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Valuation, Hedging and Speculation in Competitive Electricity Markets: A Fundamental Approach

By Petter L. Skantze

Springer. Hardcover. Book Condition: New. Hardcover. 214 pages. Dimensions: 9.3in. x 6.1in. x 0.8in. The challenges facing participants in competitive electricity markets are staggering: high price volatility introduces significant financial risk into an industry accustomed to guaranteed rates of return, while illiquid forward markets prevent effective hedging strategies from being implemented. Valuation, Hedging and Speculation in Competitive Electricity Markets: A Fundamental Approach, examines the unique properties which separate electricity from other traded commodities, including the lack of economical storage, and the impact of a scarce transmission network. The authors trace the sources of uncertainties in the price of electricity to underlying physical and economic processes, and incorporate these into a bid-based model for electricity spot and forward prices. They also illustrate how insufficient market data can be circumvented by using a combination of price and load data in the marking- to-market process. The model is applied to three classes of problems central to the operation of any electric utility or power marketer; valuing generation assets, formulating dynamic hedging strategies for load serving obligations, and pricing transmission contracts and locational spread options. Emphasis is placed on the difference between trades which can be booked out in the forward markets, and those which...


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