the DESK

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Paul Cusenza

Paul Cusenza is CEO of Nodal Exchange and Nodal Clear. In his 30-plus year career he has founded, operated and grown several notable scientific and financial sector companies.

As we prepped for this end-of-year interview we happened across an old interview and release from 10 years ago. Nodal Exchange had opened for business in April 2009. At that time, it offered just a smattering of forward power contracts (no CFTC DCM designation yet), cleared by LCH. And today? The derivatives exchange (now an EEX company) and Nodal Clear, it's clearinghouse, boasts thousands of cleared futures and options contracts, across power, natural gas and environmental markets. And with last month's acquisition of the NFX portfolio, add steel and oil to the portfolio. Nodal Exchange racked up record volumes this year, every month, year on year, and topped a 40% market share in US power futures. "It's been a good run," Cusenza tells us. "We've actually hit record volumes for 16 calendar months in a row and now represent 45% of the power market." Not a bad run indeed. "Ten years doesn't seem like such a long time ago."

Last month we spoke to Cusenza the day the news hit the wires that Nodal Exchange had just cut a deal with the Nasdaq Futures Exchange (NFX) to assume its entire portfolio of trades – power, natty, oil, metals, the lot of it – in one fell swoop. While this shutting of the NFX was big news in exchangeland certainly, it was perhaps not quite as big as the initial NFX launch, four years ago. Back then, the news was all about market disruption, potentially lower fees and new opportunities. This news of the NFX demise is more about how hard, if not impossible it is, to ultimately break into these markets an make a real go of it. NFX certainly gave it the old college try. And while never exactly lighting up the energy markets, it did manage to grab some decent market share from the three incumbents, in power and gas options in particular, and a smattering of other markets. This month, the power contracts open interest shifted to Nodal screens. Natural gas contracts will move to Nodal early in Q1 and the wee number of oil and metals contracts, a little later on. The oil and steel contracts will be completely new markets for Nodal, though in past interviews Cusenza had often mentioned oil as a market he had hoped to enter at some point. "It's always been on our radar," he says. "This is a great opportunity to introduce it. Same with steel. It's a great opportunity for us to expand into a wider set of commodities." He says at the end of the day, he wants to be "very significant in the power business. In gas, I also want to be significant, but mainly in the context of our power customers. And as we get deeper into gas, the more oil becomes an opportunity in a similar fashion."

The NFX deal also involved dry bulk freight, though he tells us that market will shift entirely to the exchange's European parent (EEX). He says the deal was consistent with the plan going forward in a broad sense. While parent EEX is by far the biggest power exchange group in the world, Cusenza says that in five years, the idea is to be more known as a "commodity exchange" as opposed to a power exchange. "It's interesting really, that ICE, EEX and Nodal all started as power exchanges, and now all three are becoming much broader sets." Indeed.

When NFX launched a few years ago it was anticipated that more competition would generate lower fees in the energy exchange space. NFX actually offered a transaction and data fee holiday for much of its existence. We asked Cusenza if he thinks there is a similar expectation as he takes over the NFX book this month. "We take over the contracts and we will continue to compete as Nodal Exchange – we're not trying to replicate their (NFX) strategy or expectations. I plan to continue with the Nodal Exchange approach – meeting the needs of physical hedgers."

He noted that at the end of November, NFX represented 5% of the power futures open interest and about 2% in gas. "Add that to our 45 percent and I can say that sometime early in 2020, we will represent the majority of the power markets in the US." NFX also claimed 15% of the power options market open interest and roughly 16% in natural gas options, an area that Nodal heretofore had very limited exposure. That too should change fairly quickly because Cusenza says engaging the natural gas space will be a priority.

Natural gas for the first time ever is emerging as a three-horse race in exchangeland. In power, however, with NFX out of the game and NYMEX an insignificant player in power (1% or less of open interest), the power market is really just a two-horse race between ICE and Nodal. Any acquisitions on the horizon? "We will remain opportunistic in the future, though traditionally we lead through innovation," Cusenza says. Hmm.

Long ago Nodal Clear was cleared for take off by the CFTC for all sorts of products, including interest rates. Perhaps that might yet be another area the rising DC metro-based exchange chooses to innovate. Cusenza, however, tells us it's not in his current plans. 2020 should be quite a year indeed for exchangeland.