



Wednesday, July 24, 2019

Volume 21

SPECIAL REPRINT

power game

For many power traders and energy marketplaces, Q2 closed with a whimper and not a bang – with one exception. DC-based Nodal Exchange saw year-on-year growth rates in power futures that seemed to buck the trends, particularly in June. While rival exchanges showcased decent growth in Brent, gasoline and nat gas futures and options for the same period, overall energy volumes mostly lagged through the shoulder period. Nodal's reported 117 percent growth rate in Q2 2019 over Q2 2018 took the prize in that sector. The exchange said that in Q2, total power futures volume hit 520 million MWh, breaking the previous record of 405 million MWh set in Q1 2019. For Q2 overall, Nodal reports that it hit a record 39 percent market share of all power futures open interest, representing \$21 billion of notional value.

We called Nodal Exchange CEO Paul Cusenza for more details. And now that the heat is finally upon us and power burns are off the charts, we reckon the growth should continue unabated. "We've got great momentum," he says. "Besides volume growth, we're also growing in market share." Indeed. In Q1 their share of total power futures open interest was around 35 percent, and currently is just shy of 40 percent. "I think part of it is that we finally have a lot of participants fully con-

nected in terms of technology, STP and so on. All of this helps ... and generally, momentum tends to build momentum. We have a very strong offering and more people are switching their liquidity over to us," he says.

He notes that while Nodal's share of primary hub volumes continues to be solid, "and growing very fast," he says "the market that Nodal is strongest in, and is the dominant player in, is the non-hubs. Our non-hub growth in PJM, for example, grew 28 percent in Q2."

Cusenza says he expects the non-hub segment to continue growing the most, "as the more granular positions are simply better hedges." That said, Nodal is also targeting volume growth and a bigger slice of the pie in outright as well.

He says that around 60 locations make up the bulk of the volume on Nodal and all have seen growth this year. More effort is also being dedicated to natural gas contracts, futures and options, he tells us, with more releases in mid-September. "We see more growth and momentum in natural gas to help growth overall in our power contracts as well."

Nodal's other big move in the past year involved a head-first dive into trucking futures, which the exchange launched in March.

Like most other commodity and shipping or freight markets, 2019 has been a bit bumpy across the board. And for a market new to futures contracts anyway, we reckon it's been slow going. Nonetheless, Cusenza says the market is destined to grow significantly. We agree. Even rival exchanges we've spoke to about Nodal's cleared trucking futures admit the idea is a homer, long term. But for now, maybe just a solid double.

"Getting people signed up, onboard and educated is the focus right now," Cusenza says. Big shippers – natural hedgers – and brokers are the target now, he says. Once they're locked and loaded, the specs are sure to follow. Indeed. "I'm an extreme optimist in the long term on these trucking contracts ..."

Otherwise, he says a move to crypto-contracts isn't in the cards at the moment. Unlike his two primary futures competitors, though, he says he "will continue to look at it (crypto), as I have over the years, but as of now, no plans in that space ..."

Hmm. We've heard this line before out of Cusenza. As we recall, it happens just before some major announcement.

"There's always that risk," he says.

For more information on Nodal Exchange, go to <http://www.nodalexchange.com/>