nodal exchange a bright light

Lately we've heard stories coming out of Exchangeland that volumes are down just about everywhere. Well, not everywhere. We happened to call Nodal Exchange's chief, Paul Cusenza, recently about some unrelated exchange tech matter. Like, since volumes are down everywhere, was Nodal selling affiliated technology or services to make up for the laggard volumes? His short answer was, "No." He also happened to mention off-handedly that for Nodal, the trading business is not shrinking but rather *growing* very quickly. "We doubled in 2012 over 2011 and we are on track to double again this year." As such, he says, he's not looking to sell any technology as a way to respond to declining trading revenue. "So we would not be a good candidate for an article on that topic at this time," he says.

Really. Er, so, what about those volumes doubling, Paul?

Actually, he tells us, by July, 2013, the exchange had already surpassed 2012 volumes. Granted, Nodal's cleared power volumes are a bit lower than those of either ICE or CME, but, its relative growth is considerable. The most interesting element here, he tells us, is where the growth is coming from. Cusenza tells us that their volume growth isn't necessarily coming off the backs of the other two exchanges – which mostly focus on the big, hub-based contracts – but rather from other cleared products not necessarily listed on the ICE or CME. Namely, basis contracts; Nodal lists about two zillion of them, drilling down so deeply into the weeds that there is unquestionably something listed for everybody to hedge their risks. So, it's clear that power traders are responding to the exchange's slate. Cusenza says that roughly two-thirds of the market outside of the main hubs, Nodal Exchange pretty much owns.

"As of the end of July, we were about 25 percent of all the cleared open interest in the power marketplace. At the end of 2011, we were about 11 percent, and at the end of last year, about 19 percent. So, we're on pace to have a very good year," he says. Nodal has 13 clearing members as of this year, Morgan Stanly being the latest to join. He says that while most volumes and growth continue to circle around the four main eastern ISO's, he sees the greatest potential for future growth is in ERCOT. "It's an exciting market; the retail space is active, there is a wide variety and mix of generation, volatility, it's all in there." MISO, he noted, also has some very good potential for the exchange going forward.

While the various shale plays have done a number on the gas basis markets, the power side hasn't exactly been immune to the chaos. Given the lack of adequate infrastructure to move the stuff from Appalachia to points North, for example, cheap gas doesn't always necessarily equate to cheap power. "In reality," he tells us, "it makes these regions that more differential." True enough. We wondered if some sort of new derivative contracts are under development to somehow cater to the problems surrounding high regional gas production, and iffy infrastructure to get the gas to generators or market centers. He somewhat demurred on specifics but says the light is always on with his contract skunk works. He says the huge influx of gas in some areas equates to just "one more variable, which reinforces the value of trading power on a local, basis level. There's no better way to hedge this sort of localized risk."

When Nodal launched a couple years back, they listed only day-ahead stuff, going out one year, Cusenza points out. Now, they go out five years. Nodal lists Day-Ahead LMP, Real-Time LMP, energy plus congestion contracts (congestion spreads), a sort of FTR look-alike, and other hedging products. In these fast-moving markets, the need for cleared hedging tools can only grow he says, particularly on a local level.

For more on the exchange go to www.nodalexchange.com.