

Environmental derivatives central to US energy transition - Nodal

Derivatives contracts linked to renewable electricity and US state environmental credits will play a key role in the clean energy revolution proposed by US president-elect Joe Biden, according to the chief executive of Nodal, part of Deutsche Boerse's European Energy Exchange.

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By Wendy Lisney

Speaking to Global Investor as the Virginia-based exchange prepared to launch a raft of 15 environmental futures and options on Tuesday (November 17), Paul Cusenza said Nodal will respond to market needs with innovation.

"We will be responsive to the situation as it evolves with new contracts as we continue to observe and react, and we'll continue to do that in the power space too," Cusenza said. "This is a very significant new set and therefore I'd look more to 2021 for the next batch of new environmental contracts."

Electricity, Cusenza said, is critical to the US energy transition as its feedstock moves from fossil fuels to greener sources including hydrogen, solar, wind and water.

"We're now seeing transitions not only from a lot of the homes, but also you see it now with cars. So being the leader in electricity futures is a good place to be from a long-term perspective as well as an environmental dimension."

The transition will also bring uncertainty, Cusenza said, creating a greater need for environmental derivatives markets.

"For the next 5-10 years, the objectives and goals of having a major transition here in the US will mean changes to the systems," he said. "Change creates uncertainty, and so as a business you typically want to financially hedge that risk so you're able to manage through a period of great change."

Nodal's new offering, which begins trading at 8 a.m. in Virginia, has seven new Renewable Energy Certificate (REC) futures and options, developed with the exchange's partner IncubEx.

The listings include a futures contract on Midwest Renewable Energy Tracking System (M-RETS), renewable energy certificates for wind energy facilities, futures on Texas solar and California renewable energy and options on Texas RECs.

In addition, the exchange will list eight physically delivered futures and options on the Renewable Identification Number (RIN) renewable fuels credit market.

Cusenza said Nodal had seen increased interest in the run-up to launch from existing and new participants, particularly in the physically-settled RIN contracts which provide a derivatives infrastructure for cellulosic biofuels, biomass-based diesel and biofuels including sugarcane and corn ethanol.

"A cleared physical RIN contract has not been possible before," Cusenza said. These will be the first physically settled RIN futures and options and that's pretty exciting for the marketplace."

Nodal on Monday received clearance from US derivatives regulator the Commodity Futures and Trading Commission to broaden its reach. The approval authorises Nodal Clear to clear contracts executed through Nodal Exchange or other derivatives clearing organisations (DCMs).

"Over time, Nodal plans to broaden the commodities it serves and in some cases clearing for other DCMs may be appropriate in achieving that mission," Cusenza said.

CFTC chief executive Heath Tarbert said last month that a US administration under Joe Biden is likely to place a greater emphasis on addressing climate risk in derivatives markets. ■