

necc acquired by nasdaq/omx

Clearing: it's gonna be big...

Nothing like a good old-fashioned credit crisis to put the shine back on clearing. In particular, physical clearing. Some of you may remember five or so years ago when North American Energy Credit & Clearing Corp. (NECC) first hit the ground in the market. CEO and founder George Sladoje came up with the idea for a market-neutral credit and clearing service for physical and financial trades on the heels of the last big market implosion. In the 2002-2005 time frame we reckon there were easily half a dozen newly baked operations out there offering credit and clearing for just about anything you wanted. Most of these operations have since failed miserably. NECC, on the other hand, managed to stick it out, develop a fairly decent customer base and as of last week, become the newest energy portfolio component of the Nasdaq OMX Group Inc., along with its Nordpool and N2EX markets.

For Sladoje and co-founder John Flory, the timing was very good; new investment was sorely needed.

Sladoje tells us it's been a long road to this point. He reminded us they cleared their first "real" trade in July 2006. Hedge fund money was soon raised. A second round came in January 2007. "At that point," Sladoje says, "we thought we were on our way." Gradually, month-by-month, the volumes were growing. The participant list was up over 30 and in August 2008, they saw their biggest volume month in the history of the company. And what happens? Lehman Brothers tanks and a big hurricane ravages Houston. "The world suddenly changed," he said. "Companies began to look closer at our balance sheet and decided that it wasn't all that prudent to put \$100 million worth of trades through a company with a small equity balance like ours. So we started looking for a big investor. And, here we are."

He says the best thing about Nasdaq is that "they got what we do, right away.

They already cleared Nordpool and are now in the UK (N2EX). Our model made sense to them right away."

It wasn't too hard to read the political tea leaves back in 2009 either. The Gods of Clearing had been since dusted off by CFTC Chairman Gary Gensler and a wide variety of energy, banking and agriculture committee leaders in both Houses. Clearing was coming, by hook or crook. He says that other potential investors were also circling at the time, but the Nasdaq deal won out.

So, Sladoje is back at it, only this time with a massive global company behind him. And, the markets seem to be moving his way. "We provide that bright light companies are looking for. We're going to continue to do physical clearing. This will be the backbone of our operation. In addition, we will eventually have DCO status as well (the paperwork has been filed). We're getting customers to sign ISDA agreements. And, we anticipate we'll be moving into financial clearing as well. Once that's done, we will be able to provide services that no other clearinghouse can provide, like offsetting of physical and financial positions. Geographic offsets. Natural gas and power

offsets, and so on."

He says the ramp-up of services and volumes should happen rather quickly. He says by this Summer, "we should have everything in place: the capital, and the documentation."

"Do I think we'll be knocking the ICE or CME out of business? I doubt it. But we will be providing services they can't."

In addition to the 30-plus companies already cleared to land at the clearinghouse, he says another dozen are pending. He described several as "huge" energy and/or financial firms. "They will all hopefully be on board and (have) finished the paperwork by this Summer."

We would have thought that financial firms would be banging down NECC's door at this stage of the game, given the sector's new-found love of all things physical. "They are very interested."

Hit the company site for all the specs – netting, margining, security and all the rest. Clearing physical power and gas isn't as complicated as you think, or as expensive. Go to www.necclear.com.