

The Forward Premium in Electricity Markets: An Experimental Study

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Abstract

An economic laboratory experiment is used to test the validity of Bessembinder and Lemmon's (2002) seminal risk premium theory. The theory predicts that forward premia in electricity markets are determined by the statistical properties of demand. The existing empirical evidence is mixed, possibly as a result of the lack of observability of key variables. Specifically, the experiment tests if an increase in the variance of demand makes the forward premia more negative for specific parameters and implementation details. The experimental results corroborate the theoretical predictions.

Keywords: Forward Premia, Electricity Markets, Economic Experiments

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