

# An historical perspective on financial risk management in power markets

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## **Abstract**

Since the wave of liberalization of energy markets at the beginning of the 90's in Europe, the former electricity monopoly have gone through a deep process of change with regard to their risk management systems. Nevertheless, this process is not finished yet. In this talk, we will recall the concepts (loss of load probability, marginal costs, water values) and tools (stochastic control and decomposition methods) used by monopoly to design their system and manage risk from investment decisions to real time operations. Afterwards, we will show how the deregulation process has open the doors of power firms to classical tools of risk management in financial institutions (VaR, EaR, stop-loss...). This historical perspective will enables to describe the major methodological challenges that are still to be overcome in the application of standard risk management methods to firms in power markets.