THE JOURNAL OF ENERGY POLICY & MARKET RISK MANAGEMENT

RiskDESK

July 27, 2018 Special Reprint

paul cusenza, ceo, nodal exchange

We've known Paul Cusenza for many years. So we chatted a bit before getting into the interview part of the call. Talked about markets, politics, Summertime in DC and somehow got on the subject of trucking – as in, there aren't enough truckers to go around, like anywhere. Further, the trucker population is aging rapidly. It's causing a lot of stress on oil shipping, for example, just to name one. It's a nationwide problem here, where it is estimated we are 50,000 truckers short, A similar problem exists across continental Europe, he told us. News to us. Plus, demand is way up. More on that later.

So, when we moved into the meat of the interview, as in, "What keeps you up at night?" he answered: "Well, to be honest, I sleep pretty well." That's not how this works, we told him. "But seriously," he countered, "things are going pretty well."

He noted that the company is in the throes of implementing the same matching engine tech as their new parent company, Deutsche Börse Group, which is a huge deal. And later in the year they will be listing new environmental contracts and trucking freight futures contracts.

"That's one reason the trucking situation doesn't keep me up at night," he said. Funny guy.

Last year Nodal announced a new market launch involving freight futures to help manage risk in that sector. Heretofore, there really wasn't an optimal way to way to hedge against price volatility or other risks in the trucking business. Certainly not by way of derivatives contracts. "Managing those future costs is relevant here, as they sort of operate on a nodal network, too, right? Well, the map of the Interstate highways and the electric grids look pretty similar, actually. "And, like electricity, truck driving capacity can't be effectively stored either. It's a commodity in need of hedging and we're particularly well-suited to meet that need." The new contracts should prove to be an ideal market for hedgers and pure specs.

But, back to the sleeplessness. "Unmet market needs are something I'm thinking about a lot. What we can do to meet needs before somebody else can. The environmental products and the trucking products, for example. They were a response to what we saw as unmet market needs."

He noted that volumes in the power markets are down around 14 percent in the first half of the

year, which is a concern, "but I've worked in this space long enough to know that these things ebb and flow. We have up years and years that slide a little. But this is true in many commodities," he says. "So no, that's not keeping me up at night."

"In the gas space, there are a lot of questions nowadays about natural gas and how it will be globally connected over time. And, as you know, there are always risks for such international moves and actions … and what will it mean for oil and gas commodities over time." True enough. We note that ICE launched a US LNG contract last year based on a Platts Gulf index. Recently, CME announced a similar push to launch a physically delivered LNG

Recently, CME announced a similar push to launch a physically delivered LNG contract, based in Sabine. No doubt Nodal has something in the hopper as well in this area, but Cusenza was mum.

The big risk he sees on the horizon, apart from all else, is "more extreme weather conditions." He says the storms, the heat waves, the cold, all more extreme going forward. "The world is going through some flux right now. I heard on the news recently tornadoes were visible from Manhattan! All of this extreme weather impacts the power space in pretty big way. It impacts gas deliverability. And, it impacts trucking and shipping. Look at the flooding we've seen in Houston, for example. Weather unpredictability is on the rise and so is the risk associated with it. That's certainly keeping a lot of people up at night. A lot of new, extreme price risks to hedge against." As for policy risk or rules and regs that might be keeping him awake at night, he is oddly silent. That wasn't the case five years ago, he says. "Today, I think our regulators are managing things in a fairly reasonable way. I think (Chairman Chris) Giancarlo has a steady hand on the CFTC's wheel. I'm not that concerned about some new reg hitting us in a disruptive way from out in left field. That said, the cross-border issues we face with international regulators still need some significant attention."