



Energy Risk Awards 2020

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**Commodity exchange
of the year**

> nodal

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Nodal Exchange

It has been a busy 12 months for Nodal Exchange with the acquisition of Nasdaq's commodity futures and options exchange business at the end of last year, and the launch of new futures products in low-carbon fuel credits and trucking.

Nodal, part of the Deutsche Börse group, pushed ahead with its plans to integrate the natural gas portfolio purchased from Nasdaq Futures (NFX), despite the lockdown imposed on individuals and businesses as a result of the coronavirus (Covid-19) pandemic. Migrating the contracts during April's disruption made for "challenging times", admits Nodal Exchange chief executive officer Paul Cusenza, but the company was keen to expand its gas market share to provide cross-margining benefits for power and gas traders.

Nodal migrated a total of 1,397,115,000 million British thermal units (MMBtu) or 160,000 lots of natural gas futures and options – the energy equivalent of 409 million megawatt hours (MWh) – in two tranches over the course of the month. Combined with seven natural gas contracts launched by the exchange last September, including its first natural gas option, Nodal now holds roughly 1.4% of open interest in the US natural gas market. And the plan is to continue to explore new launches and grow market share, according to Cusenza.

"At the moment, the main benefit we offer is the cross-margining aspect," he says. "But we aim to do things that are different and, in a year from now, I hope to be discussing some of the innovative products we have developed for that space."

The NFX acquisition and growth in existing business have helped fuel continued rises in traded volumes at Nodal Exchange, which was founded in 2007 and is based on the outskirts of Washington, DC. The company recorded its twentieth consecutive record calendar month power futures trading volumes in March 2020, with 140 million MWh of activity. The new high was in part thanks to the migration of 91.2 million MWh of power futures and options in February, which comprised all of NFX's North American power open interest except current month expiries. Nodal also hit a new quarterly record of 579 million MWh in the first quarter of this year.

Cusenza says that, over the course of 2019, the exchange grew by 79% in the US power market and it currently holds nearly half of all North American monthly power futures – 49% as of April 27, 2020.

Cusenza attributes the exchange's continued growth in US power



Paul Cusenza

markets to its granular offering: it provides more than 1,000 futures and options contracts on hundreds of locations across the Regional Transmission Organisation and Independent System Operator markets. Nodal also offers contracts in 1MW lots, which means users can closely align their position on the exchange to their hedging needs, mitigating the basis risk that may exist between exposure and hedge.

And Nodal has started to apply this approach to other markets. The state-centric nature of the burgeoning US environmental trading sector, for example, makes it highly fragmented, with different products offered in participating regions. "A lot of these schemes are different by state, and this is not dissimilar to our very granular approach to the power business," Cusenza says.

In January 2020, Nodal launched the first physically delivered California Low Carbon Fuel Standard (LCFS) futures contract. By February, options on 10,000 LCFS credits had traded on Nodal representing a notional value of about \$2 million per side and 10,000 metric tons of carbon-dioxide reductions. Current open interest is 85,000 LCFS credits, the exchange says. Nodal's suite of environmental products, launched with financial product developer Incubex in November 2018, achieved a 6.4% market share in 2019, with 48,780 lots of open interest.

The trucking futures market, for which Nodal launched the first contracts in March 2019 with data provider FreightWaves and spot freight marketplace DAT, has even more in common with power trading, according to Cusenza.

"It's very locational, just like power, and it flows down paths – you can look at a map of the US and see the roads or look at the electric grid and see all the power lines. Both markets are also affected by seasonality and can be disrupted by weather. There are a lot of similarities from a risk perspective," he says.

As transportation fleet operators replace existing vehicles with electric models, the links between power and trucking markets will become stronger, Cusenza suggests.

With 30,000 miles traded on the exchange during March 2020, trucking has been slower to grow than other markets Nodal has entered recently. The coronavirus-related lockdown across the US has kept trucks off the roads, suppressing freight mileage. However, Cusenza says Nodal is committed to developing the space, adding: "This is a long-term play – it's a brand new market that will take time to build." ■