

nodal exchange

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We should have asked what compelled them to launch an exchange during a recession, but since we launched this magazine during a recession, we held off on that one. The concept of a nodal exchange has been around the market for years, we've all mused about the concept at one time or another, and always in the vein of, "How come we don't have a nodal exchange..." Well, after several years of development, the Nodal Exchange opened for business earlier this year, and has been building participation, contracts, locations and length ever since. We received a release from the firm earlier this month that announced extended expiries on 72 locations, 144 peak and off-peak contracts – basically all the dailies -- but for front month to 32 months forward. The beauty of it all is that everything is cleared through LCH.Clearnet. Currently, the exchange trades across ISO-NE, NYISO, PJM and MISO. And before long, we'll likely see ERCOT and CA be added to the mix.

We spoke to CEO Paul Cusenza and COO Ann Sacra the other day for a brief rundown of the operation and were also treated to an extensive demo of the transaction platform. On the latter point, we liked what we saw: simple to use, uncluttered, fast and secure. We thought the screens looked familiar, that is, the Nodal developers didn't try to reinvent the wheel and get too clever with colors, designs or unnecessary functionality. Newbies should be able to pick up on this platform in no time.

"The launch went well, and we're seeing trades across all the zones and nodes and volumes are growing," Cusenza says. He says participant signups continue in a steady flow, and as more clearing members sign on and become more active, "the sky is the limit." While that may be true, a down economy usu-

ally translates to less congestion in the nodal world, so any growth at all this year tells us they must have nailed the exchange design fairly well. "It's been better than expected," he confirms.

Around a year ago the Nodal Exchange began some extensive testing of the concept through a series of mock auctions – a shakedown cruise if you will – involving 50 companies, big and small. Cusenza wouldn't tell us how many companies are locked and loaded these days, but he did say they have seen growth since that time. "If you look at the FTR markets at the four ISOs we serve, if you look at which companies are doing all that volume, they are basically the same volume players in our market," he says.

Incidentally, investors in the exchange include Macquarie Cook Energy, DC Energy (they came up with the idea) and FPL renewable generation subsidiary, NextEra Energy Resources, LLC. In a recent interview with Macquarie exec Nick O'Kane, he mentioned that his firm is indeed a market maker on the exchange.

Throughout the demo we sat through, it occurred to us that while con-

tracts of many flavors are now executed on the exchange, whether broker-introduced or not, we reckoned that more elaborate, structured transactions could be supported for clearing on the exchange, and for that matter, additional commodities besides power. We asked Cusenza if this sort of stuff was in the cards. He said that while they're mostly driven by customer demand, and right now, power is the game, Nodal isn't ruling out other commodities. "One thing that is distinct about our market is that we use an auction-based approach. So, you can submit negotiated transactions for clearing and participate in the auction. We offer a lot of locations and contracts, so by its very nature, we can handle very complex spreads or what have you. If other commodities can be well served by our flexible auction methodology, then we are flexible enough to consider it..."

Their run had been short so far but it's clear these Nodal folks are here for the long haul. We recommend you have a look. It's a good idea for the times: screen-traded, cash – settled forwards and cleared bilateral OTC power.

Go to www.nodalexchange.com.

The screenshot displays the Nodal Exchange web application. At the top, there's a navigation bar with links for Dashboard, Auction Orders, Trades, Open Positions, Resource Center, My Account, and Log Out. Below this, the main interface is divided into several sections:

- Order Entry:** A central area with tabs for Auction, Node Selection, and Advanced Search. The Auction tab is active, showing a dropdown for '2009-08-19 - Full Nodal Auction' and a 'Node Selection' section with a 'Quick Add' button and a 'Selected Node' section showing 'PJM.WESTERN.HUB'.
- Contracts:** Two tables listing contracts. The 'Long Contracts' table has columns for LSP (\$/MWh), HRS, LSP (\$/MWh), Contract Name, Expiry Date, Switch, and Remove. It lists various ISO-NE contracts. The 'Short Contracts' table has similar columns and lists PJM.WESTERN.HUB contracts.
- Order:** A section on the right for 'Order Details' showing 'Auction Date: Aug 19, 2009', 'Order ID: TS1_SODER_18163017', and 'Order Price in \$/MWh: 7.50'. It includes buttons for 'Auto Ladder' and 'Submit Order'.