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Nodal Exchange to open forward power commodity exchange

Eastern, Midwest ISOs to see firm's first effort

Nodal Exchange plans to launch the first forward commodity exchange offering locational forward trading products early next year, two of its top executives told us yesterday.

Initially the exchange will offer daily auctions for contracts at commercially significant hubs, zones and nodes in ISO New England, the New York ISO, PJM and the Midwest ISO.

"The benefits that we really bring to the marketplace are that we do allow people to manage their basis risk better because we have the nodal-granular contracts that are defined," CEO Paul Cusenza explained.

That adds benefits because it covers congestion, loss and energy -- and granularity is of great value, he added.

Nodal Exchange is a fully cleared auction, thus cutting down credit risk. That should help boost liquidity in wholesale markets and achieve growth in commodity trading for wholesale power markets.

The firm hopes to expand its exchange to include the California ISO and ERCOT once they transition to nodal systems since the system was designed for such markets, said COO Ann Sacra.

The model could be changed to work with a zonal market, too, she added.

Power hasn't seen nearly as much commodity trading as other energy products because it's too hard to store.

Wholesale power markets are

relatively new but they have matured enough to make use of commodity trading.

Nodal Exchange ran mock auctions where 50 participants made up over 85% of the volume in financial transmission rights (FTR) auctions the RTOs run.

Cusenza sees the market for Nodal Exchange's service to be bigger than players in financial transmission auctions because the frequency of its own auctions attracted people that don't want to take part in FTR auctions.

Nodal Exchange is partners with London Clearing House, that works with banks to ensure adequate margins for the market. That cuts out counterparty risk for participants because everything is novated by the clearing house, said Sacra.

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