

Overview of Risk Management in Electricity Markets Using Financial Derivatives

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Abstract : Electricity spot prices are highly volatile under optimal generation capacity scenarios due to factors such as non-storability of electricity, peak demand at certain periods, generator outages, fuel uncertainty for renewable energy generators, huge investments and time needed for generation capacity expansion etc. As a result market participants are exposed to price and volume risk, which has led to the development of risk management practices. This paper provides an overview of risk management practices by market participants in electricity markets using financial derivatives.

Keywords : financial derivatives, forward, futures, options, risk management

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