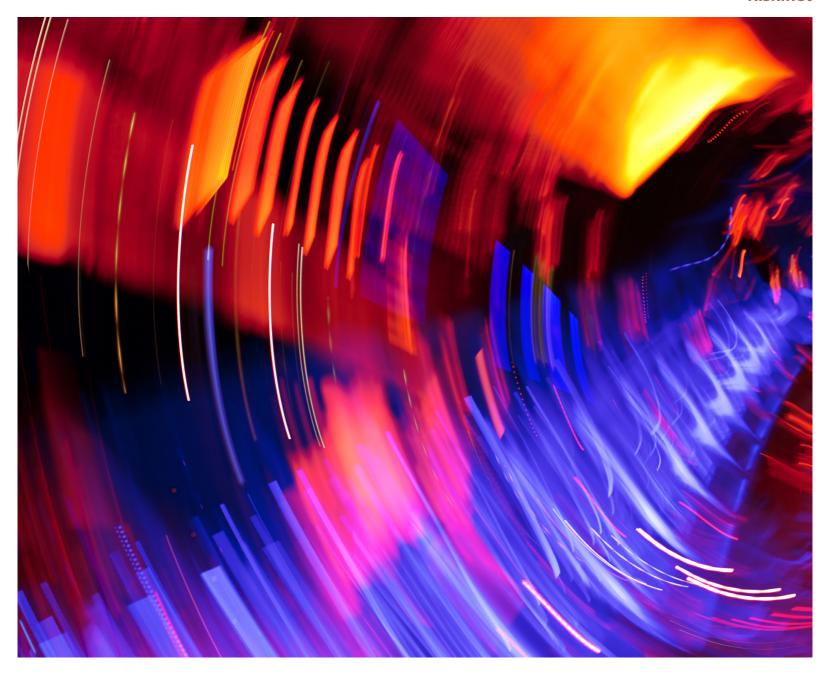




Risk.net



Commodity exchange of the year Nodal Exchange



Commodity exchange of the year

Nodal Exchange

while US power prices were generally less volatile in 2023 than the roller-coaster ride of 2022, there were still some alarming regional price spikes requiring urgent risk management action. At those times, more than ever, firms needed access to a liquid pool of derivatives and full insight into the margining risk they might be taking on.

It is on these occasions that Nodal Exchange, winner of the 2024 Commodity exchange of the year award, stood out from the competition. A crucial element of Nodal's business model is its clearing house Nodal Clear's pioneering portfolio margining model, which uses expected shortfall for its initial margin calculations. It calculates both recent portfolio returns and the portfolio's potential returns during historical stress periods to generate an overall initial margin tailored to the risk in an exchange user's portfolio. The model uses over 1,000 return observations in its calculations for each portfolio and is calibrated to cover a one- or two-day loss to a 99.5% confidence level.

In July 2023, Nodal expanded this methodology from futures into its options contracts. This stood it in good stead in August 2023 when power prices surged in the Electric Reliability Council of Texas (Ercot) as demand spiked during a heatwave that included one of the hottest days on record for the state.

"Our margining model proved very effective in August 2023 when prices in Ercot were six times their more 'normal' price for the month," says Paul Cusenza, CEO of Nodal Exchange, adding that the model's capital efficiencies and risk-protective approach "handled the situation effectively" and no changes to the model or parameters were needed.

Cusenza believes this kind of stability helps participants and clearing members maintain consistency in their own approach to hedging. "It enables more effective planning," he says.

This was essential throughout 2023 which, although less volatile than 2022 when markets contended with Russia's February invasion of Ukraine, was still impacted by geopolitical risk, new concerns over global supply routes and extreme weather events.

US power market participants traded 2.7 billion megawatt hours (MWh) in power futures volume on Nodal in 2023, which is a 15% increase on the exchange's 2022 activity, according to Cusenza. At the end of 2023, Nodal, which launched in 2009 and is now part of the European Exchange Group, held the majority share of the open interest in North American power futures at 1.3 billion MWh.

Traded volumes in Nodal's environmental futures and options contracts also increased year on year, growing 23% above 2022 levels. Open interest at year end was up 25% versus the same time in 2022.



"Our margining model proved very effective in August 2023 when prices in Ercot were six times their more 'normal' price for the month ... the model's capital efficiencies and risk-protective approach handled the situation effectively and no changes to the model or parameters were needed"

Paul Cusenza, Nodal Exchange

Nodal has continued to launch new products in the environmental space over the past year. This includes several firsts for specific exchange-listed environmental futures products in markets such as New Jersey-Pennsylvania renewable energy certificates (RECs) and Washington state's Clean Fuels Program. Nodal also launched 23 new solar peak power futures contracts in 2023.

In addition to this growth in volumes, open interest and revenues, Nodal has hired more staff and expanded its offices over the past 18 months, Cusenza says, while net revenue for the exchange grew more than 48% in 2023 compared with 2022.

The exchange's growing product slate of power, gas and environmental contracts combined with its robust risk management practices helped its clients deal with the uncertainty of 2023 as geopolitical conflict and extreme weather events continued to cast a shadow over the markets that Nodal Exchange covers.