

Paulsen. It was launched in 2008. It too is positioned to work with NYMEX on clearing and providing liquidity for chemicals, plastics and steel contracts as well as energy. Participating companies include producers, consumers, distributors, traders, transportation and logistics companies and financial institutions within each product class.

Finally, there is Parity Energy in New York, which was established in February 2006 and is a platform for trading swaps and options on WTI crude oil, heating oil and Henry Hub natural gas. Parity is trading 1,000 lots of options each day that clear on both CME's NYMEX and ICE. It enhances its operations with voice brokering as well. Many of the market makers for Parity Energy are hedge funds as well as banks. Its clients include crude oil and natural gas producers, oil refiners, investment and commercial banks, hedge funds, exchange floor locals and insurance companies. More than 100 leading institutions use the Parity Energy trading platform.

We expect many more micro-market platforms to proliferate in coming years. We need a technology base, but it's even more important to have a financially sound clearing platform provided by a well-established exchange such as CME Group or others. The age of Internet commodity trading has lowered both costs and barriers to entry. It has provided more access for niche markets, although one could argue that petrochemicals and steel are not small commodity markets.

Exchanges are in a golden era of more government regulation and oversight and the need for market transparency. A trade in greenhouse gas emission allowances will need government regulation and mandates to thrive. It will also be transparent because emissions credits will be serialized on the Internet and in registries.

The micro exchanges may eventually be acquired by the major commodity exchanges. The market makers are energy companies, including electric utilities, hedge funds and banks still active in commodity markets.

*Peter C. Fusaro is chairman of Global Change Associates.*

## (GUEST OPINION)

# An Alternative Trading Platform

EUROPE MARKET UPDATE // BY TIM GREENWOOD

➤ BASED IN GERMANY, AT THE HEART OF Central Europe, the European Energy Exchange is the largest and fastest-growing commodity exchange in Europe, operating both spot and derivatives markets for power, gas, emission and coal products. With more than 200 trading participants from 20 countries including U.S. members, EEX boasts the largest number of trading participants and the highest turnover in Europe. The all-important clearing facility of the exchange and over-the-counter transactions is provided by EEX's own clearinghouse, European Commodity Clearing, also a subsidiary of the exchange.

Being responsible for fixing power prices for the Central European pricing zone including countries such as Germany, Switzerland and Austria, EEX has a short-term physical market – intraday and day-ahead – that works in a similar way to that of the U.S. auction model.

EEX has been the most successful exchange in the European continent largely due to the fact that it can settle futures contracts, in contrast to many other European exchanges that only incorporate cleared physical contracts. In physical contracts, more than 20 percent of all energy consumed in Germany is traded through EEX.

With the carbon markets becoming more and more global, EEX's role will be particularly important to the U.S. energy markets. Understanding this important link, EEX partner Eurex has dedicated sales support for carbon in its Chicago office.

A predominant benefit for its participants lies in EEX's role to eliminate counterparty risk by providing a third party to absorb this risk via the ECC. This allows for companies to trade bilaterally. In tough financial times such as the present, clearing plays an important role where market confidence is at very low levels. Clearing provides companies the opportunity to trade without fear of counterparty default and risk-cushioning in times of fiscal turbulence.

*Tim Greenwood is EEX head of customer relations.*



Tim Greenwood