integrity of Transactions: The Exchange has entered into a clearing arrangement with LCH, a derivatives clearing organization subject to Part 39 of the Commission Regulations. The new contracts executed on the CLOB or as a block trade will be subject to the Exchange Rulebook provisions for submission to LCH for clearing as described in Section V.

Core Principle 12 - Protection of Markets and Market Participants: Section VI of the Nodal Exchange Rulebook protects the market and market participants from abusive, disruptive, fraudulent, noncompetitive and unfair conduct and trade practices. The new contracts are subject to these rules that apply to all transactions in the Exchange's contracts.

Core Principle 13 - Disciplinary Procedures: Section VII of the Nodal Exchange Rulebook describes the disciplinary procedures of the Exchange that authorize the Exchange to discipline, suspend, or expel anyone on the Exchange that violates these rules. The Compliance Department is authorized to investigate matters involving financial surveillance.

**Core Principle 14 - Dispute Resolution:** Section VIII of the Nodal Exchange Rulebook establishes rules concerning alternative dispute resolution, which provide for the resolution of disputes between or among Exchange users through the NFA arbitration program. Under Section VIII, arbitration is available for all disputes, controversies or claims among all Exchange users relating to Exchange activities.

Pursuant to Section 5c(c) of the Act and the Commission's Regulation 40.2(a), the Exchange certifies that the Exchange's new futures contracts to be listed comply with the Act and the Commission's Regulations thereunder.

Nodal Exchange certifies that this submission has been concurrently posted on the Nodal Exchange website at [www.nodalexchange.com](http://www.nodalexchange.com).

If you have any question or need additional information regarding the above, please contact the undersigned at 703-962-9835 or [Herrera@nodalexchange.com](mailto:Herrera@nodalexchange.com).

Sincerely,



Anita Herrera  
Chief Regulatory Officer

**Attachments:**

Submission Cover Sheet

Exhibit A - Addition to Nodal Exchange Appendix A - Contract Specifications

***Confidential*** Exhibit B - Deliverable Supply Analysis (*Confidential Treatment Requested*)

Exhibit C - Addition to Nodal Exchange Appendix C - Reporting Levels, Accountability Levels and Position Limits (presented in both Excel and pdf formats)