Risk premia in energy markets

Almut Veraart

Imperial College London, United Kingdom

Risk premia between spot and forward prices play a key role in energy markets. This paper derives analytic expressions for such risk premia when spot prices are modelled by Lvy semistationary processes. We focus particularly on electricity prices. In an empirical study based on electricity spot prices and futures from the European Energy Exchange market, we investigate the behaviour of electricity risk premia from a statistical perspective. Furthermore, we demonstrate how a suitable model for electricity futures prices can be formulated and we obtain promising empirical results.

This is joint work with Luitgard Veraart (LSE).