

Table of contents

LIST OF ABBREVIATIONS.....	XIII
LIST OF SYMBOLS.....	XVI
ENERGY UNITS AND CONVERSION FACTORS	XIX
LIST OF TABLES	XXI
LIST OF FIGURES	XIV
1 INTRODUCTION.....	1
1.1 MOTIVATION	1
1.2 PREVIOUS RESEARCH	2
1.3 OBJECTIVES AND METHODOLOGY.....	5
2 ECONOMICS OF ENERGY MARKETS.....	9
2.1 LIBERALIZATION AND FUEL MIX	9
<i>2.1.1 Legislation and market design</i>	<i>9</i>
<i>2.1.2 Investments in liberalized electricity markets</i>	<i>11</i>
<i>2.1.3 Fuel mix in competitive electricity markets.....</i>	<i>14</i>
<i>2.1.4 Power plant technologies</i>	<i>18</i>
<i>2.1.5 Diversification of fuel mix</i>	<i>24</i>
<i>2.1.6 Power market system and merit order</i>	<i>25</i>
2.2 FRAMEWORK OF THE EU EMISSION TRADING SCHEME	30
<i>2.2.1 Historical emergence and objectives</i>	<i>30</i>
<i>2.2.2 Institutional framework.....</i>	<i>32</i>
<i>2.2.3 Appraisal of the first and second trading periods.....</i>	<i>35</i>
<i>2.2.4 Future outlook.....</i>	<i>36</i>
2.3 DETERMINANTS OF ENERGY COMMODITIES.....	38
<i>2.3.1 Electricity.....</i>	<i>39</i>
<i>2.3.2 CO₂ emissions</i>	<i>43</i>
<i>2.3.3 Coal.....</i>	<i>46</i>
<i>2.3.4 Oil.....</i>	<i>48</i>
<i>2.3.5 Gas</i>	<i>50</i>
<i>2.3.6 Interactions between energy commodities</i>	<i>52</i>
2.4 SUMMARY	55

3 MEAN-VARIANCE VALUATION APPROACH FOR POWER PLANTS	57
3.1 FUNDAMENTALS OF CAPITAL MARKET-BASED VALUATION	57
3.1.1 <i>Discounted free cash flow valuation</i>	58
3.1.1.1 Methodology	58
3.1.1.2 Deriving free cash flows	61
3.1.1.3 Estimating the cost of capital	63
3.1.1.4 Critical acclaim	66
3.1.2 <i>Monte Carlo simulation</i>	67
3.1.2.1 Background	67
3.1.2.2 Procedure.....	68
3.1.2.3 Implementation.....	69
3.1.2.4 Critical acclaim	70
3.2 PORTFOLIO THEORY: MODEL OF MARKOWITZ (1952)	72
3.2.1 <i>Assumptions</i>	72
3.2.2 <i>Notation</i>	74
3.2.3 <i>Portfolio selection</i>	75
3.2.4 <i>Analytical determination of the global minimum variance portfolio</i>	77
3.2.5 <i>Analytical determination of the efficient frontier</i>	80
3.2.6 <i>Critical acclaim</i>	81
3.3 MODEL OF ROQUES ET AL. (2008).....	82
3.3.1 <i>Methodology</i>	83
3.3.2 <i>Results and implication</i>	84
3.3.3 <i>Critical acclaim</i>	85
3.4 PORTFOLIO APPROACH FOR POWER GENERATION ASSETS.....	87
3.4.1 <i>Assumptions</i>	88
3.4.2 <i>Analytical framework</i>	90
3.4.3 <i>Discount rates for power plant technologies</i>	92
3.4.4 <i>Relative efficiency of power plant portfolios</i>	94
3.4.5 <i>Development of hypotheses</i>	98
3.5 SUMMARY	102
4 SIMULATION BASED MODEL FOR ANALYZING GENERATION PORTFOLIOS.....	103
4.1 DEFINING MODEL REQUIREMENTS.....	103
4.2 RISK ANALYSIS PROCESS.....	105
4.2.1 <i>Risk variables</i>	105
4.2.2 <i>Probability distributions</i>	106
4.2.3 <i>Correlated variables</i>	108
4.3 ASSUMPTIONS	114
4.3.1 <i>Technical and cost assumptions</i>	114
4.3.2 <i>Projected commodity price development</i>	117
4.3.3 <i>Renewable energies</i>	125
4.4 MODELING PROCEDURE.....	130
4.4.1 <i>Power generation</i>	135
4.4.2 <i>Replacements</i>	138
4.4.3 <i>Investments in generation capacity</i>	143

4.5 MONTE CARLO BASED VALUATION OF GENERATION PORTFOLIOS.....	146
4.5.1 <i>Expected value and risk</i>	146
4.5.2 <i>Loop programming</i>	149
4.5.3 <i>Optimization</i>	154
4.5.4 <i>Economic efficiency</i>	155
4.5.5 <i>Technical efficiency</i>	156
4.6 SUMMARY	159
5 EMPIRICAL ANALYSES OF EUROPEAN GENERATION PORTFOLIOS.....	161
5.1 DESCRIPTION OF THE STOCHASTIC VARIABLES	161
5.1.1 <i>Data</i>	161
5.1.2 <i>Descriptive statistics</i>	164
5.1.3 <i>Empirical correlations</i>	167
5.1.4 <i>Simulated correlations</i>	172
5.2 GENERATION PORTFOLIO ANALYSES - A DISAGGREGATED APPROACH	176
5.2.1 <i>Sample power plant portfolio</i>	176
5.2.2 <i>Investment strategy</i>	179
5.2.3 <i>Feasibility set</i>	186
5.2.4 <i>Determining efficient frontiers</i>	196
5.3 ANALYZING COUNTRY-SPECIFIC GENERATION PORTFOLIOS	202
5.3.1 <i>Power plants located in Germany</i>	203
5.3.2 <i>Power plants located in the United Kingdom</i>	207
5.3.3 <i>Power plants located in the Netherlands</i>	210
5.3.4 <i>Power plants located in Spain</i>	213
5.3.5 <i>Summary</i>	218
5.4 DETERMINING THE DEGREE OF RELATIVE EFFICIENCY OF GENERATION ASSETS	220
5.4.1 <i>Efficiency of the target portfolio</i>	221
5.4.2 <i>Efficiency of the domestic portfolio</i>	223
5.4.3 <i>Efficiency of international generation portfolios</i>	224
5.4.4 <i>Robustness</i>	226
5.5 REBALANCING	229
5.6 IMPLICATIONS	233
5.7 SUMMARY	235
6 CONCLUSIONS.....	237
6.1 SUMMARY	237
6.2 IMPLICATIONS FOR MANAGEMENT AND RESEARCH.....	240
6.3 FUTURE OUTLOOK AND CONCLUDING REMARKS	243
REFERENCES	244
APPENDIX	258