

Parity Energy

Best Newcomer

energy risk
awards 2009

Parity Energy was launched in 2006 by Charles Reyl, president, and Lou Pellathy, vice-president, brokerage.

Reyl had formerly been a principal at Kiodex, a risk management software provider, and Pellathy managed the crude options desk for Man Financial's energy-focused brokerage. Both felt the energy derivative market was becoming more technologically sophisticated as the likes of Globex and IntercontinentalExchange began to list energy futures electronically. Parity Energy was created to do the same for the energy options markets.

While the need for electronic trading has largely been addressed for futures traders, that has not been the case for options traders, Reyl notes. "A very small fraction – less than 3% – of all energy options actually trade electronically at the moment," he says.

The launch of the Parity Energy Platform (PEP) in January 2008 brought the ability to trade electronically to the options trading community. Thanks to this achievement, Parity Energy has won the award for *Best Newcomer* in the *2009 Energy Risk Awards*.

Parity estimates that the PEP gained more than 60% market share in crude oil and natural gas cleared daily options within a year of starting. It has so far signed up more than 60 institutions, as well as establishing liquidity provision agreements with several market-makers. More than 200,000 contracts have been executed on the platform since January 2008, according to Reyl.

"PEP is unique in that it focuses exclusively on the needs of energy options traders," says Reyl. "Since these traders often prefer a human element, we offer a brokerage team in both crude oil and natural gas to assist



traders in the execution of their trades. In addition, the best aspects of voice brokerage have been incorporated into our technology and improved upon with customised order management."

For example, the platform, which supports the entire range of over-the-



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counter options including American, European, Asian, calendar spread and same-day options, allows traders to simultaneously execute an option (including multi-leg strategies) and the associated futures hedge. PEP's customers currently include hedge funds, banks, producers, consumers, marketers and Nymex floor traders.

The major benefits of electronic trading, such as efficiency, transparency and straight-through processing, tend to encourage market activity, which generally leads to greater liquidity, Reyl adds. He believes that new market participants in the commodity space will increase the demand for electronic platforms such as PEP. "Right now there are a number of firms with a history of using electronic solutions to trade options in other asset classes,

such as equities or foreign exchange or even fixed income. They are now trying to expand their footprint into commodities as well."

These new participants will bring their experience of technology to the sector and Reyl believes Parity Energy will benefit because it can provide the medium required to reach the market-makers. However, he adds: "Technology will play a greater role going forward, but it will not suppress the human element, for the time being. It will simply enable the human element to generate a lot more, and to create a higher quality service for customers."

While the credit crunch and ensuing economic crisis of 2008 presented challenges for everyone in the market, it did not endanger the health of this start-up, according

to Reyl. In fact, he believes the transparency PEP offers was just what users were looking for in the post-crisis trading environment. "The credit crunch encouraged the increased use of clearing as a trading solution. It generally provides a little more transparency and helps bring the trading volumes to the market," he explains.

Looking to the future, Parity's goal is to become the largest source of liquidity for energy options in the market. "In the short term, we will continue to connect the energy platform to additional market makers in order to offer as much liquidity as possible to our customers. We will also continue to reach out to more hedging-concerned customers that require liquidity," Reyl says. ■

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