

# Nodal to expand environmental derivatives

**Nodal, part of Deutsche Boerse's European Energy Exchange (EEX), will expand its suite of derivatives based on US environmental markets such as carbon emission allowances in the fourth quarter, the exchange's chief executive has said.**

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By Wendy Lisney

"We've got some very exciting new products in the works," Paul Cusenza told Global Investor. "They will be unique offerings as we continue to address broader environmental needs, and I am very much focused on continuing to develop our offering in this area."

The new products will centre around US markets where derivatives are not yet fully available to participants in state programs offering environmental credits or allowances.

While power remains the Virginia-based exchange's biggest market, with trading volume of 126.5 million megawatt hours last month representing 36.4% of all US monthly power futures volume, the exchange has aspirations beyond that, Cusenza said.

Nodal broke into the environmental sector in November 2018 with the launch of North American environmental contracts, followed by several product expansions throughout 2019 and 2020 including the launch in January 2020 of the first physically delivered low carbon fuel standard (LCFS) futures and options contracts linked to the California program.

According to Cusenza, the exchange is currently seeing rapid growth in its physically-settled environmental derivatives, developed with product partner IncubEx, which span renewable energy, carbon, renewable fuels and pollutants including sulphur dioxide and nitrogen oxide.

Contracts typically relate to carbon emissions allowances, such as those operated under the California Air Resources Board's scheme, Renewable Energy Certificates (RECs) linked to state solar power

and other programs, and derivatives on renewable fuel credits such as those offered by the California Low Carbon Fuel Standard and Oregon Clean Fuels Program.

Cusenza said RECs are currently delivering the highest rate of growth. "RECs are very much a US state-driven product. At state level, environmental compliance is often enforced through RECs, with different nuances in each state, which has created this wide diversity of offering."

The latest available data for the first half of September, to end-of-day September 18, shows Nodal's traded volume in RECs at 7,331 lots out of a US total of 25,889 lots, representing a 28.3% market share. Open interest in RECs was 69,028 lots, a 13.5% share of the US total of 510,272 lots.

"September 2019 we were 4% of REC traded volume and 6% of open interest at the end of the month, so we are growing quickly," Cusenza said.

According to a report published earlier this month by the Futures Industry Association, Nodal lists around half of the world's listed environmental futures and options contracts across emissions; environmental, social and governance; and renewables. Other exchanges offering derivatives in these asset classes are Nodal's sister company Eurex, Intercontinental Exchange, New York Mercantile Exchange, Euronext, Nasdaq and the Taiwan Futures Exchange.

Across all environmental futures, Nodal has seen 136.2% growth in open interest in the first half of the month to 83,523 lots, up from 35,365 lots last year and representing 9.2% of the US total. ■